HM Government

# UNITED KINGDOM PARTNERSHIP AGREEMENT

## Official Proposal Part 1 (Sections 1 and 2)

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European Union
European Social Fund
Investing in jobs and skills

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# CONTENTS

# UK CHAPTER

## INTRODUCTION

1. The UK Government and the Devolved Administrations' objective is to equip the UK to succeed in a global economic market, build a stronger economy and a fairer society. The UK will use the EU Funds collectively known as the European Structural and Investment (ESI) Funds to help achieve this. A breakdown of the ESI Funds available to the UK are as follows:

| ESI Fund | 2014-20 Allocation[1] |
|---|---|
| European Regional Development Fund (ERDF) | €11.6billion |
| European Social Fund (ESF) | |
| European Agricultural Fund for Rural Development (EAFRD) | €3.5 billion |
| European Maritime and Fisheries Fund (EMFF) | tbc[2] |

**Figure 1: Breakdown of UK ESI Funds**

2. In the past these Funds have together delivered important economic and environmental benefits for the UK. During 2014-2020 (the new programming period) the UK wants to build on these successes as well as improving the design and delivery of the next programmes.
3. This Partnership Agreement sets out the UK's strategy and rationale for how the ESI Funds are to be deployed across the UK to complement the Europe 2020 objectives[3] of Smart, Sustainable and Inclusive Growth and also the UK's domestic initiatives for sustainable jobs and growth.

## DEVOLUTION SETTLEMENTS

4. While the UK Government is responsible for key matters such as foreign affairs and defence the Devolved Administrations (the 'Administrations') in Northern Ireland, Scotland and Wales are empowered to take decisions on a wide range of domestic policy areas including economic development. As the ESI Funds are primarily concerned with economic development, delivery of the ESI Funds is a devolved responsibility.
5. Different legislation and models of devolution set out the relationship between the UK Government and the Northern Ireland Executive, Scottish Government and Welsh Government. While the devolution settlements are reasonably similar in relation to many matters connected with ESI Funds, they are not totally symmetric and some differences exist. In addition the division of responsibilities is not fixed and devolution has evolved since 1998.
6. Although responsibilities are frequently split between them, the UK Government and the devolved administrations work together on many issues and cooperate to make sure that devolution settlements are well managed. This is facilitated through a range of both

[1] All figures are in current prices
[2] UK unlikely to be notified by the European Commission of EMFF allocation until June 2014
[3] Further details at: http://ec.europa.eu/europe2020/europe-2020-in-a-nutshell/targets/index_en.htm

formal and informal agreements, including a Memorandum of Understanding agreed between the UK Government and the devolved administrations in 2012[4]. This sets out the principles which support relations between these administrations, including good communication, consultation, cooperation and implementation of EU obligations. It also notes that while the UK Government remains sovereign and has authority to intervene on any issue, whether devolved or not, these powers are viewed very much as being a matter of last resort.

7. Section 1.1. set outs the current division of responsibilities between the UK Government and the devolved administrations in relation to each of the specific objectives of the ESI Funds that underpin the overarching objective of economic development. As will be seen, the position is often complex and the devolved administrations have wide powers to act in all of these areas.

8. Gibraltar, whilst being a territory for whose external affairs the Member State UK is responsible in accordance with Article 355(3) TFEU, is not a region or other part of the UK. In accordance with its Constitution, it is self-governing and has a separate economy, which is not linked to the UK's. It receives no financial support from the UK. Nevertheless, as a territory covered by Article 355(3) TFEU, Gibraltar is entitled to receive EU Structural Funds from the UK's allocation.

9. The Governor of Gibraltar is the representative of the Queen of Gibraltar, Queen Elizabeth II. He does not represent the UK Government. Under Gibraltar's 2006 Constitution, the Governor is only responsible for Gibraltar's external affairs, defence and internal security. All other matters are the responsibility of the Government of Gibraltar. Gibraltar's legislature is completely distinct from that of the UK. The Gibraltar Parliament alone enacts laws for Gibraltar and transposes EU directives into Gibraltar laws.

10. The structure of the Partnership Agreement reflects the fact that responsibility for delivery of the ESI Funds is devolved. The first chapter sets out the challenges and priorities for the ESI Funds at high-level across the whole of the UK. Subsequent chapters have been prepared by the respective devolved administrations and set out how each devolved administration will focus on the UK funding priorities in the context of the specific challenges they face. The UK and devolved administrations' chapters each follow the structure of the Partnership Agreement template provided by the European Commission.

## EUROPE 2020

11. It is important to note that the UK is already directing considerable domestic resources to address Europe 2020 ambitions, taking account of relevant UK 2013 Country Specific Recommendations. The details of the relevant actions are set out on an annual basis in the National Reform Programme.[5] The latest version of which was published on 30 April 2013. Therefore, it is important to establish that the UK wishes to focus ESI Funds on the Europe 2020 challenges upon which they can have greatest impact, rather than spread those funds evenly across all of them.

12. Furthermore, it is equally important to establish that whilst the UK is committed to the broad policy objectives contributing towards Europe 2020 objectives, the UK Government and Administrations have not signed up to any new domestic targets nor several of the national Europe 2020 targets, including those relating to the employment

[4] Further details at: https://www.gov.uk/government/publications/devolution-memorandum-of-understanding-and-supplementary-agreement
[5] Further details at: https://www.gov.uk/government/publications/europe-2020-uk-national-reform-programme-2013

rate, R&D expenditure levels, early school leavers and those engaging in tertiary education as part of the Europe 2020 process.

# 1 ARRANGEMENTS TO ENSURE ALIGNMENT WITH THE UNION STRATEGY OF SMART, SUSTAINABLE AND INCLUSIVE GROWTH AS WELL AS THE FUND SPECIFIC MISSIONS PURSUANT TO THEIR TREATY-BASED OBJECTIVES, INCLUDING ECONOMIC, SOCIAL AND TERRITORIAL COHESION (ARTICLE 15(1) (A) CPR)

## 1.1 AN ANALYSIS OF DISPARITIES, DEVELOPMENT NEEDS, AND GROWTH POTENTIALS WITH REFERENCE TO THE THEMATIC OBJECTIVES AND THE TERRITORIAL CHALLENGES AND TAKING ACCOUNT OF THE NATIONAL REFORM PROGRAMME, WHERE APPROPRIATE, AND RELEVANT COUNTRY-SPECIFIC RECOMMENDATIONS ADOPTED IN ACCORDANCE WITH ARTICLE 121(2) OF THE TREATY ON THE FUNCTIONING OF THE EUROPEAN UNION AND RELEVANT COUNCIL RECOMMENDATIONS ADOPTED IN ACCORDANCE WITH ARTICLE 148(4) OF THE TREATY ON THE FUNCTIONING OF THE EUROPEAN UNION

### THE UK'S MACRO-ECONOMIC CHALLENGES

1. The UK economy has been hit by the most damaging financial crisis in generations, which led to one of the deepest recessions of any major economy (see figure 2).

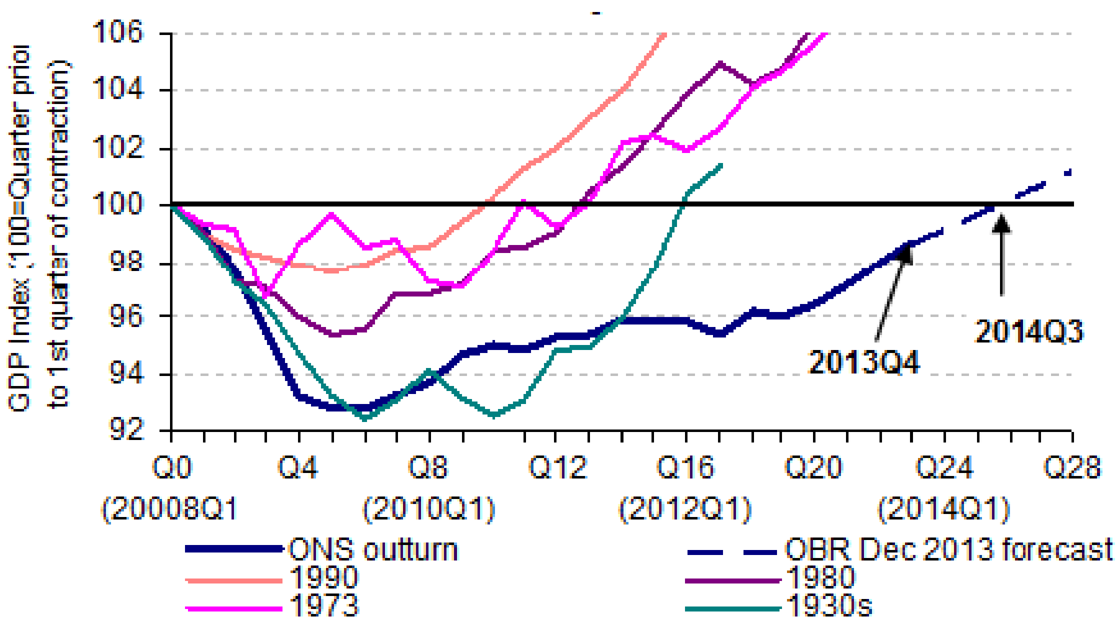
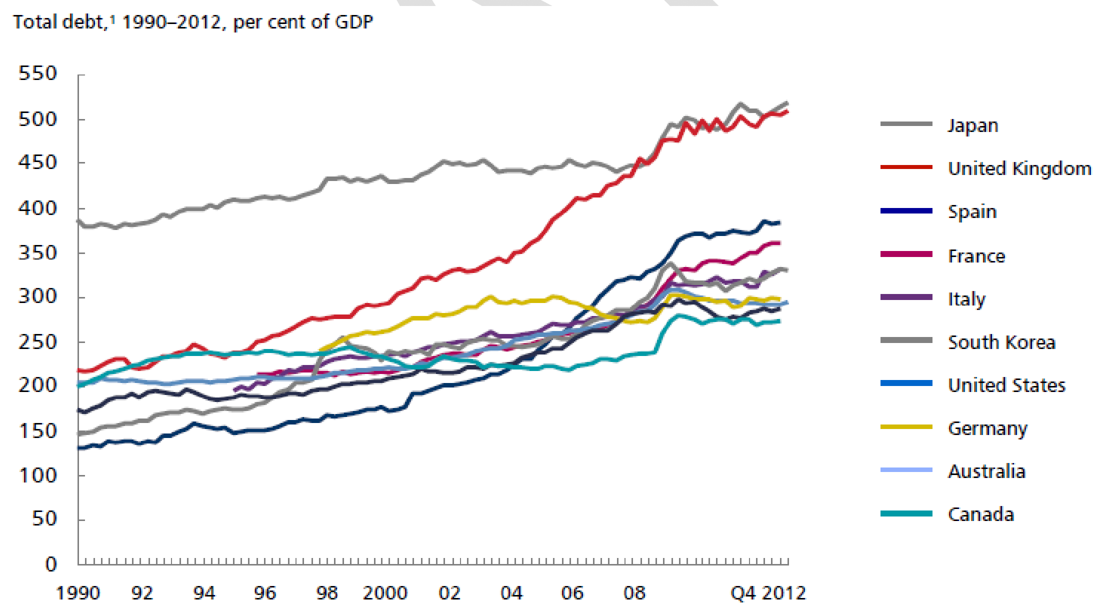



**Figure 2: Impact on GDP level through 4 recessions**
*Source: Office for National Statistics and Bank of England*

2. The financial crisis followed a decade of growth built on unsustainable levels of debt (see figure 3).




1 Includes all loans and fixed-income securities of households, corporations, financial institutions, and government.
Source: Haver Analytics; national central banks; McKinsey Global Institute

**Figure 3: International comparisons of debt**
*Source: Haver Analytics; national central banks; Mckinsey Global Institute*

3. The UK Government's plan for addressing this situation was first set out in June Budget 2010 and is based on:

- deficit reduction, returning the public finances to a sustainable position and ensuring that sound public finances and fiscal credibility underpin low long-term interest rates;

- monetary activism and credit easing, stimulating demand, maintaining price stability and supporting the flow of credit in the economy; and
- a comprehensive package of structural reforms, including a programme of infrastructure investment – rebalancing, strengthening and making the economy more resilient for the future.

4. The UK's Devolved Administrations are also taking action to tackle structural reform challenges in areas of devolved competence. More detail on these plans is set out in the UK National Reform Programme.
5. The policy response has seen a planned reduction in Government expenditure to more sustainable levels in public spending, focusing resources on the most productive areas of expenditure. For the ESI Funds this means that investments should:

- aim to leverage in higher levels of private sector investment; and
- be focused on activities which can best address the needs of the areas covered by each programme.

6. The UK economic recovery gained momentum through 2013 and is now well established. Forecasters also expect this growth to continue and strengthen. The latest Office for Budgetary Responsibility (OBR) economic and fiscal outlook[6] is forecasting growth across the forecast period, with spare capacity eliminated by the end of the 2018. The OBR's expectation is that GDP growth will rise to 2.6% by 2017. Other institutions also support this prospect of future growth (see figure 4).

| | | **Forecast** | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | | **2011** | **2012** | **2013** | **2014** | **2015** | **2016** | **2017** |
| **GDP Growth (OECD Nov 2013)** | | - | - | 1.4 | 2.4 | 2.5 | - | - |
| **GDP Growth (IMF Jan 2014)** | | - | - | 1.7 | 2.4 | 2.2 | - | - |
| **Office for Budget Responsibility** | **GDP growth** | 1.1 | 0.3 | 1.8 | 2.8 | 2.3 | 2.6 | 2.6 |
| | **CPI inflation** | 4.5 | 2.8 | 2.6 | 1.9 | 2.0 | 2.0 | 2.0 |
| | **Employment (millions)** | 29.2 | 29.5 | 29.9 | 30.4 | 30.6 | 30.9 | 31.2 |

**Figure 4: UK economic forecasts**
*Sources: Office for Budget Responsibility, March 2013; OECD; and IMF*

7. All nations and regions of the UK saw an increase in employment between the first quarter of 2010 and the third quarter of 2013. However, GDP growth has been uneven across the UK and economic disparities continue to persist. This is illustrated by the fact that for the 2014-20 programming period the UK has 2 "less developed" NUTS2 areas (where the GDP per capita is below 75% of the EU average) and 11 "transition" NUTS2 areas (where the GDP per capita is below 90% of the EU average e). The growth rates within these NUTS2 areas also varies significantly, with higher growth rates in major conurbations and much slower growth in other parts.[7]

[6] Further details at: http://budgetresponsibility.org.uk/economic-fiscal-outlook-march-2014/
[7] Further details at: http://epp.eurostat.ec.europa.eu/cache/ITY_PUBLIC/1-21032013-AP/EN/1-21032013-AP-EN.PDF

8. Productivity is a key driver of growth and is determined by a number of factors which the ESI Funds can help address:

   - capital intensity (Smart Growth);
   - education and skills (Inclusive Growth); and
   - R&D (Smart Growth).

9. These aspects of productivity will be examined in detail under the headings of Smart and Inclusive Growth below. Such growth needs to be pursued in a sustainable way. Ensuring that growth does not erode our natural or social capital, and is delivered in a way that enhances these assets and improves the overall resilience and efficiency of the growth sectors.

10. On the international stage, UK productivity falls short in comparison to other countries (See figure 5).

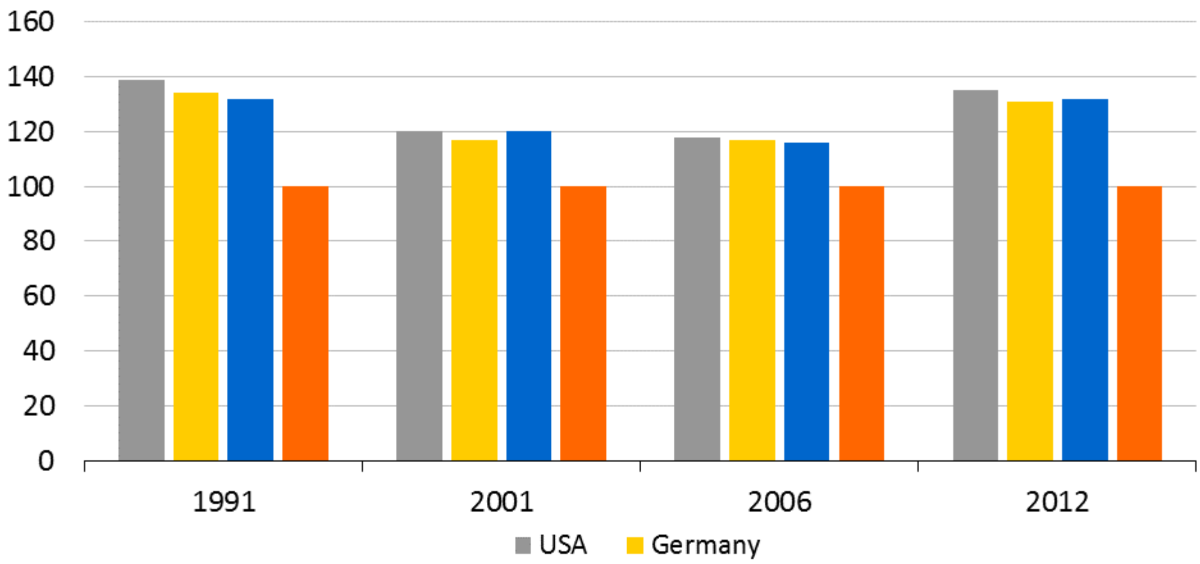



**Figure 5: International comparison of GDP per hour worked, UK indexed to 100**
*Source:* http://www.ons.gov.uk/ons/publications/re-reference-tables.html?edition=tcm%3A77-327520

11. More needs to be done to tackle the long-seeded weakness of low productivity growth. Historically, UK productivity has lagged behind that of other advanced economies, in particular the US, Germany and France. Following the wave of reforms in the 1980s, UK productivity grew strongly relative to other economies and the UK began to close the productivity gap against its peers. Towards the 2000s, this rate of improvement slowed. Despite UK productivity growth outstripping both the US, Germany and France from 1990-2007, output per hour in these countries still remained over 15% higher than in the UK prior to the financial crisis (See figure 6).

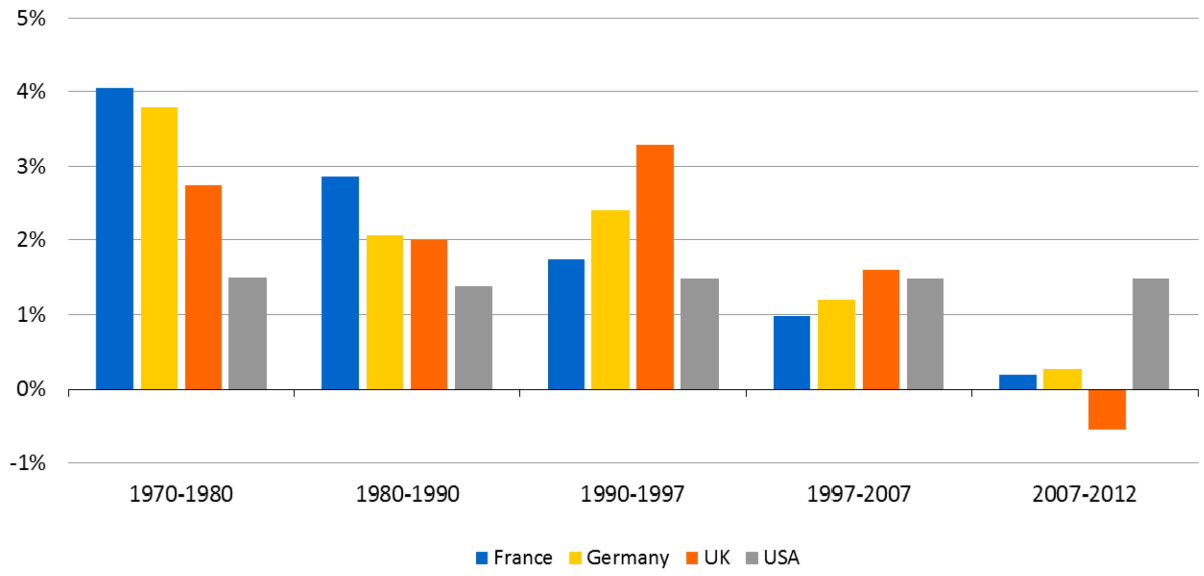



**Figure 6: Average annual labour productivity growth (output per hour worked)**
*Source: Organisation for Economic Co-operation and Development: Labour productivity growth data*

12. UK productivity growth has been particularly weak since the financial crisis. UK GDP is still 1.4% below the pre-crisis peak, while employment has been remarkably resilient (employment stands over 600,000 above the pre-crisis peak). As a consequence, UK productivity has fallen and is only beginning to show signs of a gradual recovery. This has led to a significant gap opening up between actual productivity and the pre-crisis trend, often referred to as the 'productivity puzzle' (See figure 7).

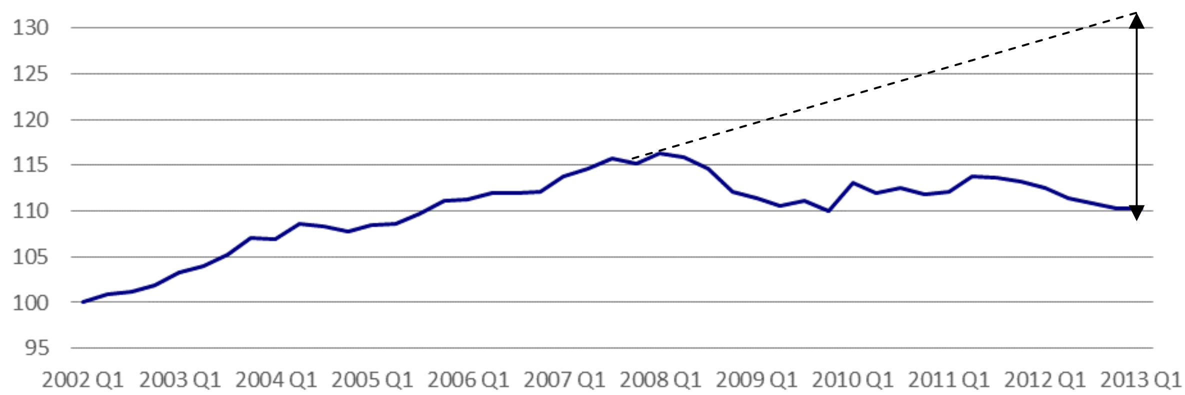



**Figure 7: UK output per hour worked, Q1 2002=100**
*Source:* http://www.ons.gov.uk/ons/rel/lms/labour-market-statistics/march-2014/dataset--labour-market-statistics.html

13. Several explanations have been put forward for the 'productivity puzzle' ranging from those that suggest that low productivity is a temporary phenomenon and those that imply low productivity is a structural issue which will not recover without supply side reform. Evidence suggests that a significant component of the UK's poor recent productivity performance is cyclical, and as a result will recover as the economy returns to growth. While recognising the uncertainty, the OBR's balanced view is that productivity growth will turn positive in 2014 and gradually increase each year to 2017.

14. Productivity varies enormously by sector. Some sectors (for example, oil and gas and financial services) are highly productive while others (e.g. agriculture, administrative

services) are not. It is therefore possible that productivity differences between countries could be the result of differences in economic structure. However, BIS analysis of EU-KLEMS data suggests that economic structure does not explain the productivity gap between the UK and the US, France and Germany. Instead the data indicates that the UK is less productive than these countries within sectors.[8]

15. The level of capital that each worker has at their disposal is a crucial determinant of labour productivity, and some of the UK's productivity gap to other economies might be explained by the UK's relatively low levels of capital investment. In 2012 the UK had the third lowest level of investment as a proportion of GDP in the OECD (see figure 8).

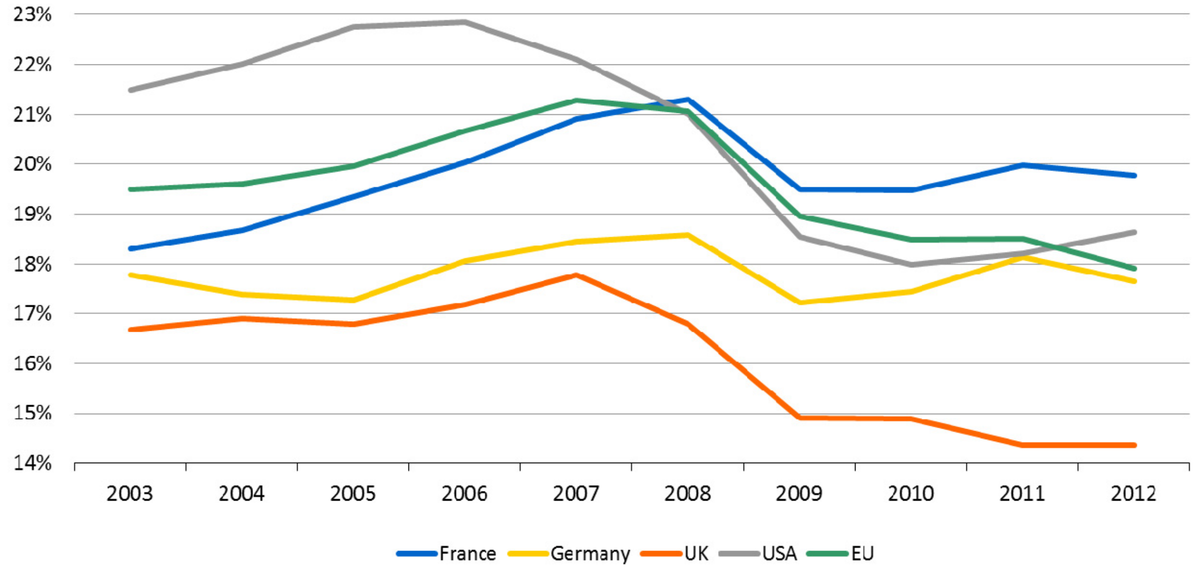



**Figure 8: International comparison of investment as a % of GDP**
*Source: Organisation for Economic Co-operation and Development: Annual National Accounts*

16. Low investment has been a longstanding issue for the UK and following the financial crisis the gap to other developed economies has widened. Since Q1 2008, investment in the UK has fallen by 18% in real terms, more than in France, Germany and the US (see figure 9). Recent evidence shows early signs that business investment might be recovering. Diminishing global uncertainty is supporting confidence and credit conditions have improved. The OBR forecast business investment to grow by around 8% year on year over the forecast.

[8] Benchmarking UK Competitiveness in the Global Economy, BIS Economics Paper No. 19 (October 2012)

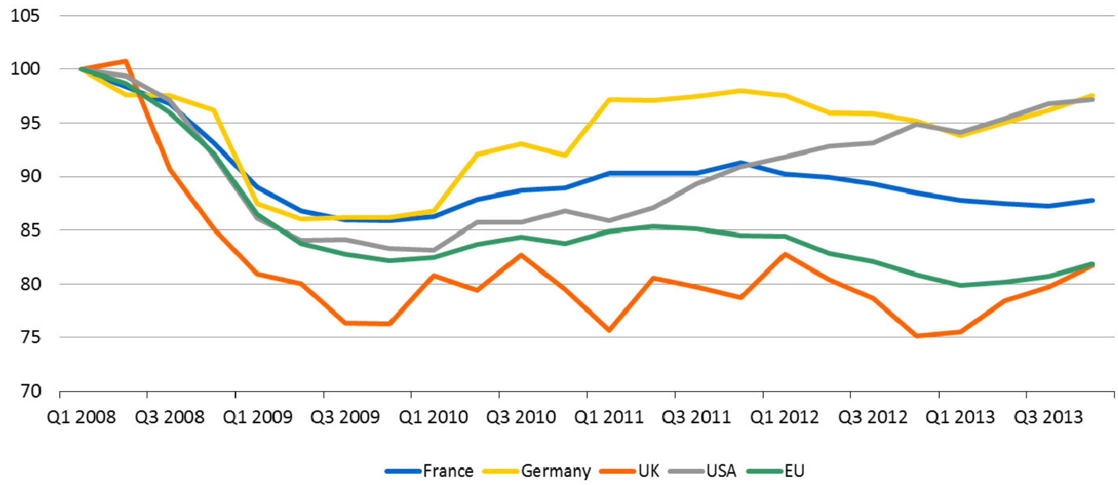



**Figure 9: Real Investment (Index Q1 2008 = 100)**
*Source: Organisation for Economic Co-operation and Development: Quarterly National Accounts*

17. Productivity is unevenly distributed across the UK. Figure 10 shows GVA per hour worked, the preferred UK productivity measure, for each of the UK's nations from 1997-2012. The 2012 data shows that Scotland is in line with the UK average but Northern Ireland and Wales were considerably lower, 17% and 15% below the UK average respectively.

18. Looking at the figures over time, relative productivity in England has remained fairly static, not least because it is the biggest contributor to the average. Relative productivity in Scotland, Wales and Northern Ireland has seen greater variation, but productivity has still tended to move in line with the average since 1997.

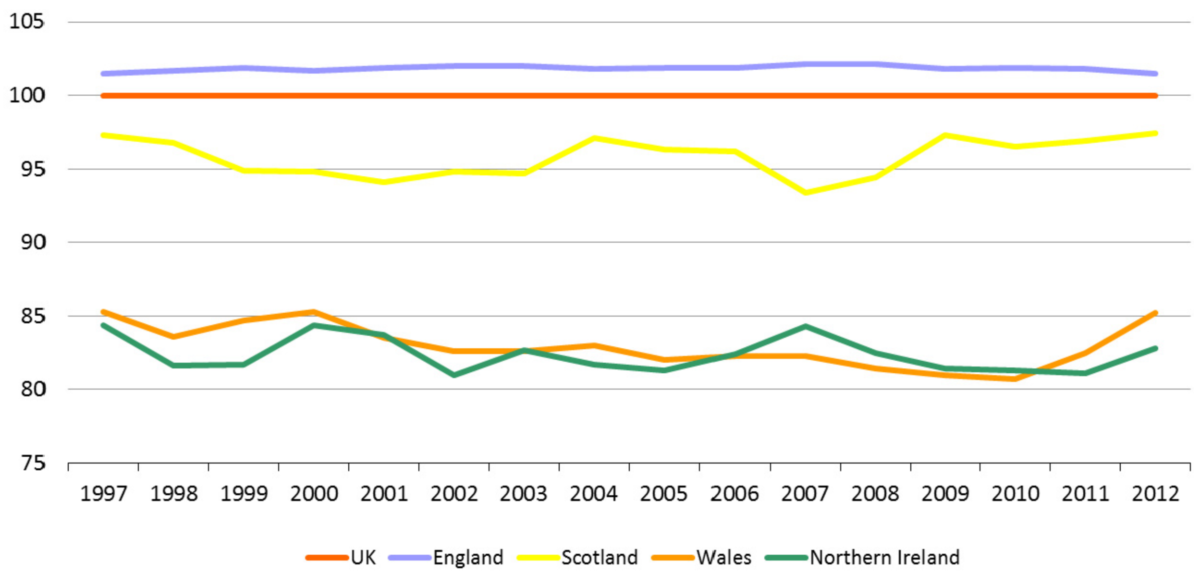



**Figure 10: Nominal GVA per hour worked 1997 to 2012 (UK indexed to 100).**
*Source:* http://www.ons.gov.uk/ons/rel/productivity/labour-productivity/q3-2013/tsdq313.html

19. One of the reasons for these disparities in productivity across the UK is that industrial structure varies considerably from territory to territory. A comparison between manufacturing and the finance and insurance sectors helps illustrates the impact these differences have on growth.

20. In the last decade, across all parts of the UK, the contribution of manufacturing towards total GVA has been declining - albeit this rate of decline is slowing - whilst the share of

the finance and insurance sector has increased. For the UK as a whole, nominal GVA growth of manufacturing between 2000 and 2010 was just 1% whilst for the finance and insurance sector the equivalent nominal growth was 146% (total UK nominal GVA growth across all sectors was 52%).

21. In the context of this overall macroeconomic assessment, the sections that follow set out the development needs of the UK within the EU framework of smart, sustainable and inclusive growth. The UK has a broad range of development needs which span ten of the eleven thematic objectives defined in the EU regulations governing use of the ESI Funds (the exception is the objective relating to institutional capacity). These development needs are grouped below under the most relevant thematic objective. These thematic objective sub-sections also set out:

- relevant Europe 2020 targets and Country Specific Recommendations;
- current UK performance against key metrics relating to the development needs;
- devolution arrangements within the UK relevant to the policy area (these are often complex);
- description of domestic interventions to tackle the development needs (by the UK Government for non-devolved matters and the administrations for devolved matters);
- the objectives for the ESI Funds in relation to the development needs; and
- a high-level description of the types of investments planned to deliver the objectives for the ESI Funds in the policy area.
-

22. The national chapters for the UK's nations expand further the development needs within their own territories and give the justifications for variations in selection of priority thematic objectives within those territories.

# SMART GROWTH

## STRENGTHENING RESEARCH, TECHNOLOGICAL DEVELOPMENT AND INNOVATION

### Europe 2020

| EU 2020 Target | EU27[9] | UK[10] | England[11] | Wales | Scotland | NI | Gib |
|---|---|---|---|---|---|---|---|
| 3% of GDP to be invested in RD&I | 2.03% | 1.77% | 1.8% | 1% | 1.6% | 1.6% | N/A |

**Figure 11: EU2020 comparison table for targets relating to R&D**

### Relevant Country Specific Recommendations

23. None

[9] The EU 27 data is taken from that available through the following European Commission page: http://ec.europa.eu/europe2020/europe-2020-in-your-country/united-kingdom/progress-towards-2020-targets/index_en.htm
[10] Further details at: http://ec.europa.eu/europe2020/pdf/nd/nrp2013_uk_en.pdf
[11] There is no data for regional GDP, but instead the ONS has a breakdown of regional GVA. Using GVA as a proxy for GDP, we can calculate GDP approximations per region, and combining them with GERD, get an estimate of GERD as a share of GDP (all data for 2011)

**Devolution settlements**

24. There is a combination of reserved and devolved responsibilities for supporting research and innovation in the UK. The powers reserved to the UK Government recognise the benefits of working at scale across the UK, for example to provide the critical mass increasingly needed in modern economies through programmes operated by the Research Councils and the Technology Strategy Board. In addition the devolved administrations – through their responsibilities for economic development – have powers to encourage research and innovation.
25. This thematic objective has not been selected in Gibraltar.

**Current UK Performance**

26. An international comparative analysis produced by the Department for Business, Innovation & Skills in January 2014[12] provided analysis of international benchmarking of the large and complex UK science and innovation system. The report identifies the UK's underlying strengths and weaknesses and indicates the priority areas that need to be addressed if the UK is to capture the maximum benefits from science and innovation. It confirms that:

- science and innovation systems are complex and made up of a large number of complementary elements;
-
- that their effectiveness is crucially determined by how well the elements interact within and respond to the demands of the broader economic and societal system; and
- that different countries succeed with different mixtures of inputs and structures.

27. It reinforces that international benchmarking is therefore challenging.
28. Figure 12 below provides a high level summary of the strengths and weaknesses of the UK science and innovation system.

[12] Allas. T (2014) BIS Analysis Paper 3. Insights from international benchmarking of the UK Science and Innovation System (https://www.gov.uk/government/publications/science-and-innovation-system-international-benchmarking)

| Category | Assessment[1] | Key strengths[1] | Key weaknesses[1] |
|---|---|---|---|
| 1. Money | Medium/Low | Strong foreign direct investment (FDI) and foreign funding into R&D, high private sector investment in intangibles, vibrant financial sector and capital markets (e.g. business angels, venture capital) relative to non-US comparators | Low levels of public and private R&D investment, low levels of public innovation support, short-term focus of capital markets, remaining issues in access to finance for innovative growth companies |
| 2. Talent | Medium/Low | Relatively attractive to top global research talent, internationally recognised higher education system attracting high quality students, relatively high number of doctorate holders, average proportion of population with tertiary education | Relatively low basic skills (numeracy, literacy, ICT), insufficient domestic human capital to exploit science and innovation (domestic STEM talent and Masters/PhD graduates working in research), below-average management skills |
| 3. Knowledge assets | Medium/High | Highly productive world-class research base (second only to US), world-class research institutions, high proportion of international research collaborations | Low number of academic / corporate co-authored publications, smaller number of patent applications (albeit unreliable as a metric of performance) |
| 4. Structures and incentives | Medium/High | Competitive funding driving excellence, strong international collaboration by firms, effective university collaboration with R&D intensive businesses, relatively strong formal and informal knowledge networks, a number of strong clusters with critical mass, modern intellectual property regime, good mix of basic, applied and experimental research | Government procurement not seen to foster innovation, limited SME / university collaboration, potential tensions in academics' incentives (e.g. publications vs. collaboration and interdisciplinary research vs. teaching), possible issues around portfolio management (e.g. complementarity of broader system with science investments) |
| 5. Broader environment | Medium/High | Open and competitive markets, positive business environment, attractive to multi-national corporations, good rates of new firm creation and entrepreneurial activity, strong citizen interest in science and technology | R&D concentrated in a small number of sectors and firms, low proportion of medium-sized growth companies, UK manufacturing relatively lower-tech and less skills-intensive, relatively low quality of demand (degree of consumer orientation and buyer sophistication), migration rules perceived to be cumbersome |
| 6. Innovation outputs | Medium (mixed) | Comparative export advantage in relatively sophisticated products, strong knowledge-intensive services and creative sector exports, strong technology balance of payments | Lagging labour productivity, average-to-low levels of new-to-market innovations, low number of innovative SMEs |

**Figure 12: High level summary of the strengths and weaknesses of the UK science and innovation system**

*Source: Literature review, expert interviews, BIS analysis*

29. In summary, the UK exhibits:

- world-class strengths in many aspects of the system, such as research excellence, higher education institutions and the business environment;
- weaknesses in the talent base, especially in terms of basic skills, science, technology, engineering and maths (STEM) skills and management skills; and
- a sustained, long-term pattern of under-investment in public and private research and development (R&D) and publicly funded innovation.

30. Nevertheless, monitoring and evaluation are already showing that existing Government measures are having some positive impacts. Overall levels of investment have been increasing on a steady basis, including throughout the recent period of recession.

31. Levels of investment by businesses have been growing steadily in cash terms since 1985. Businesses invested £17.1 billion in R&D in 2012[13]. This compares with £5.0 billion in 1985 and £11.5 billion in 2000. Taking into account inflation, business investment has increased from an estimated £10.8 million in 1985 to the £17.1 million in 2012.

[13] Further details at: http://www.ons.gov.uk/ons/rel/rdit1/bus-ent-res-and-dev/2012/index.html

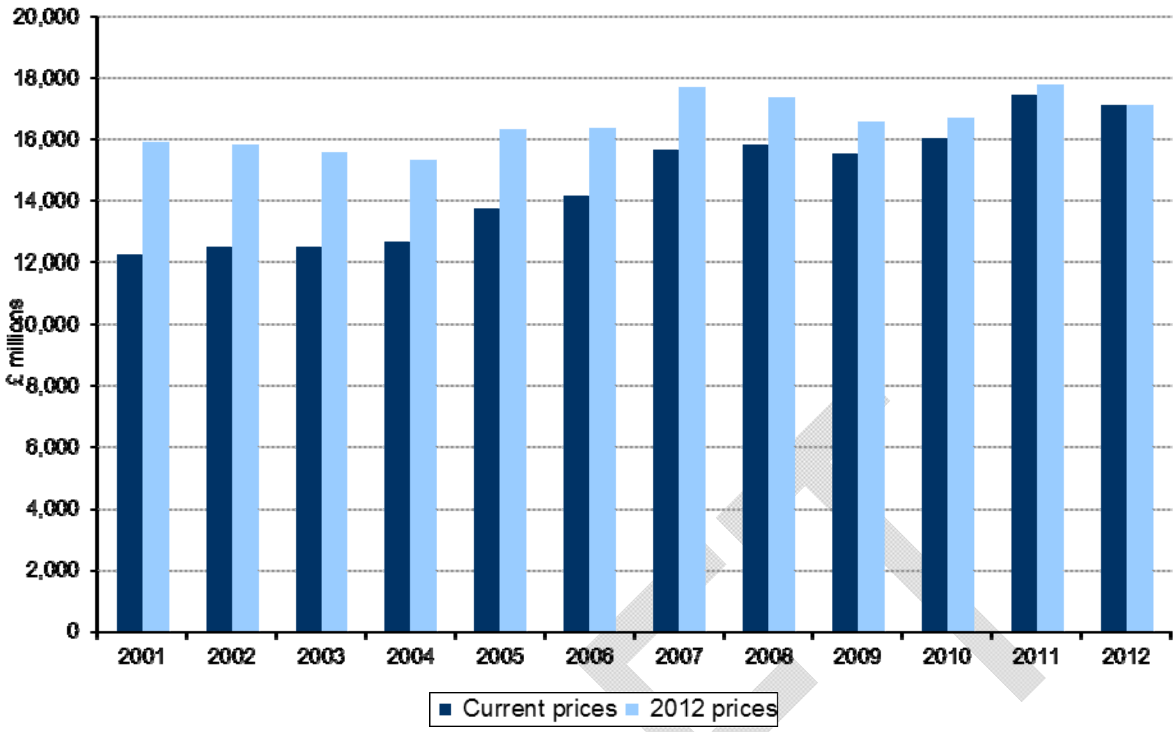



**Figure 13: Expenditure on R&D Performed in UK Businesses 2001-2012**
*Source: Office for National Statistics*

32. Employment in R&D has remained relatively stable in recent years despite the recent period of recession, growing to 160,000 Full Time Equivalent jobs in 2011 and remaining at that level in 2012 – up from a recent low of 146,000 in 2005. The 2012 estimate consists of: 90,000 scientists and engineers (56%), 43,000 technicians (27%) and 27,000 administrative staff (17%).

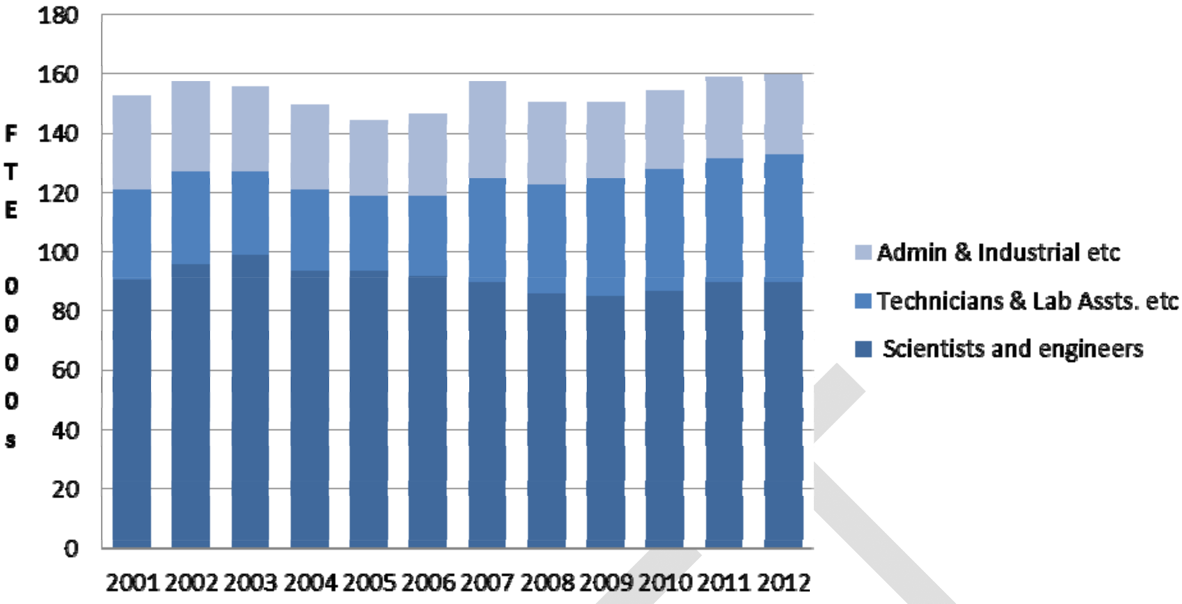



**Figure 14: Employment on R&D Performed in UK Businesses 2001-2012**
*Source: Office for National Statistics*

33. The total number of companies supported by R & D Tax Credits has risen from 1,780 in 2000/01[14] to 11,920 in 2011/12[15]. Estimates are that claims are made for around two-thirds of all spending by businesses on R&D.

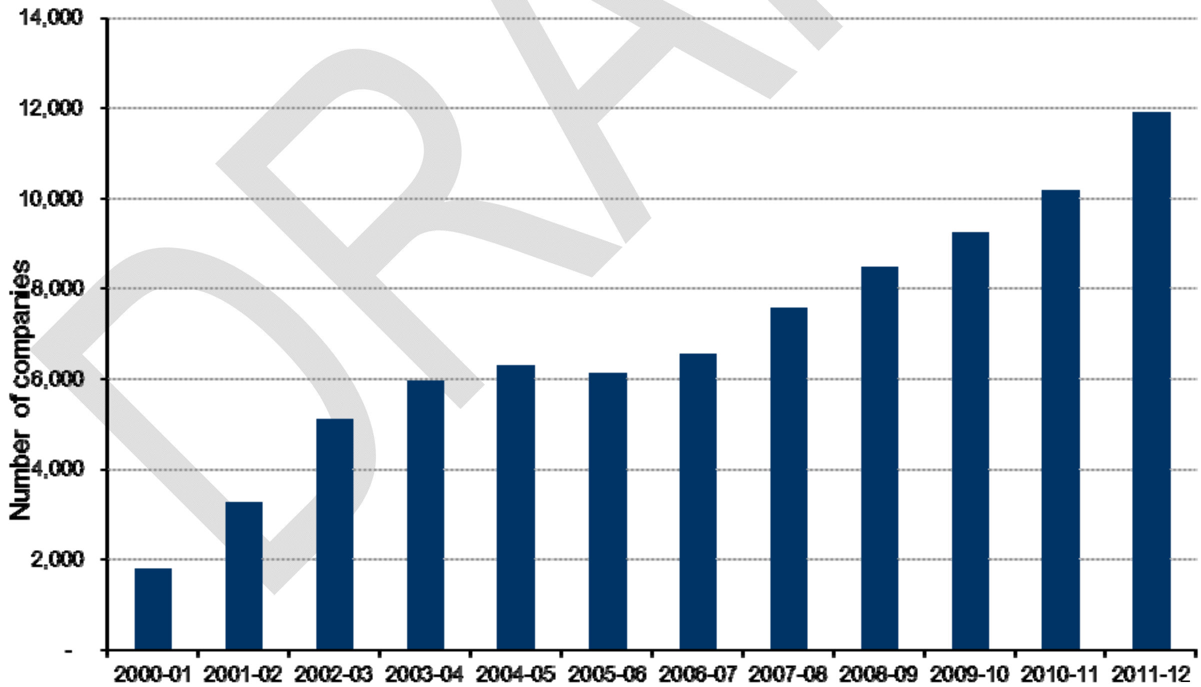



**Figure 15: Claims for the R&D tax credit by financial year 2001-2012**
*Source:* **http://www.hmrc.gov.uk/statistics/research-tc.htm#2**



[14] The large company scheme started in 2002/03.
[15] Further details at: https://www.gov.uk/government/publications/research-and-development-tax-credits-statistics-august-2013

34. The United Kingdom also performs very well in accessing and making good use of funds for research made available directly from the European Commission, especially the 7th Framework Programme. The most recent update[16] from the consolidated FP7 database shows the UK receives the second largest share of funding, € 5,205 million, and equivalent to 15.2% of the total; only Germany has received more funding. The UK is involved in more successful projects than either France or Germany, 40.7 % of all grant agreements to date. Universities continue to lead the way in FP7, accounting for 61.2 % of all UK participations, receiving 10.9 % of all FP7 funding, but 23.8 % of all participation in FP7 in the UK is undertaken by private commercial organisations. UK SMEs account for 16.7 % of all UK participations and 12.3 % of all UK funding.

35. But challenges remain. Overall levels of investment continue to lag behind the leading countries on traditional measures such as investment in research and development as a percentage of GDP.

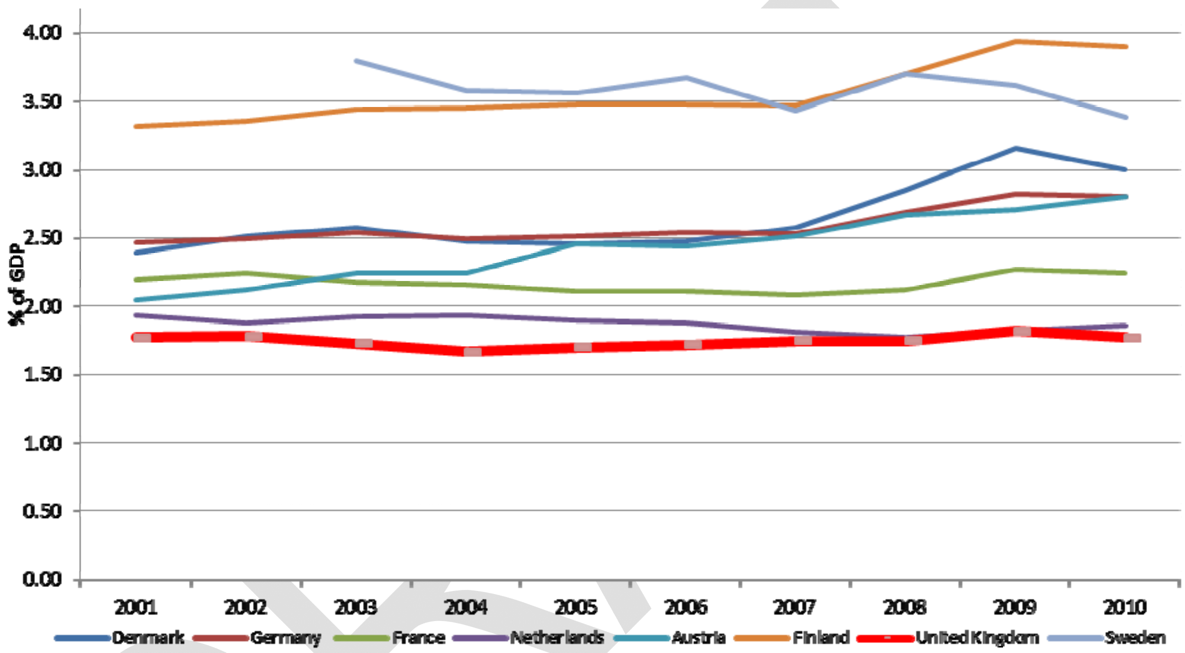



**Figure 16: Gross Expenditure on R&D expenditure (GERD)**
*Source: Eurostat. Rd_e_gerdreg*

36. This under-investment is structural, not the result of any particular spending decisions. The UK's total investment in R&D has been relatively static at around 1.8% of GDP since the early 1990s. In contrast, the US alone spends around £250bn (2.8% of GDP) on R&D per annum. China increased its R&D by 28% in 2009 and 15% in 2010, to roughly £125bn (1.8% of GDP), and South Korea doubled its expenditure between 2003 and 2011 to around £35bn (4.0% of GDP). France and Germany have consistently invested substantially more than 2% of their GDP in R&D, with aspirations to increase this to 3% or more.

37. Business investment in R&D has remained broadly static in relation to the size of the overall economy for a number of years. Total expenditure by businesses represented approximately 1.1% of GDP in 2012. This figure has remained broadly constant since 1997 after peaking at 1.5% in 1986. These figures show that UK businesses have continued to see the importance of investing in research, even throughout the recent period of recession, but this relative scale of investment continues at a level below that of our major competitors and this underperformance cannot all be explained by the

[16] eCORDA database, released 1 November 2013

sectoral composition of the economy.

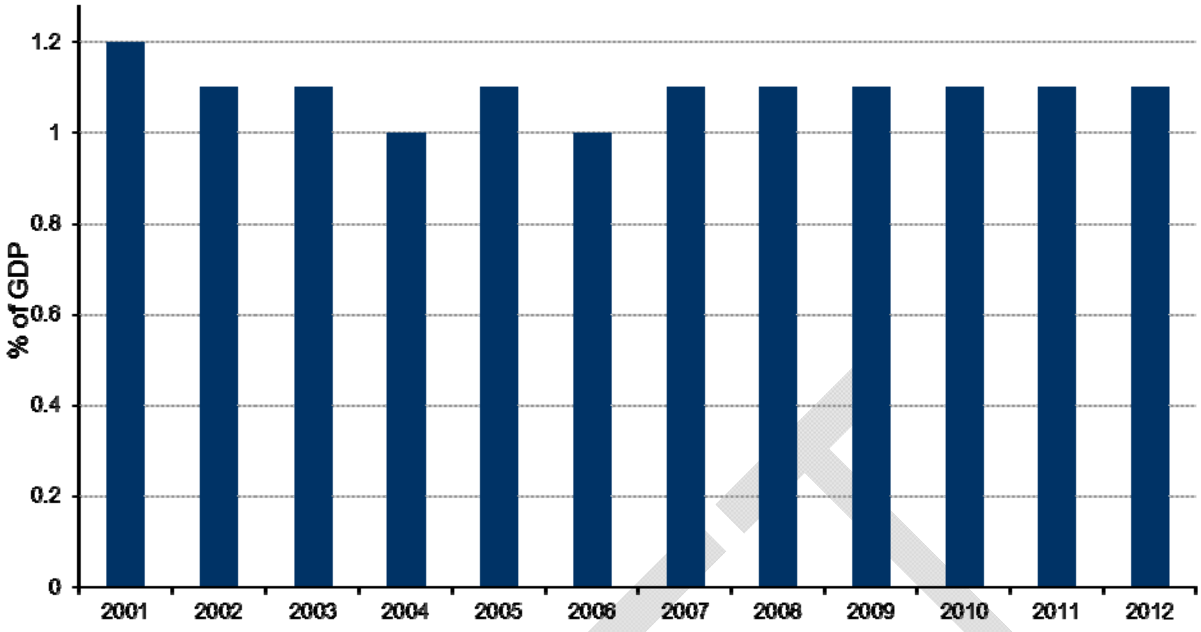



**Figure 17: Expenditure on R&D performed in UK businesses (BERD) 2001-2012**
*Source: Office for National Statistics*

38. Investment by businesses in R&D is dominated by a relatively small number of sectors. Pharmaceutical, computer programming, motor vehicles & parts and aerospace sectors account for more than 50% of all investment by businesses[17]. **This suggests that efforts are needed to widen investment in innovation by business across more sectors.**

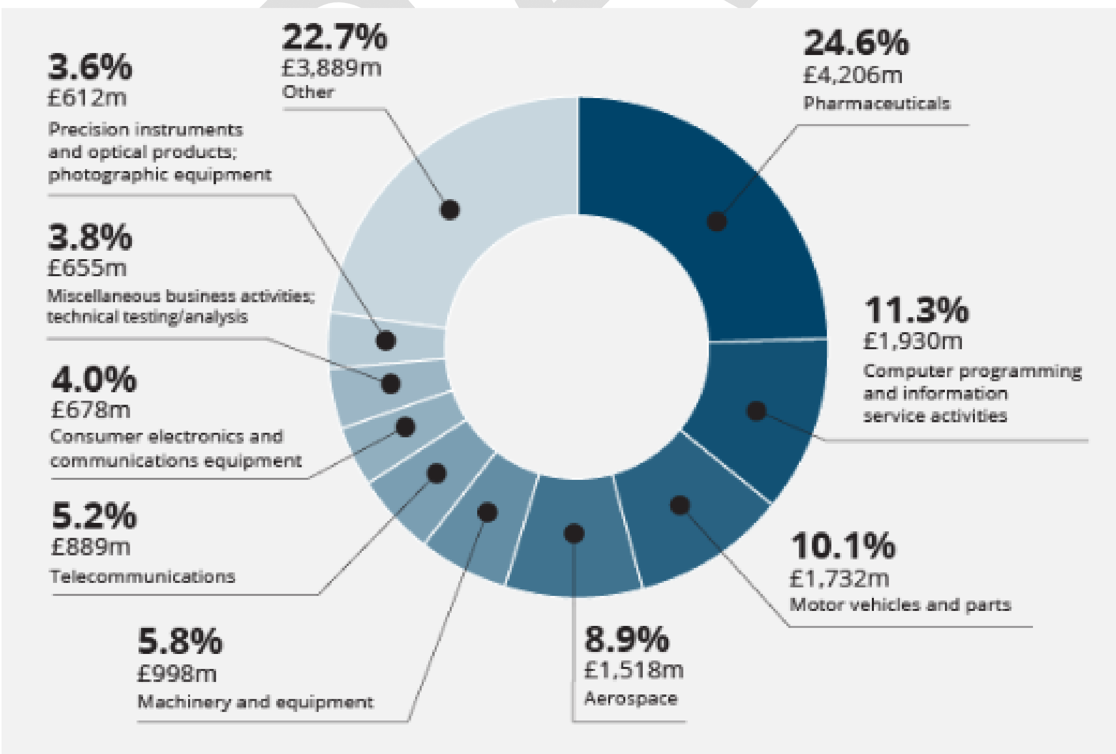



**Figure 18: Business R&D expenditure in the UK by product group**

[17] Further details at: http://www.ons.gov.uk/ons/rel/rdit1/bus-ent-res-and-dev/2012/sty-berd-2012.html

*Source: Office for National Statistics*

39. There are also significant variations in overall investment by businesses in research and development– approximately 44% of all business investments in R&D in the UK in 2012 were made in the South East and East of England. These regions also contained 41% of all FTE research related jobs in the UK.

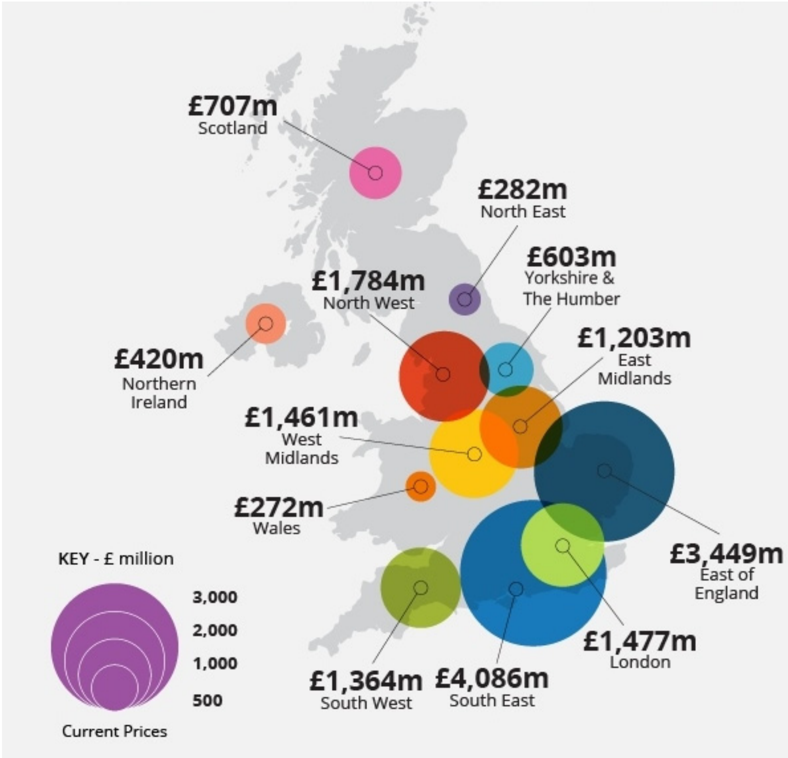



**Figure 19: Expenditure by UK Businesses on Research & development, 2012**
*Source: Office for National Statistics*

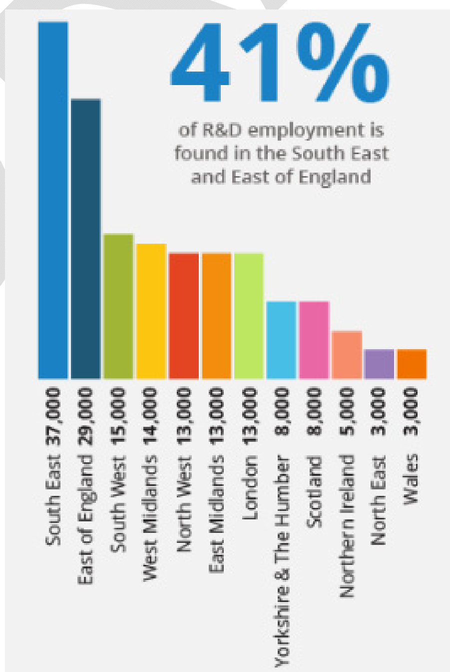



**Figure 20: Business Research & Development Employment**
*Source: Office for National Statistics*

40. The international comparative analysis produced by the Department for Business, Innovation & Skills in January 2014[18] provided an authoritative benchmarking of the large and complex UK science and innovation system. The report examined numbers and qualities of talented people needed to support science and innovation. It showed some areas of success for the UK but also some concerns.

41. Science, technology, engineering and mathematics (STEM) skills are obviously important in this context. High-level STEM skills (which include data analysis and interpretation, research and experimental design, understanding of social and behavioural impact, testing hypotheses, analysis and problem solving and technical skills) enable researchers to carry out high-level research but also enable businesses to spot the need for innovation or the potential of an idea. A strong base of vocational STEM skills equally allows innovative products, processes and services to be produced in the UK.

42. The report argued that alongside STEM skills, a solid base of business management and entrepreneurial capability is also important.

43. The evidence from a number of indicators included in the report shows a mixed picture for the UK with some apparently strong areas but most well below average. The report recommended:

- increasing numbers of people with STEM degrees to help increase our absorptive capacity, including particular disciplines where growth needs to be encouraged;
- building awareness and better careers advice in science and innovation related careers; and
- building the science and innovation perspective into the wider work on boosting managerial, entrepreneurial and basic skills.

44. In this context the main UK challenges to investment in R&D&I are:

| Challenges | Opportunities |
|---|---|
| • Increase the overall level of R&D expenditure not least through improving the level of expenditure by business especially in those parts of the UK which trail the target set in EU2020.<br>• Strengthen our ability to accelerate the commercialisation of emerging technologies, and to capture the value chains linked to these.<br>• Do more to encourage the development of technician-level skills and higher level skills to support this innovation work.<br>• The costs of cutting-edge research and the latest high-tech processes are greater than ever before, and are often too large for any one company. | • UK innovation system has many strengths:<br>• UK research base is among the best in the world, producing high-quality output with unmatched efficiency;<br>• Ranks second in the world for university-industry collaboration; and<br>• Strong at drawing in FDI to fund research.<br>• Strong national framework in place; industrial strategy, eight great technologies, catapult centres and nation-specific strategies (see below).<br>• The use of Smart Specialisation at both national and local levels to identify a limited number of priorities for investment |

[18] Allas. T (2014) BIS Analysis Paper 3. Insights from international benchmarking of the UK Science and Innovation System (https://www.gov.uk/government/publications/science-and-innovation-system-international-benchmarking)

**Domestic interventions**

45. The national Innovation & Research Strategy for Growth (2011)[19] was supported by an authoritative economics paper[20]. It provided detailed evidence for both national innovation and research priorities and how UK and EU funds could support research, development and innovation.

46. The Strategy notes that the UK has the potential to be a world leader in innovation. The strength of our universities and the wider knowledge base is seen as a strong a national asset. The UK's knowledge base is the most productive in the G8, with a depth and breadth of expertise across over many areas of distinctive research strength. The strategy confirms that the Government is committed to invest in maintaining and strengthening the research base, and to continue to fund a balance of blue skies and applied research projects.

47. The Strategy recognises also that the challenges we face in innovation are as big as those elsewhere. Some of these are long-standing, such as ensuring we make the most of the UK's inventions and discoveries. It recognises that the costs of cutting-edge research and the latest high-tech processes are greater than ever before, and are often too large for any one company.

48. The Strategy emphasises that the need to strengthen the ability to accelerate the commercialisation of emerging technologies. The private sector will always be central to innovation but Government and its partner organisations can play a key role in enabling entrepreneurs, financiers and innovators to operate through improving the interface between universities and business, and the environment for the commercialisation of research including through the increased use of public procurement to drive innovation. The Strategy recognises that competition is important in driving the quality of research and business innovation. It stresses also that there is overwhelming evidence to show that multi-partner collaborations can add more than the sum of their parts.

49. The Government will produce a new Science and Innovation Strategy by the end of 2014. This will include a roadmap of how the Government's long-term commitment on science capital will deliver the research and innovation infrastructure to ensure that the UK's capabilities remain world-leading while playing a key role in economic growth and scientific excellence.

*The Industrial Strategy*

50. The **Industrial Strategy** of 2012[21] sets out a long-term, whole of Government approach to how we support business in order to give confidence now for investment and growth.

51. The Industrial Strategy has five core themes of activity[22]; access to finance, skills, public procurement, sectors and enabling technologies. Support for a limited number of sectors and technologies and the broader research which underpins their development are therefore a fundamental part the approach of Government to the industrial strategy. The choice of these sectors was underpinned by a comprehensive analysis of the evidence

[19] Further details at: http://www.official-documents.gov.uk/document/cm82/8239/8239.pdf
[20] Further details at: http://www.bis.gov.uk/assets/biscore/innovation/docs/e/11-1386-economics-innovation-and-research-strategy-for-growth.pdf
[21] Further details at: https://www.gov.uk/government/policies/using-industrial-strategy-to-help-the-uk-economy-and-business-compete-and-grow
[22] Further details at: https://www.gov.uk/government/speeches/industrial-strategy-cable-outlines-vision-for-future-of-british-industry

on which sectors[23] can make the greatest contribution to future economic growth and jobs. The analysis considered in which broad sectors actions by Government can add the most value, including advanced manufacturing, knowledge intensive traded services, and enabling sectors.

52. A further and similarly detailed analytical paper[24] brought together insights from analysis underpinning the sector strategies, focusing on the 4 themes of supply chains, innovation, skills and exports. It confirmed that a sector approach may effectively complement more traditional measures. It identified common across the sectors, but also the significant differences which need to be reflected in policies and funding programmes. It also included the findings of new research to support a number of the strategies, including on nuclear and construction industry supply chains and developments in the information economy.

53. The Government worked closely with industry and other partners to prepare eleven sector strategies. Strategic partnerships with industry were strengthened or established to lead this work. These partnerships bring together in a collaborative environment for leadership senior figures from industry, representatives of trade associations of firms of all sizes, leading academics, and national agencies and trades unions. Each group is co-chaired by industry and Government.

54. These Leadership Councils are:

- 
- Life Sciences Ministerial Industry Strategy Group and Medical Technology Strategy Group;
- Aerospace Growth Partnership;
- Nuclear Industry Council;
- Oil and Gas Industry Council;
- Offshore Wind Industry Council;
- Information Economy Council;
- International Education Council;
- Agritech Leadership Council;
- Construction - Industry Strategy Advisory Council;
- Professional and Business Services Council; and
- Automotive Council.

55. The work of these Councils is overseen and supported by the Industrial Strategy Council. This strategic group includes representatives of each the individual Councils and Ministers.

56. The Government subsequently published individual strategies for each of the sectors. The update[25] to the Life Science strategy[26] was published in December 2012.



[23] Further details at: https://www.gov.uk/government/publications/industrial-strategy-uk-sector-analysis
[24] Further details at: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/237323/bis-13-1165-securing-jobs-and-a-stronger-economy-analytical-insights.pdf
[25] Further details at: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/34596/12-1123-life-sciences-strategy-update-august-2012.pdf
[26] Further details at: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/32457/11-1429-strategy-for-uk-life-sciences.pdf

Strategies have been published for sectors of Aerospace[27], Nuclear[28], Oil & Gas[29], Information Economy[30], Construction[31], Automotive[32], Professional Business Services[33], Offshore Wind[34], and Education[35]. In addition the UK Strategy for Agricultural Technologies [36] has also been published.

57. The Government is committed to maintaining levels of public investment in research and innovation despite severe financial pressures. Previous National Reform Programmes[37] reported that the Government would, despite difficult decisions taken to reduce many other areas of public expenditure, maintain the science budget in cash terms over the 2011–15 with resource spending of £4.6 billion a year.

58. Since then, Government has invested an additional £1.5 billion to encourage further collaboration between research and business. During 2012 this included: £300 million for universities to secure co-investment in research partnerships with business and charities (UK Research Partnership Investment Fund); £120 million for space; and a further £600 million announced in the 2012 Autumn Statement[38] for science and innovation capital investment related to the 8 Great Technologies.

59. The Government announced at Budget 2013[39] an expansion of the Small Business Research Initiative (SBRI). £100 million will be channelled through the scheme in 2013-14. All departments will be expected to expand their use of the scheme. Specific targets were announced for SBRI for key departments including Health and Defence.



[27] Further details at: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/142625/Lifting_off_implementing_the_strategic_vision_for_UK_aerospace.pdf
[28] Further details at: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/168047/bis-13-630-long-term-nuclear-energy-strategy.pdf
[29] Further details at: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/175480/bis-13-748-uk-oil-and-gas-industrial-strategy.pdf
[30] Further details at: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/206944/13-901-information-economy-strategy.pdf
[31] Further details at: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/210099/bis-13-955-construction-2025-industrial-strategy.pdf
[32] Further details at: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/211901/13-975-driving-success-uk-automotive-strategy-for-growth-and-sustainability.pdf
[33] Further details at: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/211842/bis-13-922-growth-is-our-business-professional-and-business-services-strategy.pdf
[34] Further details at: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/243987/bis-13-1092-offshore-wind-industrial-strategy.pdf
[35] Further details at: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/229844/bis-13-1081-international-education-global-growth-and-prosperity.pdf
[36] Further details at: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/227259/9643-BIS-UK_Agri_Tech_Strategy_Accessible.pdf
[37] Further details at: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/197157/national_reform_programme_2013.pdf
[38] Further details at: https://www.gov.uk/government/topical-events/autumn-statement-2012
[39] Further details at: https://www.gov.uk/government/publications/budget-2013-documents

60. In the Spending Round 2013[40], the Government committed to maintain resource funding for science in cash terms at £4.6 billion in 2015-16. The Government extended the Research Partnership Investment Fund (RPIF) to 2016-17, making available £160 million per year of match funding to leverage private funding for scientific infrastructure. The Government is also providing long-term sector support through a £1.6 billion industry-matched fund as part of the Industrial Strategy.

61. The Government has increased capital spending on science by £1.4 billion above the amount committed at Spending Review 2010, enabling significant investment in projects including autonomous robotics, Big Data, and major upgrades and new facilities at Harwell Science and Innovation Campus; and providing long-term stability for science infrastructure over the next Parliament, to maximise the potential of the UK's world-leading scientific excellence, the Government intends to set an overall science capital budget which grows in line with inflation each year until 2020-21.

**Objectives for ESI Funds**

Based on the challenges, opportunities and domestic interventions described above, the focus for the ESI Funds in the UK to contribute towards Smart Growth should be to: **improve the commercialisation of R&D, including through encouraging more firms to innovate.**

62. Specifically the ESI Funds should:

- build collaborative research between enterprises, research institutions & public institutions through effective use of a Smart Specialisation approach;
- supporting SMEs to commercialise Research & Development;
- support the development of technician-level skills and higher-level skills; and
- support the provision of Incubation space and other equipment (e.g. demonstration and user-test facility space, and open access to equipment/ technical facilities) which leads directly to the delivery of other ESI Fund objectives.

**Priorities for investment**

63. All parts of the UK plan to use ESI funds to encourage greater levels of private investment in R&D&I. There should be a resultant increase in the number of innovative enterprises as a percentage of all businesses in the UK, including through a rise in the number of collaborations between SMEs and academic institutions.

[40] Further details at: https://www.gov.uk/government/topical-events/spending-round-2013

## SMART SPECIALISATION – A UK APPROACH

> Smart Specialisation seeks to ensure that proposed actions are based upon sound evidence that properly reflects the comparative advantages of the physical and human assets of particular places in the global economy. It emphasises the need to ensure that activities are fully integrated in the local economy and its supply and value chains. It helps to build connections of ideas, finance and trade with similar activities elsewhere. It promotes also the use of enabling technologies that can transfer and add value between related sectors.

64. The concept of Smart Specialisation is being widely embraced across the European Union[41]. The concept embodies an approach to EU investment in innovation which:

- recognises the importance of designing innovation actions that are informed by a stronger awareness of the global economy, and that proposed actions are supported by a process of 'entrepreneurial discovery' and a more credible base of evidence;
- seeks to add value to innovation actions whenever delivered locally by ensuring they are properly embedded into the local economy and institutional & social environment – and that the benefits of any new technologies developed can be transferred into related sectors;
- emphasises the importance of ensuring that the design of all innovation activities are properly informed by the potential spatial implications of that action even if these implications are unintended;
- recognises that geographies and patterns of innovation are complex and variable and more needs to be done in the design of new programmes to ensure that firms and research institutions are not hindered by administrative barriers;
- applies to innovation in the fields of technology, business processes, agricultural industries and social innovation, including the reform of public services.

65. Smart specialisation needs to be applied in different ways across the UK to take into account each nation's specific circumstances. Therefore, each administration of the UK (this does not include Gibraltar) will bring forward their own specific proposals for the design and implementation of their own Strategies.

## ENHANCING ACCESS TO, AND USE AND QUALITY OF, INFORMATION AND COMMUNICATION TECHNOLOGIES

### Europe 2020

66. The EU2020 includes the Digital Agenda for Europe as one of its seven flagship initiatives. It contains a series of measures designed to help Europe's citizens and businesses to get the most out of digital technologies, including through improving the broadband infrastructure, raising eSkills and encouraging investment in ICT. The Digital Agenda for Europe has three goals particularly relevant to the discussion in this section:

[41] Further details at: http://s3platform.jrc.ec.europa.eu/scene-setting

- the entire EU to be covered by broadband above 30 Mbps by 2020;
- internet speeds of 100 Mbps to half of all households by 2020; and
- 33% of SMEs to make online sales by 2015.

**Relevant Country Specific Recommendations**

67. None

**Devolution settlements**

68. The UK Government has at its disposal a number of tools through which to control and stimulate the provision of information and communication technologies, including regulation of the telecommunications industry. It also operates a number of UK-wide programmes to stimulate investment in broadband infrastructure; the devolved administrations are responsible for managing delivery of projects in their nations.
69. This is complemented by a range of programmes operated by the devolved administrations to ensure that everyone has access to and can make best use of information and communication technologies. In particular the devolved administrations have primary responsibility for promoting ICT skills.
70. This thematic objective has not been selected in Gibraltar.

**Current UK Performance**

71. Exploitation of ICT is key to increasing SME competitiveness and productivity growth and to enabling research and innovation. Indeed the European Commission indicates that half of European productivity growth over the last 15 years has been driven by ICT[42]. However, while the majority of UK businesses with 10 or more employees have a website (79% in 2010), approximately 85% do not use a website for selling their goods or services[43]. For small firms it is estimated that a 10% productivity increase is achieved from internet usage, as SMEs with significant internet usage grow and export twice as fast as others[44]. Lack of awareness of these advantages and how to exploit them together, in some cases, with an inability to access high speed communication networks or sufficient bandwidth to meet business need serves to constrain business exploitation of the opportunities ICT presents.
72. Ofcom 2013 data showed that 73% of UK premises had access to superfast broadband. 3% did not have access to standard broadband. There is therefore significant potential for an increase in superfast broadband coverage to make a significant contribution to growth in the UK. As an infrastructure investment, broadband networks produce spillover effects to all sectors of the national economy. The adoption of faster broadband by firms stimulates further investment in wider Information and Communications Technology systems and applications taking advantage of the improved connectivity, and results in business process restructuring, more informed decision making, and productivity gains. Faster broadband also helps to support the creation of new businesses, and easier access to market information helps to reduce barriers to entry. Outsourcing of processes and operations is made easier for small businesses, which helps them focus on improving their core strengths while reducing operational costs. Faster broadband safeguards employment in areas which would otherwise be at an

[42] Europe's Digital Competitiveness Report, European Commission, 2010
[43] Table: ONS data on adoption of E-commerce and ICT Activity by size of business (%), 2010.
[44] Internet Matters - McKinsey May 2011

unfair disadvantage, from productivity-enhancing time-savings for teleworkers, and from increased participation in the labour force (for example carers and disabled people).

73. The average broadband speeds in rural areas are considerably lower than speeds in urban areas. In 2012 the average broadband speed in sparse hamlets & isolated dwellings was 4.4 Mbit/s compared with 14.8 Mbit/s in less sparse urban areas. There are around 2.8 million premises, mainly in rural areas that require further public sector investment to gain access to superfast broadband. This is critical to avoid a digital divide and to underpin economic growth.

74. Within this context the main UK challenges to improving access to, use and quality of ICT are:

| Challenges | Opportunities |
| --- | --- |
| • Businesses not fully exploiting ICT to maximise their competitiveness.<br>• Gaps in superfast broadband coverage, particularly in hard to reach and rural areas. | • Exploitation of ICT is key to increasing SME competitiveness and productivity growth and to enabling research and innovation. |

**Domestic interventions**

75. Government is committed to delivering the best superfast broadband network in Europe by 2015[45]. To support this, the Government aims to ensure universal access to standard broadband (of at least 2 Mbps) in the UK, and 95 per cent of premises having availability of superfast broadband networks[46] by 2017.

76. The private sector can be expected to invest in areas where it can make a positive return on its investment, i.e. where the Net Present Value of the revenue from potential customers exceeds the capital investment costs and ongoing operating costs. Where this is not the case, private sector investment will not go ahead.

77. The Government is addressing this market failure through its current Rural Broadband Programme. Drawing on 2007-13 European funding programmes, over £1.2 billion is currently being invested to provide superfast broadband to 90% of the UK. This is broken down by nation as follows:

- England £720m
- Scotland £241m
- Wales £203m
- Northern Ireland £19m

78. Government has committed to provide a further £250m to ensure 95% of UK homes and businesses have access to superfast broadband by 2017, with the hardest to reach locations amongst those who stand to benefit most. The allocations for the new £250m across the UK will be announced shortly. The indicative funding allocations for the new £250m across the UK were announced on 25 February 2014. This funding will need to be matched by funding from other sources including EU funding for the 95% target to be met.

[45] Further details at: http://www.culture.gov.uk/what_we_do/telecommunications_and_online/7763.aspx
[46] BDUK has defined Superfast Broadband as having a potential headline access speed of greater than 24Mbps, with no upper limit. Typically, at a wholesale level, the underlying capability can be measured in gigabits. The retail market then takes this capability and delivers affordable propositions.

79. The Government's programme is based on a gap funding model, where the public subsidy provided (including EU Funding) is only to the level which is required to fill the investment gap and make the investment viable to the private sector.

80. In terms of demand for broadband, the Government's Information Economy Strategy sets out the ambition that all organisations, especially SMEs, should be confident and successful users of digital technologies – able to trade online, seize new technological opportunities, and increase their revenues in both domestic and international markets. The UK's long term success will be underpinned by a highly skilled digital workforce, digital infrastructure and framework for cyber security and privacy necessary to support growth, innovation and excellence.

81. In order to help SMEs gain the digital skills to transact online, Go On UK, the UK's Digital Skills Alliance, and the UK Government are delivering a programme to reach 1.6m SMEs over the next 5 years. This scheme was launched on 1 October 2013. Go On is also leading a programme to help individuals acquire the skills to use digital technologies confidently.

82. In order to improve the number and quality of computer science graduates the UK Government has initiated action to improve employment outcomes for computer science graduates in the UK.

83. In addition BIS has published a data capability strategy which recognises the importance of data skills to enable the UK to be a world leader in data analytics. It includes actions to collaborate with industry on skills shortages, improve the image of the discipline, and assess how data analytics is currently taught in universities. The UK Government continues to help make UK industry more aware and better prepared with respect to cyber security.

**Objectives for ESI Funds**

Based on the challenges, opportunities and domestic interventions described above, the focus for the ESI Funds in the UK to contribute towards improving access to, use and quality of ICT including improving superfast broadband infrastructure, where to do so would address the funding gap and ensure opportunities for growth through digital connectivity is exploited.

84. Specifically the ESI Funds should:

- Improve ICT infrastructure, where to do so would either address a clear market failure or bring forward planned initiatives to improve local growth either at a quicker rate or with greater benefit.
- Support SMEs and social enterprises to exploit e-commerce opportunities by trading online and use digital technology to increase productivity.

**Priorities for investment**

85. ESI funds will be used to match fund Government investment to extend fast and superfast broadband in areas where the market has failed. It will particularly support access to rural broadband services. This will build on significant ERDF investment being made in the 2007-13 programmes. In addition the ESI Funds will be used to increase business usage and exploitation of digital technology.

## Enhancing The Competitiveness Of SMEs, The Agricultural Sector And The Fisheries And Aquaculture Sector

### Europe 2020

86. The EU2020 priorities include a push to: support entrepreneurship[47], encourage exports and get access to finance to return to normal lending to the economy.

### Relevant Country Specific Recommendations

- Take further steps to improve the availability of bank and non-bank financing to the corporate sector, while ensuring that the measures primarily target viable companies, especially SMEs. Reduce barriers to entry in the banking sector, lower switching costs and facilitate the emergence of challenger banks through a divestiture of banking assets. Effectively implement the Financial Policy Committee's recommendations on prudent assessment of bank capital requirements and on addressing identified capital shortfalls.

### Devolution settlements

87. Economic development, agriculture and fisheries are all devolved matters. The devolved administrations are therefore primarily responsible for these areas, although the UK Government has relevant reserved responsibilities in relation to access to finance and foreign affairs (which includes EU matters).

### Current UK Performance

88. UK SMEs are an important potential contributor to growth. 99.9 per cent of the UK's 4.9 million businesses are small or medium-sized (less than 250 employees), of which around 75% have no employees[48]. Together, they are responsible for almost half of the £980 billion private sector output (2011) and 59 per cent, or almost 14.4 million, of private sector jobs at the start of 2013. SMEs also account for almost half the net growth in jobs.
89. An entrepreneurial culture is an important aspect of growth. Between 2012 and 2013 England and Scotland saw an increase in the number of businesses with the North West of England and London experiencing the greatest increase of nearly 49,000 and 34,000 businesses respectively. The North West grew by 11% between 2012 and 2013, accounting for 48 per cent of the growth in the UK[49] . However, the number of businesses fell in the East of England (11,000), South West (11,000), East of England (6,000), Wales (3,000) and Northern Ireland (1,000) respectively.
90. SME GVA per employee is on average 8.7% less than employees from larger firms[50] with regional differences across the UK. There is also variation across sectors; with SMEs in manufacturing on average 41.6% less productive than larger firms in the UK.

[47] Further details at: http://ec.europa.eu/enterprise/policies/sme/entrepreneurship-2020/index_en.htm
[48] Further details at: https://www.gov.uk/government/publications/business-population-estimates-for-the-uk-and-regions-2012
[49] Further details at: http://www.ons.gov.uk/ons/dcp171778_329129.pdf
[50] Special analysis of http://www.ons.gov.uk/ons/rel/abs/annual-business-survey/2011-revised-results/abs-2011---revised-results-statistical-bulletin--june-2013-.html

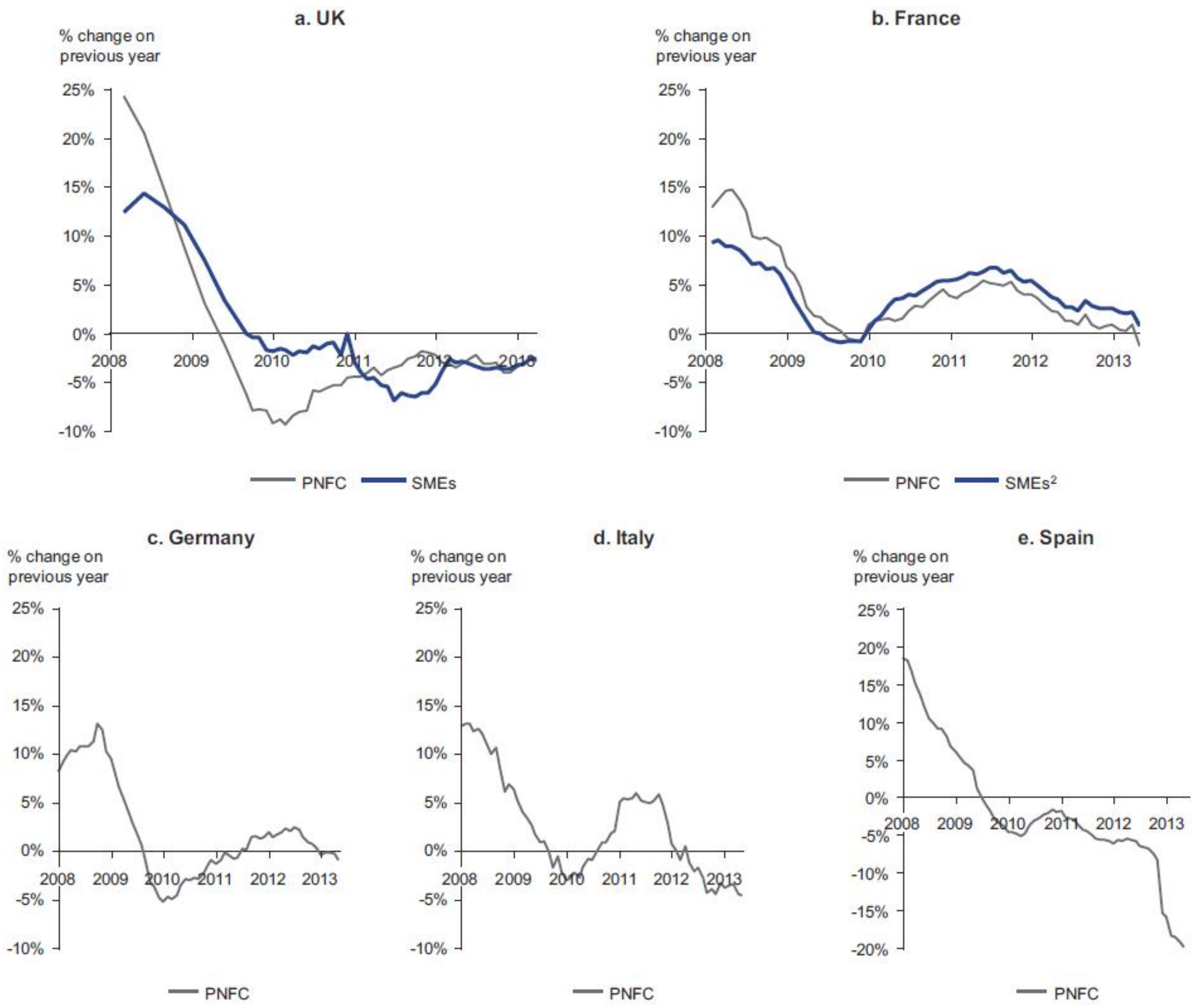
91. High growth businesses[51] are an important contributor to driving productivity in the economy and creating jobs. They make up just 5% of all UK firms with more than 10 employees – yet around a quarter of all new jobs in employing businesses are generated in high growth SMEs. These businesses can be found across all sectors, and include both established firms and start-ups, small businesses and large ones. In addition, they can be found both in urban and non-urban areas. In 2011 the percentage of high growth business varied across the country. England performed above the UK average with 5.1%, followed by Northern Ireland (4.9%), Scotland (4.1%) and Wales (4.0)%[52].

92. Variations in numbers of start-ups, SME productivity and numbers of high-growth businesses across the UK depend on the following enablers/SME behaviours:

- Access to debt finance: SMEs are often reliant on external financing. This ability of SMEs to access finance is important for cash flow, funding business investment, facilitating new business start-ups and ensuring businesses have the opportunity to reach their full growth potential. In the UK, net lending by banks to SMEs has been negative since 2010 as shown in figure 21. The total stock of SME lending has fallen by around £32bn (16%) since April 2011[53]. Contraction in lending is now gathering pace in most European markets – in France SME lending is now at best flat, while in Germany, Italy and Spain, lending to private non-financial corporations has turned negative and dramatically so in Spain and Italy. There is widespread evidence to show a contraction in the supply of finance to SMEs compared to before the financial crisis[54], which has formed as part of a general tightening of credit conditions. It should be noted, though, that activity picked up in 2013; the Bank of England reports that gross lending to SMEs increased by around 10% in the year to November 2013[55], and firms surveyed reported increased intentions to borrow. Repayments remained higher than gross lending, however, so the stock of lending continued to fall.



[51] High growth business are defined by the OECD as those with at least 10 employees and who have experienced growth at an annual average of 20% over a three year period.
[52] ONS data for 2011
[53] Bank of England: *Bankstats* table A8.1. Available at: http://www.bankofengland.co.uk/statistics/Pages/bankstats/current/default.aspx
[54] For instance, Fraser (2012) "The Impact of the Financial Crisis on Bank Lending to SMEs" provides empirical evidence supporting an increase in rejection rate and margins, holding other risk factors constant. Or more recently there was a report produced for BIS by NIESR that updated Fraser's work: Department for Business, Innovation and Skills, "Evaluating Changes in Bank Lending to UK SMEs Over 2001-12 – Ongoing Tight Credit?", April 2013, www.gov.uk/government/publications/bank-lending-to-uk-small-and-medium-sized-enterprises-2001-to-2012-evaluating-changes
[55] Trends in Lending, January 2014




1. Companies with annual bank account debit turnover less than £25 million. Data cover lending in both sterling and foreign currency, expressed in sterling terms 2. SMEs including SMEs owned by groups, independent SMEs and micro-entreprises

**Figure 21: Changes in bank lending volume in the main European countries in Private Non-Financial Corporations (PNFC) and SMEs[56]**
*Source: Ares & Co analysis. Data - BoE, BdF, Deutsche Bundesbank*

- Equity finance: For small firms seeking or requiring equity finance, there has been a long recognised finance gap, whereby the high costs of due diligence, relative to deal size, make smaller equity investments (around £250k to £5m or more of investment, depending on the sector) uneconomic. This is a long term structural gap. Many SMEs also lack information on how equity finance works and where to obtain it. This is part of a wider trend where SMEs are particularly reliant on retail banking.
- Access to debt and equity finance for high-growth businesses: High growth businesses operate with higher levels of debt than slower-growing ones. However, analysis also suggests that these firms may have specific difficulties in accessing finance, particularly during the recession.
- Propensity to export: Exporting is a key factor in improving the productivity of businesses; there is evidence to suggest that companies that start exporting become 34% more productive in their first year alone. Despite obvious benefits, only a small

[56] Further details at: http://www.thecityuk.com/research/our-work/reports-list/alternative-finance-for-smes-and-mid-market-companies/

proportion of SMEs export. The latest ONS Annual Business Survey[57] suggests that 211,600 registered businesses in Great Britain exported either goods or services, or both in 2012. Whilst not strictly comparable, an EU study suggests that the percentage of UK SMEs who export is on par with Germany and France[58]. This is on par with other large EU economies such as France and Germany[59]. Two different studies have been conducted recently to estimate the number and profile of businesses that could export successfully but are currently not exporting. The results present robust evidence that there is a substantial population of UK businesses who have the characteristics required to export successfully but are not currently doing so. The results suggest that between 4% and 10% of all non-exporting SMEs[60] and 12% of non-exporting establishments with 10 or more employees could export successfully[61].

- Propensity to seek advice and guidance: Small businesses that take support and advice do better than those that do not – yet over 50% of small businesses do not take or seek any type of advice. Feedback from businesses is that finding the right advice and support is currently too difficult, complicated and time consuming. Often many do not know how to price such advice and guidance correctly, which in turn inhibits the operation of sector providers. Businesses are not always aware of the different types of support available to them, and this is a huge missed opportunity, not to mention a poor use of public money.

93. Growth in small and micro-enterprises, including those with no employees (i.e. sole traders), play a relatively strong role in the UK's rural areas, accounting for over half of employment in rural areas compared with around a quarter in urban areas. An evidence review by the Centre for Rural Economy[62] sets out that rural economies have great potential to achieve more for rural firms, the rural workforce and rural residents, and for the UK as a whole. It also suggests the growth ambitions of small and medium rural firms are most challenged by difficulties in recruiting skilled staff and lack of space.

94. The Agriculture sector has some of the lowest levels of growth and total factor productivity, along with a comparatively aged workforce.. Agricultural productivity and outputs vary substantially across the industry, not only between sectors but within sectors themselves, with one third of agricultural businesses in the UK providing 92% of the output of the entire sector. In forestry, imports dominate the feedstock for the processing market in the UK with home grown timber representing less than 20% of total wood use.

95. These disparities in the land based sector are due to a range of factors including geography, but it may also reflect farm size, training and skills, and the degree of uptake of new and existing innovative technologies. In the mid-1970s the UK's agricultural productivity (as measured by TFP) was above the EU average (for the then EU10), although still behind the leading EU countries and the US (as Figure 22 illustrates). By the early 1990s, the UK had declined relative to other countries, and has continued to perform poorly relative to the US.

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57 ONS, Annual Business Survey 2012 http://www.ons.gov.uk/ons/rel/abs/annual-business-survey/characteristics-of-exporters-and-importers--gb--2012/abs-data-by-export-and-import-status--2012.xls
58 Further details at: http://ec.europa.eu/enterprise/policies/sme/market-access/files/internationalisation_of_european_smes_final_en.pdf
59 BIS Economics Paper no 17 – UK Trade performance across markets and sectors Feb 2012
60 Mion, G. & Novy D. (2013). Gaining further understanding of the factors which influence export engagement among UK SMEs. UKTI Research report.
61 Harris, R. and Moffat, J. (2013) Investigation into trends in export participation among UK firms.
62 Further details at: http://www.ncl.ac.uk/guru/documents/govsgrowthreview1.pdf

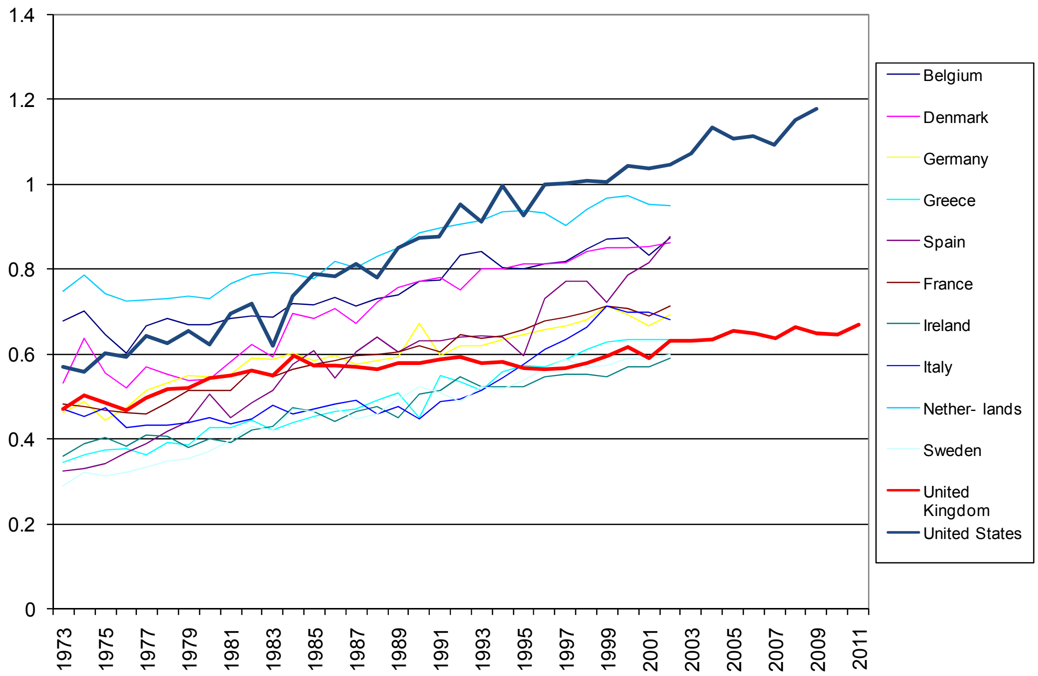


**Figure 22: Total factor productivity in agriculture for selected countries relative to the United States 1996 level (indexed).**

*Source: Ball et al (2006) Productivity and Competitiveness in EU and US Agriculture, DEFRA, USDA*

96. In contrast, manufacturing SMEs in rural areas have highest growth aspirations but are challenged by inadequate sites and premises.

97. There is a significant opportunity around fostering growth potential of SMEs in the aquaculture sector and the small-scale fisheries fleet, in particular through providing financial assistance to SMEs who face investment challenges and have difficulty accessing finance. Financial investment would enable these businesses to explore innovation and technical developments in commercially viable new areas, particularly in the aquaculture and processing sectors.

98. For the fishing (catching) sector the ESI Funds can support growth opportunities for the commercial fisheries sector, particularly for the inshore and small-scale fleets. For the latter this will help meet the challenges of the reformed Common Fisheries Policy, the challenges of meeting the new landing obligations (i.e. discard ban) and assisting with exploring new markets for products. The other ESI Funds can also be used to provide investment in onshore infrastructure, such as upgrading ports, harbour and landing facilities.

99. In summary, the main UK challenges to improving SME Competitiveness are:

| Challenges | Opportunities |
|---|---|
| • Not all SMEs' able to access the finance they need to grow or establish their businesses.<br>• Potential entrepreneurs are reluctant to start new businesses.<br>• SMEs not fully exploiting new markets particularly those in other countries.<br>• SMEs not meeting productivity potential in particular sectors, e.g. manufacturing<br>• SMEs in rural areas face barriers to growth due to remoteness from their proximity to skilled staff, inadequate infrastructure and, for the land based sector, an ageing workforce. | • Supportive regulatory environment.<br>• Competitive advantage in advanced manufacturing, financial sector and professional services.<br>• Rural economy has a strong potential to contribute to UK growth. |

**Domestic interventions**

100. SMEs in the UK operate in one of the best business environments in the world. According to the OECD, the UK is third in Europe, and seventh globally, in terms of ease of doing business and first in Europe for attracting foreign direct investment. The UK's 'Plan for Growth' sets out the aim to make the UK the best place in Europe to start, finance and grow a business.

101. The key objectives for Government in this policy area are:

- where Government investment is justified, focusing it on the smaller number of SMEs with greatest potential to contribute disproportionately to economic growth;
- to build growth capability among SMEs more generally, focusing on the market failures that can hold SMEs back; and
- to foster a more entrepreneurial society in the UK, by reducing barriers to entrepreneurship and supporting entrepreneurs.

102. Many of these issues are devolved and the provision of business support varies between different parts of the UK. The main exception relates to access to finance which is predominantly dealt with at the UK level. In 2013, the Government set up the Business Bank to support finance for small and medium sized business across the UK. This brings together management of the Government's existing business finance schemes, including venture and risk-capital schemes.

**Objectives for ESI funds**

Based on the challenges, opportunities and domestic interventions described above, the focus for the ESI Funds in the UK to contribute towards SME Competitiveness should be to: **Increase the competitiveness of SMEs, including by developing the entrepreneurial business culture.**

103. Specifically the ESI Funds should:

- improve SME access to finance by increasing the supply of funding where there is market failure and put in place support services that improve SMEs ability to access finance;
- build the growth capability of SMEs, leadership and management capability, investment in skills, financial capacity, exporting expertise, and ability to use the internet effectively including to reduce costs.
- develop further the UK's entrepreneurial culture. Not only to drive growth and jobs but also as a means of bringing those at risk of social exclusion into the labour market; and
- help businesses diversify and innovate, to exploit niche markets and assist those that are in declining sectors, particularly those in rural and coastal areas.

**Priorities for investment**

104. Across the UK ESI Funds will be used to align with and build on national policies and programmes, particularly to foster a more entrepreneurial culture and to address barriers to growth such as: accessing finance, business advice, business incubator provision, supply chain development and sectoral support (including for agriculture, fisheries and aquaculture).

105. Improving access to finance is a key priority, particularly to address the lack of investment funds in many parts of the UK. Action will include building on current ERDF financial instruments (including JEREMIE schemes) and establishing new financial instruments that are tailored to meet local needs. Funds will also be used to promote the value and increase uptake of business advice and skills development. Support will be aligned to address gaps in national provision, including to help develop supply chains and identify and support the next set of high growth companies. Action to encourage growth in the number of businesses will include the provision of business incubator space to address local market failures. Social enterprises will be able to access the full range of support available for SMEs through the ESI funds. Activity will also support other thematic objectives, particularly in relation to innovation, ICT and skills.

# SUSTAINABLE GROWTH

## SUPPORTING THE SHIFT TO A LOW CARBON ECONOMY

### Europe 2020

| EU 2020 Target | EU27[63] | UK[64] | England | Wales | Scotland | NI | Gib |
|---|---|---|---|---|---|---|---|
| Reducing Green House Gas (GHG) emissions by 20% compared to 1990 levels[65] | 15% | 26.5%[66] based on 2012 data | 30.9% based on 2011 data | 20.6% based on 2011 data | 30.8% based on 2011 data | 17.5% based on 2011 data (DOE)[67] | N/A |
| Increasing the share of renewables in final energy consumption to 20% | 13% based on 2012 data | 3.8% based on 2012 data | No data available | No data available | 36.3% electricity/ 3.8% heat based on 2011 data | 14.3% based on 2011/12 data (DOE)[68] | N/A |
| Reduce primary energy consumption in 2020 by 20% compared to 2007 baseline[69] | 3.37% based on 2010 data | 4.2%[70] based on 2012 data | No data available | No data available | No data available | No data available | N/A |

**Figure 23: EU2020 comparison table for targets relating to the Low Carbon Economy**

### Relevant Country Specific Recommendations

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63 The EU 27 data is taken from that available through the following European Commission page: http://ec.europa.eu/europe2020/europe-2020-in-your-country/united-kingdom/progress-towards-2020-targets/index_en.htm
64 Further details at: http://ec.europa.eu/europe2020/pdf/nd/nrp2013_uk_en.pdf
65 Further details at: http://uk-air.defra.gov.uk/reports/cat07/1306070907_DA_GHGI_report_2011_Issue1.pdf
66 Further details at: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/277021/20140204_2012_UK_Greenhouse_Gas_Emissions_Final_Figures.pdf
67 Further details at: http://www.doeni.gov.uk/ghg-inventory-statistical-bulletin-2011.pdf
68 Further details at: http://www.doeni.gov.uk/ni-environmental-statistics-report-2013-appendix.xls (Table 2.9)
69 Further details at: http://epp.eurostat.ec.europa.eu/tgm/refreshTableAction.do?tab=table&plugin=1&pcode=t2020_33&language=en
70 Further details at: https://www.gov.uk/government/publications/renewable-sources-of-energy-chapter-6-digest-of-united-kingdom-energy-statistics-dukes

- Take measures to facilitate a timely increase in network infrastructure investment, especially by promoting more efficient and robust planning and decision-making processes. Provide a stable regulatory framework for investment in new energy capacity, including in renewable energy.

**Devolution Settlements**

106. A significant element of energy and climate change policy is non-devolved in Scotland and Wales, while the Northern Ireland Executive has wider powers for energy policy. However there is considerable overlap and interaction with subjects that are devolved, such as environmental protection and economic development. This means that in practice the UK Government and the devolved administrations work closely to deliver the shared goal of encouraging a shift to a low carbon economy.

**Current UK Performance**

107. The UK Government and Administrations are confident that policies are in place to support the achievement of Europe 2020 targets in relation to GHG emissions reduction and renewable energy production[71]. In the case of GHG emissions the Europe 2020 target has already been met by the UK and it is now pursuing the more ambitious target it has set for itself in the Climate Change Act of a 34% reduction on 1990 levels. Despite the good progress on overall emission reduction, **across the UK there is significant variation in carbon emissions, particularly from industrial and commercial sources**. Figure 24 shows the variation across NUTS1 areas in carbon emissions per capita from different types of activity.



[71] Further details at: https://www.gov.uk/government/policies/increasing-the-use-of-low-carbon-technologies#actions

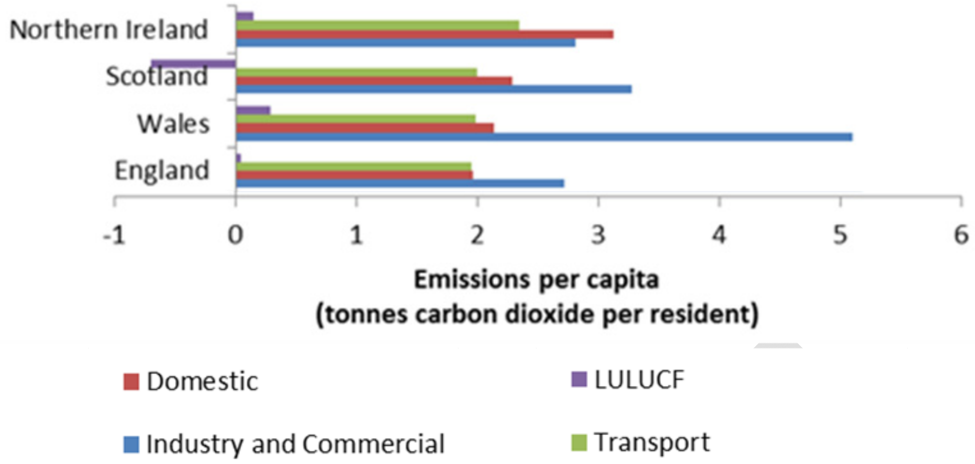


**Figure 24: Carbon emission per capita across NUTS 1 areas in the UK (LULUCF stands for Land Use, Land Use Change, and Forestry)**
*Source:* 2011 Local Authority CO2 emissions estimates: Statistical summary, *Figure 2 on page 11*

108. In relation to energy efficiency in industry, in 2011 UK industry had reduced total emissions by 70.6 MtCO2e since 1990 – a reduction of around 41.5% over 21 years as well as reducing total energy consumption by 48% since 1980 and by 35% since 1990.[72]

109. In 2012, the UK produced 4.2% of all energy from renewable sources. The contribution of all renewables to UK electricity generation was 13.1% for the period July 2012 to June 2013, 2.5 percentage points higher than the same period a year earlier.[73]

110. The geography of the UK is well suited to the development and exploitation of renewable energy; wind, tidal, wave and geo-thermal are all potential energy sources. Biomass and, combined heat and power (CHP) initiatives also provide viable sources for renewable and efficient energy production. In the case of CHP the proportion of heat that is renewable is less than 5%[74] (compared to the EU27 average of about 14%).

111. In addition to the environmental benefits arising from moving towards a low carbon economy there are significant economic benefits. The Low Carbon Environmental Goods and Services sector is large – the global market is worth £3.3trillion of which the UK share is £122bn. From 2009/10 to 10/11 it grew at 4.7% in the UK and employs nearly 1 million people in 51,000 companies. Given its size, recent growth and the level of imports/exports it has the potential to contribute to narrowing the UK's trade deficit[75].

112. 90% of stored carbon is stored in soils, with the remaining 10% stored in vegetation (principally forestry). However, the Land Use, Land use Change and Forestry (ULUCF) sector whilst currently a net GHG sink is predicted to become a net emitter. The report

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[72] Further details at: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/224130/uk_energy_in_brief_2013.PDF
[73] Further details at: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/255182/UK_Renewable_Energy_Roadmap_-_5_November_-_FINAL_DOCUMENT_FOR_PUBLICATIO___.pdf
[74] EUROSTAT 2010, quoted in The Future of Heating, DECC March 2013
[75] Further details at: http://www.bis.gov.uk/assets/biscore/business-sectors/docs/l/12-p143-low-carbon-environmental-goods-and-services-2010-11.pdf

'Combating Climate Change - a role for UK forests'[76] sets out the forestry sector's potential contribution to climate change mitigation through carbon sequestration in growing biomass – particularly that associated with new woodland – carbon storage in harvested wood products and through wood products substituting for materials with high embodied carbon and wood fuel substituting for fossil fuels directly.

113. Within this context the main UK challenges in relation to supporting a shift to the low carbon economy are:

| Challenges | Opportunities |
|---|---|
| • Still a significant distance to travel to meet renewable energy production targets.<br>• Impacts of climate change are likely to result in disruption and revenue loss and are a threat to sustained economic growth.<br>• Inequality in the market as a consequence of poor connectivity. | • National policies are already in place to support the achievement of Europe 2020 targets in relation to GHG emissions reduction and renewable energy production.<br>• Significant economic opportunities in the Low Carbon Environmental Goods and Services sector.<br>• The geography of the UK is well suited to the development and exploitation of renewable energy. |

**Domestic interventions**

114. Government has targets for 2020 in each of the three main areas relevant to moving to a low carbon economy:[77]

- Reducing GHG emissions by 34% compared to 1990 levels;
- Increasing the share of renewable energy to 15%; and
- Reducing final energy consumption by 18% by 2020, compared to a 2007 baseline projection.

115. These 2020 targets are effectively milestones on the way to the long-term target of achieving an 80% reduction of GHG emissions compared to 1990 levels by 2050. To deliver this overarching target, the Government also has objectives to[78]:

- Reduce emissions from buildings (predominantly in form of heating) to near zero by 2050;
- Reduce industrial emissions (predominantly in form of heat for industrial processes) by up to 70% by 2050 compared to 1990 levels; and
- Reduce emissions from the agriculture and waste sectors by 16% between 2008 and 2027.

116. The Government has introduced a wide range of measures to move the UK to a low carbon economy. It is enshrined in law that the UK will halve greenhouse gas emissions, on 1990 levels, by the mid-2020s. The Carbon Plan sets out how the Government will meet this goal, including through attracting new investment in low carbon infrastructure, industries and jobs.

[76] Further details at: http://www.tsoshop.co.uk/gempdf/Climate_Change_Main_Report.pdf
[77] Further details at: http://www.hm-treasury.gov.uk/d/national_reform_programme_2012.PDF
[78] Further details at: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/47621/1358-the-carbon-plan.pdf

117. The UK has reached the EU target level for GHG reductions and domestic targets for 2020 will be reached through current Government policy interventions.

118. Large-scale renewable energy production investment will largely be met through implementation of national policy. However there is considerable potential for growth in the renewable energy sector and rural communities often have closer proximity and access to a range of natural assets that can be harnessed for this purpose. There is latent demand from communities for resources to develop renewable energy projects. This is demonstrated by the huge demand for the DECC Low Carbon Communities Challenge fund, which was oversubscribed by a factor of at least 10:1[79].

119. The Government estimates that through socially cost-effective investment in energy efficiency we could be saving 196TWh in 2020, equivalent to the output of 22 power stations. Were all this potential to be realised, final energy consumption in 2020 could be 11% lower than the business as usual baseline.[80] There is a need to improve energy efficiency of companies, buildings and transport through innovation and adoption of low carbon technologies.

### Objectives for ESI Funds

Based on the challenges, opportunities and domestic interventions described above, the focus for the ESI Funds in the UK to contribute towards the shift to a low carbon economy should be to: develop infrastructure, promote innovation and encourage demand for low carbon goods and services.

120. Specifically the ESI Funds should:

- due to their limited size, be targeted at smaller scale, more localised renewable energy opportunities and on areas where the investment climate can be improved both to address market failures and to provide the right conditions to lever significant private, public and third sector investment (as is beginning to happen in the generation of renewable energy across the UK);
- contribute to improving energy efficiency;
- in relation to energy efficiency and renewable energies the ESI Funds will be used to both help develop innovative solutions as well as helping to support the take up of these new technologies particularly by businesses; and
- help unlock the potential of the Low Carbon Environmental Goods and Services Sector including ensuring the entrepreneurial opportunity in the low carbon economy is properly exploited and there is a strong alignment with the skills required for the sector to reach its full potential.

### Priorities for investment

121. Across the UK ESI Funds will be used to align with and build on national policies and programmes. This includes activity to: further increase the percentage of energy from renewables, both through small scale investments, such as micro-generation and, where appropriate, to ensure grid capacity and availability to harness renewable energy

[79] While this initiative was not structured to fund the revenue costs of the complex process involved in developing MW-scale projects, the level of applications demonstrates a huge hunger amongst community organisations to have a stake in the UK's renewable energy future.
[80] Further details at: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/65602/6927-energy-efficiency-strategy--the-energy-efficiency.pdf

sources; support whole place low carbon solutions such as smart cities; help build the market in Low Carbon Environmental Technologies, Goods and Services, for example through supporting innovation, working with supply chains, financial instruments and encouraging a shift in modes of transport; and a range of other measures to encourage energy efficiency (e.g. to improve housing stock). In Gibraltar action will focus on reducing the reliance on fuel energy and encouraging energy efficiency.

122. These actions will also be complemented by measures highlighted in other thematic objectives, including those relating to transport, ICT, R&D, SME competitiveness and climate change.

## PROMOTING CLIMATE CHANGE ADAPTATION, RISK PREVENTION AND MANAGEMENT

### Europe 2020

123. None.

### Relevant Country Specific Recommendations

- None

### Devolution Settlements

124. Climate adaptation policy is devolved across the UK. The Climate Change Act 2008 sets out a requirement for government to undertake a UK Climate Change Assessment every five years (the first was published January 2012). Each UK Administration is working to address the key climate risk identified through their respective adaptation policies and frameworks. The UK government published its first National Adaptation Programme (NAP) report as required by the Act in July 2013 which sets out actions to address the key climate risks within England and for UK reserved matters.

125. This thematic objective has not been selected in Gibraltar.

### Current UK Performance

126. Severe weather is already affecting the UK, which is in line with that expected from a changing climate. Provisional rainfall estimates for December 2013 to February 2014 indicate that this was the wettest winter since national records began in 1910.[81] The figure below shows that the UK has the third largest cost from floods in the EU

[81] Further details at: http://www.metoffice.gov.uk/

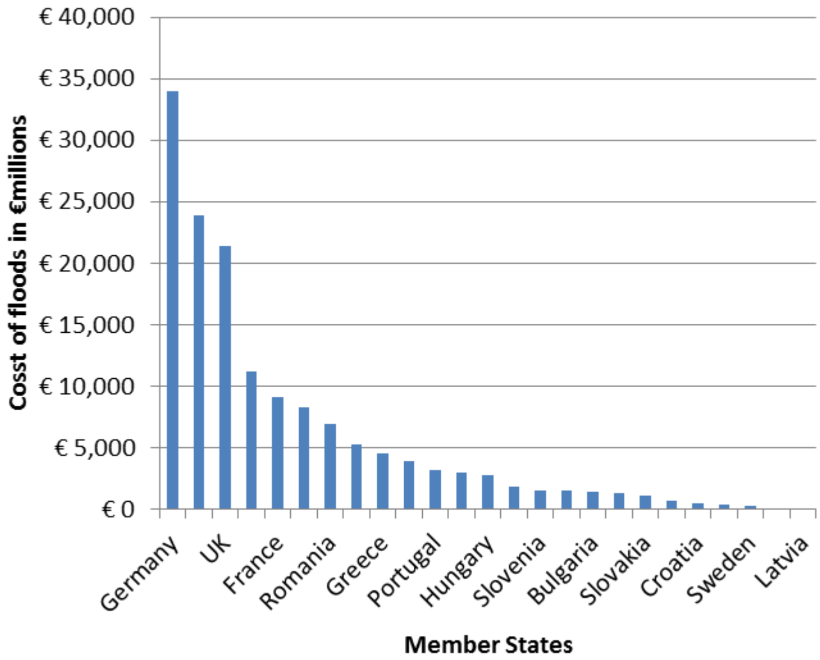


**Figure 25: Total extrapolated costs per Member State, from largest to smallest costs**
*Source: Study on Economic and Social Benefits of Environmental Protection and Resource Efficiency Related to the European Semester (ENV.D.2/ETU/2013/0048r)" RPA Feb 2014*

127. The flooding which affected the country in 2007 was estimated to have cost the economy £3.2bn. The 2012 summer flood cost businesses losses of around £155 million, including £55 million in property damage and £15 million in loss of production of goods and services. The estimates from the recent wide spread flooding of 2013/2014 have so far cost circa £600m.

128. Government recently commissioned research (Frontier Economics study) to consider how flood management activity can contribute to economic growth at both the local and national scale. It introduces a new concept of benefit to Flood and Coastal Erosion Risk Management appraisal – Gross Value Added – which looks at the static impacts (those on the current structure of the business) and the dynamic impacts (the changes that static impacts prompt) and is essentially about income to the local and national economy rather than the avoidance of loss of resources (damage).

129. In 2012, the UK published its first National Climate Change Risk Assessment, which was required under the 2008 Climate Change Act. It was the UK's first broad ranging analysis of current vulnerability to climate as well as risk and opportunities from projected changes to climate. Risks were analysed across eleven sectors: agriculture, business, biodiversity, built environment, forestry, energy, flood management, transport, water, marine and fisheries, and health. Key messages from the risk assessment were:

- The latest projections for the UK show increases in summer and winter temperatures, increases in winter rainfall, decreases in summer rainfall (although small increases cannot be ruled out), more days of heavy rainfall and rising sea levels.
- Flood risk is projected to increase significantly across the UK. Increases in the frequency of flooding would affect people's homes, the wellbeing of vulnerable groups (e.g. those affected by poverty, older people, people in poor health and those with disabilities) and the operation of businesses and critical infrastructure systems. Annual damage to UK properties due to flooding from rivers and the sea currently totals around £1.3 billion.
- UK water resources are projected to come under increased pressure. This is a potential consequence of climate-driven changes in hydrological conditions, as well

as population growth and regulatory requirements to maintain the good ecological status of rivers. By the 2050s, between 27 and 59 million people in the UK may be affected by water supply-demand deficits (based on existing population levels) and adaptation action may be needed to increase water efficiency across all sectors and decrease levels of water abstraction in the summer months.

- Potential climate risks in other parts of the world are thought to be much greater than those directly affecting the UK, but could have a big indirect impact here. These risks include effects on global health, political stability and international supply chains
- Some changes projected for the UK as a result of climate change could provide opportunities, although not outweighing the threats. For example, there are potential benefits for crop growth (assuming water is not a limiting factor), while climate change may also encourage more efficient use of resources and the development and provision of products and services that can help manage climate risks.

130. Within this context the main UK challenges in relation to promoting climate change adaptation and risk management are:

| **Challenges** | **Opportunities** |
|---|---|
| • Impacts of climate change are likely to result in disruption and revenue loss and are a threat to sustained economic growth. | • Significant economic opportunities in the Low Carbon Environmental Goods and Services sector.<br>• Increased economic development in 'vulnerable' areas. |

**Domestic intervention**

131. The impacts of climate change are likely to result in disruption and revenue loss and are a threat to sustained economic growth. In particular, flood risk is identified as an urgent risk in the National Climate Change Risk Assessment which found that the average annual cost to businesses of disruption due to flooding was projected to rise to between £26 million and £72 million by the 2050s, rising further to between £34 million and £96 million by the 2080s (current figure: £20 million).

132. The National Adaptation Programme[82] and the Devolved Administration equivalents set out the specific Climate Change challenges on their respective territories. These can include the consequences of extreme weather on business and those living in rural areas, including water supply pressures, flood risk and disrupted transport networks. These challenges can result in direct damage to assets and indirect damage via supply chain disruption. Flood management is a devolved matter and subsequent chapters highlight the key challenges and proposed actions in the respective administrative areas.

133. Climate change is an overarching issue in agriculture, land use and the wider rural economy that cuts across all aspects of policy development in these areas. Actions to promote climate change adaptation will therefore be complemented by measures under other thematic objectives, including supporting the shift to a low carbon economy.

134. Climate change adaptation will also be important in risk awareness and management to ensure investments are resilient to the impact of climate change and natural disasters such as increased risks of flooding, droughts, heat waves, forest fires and extreme weather events.

[82] Further details at: https://www.gov.uk/government/policies/adapting-to-climate-change/supporting-pages/national-adaptation-programme

### Objectives for ESI Funds

Based on the challenges, opportunities and domestic interventions described above, the focus for the ESI Funds in the UK to contribute towards climate change adaptation should be to: **encourage development of the market in adaptation products/ services and, where market failure can clearly be demonstrated, investment in infrastructure to help manage floods.**

135. Specifically the ESI Funds should:

- contribute to the delivery of climate change policies and priorities for sustainable land use and management, including through:
    - supporting investment in the uptake of innovative technologies and resource efficiency measures to increase resilience and performance of businesses (particularly including the agriculture sector);
    - help manage flooding and coastal erosion risks, where activity would complement national action and address demonstrated market failure.

### Priorities for investment

136. Climate change poses a risk to economic activity and growth. Action under this theme varies across different parts of the UK to reflect local priorities, but will seek to ensure resilience to a changing climate.

137. Where appropriate climate change impacts will be part of the decision making process on ESI Fund investments. This will help strengthen the resilience of development and avoid poor investment decisions.

## PRESERVING AND PROTECTING THE ENVIRONMENT AND PROMOTING RESOURCE EFFICIENCY

### Europe 2020

138. None

### Relevant Country Specific Recommendations

- None

### Devolution Settlements

139. Most environmental functions are devolved, including measures relating to environmental protection. Many of these areas are also governed by EU law, a reserved matter which requires the consistent application of policy in many respects, but the means by which EU legal obligations are met can diverge between the different administrations.

140. This thematic objective has not been selected in Gibraltar.

### Current UK Performance

141. The natural environment plays a critical role in providing a wide range of goods and services that are vital for both the economy and the wellbeing of the population. The UK National Ecosystem Assessment[83] (NEA) and other recent valuation exercises provide an indication of the benefits received from our natural environment and the value that this creates for people and businesses. For example:

- Coastal wetlands provide £1.5 billion annually in benefits through buffering the effects of storms and managing flooding.
- UK habitats have been estimated to receive 3.2 billion visits a year, worth an estimated £10 billion[84].
- Farming relies, for example, on nutrient cycling in soils, and the pollination services provided by insects is valued at hundreds of millions of pounds a year.
- Woodland and soils (especially peat soils) can act as major carbon sinks; it has been estimated that an oak forest in southern England removes about 15 $tCO2\ ha^{-1}\ yr^{-1}$[85].

142. Many grasslands, wetlands, freshwater, coastal, moors, heaths and forest habitats are in a critical state in the UK. The UK is accountable to the European Birds and Habitat Directive: there has been environmental degradation on farmland, illustrated by, for example, the deterioration in farmland bird numbers. The National Ecosystem Assessment notes that over 40% of priority habitats and 30% of priority species are in decline. There have been significant losses to landscape character and rural heritage. Habitat loss and degradation has led to fragmented and isolated wildlife habitats in many areas. Establishing bigger and better managed wildlife habitats and improving the connections between them will develop coherent and resilient ecological networks.

143. In rural and urban landscapes there is an on-going challenge to maintain our sites of conservation importance and expand these to create resilient networks for nature, which also underpin the provision of a wide range of societal benefits (ecosystem services).

144. The UK currently meets the 2010 National Emission Ceilings Directives for all pollutants, though there is a small risk that the 2010 ceiling for ammonia emissions may be exceeded in the next few years unless further action is taken to reduce agricultural emissions. There are widespread challenges in achieving air quality limit values for nitrogen dioxide in towns and cities; emissions of nitrogen oxides from diesel vehicles are a particular issue, as these have not declined as expected following the introduction of specific standards for vehicles[86]. The use of solid biomass for heating in small combustion units (domestic and commercial) is a potentially increasing challenge to targets[87]. Concern remains about the decreasing but still high levels of nitrogen particles falling onto important biodiversity sites.[88]

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[83] UK National Ecosystem Assessment (2011). The UK National Ecosystem Assessment: Synthesis of the Key Findings. UNEP-WCMC, Cambridge.
[84] Duke et al. (2012) Opportunities for UK Business that Value and/or Protect Nature's Services; Elaboration of Proposals for Potential Business Opportunities. Attachment 1 to Final Report to the Ecosystem Markets Task Force and Valuing Nature Network. GHK, London.
[85] Read, D.J., Freer-Smith, P.H., Morison, J.I.L., Hanley, N., West, C.C. and Snowdon, P. (eds). 2009. Combating climate change – a role for UK forests. An assessment of the potential of the UK's trees and woodlands to mitigate and adapt to climate change. The synthesis report. The Stationery Office, Edinburgh.
[86] Specific standards are EURO 4/IV and 5/V
[87] Specific targets are PM2.5 and PAH
[88] This process is known as deposition.

145. Climate change and a growing population provide significant challenges to the supply of water which needs to be recognised as finite resource. Only 37 % of surface water bodies in the UK currently have a good ecological status (the target for 2015 is 43 %). Over-abstraction is a problem in many river basins although agricultural uses accounted for just 0.7% of recorded water abstraction in England and Wales[89]. Certain agriculture practices contribute to the addition of artificial or natural substances affecting the ecosystems of lakes and coastal waters[90].

146. Soil quality status and soil erosion are also major challenges. Recent evidence has suggested that average soil organic matter content has declined across all land uses in England and Wales[91].

147. The fisheries sector still faces significant challenges in achieving economic profitability and social and environmental sustainability. Two priorities for the fisheries sector for ESI funds (particularly EMFF) will be adaptation to the requirements of the reformed Common Fisheries Policy and support for the increased sustainability of the sector. The implementation of the reformed Common Fisheries Policy will require a challenging step change in the way European fisheries are managed before fisheries will deliver their maximum sustainable yield and their full economic potential. This reform begins in the context of a continued improvement in the state of fish stocks in European Atlantic and near-by waters, with only 40% of stocks assessed as overfished. This is down from 47% last year, and 94% in 2005. However, more stocks are under advice to reduce catches to the lowest possible level or similar. Despite these positive improvements, further work is needed on those stocks that are overexploited. The wasteful practice of discards must be eliminated in line with the timetables agreed. However, meeting this requirement poses a significant threat to parts of the UK fleet if adaptations to fishing methods and behaviours are not supported.

148. Overall the aquaculture sector, across the EU, and within the UK is not playing its part in meeting the growing demand for seafood despite great potential. It has been a challenge for some parts of this sector to remain viable in challenging economic conditions, with high production cost and recovery of wild stocks. Some sectors (Scottish salmon farming and mussel farming) have seen significant growth in demand for a sustainably produced product. However the sector still faces significant challenges, particularly around greater diversification in the fish sector, and further development of the shellfish sector, suitable sites and water quality.

149. Within this context the main UK challenges in relation to environmental protection and resource efficiency are:

| Challenges | Opportunities |
|---|---|
| • Challenges regarding air pollutants (particularly through transport), water supply and quality, soil quality and habitat loss and degradation (biodiversity and ecosystems).<br>• On-going challenge to maintain our sites of conservation importance.<br>• Further work needed to address the over | • Further economic benefits from enhancing the natural environment.<br>• Significant economic opportunities in the Low Carbon Environmental Goods and Services sector.<br>• Significant economic potential in the aquaculture sector. |

[89] Environment Agency and Ofwat: The case for change – reforming water abstraction management in England
[90] This process is known as eutrophication.
[91] Bellamy P.H., Loveland P.J., Bradley R.I., Lark R.M. & Kirk G.J.D. (2005) Carbon losses from all soils across England and Wales 1978–2003. Nature, 437, 245-248

| Challenges | Opportunities |
|---|---|
| exploitation of certain fish stocks including diversification in the fish sector, and further development of the shellfish sector. | |

**Domestic interventions**

150. The UK's decline of priority habitats and priority species is due largely to market failure. While market signals stimulate provisioning services such as food, they do not stimulate regulatory services such as water quality or cultural services such as landscape attractiveness. There is a risk that our natural environment including biodiversity and our protected areas deteriorate as a result of increased competition for land use (e.g. food production, energy generation, urban and mineral development). As well as implications for our ecological life support systems and quality of life, this also poses a threat to local and regional distinctiveness, with implications for the tourism economy. For example the decline and loss of features such as field boundaries, trees, woodlands and parkland, changes the scale and pattern of our landscapes and can lead to more uniformity with an associated erosion of distinctive character and sense of place.

151. As noted earlier, most environmental functions are devolved. While all parts of the UK recognise the important of improving our natural environment to underpin economic prosperity, health and wellbeing, policies on how to achieve this vary across the administrations. The subsequent chapters highlight the key challenges and proposed actions in the respective administrative areas, but key themes include the need to: increase the amount of priority habitat land; improve air quality in urban areas; improve both water and soil quality; increase forestry and fisheries management; and promote resource efficiency.

152. Investments to support resource efficiency are key to delivering the European Roadmap on resource efficiency. Measures to promote resource efficiency will also be complemented by action taken under other theme objectives, particularly those relating to a low carbon economy, climate adaptation and skills.

**Objectives for the ESI Funds**

Based on the challenges, opportunities and domestic interventions described above, the focus for the ESI Funds in the UK to contribute towards environmental protection and resource efficiency should be to: **invest in green infrastructure and enhance ecosystem services**.

153. Specifically the ESI Funds should:

- contribute to the delivery of environmental and climate change policies and priorities for sustainable land use and management including through:

- reducing the pressures on the natural environment (including on resources such as water), and meeting domestic[92] and EU ambitions to halt the loss of biodiversity;
- investing in Green and Blue Infrastructure and actions that support the provision of ecosystem services on which businesses and communities depend, in preference to harder and often more expensive and intrusive engineering solutions. Examples of those natural assets that offer direct benefits to businesses and deliver functions include:
  - sustainable drainage and the greening of deprived and degraded areas that improve access to and host new employment sites;
  - reduce flood risk and enhance water catchment management; enhance the aesthetic and recreational appeal of an area; and
  - reduce the need for artificial cooling of buildings and; mitigate the impacts of a range of pollutants.

  In doing so, ESI Funds should increase and protect local natural capital, including soil, and biodiversity which underpin sustainable economic growth.
- supporting investments in the uptake of innovative technologies and resource efficiency measures to increase environmental protection, resilience and performance of businesses. Communities' measures will include assessing the pressures on the use of natural resources, including water, and sharing solutions for improving the efficiency in which they are used.

- contribute to improving energy efficiency;
- deliver opportunities to support sustainable fisheries and develop a prosperous industry, improve fish stocks, a healthy marine environment, and deliver economic benefits to fishing dependent communities.

**Priorities for investment**

154. Across the UK ESI Funds will be used to align with and build on national policies and programmes. In particular the Funds will be used to improve the viability of areas through investments in Green Infrastructure (e.g. sustainable drainage and the greening of deprived urban areas). These will bring many benefits, including improving air and water quality and enhancing the desirability of areas. Support for environmentally-sensitive land management and woodland creation through the environmental land management scheme of the Rural Development Programme will help to sustain and enhance biodiversity, improve water and soil quality.

155. Resource efficiency will be promoted in a number of ways. This will include support for innovation to increase the number of businesses bringing new products to the market, encouraging knowledge transfer and promoting business waste reduction and reuse activities. ESI Funds will also be used to support a significant and sustainable fisheries sector (including aquaculture and processing).

## PROMOTING SUSTAINABLE TRANSPORT AND REMOVING BOTTLENECKS IN KEY NETWORK INFRASTRUCTURES

**Europe 2020**

156. The EU2020 strategy to support the shift towards a resource-efficient, low carbon economy includes measures to encourage sustainable transport.

[92] Further details at: https://www.gov.uk/government/publications/biodiversity-2020-a-strategy-for-england-s-wildlife-and-ecosystem-services

**Relevant Country Specific Recommendations**

- Improve the capacity and quality of transport networks by providing greater predictability and certainty on planning and funding and by harnessing the most effective mix of public and private capital sources.

**Devolution settlements**

157. The devolved administrations have devolved powers for many aspects of transport (particularly in Northern Ireland), although some matters are reserved including international shipping, aspects of air transport and (in Scotland and Wales) many elements of rail transport. Increasingly the UK Government is devolving spending and power to local areas, but continues to make significant investment in transport infrastructure across the UK on non-devolved responsibilities such as cross-border rail lines.

158. This thematic objective has not been selected in Gibraltar.

**Current UK Performance**

159. The UK has a diverse landscape when it comes to physical connectivity. Some areas are supported by solid infrastructure but others, particularly peripheral areas, are not and this lack of parity unbalances and creates inequality in the overall economy.

160. The OECD found that among regions with below average GDP per head, transport infrastructure played a key role in driving growth[93] not least in increasing the competitiveness of SMEs and bringing new businesses to areas. Connectivity also remains a key issue in terms of linking people and skills to labour markets particularly in remote rural areas.

161. It is no coincidence that most of the Less Developed regions in the EU15 are located on the periphery of the EU or away from the centres of economic activity. The persistent structural weakness of those economies is clearly a feature of their geography and relative lack of connectivity.

162. *Investing in Britain's Future*[94] sets out the key issues facing the UK as a whole and the UK Government's response. It highlights how roads underpin a free-flowing and successful economy but have suffered from massive historic underinvestment. This trend, when combined with a model of delivery, has served to hold back the country's transport infrastructure for the worse. The result of this underinvestment is that UK is currently ranked 24th in the world for quality of roads. France is currently first, Germany is 10th, and Spain is 13th in the world[95].

163. Over the last fifty years the volume of traffic in the UK has risen dramatically – from 70 billion vehicle miles travelled per year in 1960-61 to 304 billion in 2011-12. However, the level of public investment in the road network has not kept pace with this trend, and has fluctuated wildly over the same period as the result of short term decision making. Figure 26 shows that the UK finds itself in a position of historic lows in terms of investment in roads – only one third the levels spent at the peak 40 years ago. The UK also does not compare well with other countries – Germany spends 30 per cent more per head, and France 75 per cent more per head on investment in major roads projects than the UK.

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[93] Further details at: http://www.oecd.org/gov/regional-policy/howregionsgrowtrendsandanalysis.htm
[94] Further details at: https://www.gov.uk/government/publications/investing-in-britains-future
[95] Global Competitiveness Report 2012-13, World Economic Forum

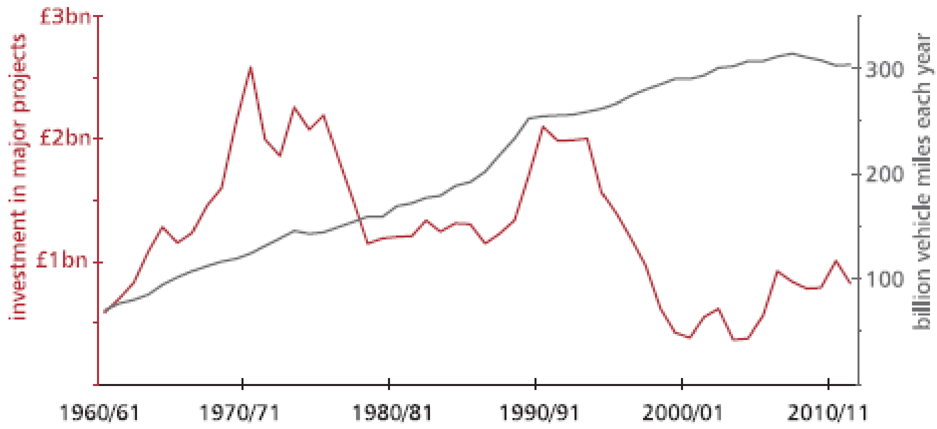

**Figure 26: Government investment in the strategic road network since 1960s**[96]

164. The result of decades of underinvestment is that the UK must rely on too many assets created in the 1960s and 1970s. Parts of this network are around forty to fifty years old and in need of urgent repair work. Local authorities estimate a £10 billion backlog in local highways maintenance that would take twelve years to address if the funds were made available. Poor quality roads create congestion through road works and delays, which cost businesses and individuals through reduced productivity, increased fuel consumption, delayed deliveries and damage to vehicles. It is also estimated that a third of drivers have damaged their vehicle as a result of hitting a pothole in the last two years.

165. A recent survey suggested that local authorities made £32 million of compensation payments to road users for damaged vehicles resulting from poor local road conditions. The national road network is also now very heavily congested in certain concentrated areas of the country. Congestion on the whole road network is estimated to cost the economy £19 billion every year, creating delays and uncertainty for commuters and businesses alike. This pattern will only get worse in the future with traffic levels estimated to be anywhere between 22 to 71 per cent higher by 2040.

166. Privatisation in the early 1990s was a turning point for the rail network, enabling over £20 billion of new privately-led investment and thousands of new rail carriages. In the two decades since privatisation, passenger numbers have doubled and freight traffic has risen by 60 per cent creating one of the busiest mixed-traffic railways in the world as set out in Figure 27. Despite this growth in demand, the investment resulted in marked improvements in service levels: train performance has risen by over 10 per cent in the last decade and there are over a million more trains running on the network compared to ten years ago.

[96] This covers the strategic road network only. England and Wales until 1964, and England Only 1965 onwards

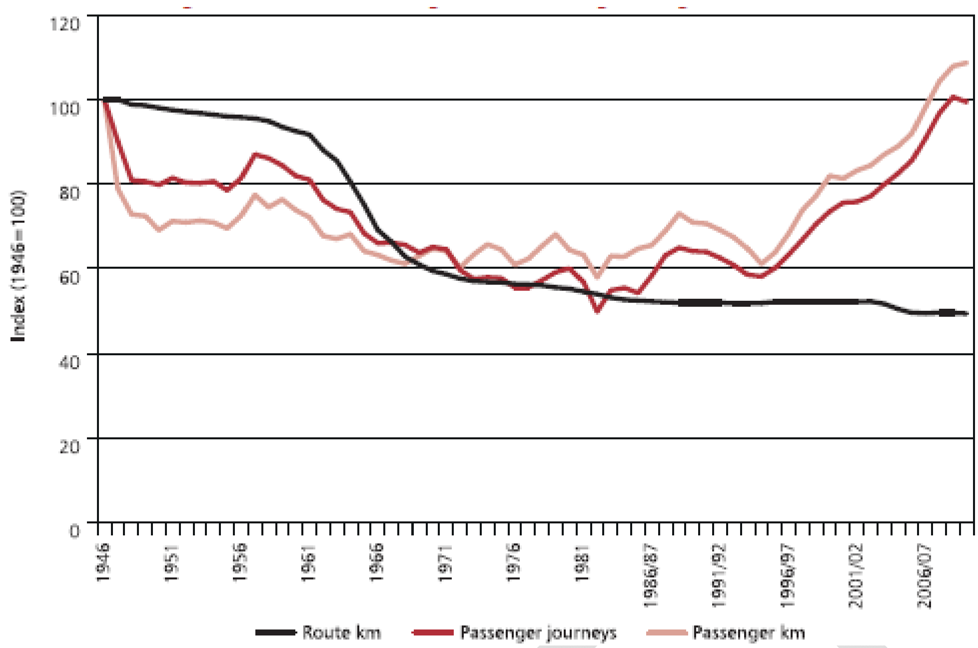


**Figure 27: Changes in rail network length and passenger usage since 1946**
*Source: The McNulty Rail Value for Money Study*

167. However demand on the rail network continues to increase, and it is clear that more capacity will be needed on the rail network if it is to be fit for purpose for the future. Growth of around 14 per cent in passenger demand and 22 per cent in freight is forecast for the next five years alone[97]. Demand for long distance rail travel in particular has doubled to 125 million journeys a year in the past 15 years and by the mid 2020s the West Coast Main Line will be full. In this context it is notable that Britain has just 68 miles of high speed line, while France has 2,035, Germany 1,285 and Turkey over 1,500.

168. While the planned investments begin to address some of the most pressing bottlenecks in the UK networks and demonstrate increasing expenditure commitments in the context of overall reductions in public expenditure, there remain significant challenges across the network. The investments being made must look to prioritise those of the most significant national interest and therefore the ESI funds provide an opportunity to accelerate specific regional bottlenecks or tackle regional / local issues that may not otherwise be prioritised across the UK or nationally. Within this context the main UK challenges to improving sustainable transport and network infrastructures are:

| **Challenges** | **Opportunities** |
|---|---|
| • Transport infrastructure does not maximise the opportunity for growth, particularly in peripheral areas of the UK.<br>• Transport barriers to accessing employment opportunities<br>• Increasing use of all forms of transport, especially road, leading to congestion, delays and emissions.<br>• Historic underinvestment in networks leaves UK lagging comparable regions and parts of the UK with poor connectivity, | • Rural economy has a strong potential to contribute to UK growth if properly connected to markets.<br>• Major programme of investment across the UK offers new opportunities if regional and local areas able to take advantage.<br>• Major bottlenecks being addressed, opening labour markets and opportunities for more people if regional transport functioning well. |

[97] Office of Rail Regulation calculation *Periodic Review 2013*.

| Challenges | Opportunities |
|---|---|
| especially away from major cities. | |

**Domestic interventions**

169. Transport infrastructure forms part of the backbone of the UK economy, and is fundamental for growth and productivity. The UK has extensive and sophisticated infrastructure but as demand pressures increase the Government is committed to taking decisive action to continue to improve the capacity and quality of its networks. The Government directly funds nationally important transport infrastructure (major roads and railways) as detailed in the National Infrastructure Plan (NIP). Decisions on regional and local transport infrastructure investment are made at the local level.

170. There is evidence of public transport constraints in parts of the UK. In key urban centres improving public transport can provide significant benefits across the connected region, enabling employees to come from a wider catchment area. In addition a focus on improving connectivity to an emerging employment centre can help stimulate future investment as part of the process to build critical mass.

171. The UK Government has recognised transport as a key enabler for economic growth and that it can act as a significant constraint to growth, in particular through supporting agglomeration economies such as cities. The UK has taken decisive steps, in line with OECD findings, to put in place a robust long-term strategic planning framework such as through the *National Infrastructure Plan*.

172. The road network in particular has suffered from a lack of investment for too long, worsening the experience of motorists and damaging the UK's ability to compete internationally. To address these problems, the government announced in June 2013, in Investing in Britain's future, plans to invest £28 billion to improve and maintain the national and local road networks and support jobs and growth.

173. This UK-wide infrastructure planning is complemented in the Devolved Administrations through additional Infrastructure Plans, National Transport Plans and Regional Transport Plans. Major investments are either underway or planned to address some of the major bottlenecks and upgrade outdated infrastructure, including:

- build High Speed 2 (HS2) bringing two thirds of the population of northern England within two hours of London, with a funding envelope of £42.6 billion (in 2011 prices) for construction costs and £7.5 billion for rolling stock;
- support for Network Rail to invest over £9 billion in major rail projects between 2014-15 and 2018-19, such as contributing to Crossrail – currently the largest infrastructure project in Europe – and the Thameslink improvements in London; stronger east to west links from Liverpool to Newcastle through the Northern Hub, and also through opening the Bedford to Oxford line; electrifying the network on the Great Western line and a new 'Electric Spine' between Yorkshire, the Midlands and the south; and replacing diesel trains with faster, more reliable electric trains on the Great Western Line to Wales and East Coast Main Line to Scotland. Electrification of Great Western mainline rail track from London to Swansea, including new Heathrow link;
- build 54 national road projects (subject to value for money and deliverability) tackle the most congested parts of the network, including the A14 from Cambridge to Huntingdon and the M4 from London to Reading;
- funding solutions to tackle some of the most notorious and longstanding road hot spots in the country, including feasibility studies to look at problems on the A303 to the South West, the A27 on the south coast, the A1 north of Newcastle, the A1 Newcastle-Gateshead Western by-pass, connectivity to Leeds airport and trans-

Pennine routes between Sheffield and Manchester and the A47 corridor in the East of England; and
- repairing the national and local road network. A total commitment of £12 billion with nearly £6 billion to help local authorities repair the local road network and £6 billion for maintenance of the strategic road network which will enable the Highways Agency to resurface 80% of the network by 2020-21

174. The UK Government has a long term vision for the rail network to increase capacity, improve service levels, and drive efficiency. The Government's priorities for rail include:

- supporting economic growth by providing for additional capacity into London and other major cities;
- improving connectivity by increasing services and reducing journey times between cities;
- improving reliability and reducing the environmental footprint of rail by continuing the rolling programme of electrification. By the end of the decade, around three quarters of passenger miles travelled in England and Wales will be on electric trains, compared to 58 per cent today;
- moving towards a railway which is financially sustainable to improve efficiency and value for money; and
- creating vital extra capacity on roads by supporting growth in rail freight.

175. The major programme of investment outlined above begins to address issues of historic underinvestment in the UK transport networks and by necessity focusses on the UK's most nationally important bottlenecks. The ESI funds can offer a more regionally tailored approach that helps address specific regional and local bottlenecks in the UK's less developed regions, where issues of a lack of agglomeration and peripherality can make transport infrastructure even more important to regional competitiveness.

**Objectives for ESI Funds**

Based on the challenges, opportunities and domestic interventions described above, the focus for the ESI Funds in the UK to contribute towards sustainable transport and network infrastructures should be to: improve infrastructure where peripherality or poor connectivity clearly contribute to market failure.

176. Specifically the ESI Funds should:

- Improve transport infrastructure where to do so would bring forward planned initiatives to improve local growth either at a quicker rate or with greater benefit.

**Priorities for investment**

177. ESI funds will be used mainly in less developed and transition areas to support local road investments and contribute to local rail schemes, where it would make an area more economically viable (for example where investment in infrastructure would unlock employment sites, address bottlenecks in transport networks, or contribute to sustainable urban mobility). Evidence from previous ERDF programmes demonstrates that such sustainable transport investments should be part of an integrated suite of investments given the limited available funding and the relative cost of transport improvements.

# INCLUSIVE GROWTH

## PROMOTING SUSTAINABLE AND QUALITY EMPLOYMENT AND SUPPORTING LABOUR MOBILITY

### Europe 2020

| EU 2020 Target | EU27[98] | UK[99] | England | Wales | Scotland | NI | Gib |
|---|---|---|---|---|---|---|---|
| 75 percent of the population aged 20-64 should be in employment | 68.5% | 74.2% based on 2012 data | 74% based on 2012 data | 71.6% based on 2012 data[100] | 73.32% based on 2012 Q4 data2012 | 72% based on 2012 data (EuroStat)[101] | N/A |

**Figure 28: EU2020 comparison table for targets relating to the Employment Thematic Objective**

### Relevant Country Specific Recommendations

- Building on the Youth Contract, step up measures to address youth unemployment, for example through a Youth Guarantee. Increase the quality and duration of apprenticeships, simplify the system of qualifications and strengthen the engagement of employers, particularly in the provision of advanced and intermediate technical skills. Reduce the number of young people aged 18-24 who have very poor basic skills, including through effectively implementing the Traineeships programme.

### Devolution Settlements

178. Employment legislation covers Great Britain. Generally Northern Ireland has mirrored Great Britain with respect to employment law matters, with some minor differences. The UK Government is also responsible for a number of welfare to work programmes in Great Britain, and seeks to work with providers and partners to ensure that provision meets the needs of localities, individuals and employers. Responsibility for such provision in Northern Ireland is devolved, and analogous programmes are in place. Further education and vocational training is devolved and England, Wales, Scotland and Northern Ireland have each developed programmes designed to help people get the training and skills they need to move into work or further develop their careers.

[98] The EU 27 data is taken from that available through the following European Commission page: http://ec.europa.eu/europe2020/europe-2020-in-your-country/united-kingdom/progress-towards-2020-targets/index_en.htm
[99] Further details at: http://ec.europa.eu/europe2020/pdf/nd/nrp2013_uk_en.pdf
[100] Further details at: http://appsso.eurostat.ec.europa.eu/nui/show.do?dataset=lfst_r_lfe2emprt&lang=en]
[101] Further details at: http://epp.eurostat.ec.europa.eu/tgm/table.do?tab=table&init=1&language=en&pcode=tgs00102&plugin=1

### Current UK Performance

179. Analysis from the OECD suggests human capital is one of the key factors in driving growth across regions[102]. Greater growth occurs when regions mobilise their own assets and local resources, although growth in one region can have a positive influence on neighbouring regions.

180. Employment at a UK level is holding up and is performing comparatively well in relation to previous recessions (see figure 29) and also in comparison to the EU average of 64.5%.

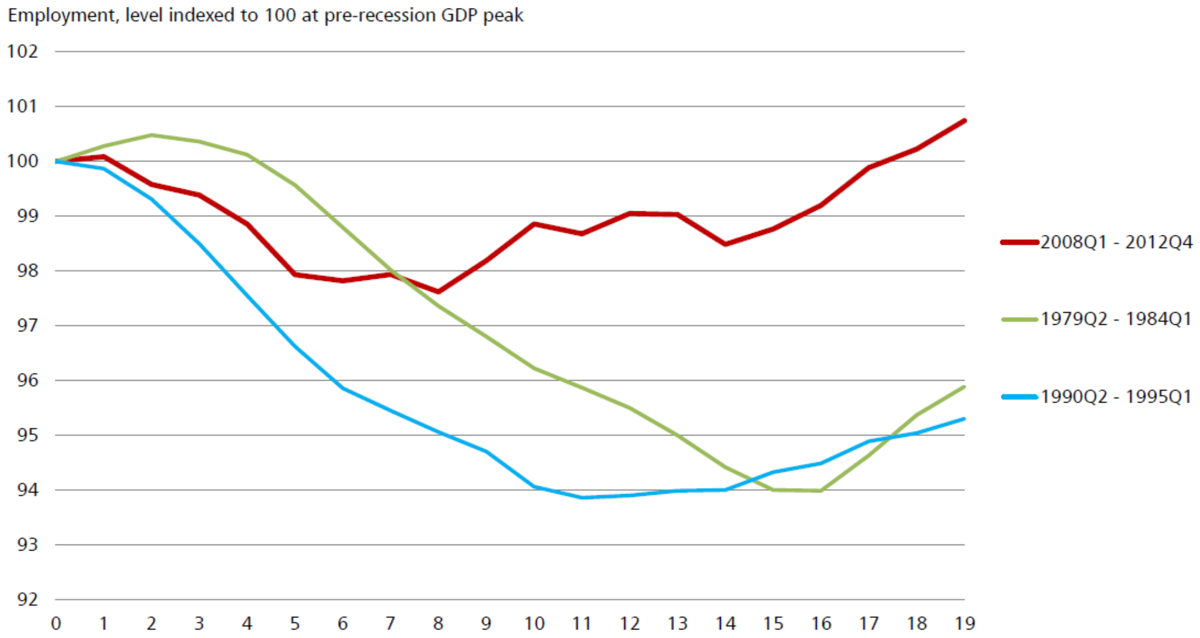


**Figure 29: Impact on employment level through 3 recessions**
*Source: Office for National Statistics, Feinstein (1972) and HM Treasury*

181. Growth in private sector employment has outstripped falls in the public sector. Over the last year, the public sector shrank by 52,000, whereas the private sector grew by 537,000. Over the past 12 months, the regions that saw the largest growth in private sector employment were London (up 121,000), East of England (up 129,000) and Scotland (up 76,000)[103]. The Commission forecasts expect the UK rate will increase to 74.9% by 2014.[104]

182. However, employment rates are lower among groups who are at a disadvantage in the labour market, particularly people with low or no qualifications. Since the economic downturn in 2008, the employment rate has decreased the most for those with Level 2 or below qualifications. Individuals with no qualifications have an employment rate of around 40 per cent. In addition, the employment rate is significantly lower for young people (61.2% for 20 to 24 year olds).[105] Despite some progress in recent years, a significant minority of young people do not have the skills and qualifications they need to

[102] Further details at: http://www.oecd.org/gov/regional-policy/howregionsgrowtrendsandanalysis.htm
[103] Data relates to Q3 2013. There is currently a problem with the private sector data, as not all those in private sector employment have been allocated a region, so regional private sector employment growth is likely to be *underestimated*.
[104] Further details at: http://ec.europa.eu/europe2020/pdf/themes/18_employment_target.pdf
[105] Annual Population Survey, October 2012 – September 2013

compete successfully in the labour market. The unemployment rate of low skilled 15-25 year olds is 37.2%, well above the EU average.[106] Disabled people and some ethnic minority groups also have significantly lower employment rates.

183. The employment rate for men aged 16 and over is 77.1% and for women is 67.2%.[107] However, whereas the rate for men has fallen since the mid-2000s, the female employment rate has been growing consistently, in part attributable to the equalising upwards of the women's pension age and the introduction of benefit conditionality for the lone parents of older children.

184. The figure below shows employment rates in different parts of the UK, with the highest rates in Scotland and England.

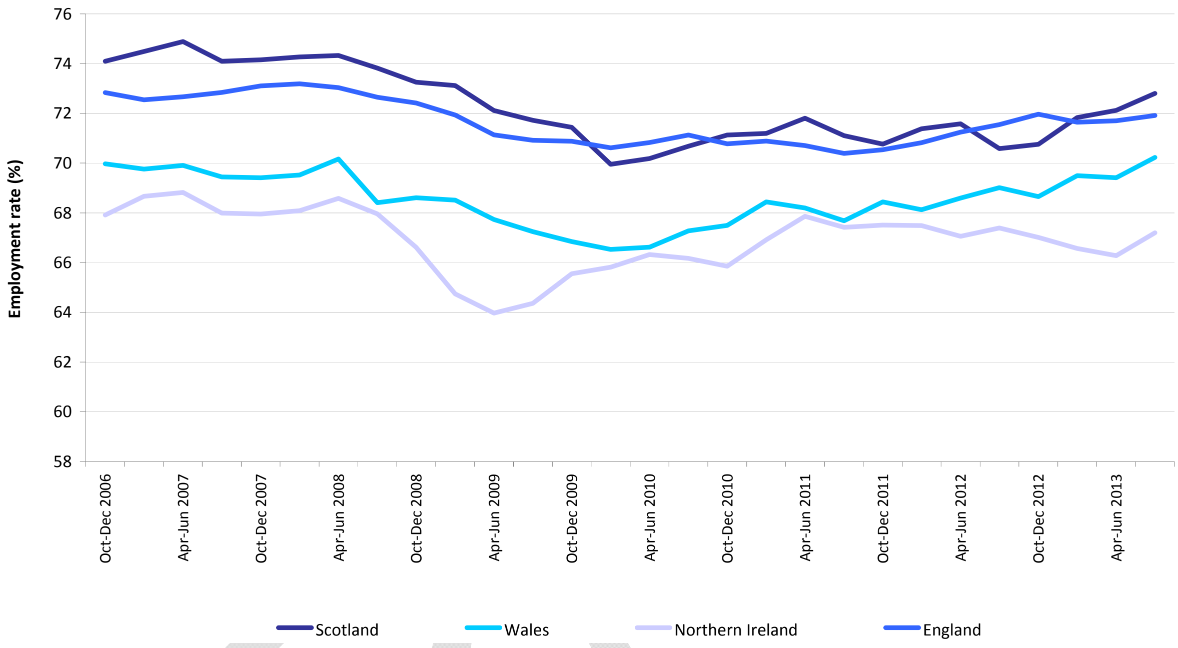


**Figure 30: Employment rates (16-64) in the 4 countries of the UK, Q4 2006- Q3 2013**

185. The unemployment rate is expected to remain broadly flat through 2014. It stood at 7.2 % in October – December 2013 lower than the EU average of 10.7%. However, youth unemployment within the UK is much higher, at 21.8% for Q3 2013 and is highest in former industrial areas. The UK youth unemployment rate tends to be a couple of percentage points lower than the EU 28 at 23% but higher than key international competitors (see figure 31). In 2012, EU youth unemployment was 22.9% compared with 21% in the UK. The rate has been steadily increasing since 2007, when it stood at 14.3%. However, youth unemployment is showing early signs of improvement with the number of young people on JSA down 27% over the past year.

[106] Further details at: http://register.consilium.europa.eu/pdf/en/13/st10/st10660-re01.en13.pdf
[107] Annual Population Survey, October 2012 to September 2013, employment rate for those aged 16-64.

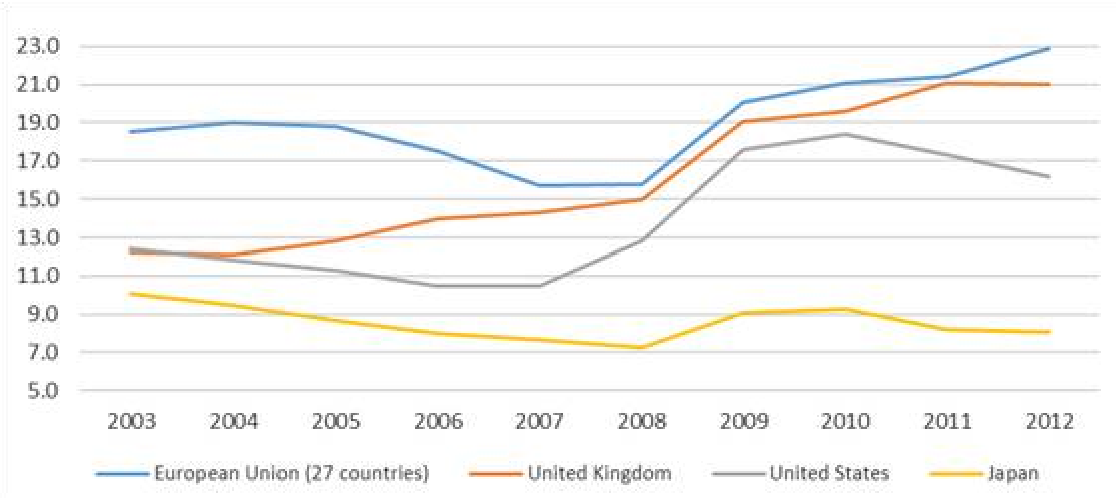


**Figure 31: International Comparison of the unemployment rate for under 25 year olds - 2003-12**
*Source: Eurostat*

186. There are also regional variations in the unemployment rate. Figure 32 shows how unemployment rates have changed over the five years from Q4 2007 to Q3 2012. This shows that over the 5 years there has been significant fluctuations between the UK nations, however, towards the end of 2012 these rates were all dropping and coming together at a reasonably similar level.

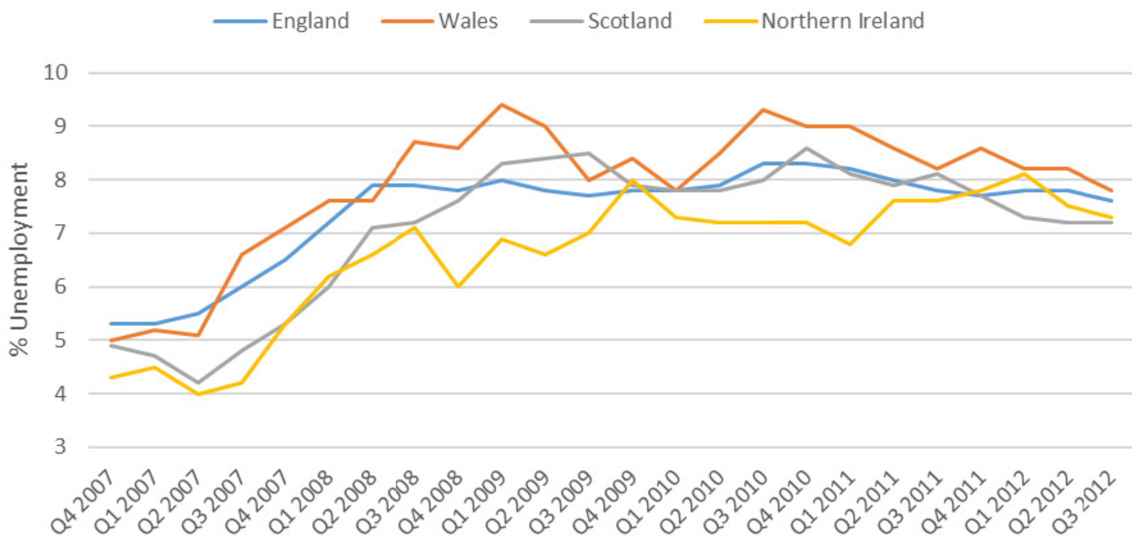


**Figure 32: Changes in unemployment rates[108], Q4 2007-Q3 2012**
*Source: NOMIS. Office for National Statistics*

187. The proportion of working age people who are part of the labour force is close to the highest for 20 years, as economic inactivity has generally been falling (see figure 33). While the numbers of people who are inactive due to study increased (up 59,000) over the past year, inactivity due to long-term sickness, retirement or looking after the family and home is falling and offsetting this. In total inactivity has fallen by 23,000 over the past year[109].

[108] Covers those aged 16 and over as a % proportion of economically active.
[109] Further details at: http://www.ons.gov.uk/ons/rel/lms/labour-market-statistics/february-2014/statistical-bulletin.html

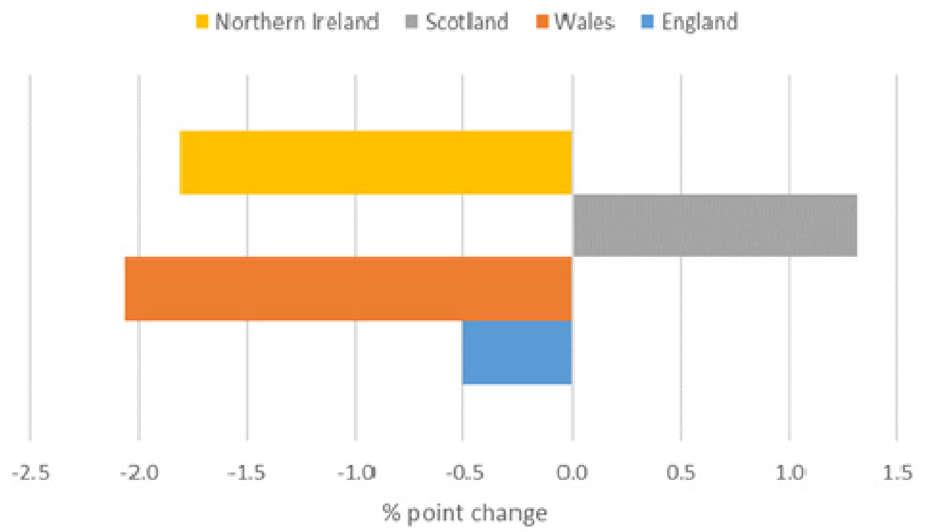


**Figure 33: Change in economic inactivity rates, 2007-2012**
*Source: NOMIS, Office for National Statistics*

188. These falls are happening alongside welfare reform to transfer unemployed people off 'passive' benefits (where no conditionality is attached) and onto 'active' benefits (where claimants are obliged to seek employment). In general unemployment and economic inactivity is highest in inner city areas, former industrial areas and some coastal towns.

189. Long-term unemployment is also an issue. Defined as those unemployed for more than 12 months it is currently 845,000, more than a third of the total number of unemployed people[110]. This is close to the highest since 1996 albeit at a relatively low level compared to the EU.

190. Within this context the main UK challenges in relation to the labour market are:

| **Challenges** | **Opportunities** |
|---|---|
| • Unemployment has yet to fall substantially.<br>• Unemployment and inactivity is highest in inner city areas, some former industrial areas and some coastal towns<br>• Unemployment and inactivity is highest amongst certain population groups e.g. those with low/no qualifications and disabled.<br>• Youth unemployment still high.<br>• Long-term unemployment is also an issue.<br>• A significant minority of young people do not have the skills and qualifications they need to compete successfully in the labour market<br>• Unemployed and inactive people often lack basic and vocational skills for growth sectors. | • Human capital and skills are the most important factors in driving growth across regions.<br>• Employment within the UK as a whole is performing comparatively well in relation to previous recessions and in comparison to other EU member states.<br>• Economic inactivity decreasing.<br>• Progression into and in work will be supported by the introduction of Universal Credit and economic growth. |

[110] *ibid*

**Domestic interventions**

191. The UK's employment rate will be increased primarily through job creation as a result of Government's work to facilitate economic growth. Low levels of taxation and a carefully balanced approach to labour market regulation mean that firms have incentives to create new jobs alongside new business opportunities. In addition, employers can offer flexible working arrangements to workers, which help with recruitment, retention and productivity.

192. In order to ensure unemployed people can take up the employment opportunities resulting from growth, Government is reforming the welfare system to ensure that work pays and every jobseeker gets the support they need to find a job:

- welfare reforms will make sure that jobseekers are better off in work than on benefits. Universal Credit will replace existing benefits with a simpler monthly payment to claimants who are out of work or on a low income, and will help claimants to progress;
- jobseekers who are ready to work will receive support including: help with job search; careers advice; boosting literacy, numeracy and language skills; other skills training; work experience; training in setting up a business. Through the Work Programme, those at risk of long-term unemployment are given personalised support to find and stay in work;
- claimants of Jobseeker's Allowance and those in the work related activity group of Employment Support Allowance are eligible for fully funded training where it has been identified that a lack of skills is a barrier to finding work. This also applies to people claiming Universal Credit who are unemployed. Irrespective of employment status, people aged 19 to 23 are eligible for fully funded training towards a first level 2 or a first level 3 qualification.

193. There is now a greater focus on partnership working to reduce unemployment – Jobcentre Plus, training providers, local authorities, employers, and jobseekers working together to find new solutions.

194. In April 2012 the Government also launched the Youth Contract in Great Britain, to provide extra help to young unemployed people. This will support up to half a million young people into education and employment opportunities.

195. The measures which the UK Government is taking to address youth unemployment and which ESF and YEI will complement are along lines that are the same as or very similar to the kind of measures suggested in the Council Recommendation on Establishing a Youth Guarantee. However, these measures do not include a guarantee to all those aged under 25 of an offer of employment, continued education, an apprenticeship or a traineeship within a four months of their becoming unemployed or leaving formal education. In Great Britain over 80 per cent of 18-24 year olds flow off of Jobseeker's Allowance within six months, and over 65 per cent flow off within 3 months so a rigid four month period would incur significant deadweight loss and would not be a cost effective use of public funds[111]. Instead the Government prefers the flexibility to provide individualised support, in line with local circumstances focusing resources on those who need it most.

[111] Off-flow rates calculated as a proportion of inflows using claimant flows data available from www.nomisweb.co.uk

**Objectives for the ESI Funds**

Based on the challenges, opportunities and domestic interventions described above, the focus for the ESI Funds in the UK to contribute towards Inclusive Growth should be to: **Increase employment levels, with a particular focus on young people not in education, employment or training and those people at a disadvantage in the labour market.**

196. Specifically the ESI Funds should:

- tackle barriers to entering work, staying in work or making progress at work, including by providing skills training and other support; including paying attention to the transition between unemployment and work. There will be a particular focus on helping the long term unemployed, economically inactive, those at risk of social exclusion and those in or at risk of poverty[112]. Specific target groups should be responsive to local challenges but will include disabled people, ethnic minorities and older people;;
- support the labour market integration of young people, particularly those not in education, employment or training; and
- continue to support basic skills needed for employment and skills needed in growth sectors..

**Priorities for investment**

197. Across the UK ESI Funds will be used to align with and build on national policies and programmes, particularly the Work Programme and any future employment programmes. ESI funds will not be used directly to implement welfare reforms or the tax-benefit system, but rather where relevant, each nation will use ESI funds for activity that complements reforms such as the introduction of Universal Credit by enhancing services for those with complex barriers. The main activities, where relevant, will include pre-employment training and helping disadvantaged groups with multiple barriers.

198. There will be a strong focus on helping young people (particularly those not in education, employment or training) especially in areas eligible for the Youth Employment Initiative (see section 1.4). ESI funds will help unemployed people acquire the skills they need to compete for new jobs created by economic growth. Activity focused on raising skills to increase employability will align with the Education, Skills and Lifelong Learning theme.

199. In general, activities supported by the ESI Funds will address the needs of each person as an individual. Where men or women face specific barriers because of their gender, ESI Funds may be used to address these. For example, there may be actions to help men or women enter sectors or occupations where they are under-represented, in order to increase their employment rate and career opportunities, and to help employers address their need for skilled labour. These will be supported within other investment priorities rather than using the specific investment priority on equality between men and women.

200. ESI Funds programmes in the UK will not have specific objectives around closing employment rate gender gaps. These gaps will be closed using domestic initiatives, including:

[112] More detail on the challenges surrounding social exclusion and poverty are set out in the following section on Social Exclusion.

- the Government's comprehensive action plan 'Women and the Economy' (published in 2013), which sets out interventions related to educational choices, career progression, returning to work and childcare, supporting older workers and carers, and promoting enterprises.
- the joint Government-business voluntary initiative 'Think Act Report' (TAR), which helps companies think about gender equality in their workforces, particularly in relation to recruitment, retention and promotion. This framework strongly encourages companies to publish progress on gender equality issues. More than 140 major companies are already supporting the initiative, which now covers 2 million employees in the workforce.

## PROMOTING SOCIAL INCLUSION, COMBATING POVERTY AND ANY DISCRIMINATION

### Europe 2020

| EU 2020 Target | EU27[113] | UK[114] | England | Wales | Scotland | NI | Gib |
|---|---|---|---|---|---|---|---|
| 20 million less people across the EU should be at risk of poverty | 24.2% based on 2011 data | 22.7% based on 2011 data | Not available | 23% based on 2011 data[115] | 15% of population based on 2010/11 data | Not available | N/A |

**Figure 34: EU2020 comparison table for targets relating to social inclusion**

### Relevant Country Specific Recommendations

- Enhance efforts to support low-income households and reduce child poverty by ensuring that the Universal Credit and other welfare reforms deliver a fair tax-benefit system with clearer work incentives and support services. Accelerate the implementation of planned measures to reduce the costs of childcare and improve its quality and availability.

### Devolution Settlements

201. While many elements key to promoting social inclusion, combating poverty and any discrimination are delivered at the UK level (e.g. tax credits), the devolved administrations have a variety of powers that can be used to promote social inclusion and combating poverty. For example, powers to regulate health matters are devolved.

202. This thematic objective has not been selected in Gibraltar.



[113] The EU 27 data is taken from that available through the following European Commission page: http://ec.europa.eu/europe2020/europe-2020-in-your-country/united-kingdom/progress-towards-2020-targets/index_en.htm
[114] Further details at: http://ec.europa.eu/europe2020/pdf/nd/nrp2013_uk_en.pdf
[115] EU SILC – however no sub-UK data, Wales data (and UK actually) from HBAI: https://www.gov.uk/government/collections/households-below-average-income-hbai--2

**Current UK Performance**

203. In 2011, 22.7% of the UK population were considered to be at risk of poverty or social exclusion according to the official EU definition. This is equivalent to 14.0 million people. This measure combines a number of different dimensions of poverty and social exclusion into a single indicator. According to this definition, people are considered at risk of poverty or social exclusion if they are experiencing at least one of three conditions – having a household income below the poverty threshold, being severely materially deprived, or living in a household with low work intensity.[116]

204. Looking at how this rate has changed over time, the proportion of people in the UK who were at risk of poverty or social exclusion in the UK fell between 2005 and 2007, from 24.8% of the population to 22.6%. This was largely due to a reduction in the percentage of people living in households with low work intensity. However, since 2007, the rate has remained broadly unchanged. [117]

205. The number of households in the UK where no-one works stands at around 3.5 million and in which about 950,000 million children are present[118]. Excluding student households, there are 224,000 households where nobody has ever worked[119]. Workless households are more likely to be in poverty and be dependent on benefit and research suggests that growing up in a workless household has a negative effect on children's future labour market outcomes.[120]

206. On a wider definition, analysis from household survey data found that 11% of adults (5.3 million people) in the UK experience, at any one time, three or more of six areas of disadvantage (education, health, employment, income, social support, housing and local environment). In addition, they may also fall into other groups experiencing relative disadvantage such as older people (50+), ethnic minorities, people with English as a second language, and carers. This population is constantly changing, with people moving in and out of disadvantage and poverty according to the impact of these economic, social, and environmental factors.[121] The challenge across the UK will vary from area to area.

207. In-work poverty has also been on the increase over the last decade. The proportion of poor children living in working families increased to 66% in 2011/12, up from 48% in 2001/02. This reflects the estimated 1.5 million poor children in working families compared to 0.8 million in workless households in 2011/12. The number of poor working-age adults in working families increased by 300,000 in 2011/12, compared to 2005/06, with 75% of poor adults living in working families. Around half of working-poor adults are in couple families, and a third of working-poor adults have children.[122]

208. Within this context the main UK challenges in relation to the risk of social exclusion are:

| Challenges | Opportunities |
|---|---|

[116] Further details at: http://www.ons.gov.uk/ons/rel/household-income/poverty-and-social-exclusion-in-the-uk-and-eu/2005-2011/rpt--poverty-and-social-exclusion.html#tab-conclusions
[117] *ibid*
[118] Further details at: http://www.ons.gov.uk/ons/rel/lmac/working-and-workless-households/2013/stb-working-and-workless-households-2013.html
[119] *ibid*
[120] Further details at: http://www.nao.org.uk/publications/0607/helping_the_workless_into_work.aspx
[121] Further details at: https://www.gov.uk/government/publications/social-justice-transforming-lives
[122] Further details at: https://www.gov.uk/government/organisations/department-for-work-pensions/series/households-below-average-income-hbai--2

| Challenges | Opportunities |
|---|---|
| • In 2011, 22.7% of the UK population were considered to be at risk of poverty or social exclusion and this proportion has remained broadly unchanged since 2007.<br>• In-work poverty has also been on the increase over the last decade.<br>• The number of households in the UK where no-one works stands at around 3.5 million and in which about 950,000 million children are present<br>• Challenges of exclusion vary over time and between localities.<br>• Strong links between child poverty and social exclusion. | • Government has put in place welfare reforms and domestically funded initiatives to which ESI Funds can add value to. |

### Domestic interventions

209. The Government considers that work is the best route out of poverty. It is committed to tackling poverty and welfare dependency; helping people without jobs to find work and support themselves and their families; and ensuring that the most vulnerable in society are protected.

210. From October 2013, Universal Credit ensures that being in work pays. It simplifies the benefits system by bringing together a range of working-age benefits into a single streamlined payment. The new Universal Credit system aims to: improve work incentives; smooth the transitions into and out of work, supporting a dynamic labour market; simplify the system, making it easier for people to understand, and easier and cheaper for staff to administer; and reduce in-work poverty.

211. The UK Government's ambitions for social justice apply to the whole of the UK. However many of the policy levers are in the hands of the devolved administrations and, as such, these administrations are responsible for their own devolved policies.

### Objectives for the ESI Funds

Based on the challenges, opportunities and domestic interventions described above, the focus for the ESI Funds in the UK to contribute towards Inclusive Growth should be to: **Increase employment levels with a particular focus on those people at a disadvantage in the labour market.**

212. Specifically the ESI Funds should:

- tackle barriers to entering work, staying in work or making progress at work, including by providing skills training and other support; including paying attention to the transition between unemployment and work.
- focus on helping the long term unemployed, economically inactive, those at risk of social exclusion and those in or at risk of poverty. Specific target groups should be responsive to local challenges but will include disabled people, ethnic minorities, offenders, disadvantaged young people, and those with multiple disadvantages; and
- support childcare where this is a barrier to participation.

**Priorities for investment**

213. As with the previous thematic objective, ESI Funds will be used across the UK to align with and build on national policies and programmes, particularly the Work Programme, and also services delivered by local authorities

214. . Many of the target groups are potentially the same as those that will be supported through Labour Market Mobility (e.g. the long-term unemployed) but investments under this thematic objective, taking into account the requirements of different devolved approaches in this area, will also address underlying barriers to participation and employment for target groups (e.g. financial advice and childcare where appropriate).

215. ESI Funds will help to reduce levels of economic inactivity and worklessness by buying additional and more intensive support than available through mainstream government programmes. This will include pre-employment training and helping disadvantaged groups with multiple barriers that are further away from the labour market. Provision will be tailored to local needs, for example those living in rural locations are often disadvantaged in terms of access to services.

## INVESTING IN EDUCATION, TRAINING AND VOCATIONAL TRAINING FOR SKILLS AND LIFELONG LEARNING

**Europe 2020**

| **EU 2020 Target** | **EU27**[123] | **UK**[124] | **England** | **Wales** | **Scotland** | **NI** | **Gib** |
|---|---|---|---|---|---|---|---|
| The share of early leavers from education and training should be under 10%[125] | 12.8% based on 2012 data | 13.5% based on 2012 data | 13.3% (estimate) based on 2012 data | 16.9% based on 2012 data[126] | 13 % based on 2012 data | 14.3% based on 2012 data (EuroStat)[127] | N/A |
| At least 40% of 30-34–year-olds completing third level education[128] | 35.8 % based on 2012 data | 47.7% | 50.2% (estimate)[129] | 41.0% based on 2012 data[130] | 54.1 % based on 2012 data | 38.4% based on 2012 data (EuroStat)[131] | N/A |

**Figure 35: EU2020 comparison table for targets relating to education and training**

### Relevant Country Specific Recommendations

- Building on the Youth Contract, step up measures to address youth unemployment, for example through a Youth Guarantee. Increase the quality and duration of apprenticeships, simplify the system of qualifications and strengthen the engagement of employers, particularly in the provision of advanced and intermediate technical skills. Reduce the number of young people aged 18-24 who have very poor basic skills, including through effectively implementing the Traineeships programme.

### Devolution Settlements

216. Education, skills and lifelong learning are devolved matters.

### Current UK Performance

217. Productivity is strongly linked with skills where the UK underperforms on the international stage, particularly in relation to mid-level skills (upper secondary and post-secondary non-tertiary). Comparisons of educational attainment show that the UK has a relatively well skilled population compared to Italy and France, but does less well compared to the US and Canada. In particular, while the UK has a high share of tertiary educated workers (graduates), the proportion of the workforce with below secondary level education is higher than that in Germany, Canada and the USA – suggesting that mid-level skills is an area of weakness (see figure 36).



[123] The EU 27 data is taken from that available through the following European Commission page: http://ec.europa.eu/europe2020/europe-2020-in-your-country/united-kingdom/progress-towards-2020-targets/index_en.htm
[124] Further details at: http://ec.europa.eu/europe2020/pdf/nd/nrp2013_uk_en.pdf
[125] Data for England are estimated by DfE (Labour Force Survey). Scotland, Wales and Northern Ireland are taken from http://epp.eurostat.ec.europa.eu/portal/page/portal/education/data/database.
[126] http://appsso.eurostat.ec.europa.eu/nui/show.do?dataset=edat_lfse_16&lang=en
[127] Further details at: http://epp.eurostat.ec.europa.eu/tgm/table.do?tab=table&init=1&language=en&pcode=tgs00106&plugin=1
[128] Data for England are estimated by DfE (Labour Force Survey). Scotland, Wales and Northern Ireland are taken from http://epp.eurostat.ec.europa.eu/portal/page/portal/education/data/database.
[129] Labour Force Survey Q4 2012
[130] Further details at: http://appsso.eurostat.ec.europa.eu/nui/show.do?dataset=edat_lfse_12&lang=en
[131] Further details at: http://epp.eurostat.ec.europa.eu/tgm/table.do?tab=table&init=1&language=en&pcode=tgs00105&plugin=1

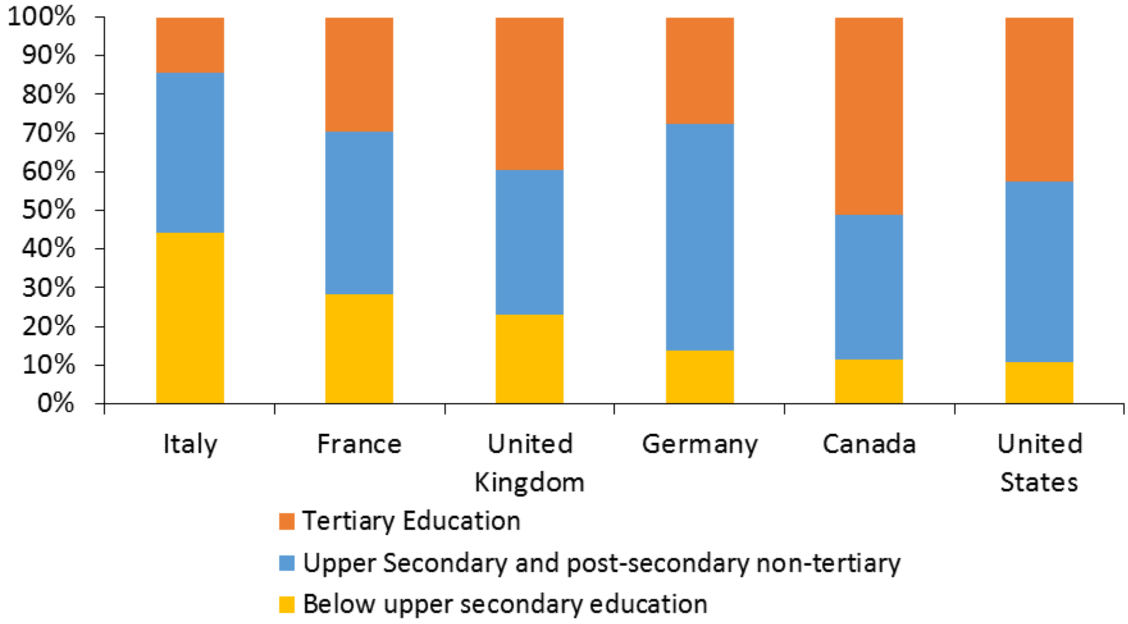


**Figure 36: Educational Attainment (25-64)**
*Source: Organisation for Economic Co-operation and Development*

218. Skill levels also vary across the UK. Figure 37 shows the proportion of 16-64 year olds in 2011 that had no qualifications in each of the UK's nations. Compared to the UK average of 10.9%, Northern Ireland had the highest proportion of the population with no qualifications (10.8 percentage points above the UK average); whereas England was slightly below the UK average at 10.4%.

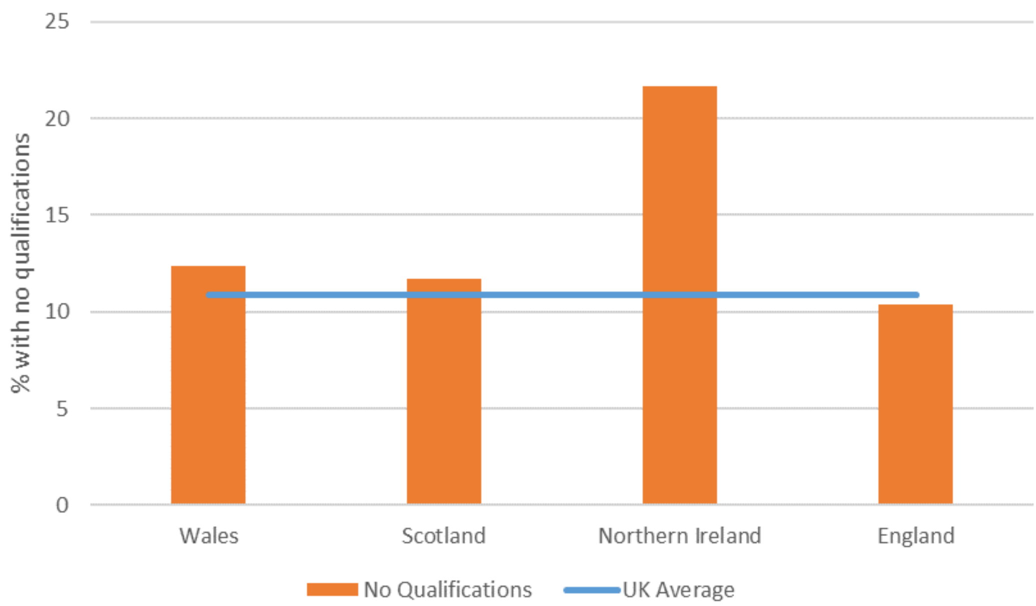


**Figure 37: Proportion of 16-64 year olds with no qualifications, 2011**
*Source: NOMIS, Office for National Statistics*

219. Figure 38 shows the percentage of 16 to 64 year olds with NVQ equivalents[132] level 1, level 2, level 3 and level 4 and above qualifications in 2011. Northern Ireland had the lowest proportion of skills overall at 67.2%. Wales has the highest level of NVQ2 level skills at 18.5%. England performs strongest in intermediate skills (NVQ3) at 17.3% and Scotland on higher level skills (NVQ4+) at 37.2%. According to UKCES[133] (UK Commission for Employment and Skills), the fastest growing occupational groups in the UK require skills at NQF Levels 3, 4 and above; the fastest declining occupations cluster around NQF Level 2 and below.

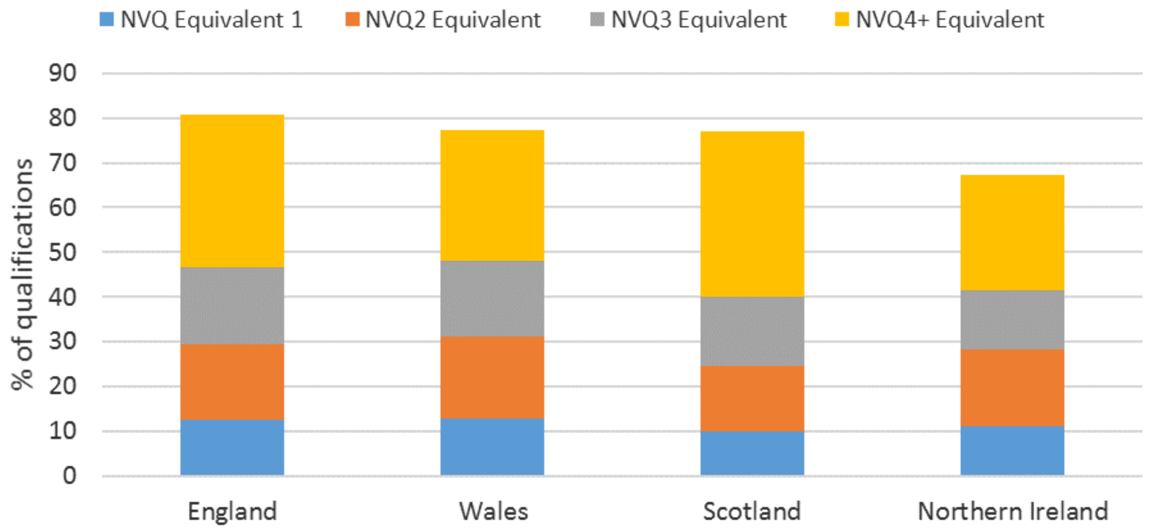


**Figure 38: % of 16-64 year olds with NVQ level 1-4+**
*Source: Annual population survey (Jan 2012-Dec 2012), Office for National Statistics*

220. The previous sections mainly considered the need to address basic skills in order to improve employability. For those who are already in the labour market there is a need to focus on up-skilling and re-skilling especially intermediate and higher level skills and for new and emerging technologies. Businesses in the UK regularly identify a mismatch between the skills they need and what is available locally. Increased investment in skills nationally and by employers will improve labour productivity, increase the UK's competitiveness and help focus on growth sectors and meet employers' needs; both those nationally identified in the industrial strategy and locally through smart specialisation.

221. In the farming and forestry sectors, higher qualification levels lead to more successful businesses, greater innovation and receptiveness to innovations (environmentally and economically)[134]. Increased skills levels, both industry-specific technical skills and general business management, are essential to improve productivity and competitiveness, support the uptake of innovation, and to improve environmental and economic performance.

222. Data on vacancies from the United Kingdom Commission on Employment and Skills (UKCES) Survey shows that the agriculture, forestry and fishing sector in England has a

[132] Definitions of NVQ equivalents can be found at http://www.nomisweb.co.uk/reports/lmp/gor/2092957698/report.aspx#defs.
[133] Quoted in the Wales Employment & Skills Board Report, "Skills for Jobs", July 2011
[134] UK Commission's Employer Skills Survey 2011

higher level of Skills Shortage Vacancies (SSVs)[135] as a proportion of vacancies (28%) compared to the national average (16%). The same survey suggests that the result of this is increased costs, difficulties introducing new working practices, and new technologies, products and services.

223. Of low performing farmers (bottom 25% in terms of ratio of value of output/ input), more than 50% have no higher education, compared with less than 30% of high performing farmers. Evidence from the UKCES Survey indicates that a smaller proportion (43%) of employees working in agriculture, forestry and fishing received training in 2012 compared to the national all-sector average (52%), and recent evidence from the Labour Force Survey corroborates this[136].However UKCES also tell us that average spend on training (per trainee) in the agriculture, forestry and fishing sector is the highest among all sectors, suggesting that agricultural training is expensive relative to other sectors.

224. Within this context the main UK challenges in relation to education, skills and lifelong learning are:

| **Challenges** | **Opportunities** |
| --- | --- |
| • A significant minority of young people do not have the skills and qualifications they need to compete successfully in the labour market.<br>• For those who are already in the labour market there is a need to focus on up-skilling the workforce particularly in relation to intermediate and higher level skills.<br>• Levels of employer training are comparatively low.<br>• Low skill levels and relatively expensive training in the land based sector, affect environmental and economic performance of businesses. | • Renewed focus in the FE sector on employer needs and quality of qualifications.<br>• High quality HE provision and opportunities for commercialisation of research.<br>• Focus on schemes to encourage employer participation (e.g. Apprenticeships) including SMEs.<br>• |

**Domestic interventions**

225. Skills policy in the UK is devolved. This means that most policy initiatives in this area are the remit of the devolved administrations in Scotland, Wales and Northern Ireland, and of the UK Government when it comes to England. There are some UK-wide exceptions, such as the UK Commission for Employment and Skills and the Sector Skills Councils – a publicly funded, industry led organisation providing strategic leadership on skills and employment issues in the four home nations of the UK. There is variation across the UK in the focus, priorities and delivery mechanisms of skills policies as each part of the UK adapts to their own specific needs. The overarching aims of skills policy are, however, broadly similar:

- Up-skilling the adult workforce;
- Leveraging increased private sector investment in skills and training;
- Simplifying and improving the responsiveness of the Further Education (FE) and Vocational Education and Training (VET) systems to the market and employers;

[135] An SSV occurs where a firm has difficulty filling a vacancy due to “low numbers of applicants with the required skills, work experience or qualifications.”
[136] UKCES (2012) Agriculture, Forestry and Fishing Sector Skills Assessment 2012

- Building on the reputation and skills of Higher Education Institutions including in research ;
- Higher quality labour market information and improved careers advice;
- Stimulating increased demand and investment in skills development amongst employers and better collaboration amongst employers and providers; and
- Targeted support for skill-development in SMEs, especially building better management and leadership capability.

**Objectives for the ESI Funds**

Based on the challenges, opportunities and domestic interventions described above, the focus for the ESI Funds in the UK to contribute towards skills development should be to: **focus on those at a disadvantage in the labour market and to increase the productivity of those in work through improving their skill levels.**

226. Specifically the ESI Funds should:

- continue to support basic skills needed for employment and progression;
- support intermediate and higher-level skills, including to support skills requirements in other thematic objectives, in particular R&D&I, SME competitiveness and sustainable growth. The degree to which this is done across the different parts of the UK will depend on the needs of the specific area; and
- improve information, advice and guidance at all levels.

**Priorities for investment**

227. ESI Funds will be used to complement and build on national skills activities. Given skills policy in the UK is devolved and development needs vary significantly across different parts of the UK, ESI Funds will support a wide variety of interventions to reflect local needs. ESI Funds will be used to directly fund interventions to improve information, advice and guidance to, and the skills levels of, individuals and to support arrangements which will increase the local relevance of skills interventions.

228. As there are potential overlaps with TOs 8 and 9, much skills activity may form a continuum to help interventions at different stages, ESI Funds across this continuum will be used varyingly by the different administrations to fund activities such as: training for the unemployed and other disadvantaged groups; basic skills interventions; helping low skilled people in low paid work to progress; supporting intermediate, technical and higher skills; and providing skills and training packages in response to redundancies. Wider arrangements to increase the relevance of skills interventions will include: developing better links between education and work (including SMEs); addressing specific skills requirements within business and industry, particularly in priority sectors for local economies where the market has not, or is not capable of, providing those skills; encouraging skills to support the innovation, low carbon and resource efficiency ambitions; additional and enhanced support for Apprenticeships and Traineeships as well as increasing local participation in these types of programmes; and equipping students, graduates and young people with the skills to start and grow a business.

229. ESI Fund action to help young people will focus on the investment priority on the sustainable integration into the labour of young people, particularly those who are NEET under Thematic Objective 8. While there is no UK wide objective for using ESI Funds to reduce early school leaving, individual administrations may also make use of the investment priority on early school leaving under Thematic Objective 10 to take forward actions to increase youth attainment and engagement.

## 1.2 A SUMMARY OF THE EX-ANTE EVALUATIONS OF THE PROGRAMMES OR KEY FINDINGS OF THE EX-ANTE EVALUATIONS OF THE PARTNERSHIP AGREEMENT WHERE UNDERTAKEN BY THE MEMBER STATE AT ITS OWN INITIATIVE

1. The UK Government has chosen to carry out an ex ante evaluation of the UK and England chapters of the Partnership Agreement. The ESI Funds regulations require the Government and devolved administrations to carry out ex ante evaluations of each of the national operational programmes. This section contains a summary of the results of the evaluation of the Partnership Agreement. It also contains a brief summary of the ex ante evaluation of the EMFF programme, which is the only ESI Funds programme covering the whole of the UK. National chapters include summaries of the results of the ex ante evaluations of the national ESI Funds programmes.

### EX ANTE ASSESSMENT OF THE UK PARTNERSHIP AGREEMENT

2. After carrying out an open procurement exercise, the Government awarded the contract for the ex-ante evaluation of the UK and England chapters of the Partnership Agreement to a team based within ICF GHK[137]. This team has provided an on-going independent assessment of the decision-making process and content of the UK elements of the Partnership Agreement and the England only chapter, including the review of emerging drafts over a period of more than a year. ICF GHK have acknowledged the positive evolution of the document and the efforts of the client group to take on board the comments and suggestions of the evaluation team.
3. The overall assessment of the evaluation team is that the UK and England Chapters are now 'fit for purpose' with no major 'deal breaker' issues, although the evaluators understand that the European Commission has had several discussions with the UK Government about the prioritisation between themes and delivery arrangements in England. In overall terms, the evaluators consider that the UK and England chapters represent a reasoned, reasonable and internally coherent response to the identified challenges and opportunities. The document adheres to the regulations, including the funding commitments to the low carbon economy and social inclusion thematic objectives.
4. This response aligns with, and will contribute to, the identified EU, national and local objectives. Nevertheless, within a document of such wide scope, prepared with inputs from a wide range of stakeholders, there are inevitably aspects where further development might still be beneficial. Some of this additional development should be captured in the Operational Programmes.

**UK Chapter**

5. The evaluators consider that the identified challenges and needs within the UK Chapter relate closely to the Europe 2020 objectives and targets. The proposed objectives and priorities for ESI Funds investment at UK-level fit well with these targets as relevant; although given the scale of ESI Funds resources involved in relation to the levels of domestic spending on these policy priorities the contribution of ESI Funds to achievement of these targets can only be marginal.

[137] http://www.icfi.com/

6. The Partnership Agreement also identifies the relevant Country Specific Recommendations for each target. The proposed objectives and priorities for ESI Funds investment are broadly consistent with these recommendations to the extent that European funds are relevant to their implementation. However, some Country Specific Recommendations – such as those relating to reforms to the financial system – are clearly not matters which European funding can be used to address.

7. The evaluators consider that the issues confronting the UK economy and the associated opportunities and challenges are accurately identified in section 1.1, including the impact of the recession on productivity. The document correctly identifies a range of, longer term, issues linked to the Europe 2020 challenges which will need to be addressed if the overarching objective to build a stronger economy and a fairer society is to be attained:

    - The UK spends a relatively small proportion of its GVA on R&D (in 2012 the UK was ranked 13th in the EU on this basis) and there are also significant regional variations in overall investment by businesses in R&D. In response the Partnership Agreement proposes to focus ESI Funds on contributing to Smart Growth through, inter alia, improving the commercialisation of R&D, with efforts to increase the numbers of firms involved in innovation, the scale of business investment in R&D&I and the number of SME/academic collaborations;
    - There are still significant gaps in the UK's superfast broadband network, with particular weaknesses in rural areas, and businesses are not fully exploiting ICT. The Partnership Agreement proposes to address these issues through targeted investment;
    - Many SMEs do not fulfil their growth potential because of barriers relating to access to finance, leadership and management skills and failures to enter export and other new markets. In response the Partnership Agreement – logically - proposes to focus on improving SME competitiveness through investments in initiatives to improve access to finance, develop skills and build a more entrepreneurial culture, combined with support to develop new markets and encourage diversification;
    - The Partnership Agreement reflects UK policies to optimise the use of resources through reducing, reusing and recycling, along with decarbonisation of the economy, supporting the aim to achieve sustainable and balanced growth. A key focus is on maximising the opportunities and minimising the costs of the green economy transition. This aligns with Europe 2020 strategic priorities, specifically the priority to promote a more resource efficient, greener and more competitive economy; and
    - The Government's vision is for a highly educated society and internationally competitive skills base. Key priorities which are carried into the Partnership Agreement are to: continue to improve the employability of young people, in particular those not in education, employment or training (NEETs); ensure that apprenticeship schemes are taken up by more young people, have a sufficient focus on advanced and higher-level skills, and involve more small and medium-sized businesses; and, implement measures to reduce the high proportion of young people aged 18-24 with very poor basic skills.

8. The evaluators consider that at a UK level the choices of objectives and priorities for ESI Funds investment appear pragmatic and reasonable, being driven in part by judgements about how these resources can best make a contribution in relation to domestic initiatives. The UK chapter does not set an overall spatial strategy at the UK-level which shapes precisely where ESI resources are to be used to support and complement national and local initiatives. Rather, the UK chapter sets the broad parameters for investment and describes devolution arrangements across UK nations (spatial strategies are covered in the UK nations' chapters).

9. At a UK level all thematic objectives (except thematic objective 11) have an allocation of ESI Funds but there is differentiated prioritisation at the level of individual territories

according to the specific needs and opportunities of each. For example, Scotland and Northern Ireland will spend no money on thematic objective 7 (Transport) and Scotland nothing on thematic objective 5 (Climate Change). Nevertheless, the proposed allocations to Themes 2, 5 and 7 combined at UK-level only account for around 6% of the available funding and concentration of resources on a very limited number of projects will be vital in securing critical mass and impact.

10. The UK chapter includes analysis of some of the key issues facing urban and rural areas and to a lesser extent the problems confronting coastal and fisheries areas – although the issues confronting different types of rural area in particular vary widely, limiting the scope to make useful generalisations. The specific problems of rural and fisheries areas will be addressed in part through the proposed investments to be supported by the EAFRD and EMFF which appear well targeted in relation to the identified issues.
11. The proposed foci of the ESI Funds more generally appear mutually consistent and their proposed investments should be complementary. The Partnership Agreement does not show that the ESI Funds are likely to be very closely integrated with each other across all territories – in some areas there are clear delineations between the ESI Funds in terms of objectives, approach to the supporting analysis and implementation arrangements.
12. The UK chapter incorporates a commitment to utilise common output and financial indicators drawn from the Commission list. This should enable overall, UK-level summaries to be made of the progress in implementation of the various Operational Programmes and of the total outputs delivered. The UK chapter makes reference to a common approach to results indicators, which would allow the Government to present an overall picture of achievements. However, there is little detail about this approach and the indicators that might be used. This detail will emerge as the Operational Programmes are developed.
13. The evaluators consider that the co-ordination arrangements set out for the UK appear to be well structured to ensure good communication between the relevant Managing Authorities and to fulfil the UK obligations in terms of reporting and financial control. The implementation arrangements differ in the different parts of the United Kingdom as brought out in the separate chapters.
14. It is always difficult to anticipate external factors which could drive a long term strategy off course. The Partnership Agreement covers key anticipated societal challenges facing the EU to 2020 and it demonstrates that the potential impact of some external factors such as climate change have been identified.
15. The application of CLLD and ITIs across the UK is set out but is best assessed against each individual Administration's intentions.
16. The evaluators consider that while the Partnership Agreement highlights other EU funding instruments such as Horizon 2020, COSME and Erasmus+, more could be done to improve synergy between ESI Funds and these other funds in support of actions on innovation and skills, particularly to make it easier for SMEs to engage. These synergies will be considered further as Operational Programmes are developed.

**England Chapter**

17. The evaluators consider that the England Chapter sets the scene in terms of challenges and opportunities very well and, again, the proposed emphasis of ESI Funds investments in response to these appears entirely logical. As would be expected, there is a reasonably close alignment with the analysis and proposals within the UK Chapter. The evaluators consider that the co-ordination arrangements between the ERDF/ESF and the EAFRD and EMFF programmes could be clearer. This will be considered as

detailed delivery arrangements for the programmes are developed further, including the detailed role of Local Enterprise Partnerships (LEPs) which have developed a series of ESI Funds evidenced-based strategies with local partners.

18. The evaluators consider that the differences in challenges and opportunities between and within different areas of England are well brought out in the England chapter. A real challenge for England is how three Operational Programmes covering the whole of England can respond sensitively to this varied and disparate economic geography. The Partnership Agreement proposes a hybrid solution, involving the detailed determination of ERDF and ESF priorities by 39 LEPs and partners (within parameters set at national level) while the EAFRD will also be delivered in part through this mechanism but also through national programmes. The EMFF will work to national priorities. The devolution of ESI Funds to LEP areas means that the balance between interventions should be responsive to local needs.

19. The evaluators consider that the intervention logic for the England programme is generally sound for the thematic objectives and in most cases it is clear how the ESI Funds interventions are expected to generate change and what results are likely to be achieved. In the evaluators' judgement, in **thematic objective 6** ('Preserving and protecting the environment') it is difficult to gauge prioritisation between biodiversity, air or soils quality, and in **thematic objective 9** ('Promoting social inclusion and combating poverty and anti-discrimination') the challenges are set out well but objectives could be better articulated. The intervention logic - in particular for "more developed regions" - under **thematic objective 7** ('Promoting transport and removing bottlenecks in key network infrastructure') could be clarified in the context of LEPs' proposals in this policy area. The evaluators' comments in relation to thematic objectives 6, 7 and 9 will be considered during development of the detailed Operational Programmes for the ESI Funds.

20. In the case of England every thematic objective has a financial allocation. LEP areas have determined the detailed balance between thematic objectives according to local priorities. Some LEP areas will not wish to implement all 10 thematic objectives. LEP areas should, of course, have a clear understanding of intervention logic and basis of prioritisation at the local level. Government has decidedthat LEPs and partners will have a role in shaping priorities but administration of the ESI Funds will rest with government.

21. The evaluators consider that the broad span of the thematic objectives and range of investments eligible for ESI Funds support set out in the Regulations, and the localist nature of the delivery model in England, mean that the proposed priorities for support in England inevitably represent a very diverse and spatially varied set of proposed interventions although all support a coherent wider EU and UK policy agenda.

22. The evaluators consider that Community Led Local Development (CLLD) is adequately covered through targeting urban areas; urban/rural areas; and non-LEADER areas. CLLD as LEADER will continue to be a mandatory component of the Rural Development Programme. 20 LEP areas are identified as interested in bringing forward CLLD. There is also a justification for not using ITIs in England given that LEP areas can bring forward multi-fund proposals.

23. The evaluators consider that the proposed results indicators for the England programme appear reasonable. Some require further development in Operational Programmes to provide meaningful measures of impacts or process effectiveness. More generally, it will also be important to ensure that Managing Authorities work with LEPs and local partners to generate monitoring data on a consistent basis given the extent to which implementation will be devolved.

24. The Partnership Agreement includes at present no data on baseline values or targets/milestones/expected trajectories for those of the results indicators that comprise measures of change in variables which the intervention strategy is seeking to influence.

This data will be provided in the Operational Programmes. Such indicators will be important to an assessment of the continuing relevance of the intervention strategy. However, it will be difficult to ensure that the indicators provide a clear measure of impacts purely attributable to ESI Funds interventions given the limited scale of ESI Funds to be deployed relative to the scale of domestic interventions. There is a case for supplementing indicators of this type with further, more direct, measures of the performance of investments where these are not currently specified. This detail will be included in the Operational Programmes.

### EX ANTE ASSESSMENT OF THE EMFF

25. After carrying out an open procurement exercise, the Government awarded the contract for the ex-ante evaluation of the UK EMFF programme to Atkins Global / Poseidon. The process of producing the ex ante evaluation has begun; the final document will be published during Spring 2014.

## 1.3 SELECTED THEMATIC OBJECTIVES AND SUMMARY OF THE MAIN RESULTS EXPECTED FOR EACH OF THE ESI FUNDS

1. Across the UK as a whole, ESI Funds' investments will be made under all the thematic objectives with the exception of that covering institutional capacity.
2. Throughout development of detailed plans in the UK it has become clear that the challenges faced by the UK's nations vary. Therefore, the UK nations have not all selected the same thematic objectives (the thematic objectives selected by the UK's nations are listed below).

| | England | Scotland | Wales | N. Ireland | Gibraltar |
|---|---|---|---|---|---|
| 1.Strengthening research, technological development and innovation | ✓ | ✓ | ✓ | ✓ | × |
| 2. Enhancing access to, and use and quality of, information and communication technologies | ✓ | ✓ | ✓ | ✓ | × |
| 3. Enhancing the competitiveness of small and medium-sized enterprises | ✓ | ✓ | ✓ | ✓ | ✓ |
| 4. Supporting the shift towards a low-carbon economy in all sectors | ✓ | ✓ | ✓ | ✓ | ✓ |
| 5. Promoting climate change adaptation, risk prevention and management | ✓ | × | ✓ | ✓ | × |
| 6. Preserving and protecting the environment and promoting resource efficiency | ✓ | ✓ | ✓ | ✓ | × |
| 7. Promoting sustainable transport and removing bottlenecks in key network infrastructures | ✓ | × | ✓ | × | × |

| | England | Scotland | Wales | N. Ireland | Gibraltar |
|---|---|---|---|---|---|
| 8. Promoting sustainable and quality employment and supporting labour mobility | ✓ | ✓ | ✓ | ✓ | ✓ |
| 9. Promoting social inclusion and, combating poverty and any discrimination | ✓ | ✓ | ✓ | ✓ | × |
| 10. Investing in education, training and vocational training for skills and lifelong learning | ✓ | ✓ | ✓ | ✓ | ✓ |
| 11. Enhancing institutional capacity of public authorities and stakeholders and an efficient public administration | × | × | × | × | × |

3. The detailed rationale for the selection of thematic objectives and summary of the main results expected for each of the ESI Funds is set out in each administration's chapter.

## 1.4 The indicative allocation of support by the Union by thematic objective at national level for each of the ESI Funds, as well as the total indicative amount of support foreseen for climate change objectives

**1.4.1 Table: The indicative allocation of support by the Union by thematic objective at national level for each of the ESI Funds (EUR) (total Union support, including the performance reserve).**[138]

| | ERDF €m | ESF €m | EAFRD[139] €m | EMFF[140] €m | TOTAL €m |
|---|---|---|---|---|---|
| 1.Strengthening research, technological development and innovation | 1,304 | 0 | 14 | TBC | 1,481 |
| 2. Enhancing access to, and use and quality of, information and communication technologies | 280 | 0 | 7 | TBC | 311 |

[138] All allocations set out in this table have been subject to rounding so may not total up.
[139] In this table the EAFRD allocation includes voluntary modulation.
[140] The UK has yet to be notified by the Commission of the EMFF allocation. It is expected to be received in June. This does not affect the ability to formally submit the Partnership Agreement as the Regulations allow for these figures to be missing.

| | ERDF €m | ESF €m | EAFRD[139] €m | EMFF[140] €m | TOTAL €m |
|---|---|---|---|---|---|
| 3. Enhancing the competitiveness of small and medium-sized enterprises, | 1,904 | 0 | 231 | TBC | 2,397 |
| 4. Supporting the shift towards a low-carbon economy in all sectors | 1,195 | 0 | 14 | TBC | 1,270 |
| 5. Promoting climate change adaptation, risk prevention and management | 90 | 0 | 39 | TBC | 159 |
| 6. Preserving and protecting the environment and promoting resource efficiency | 166 | 0 | 2,246 | TBC | 4,236 |
| 7. Promoting sustainable transport and removing bottlenecks in key network infrastructures | 431 | 0 | 3 | TBC | 436 |
| 8. Promoting sustainable and quality employment and supporting labour mobility | 167 | 1,480 | 0 | TBC | 1,820 |
| 9. Promoting social inclusion and, combating poverty and any discrimination | 92 | 1,271 | 43 | TBC | 1,430 |
| 10. Investing in education, training and vocational training for skills and lifelong learning | 0 | 2,027 | 5 | TBC | 1,282 |
| 11. Enhancing institutional capacity of public authorities and stakeholders and an efficient public administration | 0 | 0 | 0 | TBC | 0 |
| Technical assistance | 195 | 164 | 39 | TBC | 428 |
| **TOTAL** | 5,826 | 4,943 | 2,640 | TBC | 16,053 |

## Youth Employment Initiative (YEI)

1. Information on the Youth Employment Initiative, which is programmed under thematic objective 8 "Promoting sustainable and quality employment and supporting labour mobility":

| | |
|---|---|
| **YEI specific allocation** | €206,098,124 |
| **ESF matching funding** | €206,098,124 |

2. Additional allocations will also be available via the Youth Employment Initiative. The following core areas will benefit:

- Inner London
- Merseyside
- Tees Valley & Durham
- West Midlands
- South West Scotland

3. In addition, the UK has decided to make full use of the available 10% flexibility in England only. Therefore Inner London, Merseyside, Tees Valley & Durham and the West Midlands will receive 90% of their funding. Funding will then be allocated to English NUTS3 regions outside the core qualifying regions with a youth unemployment rate in 2012 above 30% in proportion to the numbers of youth unemployed. This applies to Kingston upon Hull, Nottingham, Leicester and Thurrock. The resulting allocations are as follows[141].

| **NUTS2 allocations** | | | |
|---|---|---|---|
| **€m** | **YEI** | **ESF match** | **Total** |
| Tees Valley and Durham | 23.7 | 23.7 | 47.4 |
| Merseyside | 26.5 | 26.5 | 53.1 |
| West Midlands | 50.6 | 50.6 | 101.3 |
| Inner London | 42.8 | 42.8 | 85.6 |
| South Western Scotland | 46.3 | 46.3 | 92.6 |
| **NUTS3 allocations** | | | |
| Kingston upon Hull, City of | 4.4 | 4.4 | 8.9 |
| Thurrock | 1.8 | 1.8 | 3.6 |
| Nottingham | 4.7 | 4.7 | 9.5 |
| Leicester | 4.8 | 4.8 | 9.7 |
| TOTAL | 206 | 206 | 385 |

## Technical Assistance

4. Technical Assistance (TA) funds the preparatory, management, monitoring, evaluation, information and control activities of the ESI Funds programmes, together with activities

[141] These allocations are only indicative as re subject to a separate write round which has yet to be concluded.

to reinforce the administrative capacity for implementing the funds, at national and sub-national levels. The table below shows the total amount of funding to be used in the UK as TA. National chapters set out more detail about how TA will be used in the UK's nations.

| **Fund** | **Category of region, where appropriate** | **Allocation to technical assistance (EUR)** | **Share of technical assistance of total allocation (by Fund and by category of region, where appropriate)** |
|---|---|---|---|
| ERDF | Less developed regions | €42m | TBC |
| | Transition regions | €57m | TBC |
| | More developed regions | €96m | TBC |
| ESF | Less developed regions | €23m | TBC |
| | Transition regions | €35m | TBC |
| | More developed regions | €106m | TBC |
| CF | N/A | N/A | N/A |
| EAFRD | N/A | €69m | TBC |
| EMFF | N/A | TBC | TBC |

### ESF SHARE IN THE STRUCTURAL FUNDS

| | |
|---|---|
| Share of ESF in the Structural Funds (ESF and ERDF) resources for the operational programmes for the Convergence and Regional competitiveness and employment objectives in the 2007-2013 programming period | 45.2% |
| ESF minimum share in the Member State [142] | €4,942,593,693 |
| The share of ESF of the Structural Funds resources in the 2014-2020 programming period[143] | 45.9% |

## 1.5 THE APPLICATION OF HORIZONTAL PRINCIPLES AND POLICY OBJECTIVES FOR THE IMPLEMENTATION OF THE ESI FUNDS

### 1.5.1 ARRANGEMENTS FOR THE PARTNERSHIP PRINCIPLE INCLUDING AN INDICATIVE LIST OF THE PARTNERS REFERRED TO IN ARTICLE 5 CPR AND A SUMMARY OF THE ACTIONS TAKEN TO INVOLVE THEM IN ACCORDANCE WITH ARTICLE 5 CPR AND OF THEIR ROLE IN THE PREPARATION OF THE PARTNERSHIP AGREEMENT AND THE PROGRESS REPORT REFERRED TO IN ARTICLE 52 CPR

#### COORDINATION OF PRIORITIES ACROSS THE UK'S NATIONS

1. As the specific priorities for the ESI Funds were identified by the UK Government for England and the devolved administrations for their territories, engagement of partners has taken place at national level rather than on a UK-wide basis. The UK Government and devolved administrations have consulted widely and deeply in development of their priorities and used a variety of different mechanisms. National chapters set out the detailed partnership arrangements in the UK's nations.
2. Coordination of ESI Funds interests across the UK's nations is overseen by the Secretary of State for Business, Innovation and Skills on behalf of the UK Government. The UK Partnership Agreement Programme Board, which is made up of senior officials from each of the Managing Authorities in the UK, the Department for Business, Innovation and Skills and HM Treasury, has managed development of the Partnership Agreement, ensuring regulatory requirements are met and stakeholders' views in the UK's nations are properly considered and addressed.

[142] Calculated in accordance with Annex IX of the CPR.
[143] Calculated based on total amounts by ESI Fund included in the first table under section1.4.1.

## The European Maritime and Fisheries Fund (EMFF)

3. The only UK-wide programme in the 2014-2020 programming period will be for delivery of the EMFF. Therefore, engagement of partners in development of this programme has taken place on a UK-wide basis rather than at national level. The development of key priorities for the EMFF has been led by the Department of Environment, Food and Rural Affairs (Defra), working with the Scottish Government (Marine Scotland), the Northern Ireland Executive (Department of Agriculture and Rural Development; DARD) and the Welsh Government (Department for Natural Resources and Food). Other public bodies have also participated, including the Marine Management Organisation, which will be the UK Managing Authority for the EMFF programme.
4. Development of the priorities for the EMFF has been underway for some time. Workshops with selected stakeholders were held in each of the UK's nations to produce the SWOT and needs assessment analysis and identify priorities for funding. The stakeholders (approximately 70) involved in the workshops represented organisations with marine and maritime interests, including the fish catching and processing sectors, the aquaculture sector, inshore and coastal communities, and environmental bodies. These stakeholders will also assist with the development of the UK's EMFF Operational Programme, which is likely to focus on the following four strategic themes:

- Adapting the fisheries sector to the requirements of the reformed CFP;
- Fostering growth potential in key areas across fisheries, aquaculture and processing;
- Supporting the increased economic, environmental and social sustainability of the sector; and
- Fulfilling the UK's enforcement and data collection obligations.

## 1.5.2 Promotion of Equality Between Men and Women, Non-Discrimination and Accessibility (with Reference to Article 7 of CPR)

1. In the UK, the Equality Act 2010 protects people from discrimination on the grounds of any of the nine following `protected characteristics':

- age
- disability
- gender reassignment
- marriage and civil partnership
- pregnancy and maternity
- race
- religion or belief
- sex
- sexual orientation

2. The Public Sector Equality Duty (section 149 of Equality Act 2010 ) means that public bodies in Great Britain must consider all individuals when designing and delivering their services, and have due regard to the need to eliminate discrimination, advance equality of opportunity, and foster good relations between different people when carrying out their activities. Northern Ireland has a separate equality duty which is set out in section 75 of the Northern Ireland Act 1998[144].

[144] Further details at: http://www.legislation.gov.uk/ukpga/1998/47/section/75

3. By adhering to the principles and processes set out in domestic legislation, the UK Government and devolved administrations will ensure that all ESI Funds programmes in the UK will promote equality between men and women, non- discrimination and accessibility in accordance with EU requirements.
4. In line with domestic legislation and EU requirements, the UK Government and devolved administrations have adopted the following principles to further integrate promotion of equality into the preparation, implementation, monitoring and evaluation actions of all the ESI Funds programmes for 2014-2020:

   - no beneficiaries are excluded from participation in the programmes on the grounds of their protected characteristics;
   - the needs of all potential beneficiaries are considered at project design stage in order that the service is appropriately targeted and delivered;
   - all physical regeneration, i.e. construction of new buildings and upgrading of existing premises, meets minimum accessibility requirements (in line with the Equality Act, Part M of Building Regulations and recommended British Standards for accessibility);
   - services are responsive to the needs of all communities and under-represented groups;
   - support is targeted towards under-represented communities where relevant; and
   - responsiveness of delivery of the needs of under-represented groups.

5. In practice, these principles will be embedded through the following actions:

   - Managing Authorities will consider equality during the preparation of the new programmes, including the analysis underpinning the programmes and the ex-ante evaluations;
   - During the implementation stage, ESI Funds Programme Monitoring Committees (PMCs) will include representatives from bodies responsible for promoting equality.
   - Managing Authorities will build on good practice in the 2007-2013 programme period to monitor that equality issues are embedded at project level in line with domestic and EU legislative requirements.
   - Managing Authorities may where appropriate work with partners to bring forward specialist provision of targeted support for those facing multiple barriers to engagement with or progression in the labour market;
   - Managing Authorities will give implementation staff appropriate equality training, with advice and guidance obtained where necessary from equality bodies or experts;
   - Managing Authorities, where applicable, will provide equality guidance to projects, including lessons learnt from other projects;
   - Information, as set out in Fund specific regulations, will be gathered in order to help monitor the extent to which men, women, the disabled and relevant disadvantaged groups participate in ESI Funds programmes. Draft Operational Programmes will also be subject to proportionate equality impact assessments;
   - Managing Authorities, Programme Monitoring Committees and evaluation experts will embed equalities impact into the evaluation strategies for the relevant ESI Funds programmes.

## 1.5.3 SUSTAINABLE DEVELOPMENT (WITH REFERENCE TO ARTICLE 8 OF CPR)

1. All ESI Funds in the UK will include integrated strategies for addressing environmental, social and economic concerns guided by the principles of sustainable development[145]. In the UK, these cover:

   - living within environmental limits;
   - ensuring a strong, healthy and just society;
   - achieving a sustainable economy;
   - promoting good governance; and
   - using sound science responsibly.

2. Within each programme, delivery of the thematic objectives will include activity that directly supports the sustainable development objectives outlined in the Common Provisions Regulation including environmental protection; resource efficiency, climate change mitigation & adaptation, biodiversity, disaster resilience, risk prevention and management. Programmes will provide complementary activity, through skills enhancement and training, to sustainable development projects directly supported by other programmes such as ERDF.

**Environmental protection requirements**

3. Environmental concerns will continue to be addressed through the process of environmental integration. All relevant Programmes will set out how positive environmental aspects will be enhanced and, where appropriate, negative effects minimised to ensure net benefits.
4. Strategic Environmental Assessments (SEA) will be undertaken as an integral part of the programme development process where Programmes fall in scope of the Strategic Environmental Assessment Directive as adopted in the UK. A Strategic Environmental Assessment will not be required for ESF programmes.
5. Support from the EAFRD is essential to meeting sustainable land management objectives and agri-environment schemes should be at the heart of delivering this, helping to protect the environment whilst safeguarding the natural resources that underpin the future sustainability of farming.
6. Where possible Government will prioritise the provision of Green and Blue Infrastructure to deliver objectives, utilising its multifunctional nature to secure environmental gain from activities in urban and rural areas.
7. Support from the EMFF will be available to support the investment in technologies that help minimise environmental impacts on the marine environment, in particular supporting innovation linked to the conservation of marine biological resources and fishing grounds.
8. The UK fully recognises the benefits of, and we are actively implementing, Maritime Spatial Planning (MSP). The Marine and Coastal Access Act 2009 enabled the formal introduction of marine planning in the UK. The Act created the Marine Management Organisation (MMO) as the UK Government's main source of marine management expertise. The aim of marine planning is to contribute to the effective management of marine activities and more sustainable use of marine resources, by creating a framework for more consistent, sustainable and evidence-based decision-making.
9. Marine plans will contribute to the wider growth agenda, for example by creating greater certainty for developers and providing the means for optimising the sustainable use of the marine environment. Funding for the MMO's marine planning functions and

[145] Further details at: http://sd.defra.gov.uk/what/principles/

responsibilities is currently provided entirely by central Government. Similarly, marine planning elsewhere in the UK is also centrally funded by the respective Devolved Administrations.

**Resource efficiency**

10. All relevant Programmes should adhere to UK Government Buying Standards. These currently cover priority product groups, similar to the groups identified in the EU's Green Public Procurement programme.
11. Programmes will also invest in the uptake of innovative technologies and resource efficiency measures to increase environmental protection, resilience and performance of businesses and communities.
12. Where appropriate infrastructure investments will be subjected to the environmental safeguards in the planning system, and will assessed using relevant nationally recognised sustainability standards, such as the Building Research Establishment Environmental Assessment Method (BREEAM) for buildings, or the Civil Engineering Environmental Quality Assessment & Award Scheme (CEEQUAL) for civil engineering. Projects should achieve minimum ratings of 'very good' or equivalent unless other local standards exist or significant viability issues can be demonstrated.

**Biodiversity and ecosystem protection**

13. The ESI Funds will be a major source of EU funding for the environment, crucial to Government goals to halting biodiversity loss and the degradation of ecosystem services by 2020. Where applicable, investments made with the support of the ESI Funds should demonstrate how they will contribute to the EU's policy commitment to halting the loss of biodiversity.

**Climate change mitigation and adaptation including disaster resilience**

14. The programme will directly contribute to moving towards a Low Carbon Economy through allocation to low carbon thematic activity of at least 20% of the ERDF budget in more developed regions, 15% in transition, and 12% of the ERDF budget in less developed regions. Spend on the agri-climate measure of the Rural Development Regulation will exceed the minimum 30% requirement.
15. In order to contribute towards the wider decarbonisation required to meet UK and European carbon reduction commitments, tools will be put in place to assess and minimise the impact of ESI Funds Programmes on achievement of emissions targets.
16. All relevant investments will be expected to integrate an approach to current and future climate proofing in design, delivery and ongoing maintenance.[146] This will include responses to flood and coastal resilience, heat and cooling, water stress, and extreme weather both locally and within supply chains. The use of Green Infrastructure will contribute to future climate change adaptation by:

    - minimising the impact of flooding;
    - reducing the urban heat island effect;
    - increasing carbon storage and sequestration; and
    - improving air and water quality

[146] Tools and guidance available from the Climate Ready Support Service http://www.environment-agency.gov.uk/research/137557.aspx

17. The EMFF will continue to provide assistance to the UK fishing fleet, assisting them to reduce carbon emissions by modernising vessels, in particular using more selective gears and replacing engines.

**"Polluter Pays" Principle**

18. The "polluter pays" principle is enacted to make the party responsible for producing pollution accountable for paying for the damage to the natural environment. The basic principle underlies the UK system of environmental law and will be applied systematically across all Programmes and investments. To be in receipt of ESI Funds, projects must comply with UK environmental law and therefore uphold the Principle. National chapters will set out the detail of specific actions that will be taken forward in their Programmes in light of the specific legislative arrangements in their respective territories.

### 1.5.4 HORIZONTAL POLICY OBJECTIVES

1. Aside from promotion of equality and sustainable development, the UK's nations have different horizontal policy objectives, reflecting the devolved delivery arrangements and broad range of development needs across the UK. Additional horizontal policy objectives across the UK include:
   - innovation, youth, resource efficiency and poverty in Scotland; and
   - poverty and social inclusion in Wales.
2. More detail on horizontal policy objectives is set out in national chapters. (Northern Ireland and Gibraltar do not have additional horizontal policy objectives.)

## 1.6 THE LIST OF THE PROGRAMMES UNDER THE ERDF, THE ESF AND THE YEI, THE COHESION FUND, EXCEPT THOSE UNDER THE EUROPEAN TERRITORIAL COOPERATION GOAL, AND OF THE PROGRAMMES OF THE EAFRD AND THE EMFF, WITH THE RESPECTIVE INDICATIVE ALLOCATIONS BY ESI FUND AND BY YEAR" (TOTAL UNION SUPPORT, INCLUDING THE PERFORMANCE RESERVE)

| Programme title | ESI Fund | Total €m | 2014 €m | 2015 €m | 2016 €m | 2017 €m | 2018 €m | 2019 €m | 2020 €m |
|---|---|---|---|---|---|---|---|---|---|
| European Fisheries Fund – UK programme[147] | EMFF | TBC | TBC | TBC | TBC | TBC | TBC | TBC | TBC |

[147] The UK has yet to be notified by the Commission of the EMFF allocation. It is expected to be received in June. This does not affect the ability to formally submit the Partnership Agreement as the Regulations allow for these figures to be missing.

| Programme title | ESI Fund | Total €m | 2014 €m | 2015 €m | 2016 €m | 2017 €m | 2018 €m | 2019 €m | 2020 €m |
|---|---|---|---|---|---|---|---|---|---|
| ESI Funds Growth Programme for England (ERDF OP) | ERDF | 3,628 | 488 | 498 | 507 | 518 | 528 | 539 | 550 |
| ESI Funds Growth Programme for England (ESF OP) | ESF | 3,309 | 445 | 454 | 463 | 472 | 482 | 491 | 501 |
| England YEI | ESF | 160 | 90 | 70 | 0 | 0 | 0 | 0 | 0 |
| Rural Development Programme for England | EAFRD[148] | 1520 | 219 | 218 | 218 | 217 | 217 | 216 | 216 |
| Scotland ERDF | ERDF | 477 | 48 | 72 | 72 | 95 | 95 | 48 | 48 |
| Scotland ESF | ESF | 418 | 63 | 63 | 63 | 84 | 84 | 42 | 21 |
| Scotland YEI | ESF (YEI) | 46 | 26 | 20 | 0 | 0 | 0 | 0 | 0 |
| Scottish Rural Development Programme | EAFRD | 478 | 69 | 69 | 68 | 68 | 68 | 68 | 68 |
| West Wales & Valleys ERDF | ERDF | 1,204 | 162 | 165 | 168 | 172 | 175 | 179 | 182 |
| East Wales ERDF | ERDF | 203 | 27 | 28 | 28 | 29 | 30 | 30 | 31 |
| West Wales & Valleys ESF | ESF | 802 | 108 | 110 | 112 | 115 | 117 | 119 | 122 |
| East Wales ESF | ESF | 203 | 27 | 28 | 28 | 29 | 30 | 30 | 31 |
| Wales EAFRD | EAFRD | 355 | 51 | 51 | 51 | 51 | 51 | 50 | 50 |
| NI 2014-2020 ERDF Investment for Growth and Jobs Programme | ERDF | 308 | 14 | 24 | 48 | 49 | 49 | 45 | 79* |
| NI 2014-2020 ESF Investment for Growth and Jobs Programme | ESF | 205 | 0 | 17** | 38 | 38 | 38 | 38 | 38*** |
| NI Rural Development Programme (RDP) 2014-2020 | EAFRD | 227 | 33 | 33 | 33 | 32 | 32 | 32 | 32 |

[148] In this table the EAFRD allocation includes voluntary modulation.

| **Programme title** | **ESI Fund** | **Total €m** | **2014 €m** | **2015 €m** | **2016 €m** | **2017 €m** | **2018 €m** | **2019 €m** | **2020 €m** |
|---|---|---|---|---|---|---|---|---|---|
| Gibraltar ERDF Programme | ERDF | 5.68 | 0.76 | 0.78 | 0.80 | 0.81 | 0.83 | 0.84 | 0.86 |
| Gibraltar ESF Programme | ESF | 4.84 | 0.65 | 0.66 | 0.68 | 0.69 | 0.70 | 0.72 | 0.73 |
| **Totals** | | 13,554 | 1,870 | 1,921 | 1,899 | 1,970 | 1,996 | 1,929 | 1,970 |

* - This amount will actually be spent between the years 2020 - 2023
** - Allocation for 9 months as funding will not commence until 1st April 2015
*** - Allocation for 15 months as funding will not end until 31st March 2021
**** - Allocation will continue to be spent until 2022 and the allocations by year may be subject to change once the overall EAFRD budget has been agreed

## 1.7 REQUEST FOR TRANSFER OF STRUCTURAL FUNDS' ALLOCATIONS BETWEEN CATEGORIES OF REGIONS, WHERE APPLICABLE (ARTICLE 93 OF THE CPR)

| Category of region | Financial allocation based on Commission decision (…) | Transfer to | Amount transferred | Share of the allocation of the category of region from which funds are transferred (%) | Financial allocation after transfers |
|---|---|---|---|---|---|
| Less developed regions | €2,383m | Transition regions | 0.0 | 0.0% | €2,383 |
| | | More developed regions | 0.0 | | |
| Transition regions | €2,617m | Less developed regions | €78,523,140 | 3.0% | €2,538m |
| | | More developed regions | 0.0 | | |
| More developed regions | €5,767m | Less developed regions | €173,027,352 | 3.0% | €5,594m |
| | | Transition regions | 0.0 | | |

**The option to transfer funding between categories of regions**

1. The European Commission letter of 20 December 2013, confirmed that the UK's total allocation of Structural Funds (ERDF and ESF) for 2014-20 will be €11,633m not including funding from the Youth Employment Initiative[149]. This is broken down as follows:

   - Less Developed Regions €2,383m
   - Transition Regions €2,617m
   - More Developed Regions €5,767m
   - European Territorial Cooperation €865m

3. The UK Government believes that the allocations to the categories of regions and the EU formula for the individual regions used to determine the allocations to the categories of regions, does not result in a fair distribution of funding across the UK, with each of the

[149] The allocations include money that may need to be allocated to the Fund for European Aid to the Most Deprived, subject to the outcome of negotiations on this proposal.

Devolved Administrations (DA) set to lose significant funding vital for economic growth. The UK's overall allocation is set to fall by 5 per cent; however, if the EU formula were applied across the UK then this would see DA allocations fall by 27 per cent on average while the allocation to England would rise by around 7 per cent. The relative position of the economies of the four constituent parts of the UK has not changed significantly since the allocations for the 2007-13 programmes were agreed. Comparing GDP per capita in 2000-02 with 2007-09, Wales has fallen from 75% to 73% of the UK average, Scotland has increased marginally from 93% to 96% of the UK average and Northern Ireland has decreased from 79% to 77% of the UK average.

4. In view of this, the UK Government has proposed to re-allocate EU Structural Funds to minimise the impact of sudden and significant cutbacks in Northern Ireland, Scotland and Wales. This means that each Administration is only subject to an equal percentage cut of around 5 per cent in funding compared to 2007-13 levels. The Government believes that this delivers the fairest deal for England, Northern Ireland, Scotland and Wales. A breakdown of allocations to the four parts of the UK is provided in the table below.

| | **England** | **Scotland** | **Wales** | **N. Ireland** | **Gibraltar** | **ETC** |
|---|---|---|---|---|---|---|
| SF allocations 2014-20 (2011 prices) | €6,937m | €894m | €2,412m | €513m | €10.5m | €865m |

5. Funding for the UK's two Less Developed Regions would fall by 24 percent in real terms in 2014-20 compared to the allocation in 2007-13 according to the budget set out in the 22 July letter, before any transfers are considered. At the same time, funding for the other regions (transition plus more developed) has increased. The UK did not believe that the poorest UK regions should take the biggest cut and therefore the Government has set an explicit objective to protect the poorest areas as far as possible and maximise funding for the two UK regions that face the biggest challenges in meeting the Europe2020 objectives

6. As such the UK has decided to make maximum use of the transfer between categories of region allowed under Article 93(2) of the Common Provisions Regulation to increase funding for the Less Developed Regions. Thus 3% of the transition and more developed budgets, totalling €251million will be transferred to the UK's two less developed regions - Cornwall and the Isles of Scilly and West Wales and the Valleys. In order to ensure fairness to both regions, the budget for Less Developed regions (€2,634m) will be allocated to ensure both regions are subject to an equal 16 percent cut in funding compared to 2007-13.

**Allocations of EAFRD across the UK and between categories of regions**

7. Member States distribute 'Pillar 2' funds of the Common Agricultural Policy through Rural Development Programme actions (EAFRD). The criteria used for the future allocation of the UK pillar 2 allocation was based on the average historic percentage shares of pillar 2 for each part of the UK for the period of 2007-2013.

| | United Kingdom | England | Scotland | Wales | Northern Ireland |
|---|---|---|---|---|---|
| 2007-2013 historic share | 100% | 58.909% | 18.518% | 13.759% | 8.814% |

8. Figures for EAFRD in tables elsewhere in this document include the amount of monies transferred from the pillar 1 to the pillar 2 budget of the Common Agricultural Policy. Each part of the UK has decided its own rate of transfer between pillar 1 and pillar 2: England is transferring 12%; Scotland is transferring 9.5%; Wales is transferring the maximum 15% and; Northern Ireland is transferring 0%.

**Allocations of EMFF across the UK and between categories of regions**

9. The main priority is to ensure that each part of the UK receives enough 'core' funding (i.e. for sustainable fisheries; sustainable development of fisheries areas) to effectively deliver CFP reform. Whilst final confirmation of the UKs allocation has yet to be provided by the Commission, the working assumption is that the UK will receive a similar budget for EMFF "core measures" as to that for the EFF (approximately €138 million), plus additional amounts for data collection and enforcement/control. This is not to pre-judge the European Commission's decision on allocations to Member States.

## 1.8 Transfer from the European Territorial Cooperation goal to the Investment for Growth and Jobs goal, where applicable (Article 94 of the CPR)

1. Not applicable.

## 1.9 Request for a transfer of technical assistance to the European Commission, where applicable (Article 25 of the CPR)

1. Not applicable.

## 1.10 Information on the allocation related to the performance reserve, broken down by ESI Fund and, where appropriate, by category of region, and on the amounts excluded for the purpose of calculating the performance reserve (Article 15 (1) (a) (vii) CPR)

| | | | **Amounts excluded for the purposes of the calculation of the performance reserve**[150] | | | | |
|---|---|---|---|---|---|---|---|
| **Fund** | **Category of region** | **Total Union support**[151] **(€m)** | **Matching ESF support to YEI (€m)** | **CAP transfers**[152] | **Union support subject to the performance reserve (€m)**[153] | **Performance reserve (€m)** | **Performance reserve as a share of the Union support subject to the reserve**[154] |
| ERDF | Less developed regions | 1,659 | | | 1,659 | 100 | 6% |
| | Transition regions | 1,490 | | | 1,490 | 89 | 6% |
| | More developed regions | 2,626 | | | 2,626 | 158 | 6% |
| | Special allocation to outermost or sparsely populated regions | N/A | | | N/A | N/A | N/A |
| TOTAL ERDF | | | | | 5,775 | 346 | 6% |
| ESF[155] | Less developed regions | 976 | 0 | | 976 | 59 | 6% |
| | Transition regions | 1,180 | 55 | | 1,126 | 68 | 6% |

[150] In accordance with Article18 of the CPR
[151] Including the performance reserve, after transfers between categories of regions and goals, where applicable
[152] Resources transferred from Pillar 1 of the Common Agricultural Policy to the EAFRD under Articles 7(2) and 14(1) of the Direct Payment Regulation (2013/….) and
Transfers to the EAFRD in application of Articles 10b, 136 and Art 136b of Council Regulation (EC) No 73/2009 in respect of calendar years 2013 and 2014 respectively.
[153] Total Union support after transfers less the amounts excluded for the purposes of calculation the performance reserve
[154] The total for each ESI Fund, and for each category of region, should form 6% of the amounts set out in column 6.
[155] ESF allocation, including the matching support for the YEI

| | | | Amounts excluded for the purposes of the calculation of the performance reserve[150] | | | | |
|---|---|---|---|---|---|---|---|
| **Fund** | **Category of region** | **Total Union support[151] (€m)** | **Matching ESF support to YEI (€m)** | **CAP transfers[152]** | **Union support subject to the performance reserve (€m)[153]** | **Performance reserve (€m)** | **Performance reserve as a share of the Union support subject to the reserve[154]** |
| | More developed regions | 2,969 | 198 | | 2,771 | 166 | 6% |
| TOTAL ESF | | | | | 4,872 | 292 | 6% |
| EAFRD | N/A | 5,180 | | 2.600[156] | 2,580 | 155 | 6% |
| CF | N/A | N/A | | | N/A | N/A | N/A |
| EMFF | N/A | TBC | | | TBC | TBC | 6% |
| TOTAL (All Funds) | 16,080 | | | | 13,227 | 794 | 6% |

# 2 ARRANGEMENTS TO ENSURE EFFECTIVE IMPLEMENTATION - ARTICLE 15 (1) (B) CPR

## 2.1 The arrangements, in line with the institutional framework of the Member States, that ensure coordination between the ESI Funds and other Union and national funding instruments and with the EIB

1. Delivery of the ESI Funds is a devolved responsibility in the UK. With the exception of the UK-wide EMFF programme (see below), devolved administrations will have their own Operational Programmes and Managing Authorities in 2014-2020. The responsibility of ensuring coordination between the ESI Funds and other union and national funding instruments on the ground is therefore the responsibility of the devolved administrations on their territories and the UK Government in England. In summary, coordination within each of the UK's nations will be achieved as follows:

    - England – the ERDF, the ESF and part of the EAFRD will be folded into a single ESI Funds Growth Programme for England, with strategic leadership at local level provided by Local Enterprise Partnerships and partners. The EAFRD and EMFF PMC will have close ties with the Growth Programme PMC to ensure that national rural development programmes are aligned with Growth Programme priorities where relevant. As part of this, LEPs will have some involvement in delivery of the national parts of EAFRD aimed at growth and the EMFF. LEPs and partners will ensure that Growth Programme ESI Funds' investments are aligned and complementary to interventions funded through local public and private sector funding. At national level, relevant Government Departments and Agencies have been involved in development

[156] This will be completed when all the CAP transfer details have been received from all Devolved Administrations.

of the framework within which LEPs and partners have made their funding decisions. This has ensured that LEP-area proposals for intervention are aligned with national funding instruments focused on the same thematic objectives. In some cases, Government Departments and Agencies have set aside national public funding to be used as match funding where LEPs and partners choose to dedicate ESI Funds to expand, support and enhance national programmes.

- Scotland –a single programme board has overseen the development of Operational Programmes which complement and align, and which maximise the impact of these Funds in Scotland. The Structural Funds will be delivered through co-ordinated strategic interventions[157], for example ensuring that the SME sectors supported are the same ones selected in the Smart Specialisation Strategy; and that this is also reflected in the type and level of skills provision being delivered to bring about a better future match between labour market demands and supply. EAFRD will be delivered through a range of schemes which align either with Pillar 1 of the CAP (agri-environment and climate, less favoured areas) or with other ESI Funds activity (small business and food and drink sector support). All ESI Funds in Scotland, including the EMFF, will share governance arrangements to ensure that on-going activity and performance is monitored and tracked against the goals set in the Partnership Agreement.
- Wales – the formation of a single Programme Monitoring Committee covering the ESI funds; an Economic Prioritisation Framework mapping existing investments aligned to opportunities for economic growth, enabling ESI funds to be focused synergistically on adding value to these investments; and the establishment of specific thematic teams within the Managing Authority which will provide sign posting across EU funds.
- Northern Ireland - a coordinating committee chaired by the Department of Finance and Personnel will be responsible for promoting the strategic coordination and complementarity of ESI Programmes within Northern Ireland and harmonising the interface experienced by beneficiaries of all funds as far as possible.

2. Detailed arrangements for coordination between the ESI Funds and other funding instruments are set out in the national chapters of this document.
3. The Common Provisions Regulation allows for the Member State to designate a co-ordination body to provide information to the Commission, co-ordinate the activities of the other designated authorities and promote the harmonised application of the regulations. In essence, this provision makes explicit the role carried out by the Department for Business, Innovation and Skills (BIS) under previous programmes, in which BIS has co-ordinated UK policy and operational interests in the Committee on the Co-ordination of the Funds (COCOF) and the Advisory Committee for the Co-ordination of Fraud Prevention (COCOLAF), administered the Structural Funds database SFC2007 and the Irregularities Management System and co-ordinated the preparation and submission of the National Strategic Reports in 2009 and 2012 on behalf of the UK.
4. The regulations for 2014-20 require the preparation and submission of two progress reports, in 2017 and 2019, on the implementation of the Partnership Agreement as at end 2016 and 2018 respectively. These reports shall set out information on progress towards the achievement of the Union strategy for smart, sustainable and inclusive growth, in particular in respect of the milestones for each programme set out in the performance framework. Achievement of the milestones will shape the attribution of the performance reserve. A strong UK-wide performance framework, monitored by BIS, will also ensure that a coherent and compelling picture of progress on UK programmes can

[157] Significant programmes of work aimed at achieving EU2020 goals and fronted by a policy organisation which already operates in this area, which can therefore direct the activity and co-finance it where required.

be built up. Further detail on the approach to UK-wide performance monitoring is included in section 2.4 below.

5. The UK Partnership Agreement Programme Board, the UK-wide group which has managed development of the Partnership Agreement, will evolve to co-ordinate the member state's responsibilities in relation to performance management and the preparation of the progress reports in 2017 and 2019. The UK-wide Board will also have a strategic role, including consideration of alignment between the ESI Funds at UK-level; significant UK-wide policy developments impacting on ESI Funds priorities and delivery; and common issues between the UK's nations in delivery of the Partnership Agreement.

**EMFF**

6. For the EMFF, the UK will still have an overarching Managing Authority monitoring the performance and delivery of the UK programme, ensuring that each national administration delivers the aims and objectives of the UK Operational Programme in their respective countries. There will also continue to be a UK Certifying Authority, checking and authorising expenditure claims to the Commission; and receiving said payments and distributing to each administration. There will also be a UK Audit Authorities who will carry out the auditing requirements for the UK programme.
7. Each administration (as Intermediate Bodies) is responsible for the delivery and monitoring performance of their respective programmes, and will assess the administrative needs and burdens for these, reporting as appropriate to the UKMA. These arrangements are provided in the individual nation chapters.
8. The EMFF will coordinate with other ESI funds wherever possible to maximise the potential for financial assistance for the UK fisheries sector and coastal communities. These will be delivered at the national level and therefore the arrangements for these are provided as appropriate in the national chapters.

**European Investment Bank**

9. The Government has also considered whether to make use of the SME initiative to expand joint-risk sharing financial instruments managed by the EIB. The UK has carefully considered the arguments for contributing but has decided not to do so. This is in part because it is difficult to guarantee the benefits would return to the different parts of the United Kingdom and the ex ante assessment is not sufficiently granular to determine the needs to particular parts. Furthermore, as outlined above, we are developing our own financial instruments which will likely involve the EIB already. Finally we have announced the allocations of ERDF and cannot reduce these in order to make contributions to an EU-wide scheme.

## 2.2 THE INFORMATION REQUIRED FOR EX ANTE VERIFICATION OF COMPLIANCE WITH THE RULES ON ADDITIONALITY (BASED ON ARTICLE 95 AND ANNEX X CPR)

1. The Common Provisions Regulation sets out that Member States shall maintain for the period 2014-2020 a level of public or equivalent structural expenditure on average per year at least equal to the reference level set in the Partnership Agreement.
2. In the UK, the amounts of domestic public funding focused on jobs and growth exceeds considerably the amount of ESI Funds available for these priorities. The UK Government sets out at national level, via the UK's convergence report, the

Government's policy on the fiscal position, sustainability of the public finances and the macro-economy. It also provides detailed statistics, at Member State level, including Gross Fixed Capital Formation and Central Government Expenditure. This information should prove useful background information for the European Commission and others to examine the issue of additionality in the UK.

3. Verification of whether the level of public or equivalent structural expenditure under the investment for growth and jobs goal has been maintained for the period shall only take place in those Member States in which less developed regions cover at least 15% of the total population. In the UK, less developed regions represent only 4% of the total population of the UK. As such, the UK is not required to verify the additionality principle.

## 2.3 A SUMMARY OF THE ASSESSMENT OF THE FULFILMENT OF APPLICABLE EX ANTE CONDITIONALITIES IN ACCORDANCE WITH ARTICLE 17 AND ANNEX (XX) AT NATIONAL LEVEL AND OF THE ACTIONS TO BE TAKEN, THE RESPONSIBLE BODIES, AND THE TIMETABLE FOR THEIR IMPLEMENTATION, WHERE EX ANTE CONDITIONALITIES ARE NOT FULFILLED

1. The general ex ante conditionalities in the Common Provisions Regulation are all met by the UK (see table below).

| General Applicable Ex-ante Conditionality for which national bodies are responsible | Conditionality fulfilled: (Yes/ No/ Partially) | Criteria | Criteria fulfilled Yes/no | Reference (if fulfilled) (reference to the strategies, legal acts or other relevant documents incl. reference to relevant sections, articles or paragraphs, accompanied by a weblink or other access to the full text) | Explanation (where appropriate) |
|---|---|---|---|---|---|
| 1. Antidiscrimination<br><br>The existence of administrative capacity for the implementation and application of Union antidiscrimination law and policy in the field of ESI Funds | YES | – Arrangements in accordance with the institutional and legal framework of Member States for the involvement of bodies responsible for the promotion of equal treatment of all persons throughout the preparation and implementation of programmes, including the provision of advice on equality in ESI fund-related activities. | YES | Details for the UK Equality Act 2010 can be found through the following link: [www.gov.uk/equality-act-2010-guidance.com](www.gov.uk/equality-act-2010-guidance.com)<br><br>The principle of Equality in Northern Ireland law is set out in Section 75 of the Northern Ireland Act 1998: [http://www.legislation.gov.uk/ukpga/1998/47/section/75](http://www.legislation.gov.uk/ukpga/1998/47/section/75)<br><br>[www.equalityhumanrights.com](www.equalityhumanrights.com) explains the work of the EHRC | The legislative framework for all equalities (anti-discrimination, gender and disability) are contained in the UK Equality Act 2010 which is applicable in Great Britain.<br><br>Northern Ireland has its own legislation<br><br>The Equality & Human Rights Commission (EHRC) was formed in 2007 and fully complies with Article 13 of Directive 2000/43/EC. |

| General Applicable Ex-ante Conditionality for which national bodies are responsible | Conditionality fulfilled: (Yes/ No/ Partially) | Criteria | Criteria fulfilled Yes/no | Reference (if fulfilled) (reference to the strategies, legal acts or other relevant documents incl. reference to relevant sections, articles or paragraphs, accompanied by a weblink or other access to the full text) | Explanation (where appropriate) |
|---|---|---|---|---|---|
| | | - Arrangements for training for staff of the authorities involved in the management and control of the ESI Funds in the fields of Union antidiscrimination law and policy. | YES | The UK is committed to meeting this objective. Further information will be set out in the Operational Programmes. | All UK Managing Authorities will ensure that arrangements for training for staff of the authorities involved in the management and control of the ESI Funds in the fields of Union antidiscrimination law and policy will be put in place. |
| 2. Gender<br><br>The existence of administrative capacity for the implementation and application of Union gender equality law and policy in the field of ESI Funds | YES | – Arrangements in accordance with the institutional and legal framework of Member States for the involvement of bodies responsible for gender equality throughout the preparation and implementation of programmes, including the provision of advice on gender equality in ESI Fund-related activities; | YES | Details for the UK Equality Act 2010 can be found through the following link: www.gov.uk/equality-act-2010-guidance.com<br><br>The principle of Equality in Northern Ireland law is set out in Section 75 of the Northern Ireland Act 1998: http://www.legislation.gov.uk/ukpga/1998/47/section/75<br><br>www.equalityhumanrights.com explains the work of the EHRC | The legislative framework for all equalities (anti-discrimination, gender and disability) are contained in the UK Equality Act 2010 which is applicable in Great Britain.<br><br>Northern Ireland has its own legislation<br><br>The Equality & Human Rights Commission (EHRC) was formed in 2007 and fully complies with Article 13 of Directive 2000/43/EC. |

| General Applicable Ex-ante Conditionality for which national bodies are responsible | Conditionality fulfilled: (Yes/ No/ Partially) | Criteria | Criteria fulfilled Yes/no | Reference (if fulfilled) (reference to the strategies, legal acts or other relevant documents incl. reference to relevant sections, articles or paragraphs, accompanied by a weblink or other access to the full text) | Explanation (where appropriate) |
|---|---|---|---|---|---|
| | | – Arrangements for training for staff of the authorities involved in the management and control of the ESI Funds in the fields of Union gender equality law and policy as well as on gender mainstreaming. | | The UK is committed to meeting this objective. Further information will be set out in the Operational Programmes. | All UK Managing Authorities will ensure that arrangements for training for staff of the authorities involved in the management and control of the ESI Funds in the fields of Union gender equality law and policy as well as on gender mainstreaming will be put in place. |

| General Applicable Ex-ante Conditionality for which national bodies are responsible | Conditionality fulfilled: (Yes/ No/ Partially) | Criteria | Criteria fulfilled Yes/no | Reference (if fulfilled) (reference to the strategies, legal acts or other relevant documents incl. reference to relevant sections, articles or paragraphs, accompanied by a weblink or other access to the full text) | Explanation (where appropriate) |
|---|---|---|---|---|---|
| 3. Disability<br><br>The existence of administrative capacity for the implementation and application of the UN Convention on the Rights of Persons with Disabilities (UNCRPD) in the field of ESI Funds in accordance | YES | – Arrangements in accordance with the institutional and legal framework of Member States for the consultation and involvement of bodies in charge of protection of rights of persons with disabilities or representative organisations of persons with disabilities and other relevant stakeholders throughout the preparation and implementation of programmes; | YES | Details for the UK Equality Act 2010 can be found through the following link: www.gov.uk/equality-act-2010-guidance.com<br><br>The principle of Equality in Northern Ireland law is set out in Section 75 of the Northern Ireland Act 1998: http://www.legislation.gov.uk/ukpga/1998/47/section/75<br><br>www.equalityhumanrights.com explains the work of the EHRC | The legislative framework for all equalities (anti-discrimination, gender and disability) are contained in the UK Equality Act 2010 which is applicable in Great Britain.<br><br>Northern Ireland has its own legislation<br><br>The Equality & Human Rights Commission (EHRC) was formed in 2007 and fully complies with Article 13 of Directive 2000/43/EC. |

[158] Council Decision of 26 November 2009 concerning the conclusion, by the European Community, of the United Nations Convention on the Rights of Persons with Disabilities, (OJ L 23, 27.1.2010, p. 35).

| General Applicable Ex-ante Conditionality for which national bodies are responsible | Conditionality fulfilled: (Yes/ No/ Partially) | Criteria | Criteria fulfilled Yes/no | Reference (if fulfilled) (reference to the strategies, legal acts or other relevant documents incl. reference to relevant sections, articles or paragraphs, accompanied by a weblink or other access to the full text) | Explanation (where appropriate) |
|---|---|---|---|---|---|
| with the Council decision 2010/48/EC[158] | | – Arrangements for training for staff of the authorities involved in the management and control of the ESI Funds in the fields of applicable Union and national disability law and policy, including accessibility and the practical application of the UNCRPD as reflected in EU and national legislation, as appropriate; | YES | The UK is committed to meeting this objective. Further information will be set out in the Operational Programmes. | http://odi.dwp.gov.uk/disabled-people-and-legislation/un-convention-on-the-rights-of-disabled-people.php details the UN Convention of Rights of Persons with Disabilities and other Office for Disabilities Issues (ODI) guidance. DWP are responsible for collating and providing contributions for inclusion with the UK Government reports to all UN Conventions and Covenants. |
| | | – Arrangements to ensure monitoring of the implementation of Article 9 of the UNCRPD in relation to the ESI Funds throughout the preparation and the implementation of the programmes. | YES | The UK is committed to meeting this objective. Further information will be set out in the Operational Programmes. | |

| General Applicable Ex-ante Conditionality for which national bodies are responsible | Conditionality fulfilled: (Yes/ No/ Partially) | Criteria | Criteria fulfilled Yes/no | Reference (if fulfilled) (reference to the strategies, legal acts or other relevant documents incl. reference to relevant sections, articles or paragraphs, accompanied by a weblink or other access to the full text) | Explanation (where appropriate) |
|---|---|---|---|---|---|
| 4. Public Procurement<br><br>The existence of arrangement for the effective application of Union public procurement law in the field of the ESI Funds. | YES | – Arrangements for the effective application of EU public procurement rules through appropriate mechanisms; | YES | Public tendering arrangements are governed by the Public Contracts Directive (2004/18/EC) http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=CELEX:32004L0018:en:NOT implemented in the UK by Public Contracts Regulations 2006 (Statutory Instrument 2006/5). http://www.legislation.gov.uk/uksi/2006/5/contents/made | The UK has committed to early transposition of the new public procurement rules agreed by the European parliament in January 2014. |
| | | – Arrangements which ensure transparent contract award procedures; | YES | The UK is committed to meeting this objective. Further information will be set out in the Operational Programmes. | |
| | | – Arrangements for training and dissemination of information for staff involved in the implementation of the ESI funds | YES | The UK is committed to meeting this objective. Further information will be set out in the Operational Programmes. | |

| General Applicable Ex-ante Conditionality for which national bodies are responsible | Conditionality fulfilled: (Yes/ No/ Partially) | Criteria | Criteria fulfilled Yes/no | Reference (if fulfilled) (reference to the strategies, legal acts or other relevant documents incl. reference to relevant sections, articles or paragraphs, accompanied by a weblink or other access to the full text) | Explanation (where appropriate) |
|---|---|---|---|---|---|
| | | – Arrangements to ensure administrative capacity for implementation and application of Union public procurement rules. | YES | The UK is committed to meeting this objective. Further information will be set out in the Operational Programmes. | |

| General Applicable Ex-ante Conditionality for which national bodies are responsible | Conditionality fulfilled: (Yes/ No/ Partially) | Criteria | Criteria fulfilled Yes/no | Reference (if fulfilled) (reference to the strategies, legal acts or other relevant documents incl. reference to relevant sections, articles or paragraphs, accompanied by a weblink or other access to the full text) | Explanation (where appropriate) |
|---|---|---|---|---|---|
| 5. State aid<br><br>The existence of arrangements for the effective application of Union state aid rules in the field of the ESI Funds. | YES | – Arrangements for the effective application of Union state aid rules; | YES | The BIS State Aid team is responsible for UK wide State Aid policy and leads on providing advice and guidance to all UK public bodies.<br><br>https://www.gov.uk/state-aid<br><br>Each managing authority/ scheme administrator will develop guidance for staff who will administer the funds. The guidance will include procedures for ensuring State aid compliance. | While compliance with state aid rules is ultimately the responsibility of the managing authorities, the UK Department for Business provides over-arching advice and guidance to all UK public bodies. This includes production of the guide 'State aid: the basics' and a 'Practitioner's Guide', which gives detailed guidance on the most often used regulations and frameworks.<br><br>In addition, The Department for Business runs a Senior Officials Group that allows those dealing with State Aid in other departments to come together, discuss issues and take decisions.<br><br>In terms of advice on specific cases (for example where it has been established that specific schemes are subject to state aid rules/ above the de minimis threshold), managing authorities/ scheme administrators can consult their lead departments and ultimately the Department for Business (in the case of transport, agriculture/ fisheries, the Department for Transport (DFT) or the Department of the Environment, Food and Rural Affairs would provide the ultimate advice). |

| General Applicable Ex-ante Conditionality for which national bodies are responsible | Conditionality fulfilled: (Yes/ No/ Partially) | Criteria | Criteria fulfilled Yes/no | Reference (if fulfilled) (reference to the strategies, legal acts or other relevant documents incl. reference to relevant sections, articles or paragraphs, accompanied by a weblink or other access to the full text) | Explanation (where appropriate) |
|---|---|---|---|---|---|
| | | – Arrangements for the training and dissemination of information for staff involved in the implementation of the ESI funds; | YES | The UK is committed to meeting this objective. Further information will be set out in the Operational Programmes. | |
| | | – Arrangements to ensure administrative capacity for implementation and application of Union State aid rules. | YES | The UK is committed to meeting this objective. Further information will be set out in the Operational Programmes. | |

| General Applicable Ex-ante Conditionality for which national bodies are responsible | Conditionality fulfilled: (Yes/ No/ Partially) | Criteria | Criteria fulfilled Yes/no | Reference (if fulfilled) (reference to the strategies, legal acts or other relevant documents incl. reference to relevant sections, articles or paragraphs, accompanied by a weblink or other access to the full text) | Explanation (where appropriate) |
|---|---|---|---|---|---|
| 6. Environmental legislation relating to Environmental Impact Assessment (EIA) and Strategic Environmental Assessment (SEA)<br><br>The existence of arrangements | YES | - Arrangements for the effective application of Directive 2011/92/EU of the European Parliament and of the Council (EIA) and of Directive 2001/42/EC of the European Parliament and of the Council (SEA); | YES | Planning is a Devolved Responsibility and as such there is no UK specific legislation that implements the EIA and SEA directives.<br><br>The SEA Directive is implemented through:<br><br>The Environmental Assessment of Plans and Programmes Regulations 2004<br>The Environmental Assessment of Plans and Programmes (Northern Ireland) Regulations 2004<br>The Environmental Assessment of Plans and Programmes (Wales) Regulations 2004<br>The Environmental Assessment (Scotland) Act 2005<br><br>With regard to EIAs the main pieces of legislation are:<br><br>Town and Country Planning (Environmental Impact Assessment) (England and Wales) Regulations 1999 as amended;<br>Town and Country Planning (Environmental Impact Assessment) (Scotland) Regulations 2011;<br>Environmental Impact Assessment (Scotland) Regulations 1999 as amended<br>The Planning (Environmental Impact Assessment) Regulations (Northern Ireland) 2012<br><br>There are various other pieces of | In the UK, developers, competent authorities and statutory consultation bodies are responsible for ensuring their processes are compliant with EIA and SEA regulations and that decisions are made taking into account a full assessment of the significant environmental effects. EIA guidance is also provided on an individual basis either centrally by government or by bodies involved in the process e.g. consultation bodies.<br><br>SEA guidance is provided by Government and the statutory consultees (e.g. Natural England and the Environment Agency.<br><br>At present the relevant authority is responsible for ensuring that their staff are suitably trained and that they have sufficient administrative capacity.<br><br>Training is also available through relevant professional bodies such as the RTPI or IEMA. |

| General Applicable Ex-ante Conditionality for which national bodies are responsible | Conditionality fulfilled: (Yes/ No/ Partially) | Criteria | Criteria fulfilled Yes/no | Reference (if fulfilled) (reference to the strategies, legal acts or other relevant documents incl. reference to relevant sections, articles or paragraphs, accompanied by a weblink or other access to the full text) | Explanation (where appropriate) |
|---|---|---|---|---|---|
| | | – Arrangements for training and dissemination of information for staff involved in the implementation of EIA and SEA Directives; | YES | The commitment to this objective is set out in section 1.5.3 of the Partnership Agreement and the detail of these arrangements will be set out in the Operational Programmes. | |
| | | – Arrangements to ensure sufficient administrative capacity. | YES | The commitment to this objective is set out in section 1.5.3 of the Partnership Agreement and further information will be set out in the Operational Programmes. | |
| 7. Statistical system and results indicators.<br><br>The existence of a statistical basis necessary to undertake evaluations to assess the effectiveness | YES | – Arrangements for timely collection and aggregation of statistical data with the following elements is in place:<br><br>– the identification of sources and mechanisms to ensure statistical validation;<br>– arrangements for publication and public availability of aggregated data; | YES | The Partnership Agreement in section 2.4 of the UK chapter sets out the detail for ensuring co-ordination of the performance framework.<br><br>The UK is committed to meeting this objective. Further information will be set out in the Operational Programmes. | |

| General Applicable Ex-ante Conditionality for which national bodies are responsible | Conditionality fulfilled: (Yes/ No/ Partially) | Criteria | Criteria fulfilled Yes/no | Reference (if fulfilled) (reference to the strategies, legal acts or other relevant documents incl. reference to relevant sections, articles or paragraphs, accompanied by a weblink or other access to the full text) | Explanation (where appropriate) |
|---|---|---|---|---|---|
| and impact of the programmes.<br><br>The existence of a system of result indicators necessary to select actions, which most effectively contribute to desired results, to monitor progress towards results and to undertake impact evaluation. | | – An effective system of result indicators including:<br>– the selection of result indicators for each programme providing information on what motivates the selection of policy actions financed by the programme;<br>– the establishment of targets for these indicators;<br>– the consistency of each indicator of the following requisites: robustness and statistical validation, clarity of normative interpretation, responsiveness to policy, timely collection of data; | YES | | |
| | | – Procedures in place to ensure that all operations financed by the programme adopt an effective system of indicators. | YES | | |

| **Applicable Ex-ante conditionality for which national bodies are responsible** | **Applicable ex-ante conditionality fulfilled** | **Criteria** | **Criteria fulfilled** | **Reference (if fulfilled)** | **Explanation (where appropriate)** |
|---|---|---|---|---|---|
| 1.1. Research and innovation: The existence of a national or regional smart specialisation strategy in line with the National Reform Program, to leverage private research and innovation expenditure, which complies with the features of well-performing national or regional R&I systems. | YES | A national or regional smart specialisation strategy is in place that:<br><br>– is based on a SWOT or similar analysis to concentrate resources on a limited set of research and innovation priorities;<br>– outlines measures to stimulate private RTD investment;<br>– contains a monitoring and review system.<br>- A framework outlining available budgetary resources for research and innovation has been adopted; | Not applicable at UK level because of devolved arrangements, and therefore not appropriate for the PA. | See ERDF Operational Programmes | The Partnership Agreement sets out the UK approach to Smart Specialisation in Section 1.1 of the UK Chapter |
| 1.2 Research and Innovation Infrastructure: The existence of a multi-annual plan for budgeting and prioritisation of investments. | YES | An indicative multi-annual plan for budgeting and prioritization of investments linked to Union priorities, and, where appropriate, the European Strategy Forum on Research Infrastructures (ESFRI) has been adopted. | Not applicable at UK level because of devolved arrangements, and therefore not appropriate for the PA. | N/A | Where investments are made under the investment priority to which this ex ante Conditionality applies the details for how it is met will be set out in the relevant Operational Programmes. |

| Applicable Ex-ante conditionality for which national bodies are responsible | Applicable ex-ante conditionality fulfilled | Criteria | Criteria fulfilled | Reference (if fulfilled) | Explanation (where appropriate) |
|---|---|---|---|---|---|
| 2.1. Digital growth: A strategic policy framework for digital growth to stimulate demand for affordable, good quality and interoperable ICT-enabled private and public services and increase uptake by citizens, including vulnerable groups, businesses and public administrations including cross border initiatives. | YES | A strategic policy framework for digital growth, for instance, within the national or regional smart specialisation strategy is in place that contains:<br><br>– budgeting and prioritisation of actions through a SWOT or similar analysis consistent with the Scoreboard of the Digital Agenda for Europe;<br><br>– an analysis of balancing support for demand and supply of ICT should have been conducted;<br><br>– indicators to measure progress of interventions in areas such as digital literacy, e-inclusion, e-accessibility, and progress of e-health within the limits of Article 168 TFEU which are aligned, where appropriate, with existing relevant sectoral Union, national or regional strategies<br><br>. – Assessment of needs to reinforce ICT capacity-building. | YES | The UK's national broadband plan 'Britain's Superfast Broadband Future' describes the UK's overall plan for delivery of superfast broadband at:<br><br>https://www.gov.uk/government/publications/britains-superfast-broadband-future<br><br>Local Authorities and the Devolved Administrations, who have local broadband projects which draw down UK Government funding, have each produced Local Broadband Plans. Links to each local broadband project are in Google docs. These can be found via the following link:<br><br>https://www.gov.uk/broadband-delivery-uk.<br><br>Any further local broadband project seeking to use UK Government funding together with European funding will be required to produce its own Local Broadband Plan.<br><br>Ofcom carries out a range of reports and research in relation to information and communication technologies:<br><br>http://stakeholders.ofcom.org.uk/ | The UK Government's broadband delivery agency – Broadband Delivery UK - will publish an updated Programme Delivery Model setting out a national plan for delivery from 2014 to 2020. This will contain the elements required, including details of the proposed sustainable investment model and measures to stimulate private investment. |

| **Applicable Ex-ante conditionality for which national bodies are responsible** | **Applicable ex-ante conditionality fulfilled** | **Criteria** | **Criteria fulfilled** | **Reference (if fulfilled)** | **Explanation (where appropriate)** |
|---|---|---|---|---|---|
| 2.2. Next Generation Network (NGN) Infrastructure: The existence of national NGN Plans which take account of regional actions in order to reach the Union high-speed Internet access targets, focusing on areas where the market fails to provide an open infrastructure at an affordable cost and of a quality in line with the Union competition and state aid rules, and to provide accessible services to vulnerable groups.<br><br>Also applies to EAFRD EAC 6 Next Generation Network (NGN) Infrastructure [159] | YES | A national and/or regional NGN Plan is in place that contains<br><br>- a plan of infrastructure investments based on an economic analysis taking account of existing private and public infrastructures and planned investments;<br><br>– sustainable investment models that enhance competition and provide access to open, affordable, quality and future proof infrastructure and services;<br><br>– measures to stimulate private investment. | YES | For the first criterion please see above<br><br>The UK's approach to supporting sustainable investment models that enhance competition and provide access to open, affordable, quality and future-proof infrastructure and services is set out in the BDUK Delivery Model at: https://www.gov.uk/government/publications/broadband-delivery-programme-delivery-model-may-2011 .<br><br>The UK's measures to stimulate private investment are described at:<br><br>https://www.gov.uk/government/news/fastest-broadband-in-europe-delivering-infrastructure-to-boost-uk-businesses--2 . | The UK Government's broadband delivery agency – Broadband Delivery UK - will publish an updated Programme Delivery Model setting out a national plan for delivery from 2014 to 2020. This will contain the elements required, including details of the proposed sustainable investment model and measures to stimulate private investment. |

[159] Where EAFRD EACs applicable to the UK Rural Programmes are the same as those included in the CPR are they are referenced in this main table.

| **Applicable Ex-ante conditionality for which national bodies are responsible** | **Applicable ex-ante conditionality fulfilled** | **Criteria** | **Criteria fulfilled** | **Reference (if fulfilled)** | **Explanation (where appropriate)** |
|---|---|---|---|---|---|
| 3.1. Specific actions have been carried out to underpin the promotion of entrepreneurship taking into account the Small Business Act (SBA). | YES | The specific actions are:<br>— measures have been put in place with the objective of reducing the time and cost involved in setting-up a business taking account of the targets of the SBA; | YES | Companies House acts as a one stop to set up a business. This enables a prospective company to check the availability of the name that they wish to use and file the relevant documents. Documents may be filed online or on paper. There is also a joint registration service for company start-up and corporation tax, offering companies the opportunity to complete their corporation tax registration in one process. Companies House will then collect the information on behalf of Her Majesty's Revenue & Customs and forward it to them. (http://www.companieshouse.gov.uk/)<br><br>www.gov.uk is the new home for Government services online. The aim is to make it easier for established businesses and start ups to find the information they need. Work is underway to improve navigation so they provide more tailored information and are easier to operate.<br><br>The UK has made it quicker and easier to register a business for tax. Measures include start-up's being able to register as a limited company online in less than a day and does not need any capital requirements.<br><br>As a result in the UK a business can be incorporated in 10 hours (although the fastest possible time is ten minutes) at a cost of 30 euros and almost 97% of incorporations take place online. | |

| Applicable Ex-ante conditionality for which national bodies are responsible | Applicable ex-ante conditionality fulfilled | Criteria | Criteria fulfilled | Reference (if fulfilled) | Explanation (where appropriate) |
|---|---|---|---|---|---|
| | | — measures have been put in place with the objective of reducing the time needed to get licenses and permits to take up and perform the specific activity of an enterprise taking account of the targets of the SBA; | YES | Given the range of licences and authorities involved, we do not believe that it would be appropriate to set timescales centrally; however, under the EU Services Directive, all UK local and other competent authorities, which include Government Departments, regulators and professional bodies, are required to screen local legislation and their administrative practices to ensure that unnecessary barriers to service provision are removed.<br><br>Authorities are also aware that they must assess whether their administrative procedures are necessary by considering their cost (fees), duration, clarity, accessibility, possible duplication, practical difficulties and the number of different administrative procedures a service provider must undergo. All authorisations, including licence applications, registrations, permits, notifications, and administrative procedures applicable to service providers must be processed within a reasonable time period, which is fixed and made public in advance.<br><br>In addition, the UK is part of the EUGO network of online licensing portals (Point of Single Contact (PSC)) that promotes the exchange of best practice and includes a PSC Charter that commits countries to reduce the time taken to approve applications to the minimum required.<br><br>Records of the 20/2/2014 indicate that | |

| **Applicable Ex-ante conditionality for which national bodies are responsible** | **Applicable ex-ante conditionality fulfilled** | **Criteria** | **Criteria fulfilled** | **Reference (if fulfilled)** | **Explanation (where appropriate)** |
|---|---|---|---|---|---|
| | | - a mechanism is in place to monitor the implementation of the measures of the SBA which have been put in place and assess the impact on SMEs. | YES | The UK has very effective evaluation arrangements in place to monitor the ongoing implementation of SBA. An SME Envoy, a senior civil servant in Government, ensures that the ongoing implementation of the Single Business Act is taken forward by monitoring the Think Small First principle, implementing the use of the SME test, and pressing for smart regulation principles to be embedded. The UK Envoy continues to lead as “rapporteur” on smart regulation this year. The United Kingdom has not adopted a specific strategy for implementation of the SBA, however, the current SME policy is linked to the SBA and its associated criteria and is fully in line with the aspirations and goals of the SBA. | |
| 4.1 Actions have been carried out to promote cost-effective improvements of energy end use efficiency and cost-effective investment in energy efficiency when constructing or renovating buildings. | YES | The actions are:<br>— measures to ensure minimum requirements are in place related to the energy performance of buildings consistent with Article 3, Article 4 and Article 5 of Directive 2010/31/EU of the European Parliament and of the Council (1); | Not applicable at UK level because of devolved arrangements , and therefore not appropriate for the PA. | N/A | Where investments are made under the investment priority to which this ex ante Conditionality applies the details for how it is met will be set out in the relevant Operational Programmes. |

[160] Where EAFRD EACs applicable to the UK Rural Programmes are the same as those included in the CPR are they are referenced in this main table.

| Applicable Ex-ante conditionality for which national bodies are responsible | Applicable ex-ante conditionality fulfilled | Criteria | Criteria fulfilled | Reference (if fulfilled) | Explanation (where appropriate) |
|---|---|---|---|---|---|
| Also applies to EAFRD EAC 5.1 Energy Efficiency[160] | | — measures necessary to establish a system of certification of the energy performance of buildings consistent with Article 11 of Directive 2010/31/EU; | Not applicable at UK level because of devolved arrangements, and therefore not appropriate for the PA. | N/A | Where investments are made under the investment priority to which this ex ante Conditionality applies the further information for how it is met will be set out in the relevant Operational Programmes. |
| | | — measures to ensure strategic planning on energy efficiency, consistent with Article 3 of Directive 2012/27/EU of the European Parliament and of the Council ( 2 ); | YES | The UK notified the Commission of its target on 30 April 2013. Our target has been set at a reduction of 18% of final energy demand (relative to a baseline projection from 2007) by 2020. The UK will be reporting on progress towards this target in our National Energy Efficiency Action Plan, to be submitted by 30 April 2014. | |
| | | - measures consistent with Article 13 of Directive 2006/32/EC of the European Parliament and of the Council (3) on energy end-use efficiency and energy services to ensure the provision to final customers of individual meters in so far as it is technically possible, financially reasonable and proportionate in relation to the potential energy savings. | Not applicable at UK level because of devolved arrangements, and therefore not appropriate for the PA. | The relevant legislation which ensures Article 13 and is applicable across the whole of the UK is:<br>– Gas Act 1986;<br>– Electricity Act 1989; | Where investments are made under the investment priority to which this ex ante Conditionality applies the further information for how it is met will be set out in the relevant Operational Programmes. |

| **Applicable Ex-ante conditionality for which national bodies are responsible** | **Applicable ex-ante conditionality fulfilled** | **Criteria** | **Criteria fulfilled** | **Reference (if fulfilled)** | **Explanation (where appropriate)** |
|---|---|---|---|---|---|
| 4.2. Actions have been carried out to promote high-efficiency co-generation of heat and power. | YES | The actions are:<br>— Support for co-generation is based on useful heat demand and primary energy savings consistent with Article 7(1) and points (a) and (b) of Article 9(1) of Directive 2004/8/EC,<br><br>. | YES | The CHPQA programme, run on behalf of DECC (and in consultation with the Scottish Executive, National Assembly for Wales, and NIDETI).<br><br>Responsible persons can apply for registration and certification of their CHP schemes in accordance with the performance criteria for 'Good Quality CHP' (which ensure CHP schemes meet the 10% primary energy saving requirement in accordance with the Directive). Certification is a pre-requisite for qualifying for fiscal support and other benefits. The programme also annually assesses and monitors UK CHP capacity.<br><br>http://chpqa.decc.gov.uk/<br><br>More detail can be found on the website: | . |

| Applicable Ex-ante conditionality for which national bodies are responsible | Applicable ex-ante conditionality fulfilled | Criteria | Criteria fulfilled | Reference (if fulfilled) | Explanation (where appropriate) |
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| | | Member States or their competent bodies have evaluated the existing legislative and regulatory framework with regard to authorisation procedures or other procedures in order to:<br>(a) encourage the design of co-generation units to match economically justifiable demands for useful heat output and avoid production of more heat than useful heat; and | YES | The UK submitted its assessment of the regulatory framework for CHP in its first national report under Directive 2004/8/EC.<br><br>The report sets out the detail of how this ex ante Conditionality criteria has been met and be found at the following web address:<br><br>http://ec.europa.eu/energy/efficiency/cogeneration/cogeneration_en.htm | . |

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| Applicable Ex-ante conditionality for which national bodies are responsible | Applicable ex-ante conditionality fulfilled | Criteria | Criteria fulfilled | Reference (if fulfilled) | Explanation (where appropriate) |
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| | | (b) reduce the regulatory and non- regulatory barriers to an increase in co-generation | YES | The UK submitted its assessment of the regulatory framework for CHP in its first national report under Directive 2004/8/EC and provided further information in its second report.<br><br>These reports set out the detail of how this ex ante Conditionality criteria has been met and be found at the following web address:<br><br>http://ec.europa.eu/energy/efficiency/cogeneration/cogeneration_en.htm<br><br>In addition, the Government's heat policy publication *The Future of Heating: Meeting the challenge* in March 2013 reviewed barriers to CHP deployment concluding that these were primarily financial (securing finance and accessing a good value for exported power). | |

| Applicable Ex-ante conditionality for which national bodies are responsible | Applicable ex-ante conditionality fulfilled | Criteria | Criteria fulfilled | Reference (if fulfilled) | Explanation (where appropriate) |
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| 4.3. Actions have been carried out to promote the production and distribution of renewable energy sources<br><br>Also applies to EAFRD EAC 5.3 Renewable Energy[161] | YES | — Transparent support schemes, priority in grid access or guaranteed access and priority in dispatching, as well as standard rules relating to the bearing and sharing of costs of technical adaptations which have been made public are in place consistent with Article 14(1), Article 16(2) and 16(3) of Directive 2009/28/EC of the European Parliament and of the Council (4). | YES | The detail of the support schemes and measures to enable access to the grid are set out in the UK's 2010 National Renewable Energy Action Plan (NREAP) and the first and second UK progress reports on the promotion and use of renewable energy, which were submitted to the European Commission at the end of 2011[162] and 2013[163] respectively. | |
| | | — A Member State has adopted a national renewable energy action plan consistent with Article 4 of Directive 2009/28/EC | YES | The UK's NREAP was submitted to the Commission in 2010. See:<br><br>http://ec.europa.eu/energy/renewables/action_plan_en.htm | Further information on the UK's progress and actions to help achieve the 2020 renewable energy targets are described in the UK Renewable Energy Roadmap which was published in 2011, and updated in 2012 and 2013. Copies of these documents can be viewed on the DECC website at: https://www.gov.uk/government/collections/uk-renewable-energy-roadmap " |



[161] Where EAFRD EACs applicable to the UK Rural Programmes are the same as those included in the CPR are they are referenced in this main table.
[162] Further details at: http://ec.europa.eu/energy/renewables/reports/doc/article_22_progress_reports_orignal_language.zip
[163] Further details at: http://ec.europa.eu/energy/renewables/reports/doc/2013_article_22_progress_reports_orignal_language.zip

| Applicable Ex-ante conditionality for which national bodies are responsible | Applicable ex-ante conditionality fulfilled | Criteria | Criteria fulfilled | Reference (if fulfilled) | Explanation (where appropriate) |
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| 5.1. Risk prevention and risk management: the existence of national or regional risk assessments for disaster management. taking into account climate change adaptation<br><br>Also applies to EAFRD EAC 3.1 Risk prevention and risk management | YES | A national or regional risk assessment with the following elements shall be in place:<br>— a description of the process, methodology, methods, and non-sensitive data used for risk assessment as well as of the risk-based criteria for the prioritisation of investment;<br>— a description of single-risk and multi-risk scenarios;<br>— taking into account, where appropriate, national climate change adaptation strategies. | YES | **The UK Climate Change Act 2008**<br>http://www.legislation.gov.uk/ukpga/2008/27/contents<br><br>Civil Contingencies Act (2004)<br>https://www.gov.uk/preparation-and-planning-for-emergencies-responsibilities-of-responder-agencies-and-others<br><br>The **National Risk Assessment**<br>https://www.gov.uk/government/publications/national-risk-register-for-civil-emergencies-2013-edition | The **UK Climate Change Act 2008** requires a series of assessments of climate risks to the UK, both under current conditions and over the long term. These will be followed by iterations of the **National Adaptation Programme** over a 5 year cycle. The Adaptation Sub Committee of the Climate Change Committee was also established under the Climate Change Act to support this process and provide an independent review of the CCRA and NAP.<br><br>The UK model of risk management for National Resilience is underpinned by the **Civil Contingencies Act (2004)**<br><br>The **National Risk Assessment** provides a strategic and cross-government assessment of the most significant civil emergencies that could affect citizens in the UK over the next 5 years. It is reviewed every year and endorsed by both the Government's Chief Scientific Advisor and Ministers. This document provides a |

| Applicable Ex-ante conditionality for which national bodies are responsible | Applicable ex-ante conditionality fulfilled | Criteria | Criteria fulfilled | Reference (if fulfilled) | Explanation (where appropriate) |
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| | | | | The Hyogo Framework for Action is at: http://www.unisdr.org/we/coordinate/hfa | prioritisation of the most significant emergencies that could affect the UK to inform decision making for contingency planning and capability building at the national and local level. At the local level Category 1 Responders have a duty under the CCA to assess the risk of emergencies affecting the area in which they operate. Under the regulations of this Act Government provide advice and guidance to support local risk assessment. The NRA does not include a climate change specific risk as it is concerned with single events not long term or trend risk and those risk judged to be credible over the next 5 years – however, the implications of climate change on the likelihood and impacts of hazards are covered under flooding and weather related risks. The Climate Change Risk Assessment 2012 took over 700 impacts and prioritised 100 for comparison. The 100 risks can then be prioritised based on a combination of their severity and likelihood. |

| **Applicable Ex-ante conditionality for which national bodies are responsible** | **Applicable ex-ante conditionality fulfilled** | **Criteria** | **Criteria fulfilled** | **Reference (if fulfilled)** | **Explanation (where appropriate)** |
|---|---|---|---|---|---|
| | | | | | UK are signed up to the Hyogo Framework for Action which requires the UK to look at Disaster Risk Reduction (DDR) through prevention and through the effects of climate change.<br><br>***Note*** - this is a voluntary agreement which is not legally binding. It is tested by a self-monitoring system. |
| 6.1. Water sector: The existence of a) a water pricing policy which provides adequate incentives for users to use water resources efficiently and b) an adequate contribution of the different water uses to the recovery of the costs of water services at a rate determined in the approved river basin management plan for investment supported by the programmes. | YES | In sectors supported by the ERDF and the Cohesion Fund, a Member State has ensured a contribution of the different water uses to the recovery of the costs of water services by sector consistent with the first indent of Article 9(1) of Directive 2000/60/EC having regard, where appropriate, to the social, environmental and economic effects of the recovery as well as the geographic and climatic conditions of the region or regions affected.<br>— The adoption of a river basin management plan for the river | Not applicable at UK level because of devolved arrangements , and therefore not appropriate for the PA. | N/A | Cost recovery is in place throughout the UK for all water services that provide water supply or waste water collection and disposal for households, public institutions or any economic activity. This includes all waste water collection and treatment facilities required under Directive 91/271/EEC. Details were provided to the European Commission within each River Basin Management Plan that was submitted. These can be found on the Commission website at:<br><br>http://ec.europa.eu/environment/ |

[164] Where EAFRD EACs applicable to the UK Rural Programmes are the same as those included in the CPR are they are referenced in this main table.

| Applicable Ex-ante conditionality for which national bodies are responsible | Applicable ex-ante conditionality fulfilled | Criteria | Criteria fulfilled | Reference (if fulfilled) | Explanation (where appropriate) |
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| Also applies to EAFRD EAC 5.2 Water Sector[164] | | basin district consistent with Article 13 of Directive 2000/60/EC | | | water/participation/map_mc/countries/united_kingdom_en.htm<br><br>Those Plans are currently being reviewed and updated as required by directive 2000/60/EC.<br><br>River Basin Management Plans are developed at nation level.<br><br>Where investments are made under the investment priority to which this ex ante Conditionality applies the details for how it is met will be set out in the relevant Operational Programmes. |
| 6.2. Waste sector: Promoting economically and environmentally sustainable investments in the waste sector particularly through the development of waste management plans consistent with Directive 2008/98/EC, and with the waste hierarchy. | Partially | An implementation report as requested by Article 11(5) of Directive 2008/98/EC has been submitted to the Commission on progress towards meeting the targets set out in Article 11 of Directive 2008/98/EC. | Yes | The Implementation Report was sent to the Commission on 30th September 2013<br><br>No link available. | |
| | | — The existence of one or more waste management plans as required under Article 28 of Directive 2008/98/EC; | Not applicable at UK level because of devolved arrangements, and therefore not appropriate | N/A | Waste management plans are developed at nation level. Where investments are made under the investment priority to which this ex ante Conditionality applies the details for how it is met will be set out in the relevant Operational Programmes. |

| Applicable Ex-ante conditionality for which national bodies are responsible | Applicable ex-ante conditionality fulfilled | Criteria | Criteria fulfilled | Reference (if fulfilled) | Explanation (where appropriate) |
|---|---|---|---|---|---|
| | | | for the PA. | | **Note**: Scotland have yet to send their Waste management Plan to the Commission |
| | | — The existence of waste prevention programmes, as required under Article 29 of Directive 2008/98/EC; | Not applicable at UK level because of devolved arrangements, and therefore not appropriate for the PA. | N/A | Waste prevention programmes are developed at nation level. Where investments are made under the investment priority to which this ex ante Conditionality applies the details for how it is met will be set out in the relevant Operational Programmes.<br><br>**Note**: Northern Ireland WPP is being published/ notified this month. |
| | | — Necessary measures to achieve the targets on preparation for re-use and recycling by 2020 consistent with Article 11(2) of Directive 2008/98/EC have been adopted. | Not applicable at UK level because of devolved arrangements, and therefore not appropriate for the PA. | N/A | The legislation that meets this criterion is set out at a national level. Where investments are made under the investment priority to which this ex ante Conditionality applies the details for how it is met will be set out in the relevant Operational Programmes. |

| Applicable Ex-ante conditionality for which national bodies are responsible | Applicable ex-ante conditionality fulfilled | Criteria | Criteria fulfilled | Reference (if fulfilled) | Explanation (where appropriate) |
|---|---|---|---|---|---|
| 7.1. Transport: The existence of a comprehensive plan or plans or framework or frameworks for transport investment in accordance with the Member States' institutional set-up (including public transport at regional and local level) which supports infrastructure development and improves connectivity to the TEN-T comprehensive and core networks. | Partially | — The existence of a comprehensive transport plan or plans or framework or frameworks for transport investment which complies with legal requirements for strategic environmental assessment and sets out:<br>— the contribution to the single European Transport Area consistent with Article 10 of Regulation (EU) No 1315/2013 of the European Parliament and of the Council ( 5 ), including priorities for investments in:<br>— the core TEN-T network and the comprehensive network where investment from the ERDF and the Cohesion Fund is envisaged;<br>and — secondary connectivity;<br>— a realistic and mature pipeline for projects for which support from the ERDF and the Cohesion Fund is envisaged;<br>— Measures to ensure the capacity of intermediary bodies and beneficiaries to deliver the project pipeline. | Partially | From a UK perspective the UK Government publishes a National Infrastructure Plan on an annual basis which includes transport infrastructure. https://www.gov.uk/government/publications/national-infrastructure-plan-2013 | Due to devolved arrangements additional evidence will be available at the national level. This will be presented in Operational Programmes which will be using this investment priority. |

| Applicable Ex-ante conditionality for which national bodies are responsible | Applicable ex-ante conditionality fulfilled | Criteria | Criteria fulfilled | Reference (if fulfilled) | Explanation (where appropriate) |
|---|---|---|---|---|---|
| 7.2. Railway: The existence within the comprehensive transport plan or plans or framework or frameworks of a specific section on railway development in accordance with the Member States' institutional set-up (including concerning public transport at regional and local level) which supports infrastructure development and improves connectivity to the TEN-T comprehensive and core networks. The investments cover mobile assets, interoperability and capacity- building. | Partially | The existence of a section on railway development within the transport plan or plans or framework or frameworks as set out above which complies with legal requirements for strategic environmental assessment (SEA) and sets out a realistic and mature project pipeline (including a timetable and budgetary framework);<br>— Measures to ensure the capacity of intermediary bodies and beneficiaries to deliver the project pipeline. | Partially | From a UK perspective the UK Government publishes a National Infrastructure Plan on an annual basis which includes transport infrastructure. https://www.gov.uk/government/publications/national-infrastructure-plan-2013 | Due to devolved arrangements additional evidence will be available at the national level. This will be presented in Operational Programmes which will be using this investment priority. |
| 7.3. Other modes of transport, including inland-waterways and maritime transport, ports, multimodal links and airport infrastructure: the existence within the | N/A | — The existence of a section on inland-waterways and maritime transport, ports, multimodal links and airport infrastructure within the transport plan or plans or framework or frameworks which: — complies with legal | N/A | N/A | This TO is not applicable given guidance (page 116) under the “When to assess applicability?” section as we do not expect any of the ESIFs are proposing investment that falls under any of the categories mentioned. |

| Applicable Ex-ante conditionality for which national bodies are responsible | Applicable ex-ante conditionality fulfilled | Criteria | Criteria fulfilled | Reference (if fulfilled) | Explanation (where appropriate) |
|---|---|---|---|---|---|
| comprehensive transport plan or plans or framework or frameworks of a specific section on inland-waterways and maritime transport, ports, multimodal links and airport infrastructure, which contribute to improving connectivity to the TEN-T comprehensive and core networks and to promoting sustainable regional and local mobility. | | requirements for strategic environmental assessment; — sets out a realistic and mature project pipeline (including a timetable and budgetary framework); — Measures to ensure the capacity of intermediary bodies and beneficiaries to deliver the project pipeline. | | | |
| 7.4 Development of smart energy distribution, storage and transmission systems. The existence of comprehensive plans for investments in smart energy infrastructure, and of regulatory measures, which contribute to improving energy efficiency and security of supply | YES | Comprehensive plans describing the national energy infrastructure priorities are in place that are:<br>— in accordance with Article 22 of Directive 2009/72/EC and of Directive 2009/73/EC, where applicable, and<br>— consistent with the relevant regional investment plans under Article 12 and with the Union-wide ten-year network development plan in accordance with point (b) of Article 8(3) of Regulation (EC) No 714/2009 of the European | YES | Government publishes a National Infrastructure Plan on an annual basis which includes energy infrastructure. https://www.gov.uk/government/publications/national-infrastructure-plan-2013<br><br>However, each of the devolved administrations has differing levels of responsibility for infrastructure provision and regulation. For example, most infrastructure responsibility is devolved in Northern Ireland, where there is a separate utility regulator for electricity, gas, and water. Scotland and Wales have responsibility for energy while the UK government | |

| Applicable Ex-ante conditionality for which national bodies are responsible | Applicable ex-ante conditionality fulfilled | Criteria | Criteria fulfilled | Reference (if fulfilled) | Explanation (where appropriate) |
|---|---|---|---|---|---|
| | | Parliament and of the Council ( 6 ) and with Regulation (EC) No 715/2009 of the European Parliament and of the Council ( 7 ), and<br>- compatible with Article 3(4) of Regulation (EU) No 347/2013 of the European Parliament and of the Council ( 8 );.<br><br>Those plans shall contain:<br>— a realistic and mature project pipeline for projects for which support from the ERDF is envisaged;<br>— measures to achieve the objectives of social and economic cohesion and environmental protection, in line with Article 3(10) of Directive 2009/72/EC and Article 3(7) of Directive 2009/73/EC;<br>— measures to optimise the use of energy and promote energy efficiency, in line with Article 3(11) of Directive 2009/72/EC and Article 3(8) of Directive 2009/73/EC. | | retains responsibility for the electricity grid. | |
| 8.1. Active labour market policies are designed and delivered in the light of the Employment guidelines. | YES | Employment services have the capacity to, and do, deliver:<br>— personalised services and active and preventive labour market measures at an early | Not applicable at UK level because of devolved arrangements | N/A | There is separate employment service provision in Northern Ireland. Where investments are made under the investment priority to which this ex ante |

| Applicable Ex-ante conditionality for which national bodies are responsible | Applicable ex-ante conditionality fulfilled | Criteria | Criteria fulfilled | Reference (if fulfilled) | Explanation (where appropriate) |
|---|---|---|---|---|---|
| | | stage, which are open to all jobseekers while focusing on people at highest risk of social exclusion, including people from marginalised communities; | , and therefore not appropriate for the PA. | | Conditionality applies the details for how it is met will be set out in the relevant Programme. |
| | | — comprehensive and transparent information on new job vacancies and employment opportunities taking into account the changing needs of the labour market. | YES | UK Commission on Employment and Skills (UKCES) http://www.ukces.org.uk/ | Employer Skills Survey and the UK Employer Perspectives Survey which identify sectoral skills issues and appropriate ways of addressing them.<br><br>Additional provision will be provided by each nation the detail of which will be set out in the relevant Programmes. |
| | | — Employment services have set up formal or informal cooperation arrangements with relevant stakeholders | Not applicable at UK level because of devolved arrangements, and therefore not appropriate for the PA. | N/A | There is separate employment service provision in Northern Ireland. Where investments are made under the investment priority to which this ex ante Conditionality applies the details for how it is met will be set out in the relevant Programme. |
| 8.2. Self-employment, entrepreneurship and business creation: the existence of a strategic policy framework for inclusive start-up. | N/A | A strategic policy framework for inclusive start-up support is in place with the following elements:<br>— measures have been put in place with the objective of reducing the time and cost involved in setting up a business, taking account of the | N/A | N/A | The UK administrations do not intend to use the investment priority to which this EAC applies. |

| Applicable Ex-ante conditionality for which national bodies are responsible | Applicable ex-ante conditionality fulfilled | Criteria | Criteria fulfilled | Reference (if fulfilled) | Explanation (where appropriate) |
|---|---|---|---|---|---|
| | | targets of the SBA;<br>— measures have been put in place with the objective of reducing the time needed to get licenses and permits to take up and perform the specific activity of an enterprise, taking account of the targets of the SBA;<br>— actions linking suitable business development services and financial services (access to capital), including reaching out to disadvantaged groups, areas, or both, where needed. | | | |
| 8.3. Labour market institutions are modernised and strengthened in the light of the Employment Guidelines; Reforms of labour market institutions will be preceded by a clear strategic policy framework and ex ante assessment including with regard to the gender dimension | N/A | Actions to reform employment services, aiming at providing them with the capacity to deliver:<br>— personalised services and active and preventive labour market measures at an early stage, which are open to all jobseekers while focusing on people at highest risk of social exclusion, including people from marginalised communities;<br>— comprehensive and transparent information on new job vacancies and employment opportunities taking into account the changing needs of the labour market. | N/A | N/A | The UK administrations do not intend to use the investment priority to which this EAC applies. |

| Applicable Ex-ante conditionality for which national bodies are responsible | Applicable ex-ante conditionality fulfilled | Criteria | Criteria fulfilled | Reference (if fulfilled) | Explanation (where appropriate) |
|---|---|---|---|---|---|
| 8.4. Active and healthy ageing: Active ageing policies are designed in the light of the Employment Guidelines | N/A | — Relevant stakeholders are involved in the design and follow-up of active ageing policies with a view to retaining elderly workers on the labour market and promoting their employment;<br>— A Member State has measures in place to promote active ageing. | N/A | N/A | The UK administrations do not intend to use the investment priority to which this EAC applies. |
| 8.5. Adaptation of workers, enterprises and entrepreneurs to change: The existence of policies aimed at favouring anticipation and good management of change and restructuring. | N/A | — Instruments are in place to support social partners and public authorities to develop and monitor proactive approaches towards change and restructuring which include measures: — to promote anticipation of change; — to promote the preparation and management of the restructuring process. | N/A | N/A | The UK administrations do not intend to use the investment priority to which this EAC applies. |
| 8.6. The existence of a strategic policy framework for promoting youth employment including through the implementation of the Youth Guarantee. This ex ante conditionality applies only for implementation of the | YES | A strategic policy framework for promoting youth employment is in place that:<br>— is based on evidence that measures the results for young people not in employment, education or training and that represents a base to develop targeted policies and monitor developments; | Not applicable at UK level because of devolved arrangements, and therefore not appropriate for the PA. | N/A | There is separate employment service provision in Northern Ireland. Where investments are made under the investment priority to which this ex ante Conditionality applies the details for how it is met will be set out in the relevant Programme. |

| Applicable Ex-ante conditionality for which national bodies are responsible | Applicable ex-ante conditionality fulfilled | Criteria | Criteria fulfilled | Reference (if fulfilled) | Explanation (where appropriate) |
|---|---|---|---|---|---|
| YEI | | — identifies the relevant public authority in charge of managing youth employment measures and coordinating partnerships across all levels and sectors;<br>— involves stakeholders that are relevant for addressing youth unemployment; | | | |
| | | — allows early intervention and activation; | | | |
| | | - comprises supportive measures for access to employment, enhancing skills, labour mobility and sustainable integration of young people not in employment, education or training into the labour market. | | | |
| 9.1. The existence and the implementation of a national strategic policy framework for poverty reduction aiming at the active inclusion of people excluded from the labour market in the light of the Employment | YES | A national strategic policy framework for poverty reduction, aiming at active inclusion, is in place that: | Not applicable at UK level because of devolved arrangements, and therefore not appropriate for the PA. | The Government's Social Justice Strategy was published in March 2012: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/49515/social-justice-transforming-lives.pdf | The ambitions in the Government's Social Justice strategy apply to the whole UK. However, many of the policy levers are in the hands of the devolved administrations and, as such, these administrations are responsible for their own devolved policies. Therefore |
| | | — provides a sufficient evidence base to develop policies for poverty reduction and monitor developments; | | | |

| **Applicable Ex-ante conditionality for which national bodies are responsible** | **Applicable ex-ante conditionality fulfilled** | **Criteria** | **Criteria fulfilled** | **Reference (if fulfilled)** | **Explanation (where appropriate)** |
|---|---|---|---|---|---|
| guidelines | | — contains measures supporting the achievement of the national poverty and social exclusion target (as defined in the National Reform Programme), which includes the promotion of sustainable and quality employment opportunities for people at the highest risk of social exclusion, including people from marginalised communities; | | | where investments are made under the investment priority to which this ex ante Conditionality applies the details for how it is met will be set out in the relevant Programme. |
| | | — involves relevant stakeholders in combating poverty; | | | |
| | | — depending on the identified needs, includes measures for the shift from institutional to community based care; | | | |
| | | — Upon request and where justified, relevant stakeholders will be provided with support for submitting project applications and for implementing and managing the selected projects. | | | |
| 9.2. A national Roma inclusion strategic policy framework is in place | N/A | A national Roma inclusion strategic policy framework is in place that:<br>— sets achievable national goals for Roma integration to bridge the gap with the general population. These targets should address the four EU | N/A | N/A | The UK administrations do not intend to use the investment priority to which this EAC applies. |

| Applicable Ex-ante conditionality for which national bodies are responsible | Applicable ex-ante conditionality fulfilled | Criteria | Criteria fulfilled | Reference (if fulfilled) | Explanation (where appropriate) |
|---|---|---|---|---|---|
| | | Roma integration goals relating to access to education, employment, healthcare and housing;<br>— identifies where relevant those disadvantaged micro-regions or segregated neighbourhoods, where communities are most deprived, using already available socio-economic and territorial indicators (i.e. very low educational level, long- term unemployment, etc);<br>— includes strong monitoring methods to evaluate the impact of Roma integration actions and a review mechanism for the adaptation of the strategy;<br>— is designed, implemented and monitored in close cooperation and continuous dialogue with Roma civil society, regional and local authorities. — Upon request and where justified, relevant stakeholders will be provided with support for submitting project applications and for implementing and managing the selected projects | | | |

| Applicable Ex-ante conditionality for which national bodies are responsible | Applicable ex-ante conditionality fulfilled | Criteria | Criteria fulfilled | Reference (if fulfilled) | Explanation (where appropriate) |
|---|---|---|---|---|---|
| 9.3. Health: The existence of a national or regional strategic policy framework for health within the limits of Article 168 TFEU ensuring economic sustainability. | N/A | A national or regional strategic policy framework for health is in place that contains:<br>— coordinated measures to improve access to health services; measures to stimulate efficiency in the health sector, through deployment of service delivery models and infrastructure;<br>— a monitoring and review system.<br>— A Member State or region has adopted a framework outlining available budgetary resources on an indicative basis and a cost- effective concentration of resources on prioritised needs for health care. | N/A | N/A | The UK administrations do not intend to use the investment priority to which this EAC applies. |
| 10.1. Early school leaving: The existence of a strategic policy framework to reduce early school leaving (ESL) within the limits of Article 165 TFEU. | YES | A system for collecting and analysing data and information on ESL at relevant levels is in place that:<br>— provides a sufficient evidence- base to develop targeted policies and monitors developments<br><br>A strategic policy framework on ESL is in place that:<br>— is based on evidence;<br>— covers relevant educational | Not applicable at UK level because of devolved arrangements, and therefore not appropriate for the PA. | N/A | There is not a UK wide strategic policy framework. Education, skills and lifelong learning are devolved matters. Where this investment priority is included in a Programme then that programme will include a description of how these criteria are met. |

| **Applicable Ex-ante conditionality for which national bodies are responsible** | **Applicable ex-ante conditionality fulfilled** | **Criteria** | **Criteria fulfilled** | **Reference (if fulfilled)** | **Explanation (where appropriate)** |
|---|---|---|---|---|---|
| | | sectors including early childhood development, targets in particular vulnerable groups that are most at risk of ESL including people from marginalised communities, and addresses prevention, intervention and compensation measures;<br>— involves all policy sectors and stakeholders that are relevant to addressing ESL. | | | |
| 10.2. Higher Education: The existence of national or regional strategic policy framework for increasing tertiary education attainment, quality and efficiency within the limits of Article 165 TFEU. | YES | A national or regional strategic policy framework for tertiary education is in place with the following elements:<br><br>- where necessary, measures to increase participation and attainment that:<br>- increase higher education participation among low income groups and other under-represented groups with special regard to disadvantaged people, including people from marginalised communities;<br>- reduce drop-out rates/improve completion rates<br>- encourage innovative content and programme design;<br><br>- measures to increase | Not applicable at UK level because of devolved arrangements , and therefore not appropriate for the PA. | N/A | There is not a UK wide strategic policy framework. Education, skills and lifelong learning are devolved matters. Where this investment priority is included in a Programme then that programme will include a description of how these criteria are met. |

| Applicable Ex-ante conditionality for which national bodies are responsible | Applicable ex-ante conditionality fulfilled | Criteria | Criteria fulfilled | Reference (if fulfilled) | Explanation (where appropriate) |
|---|---|---|---|---|---|
| | | employability and entrepreneurship that:<br>- encourage the development of "transversal skills" including entrepreneurship in relevant higher education programmes;<br>- reduce gender difference in terms of academic and vocational choices | | | |
| 10.3. Lifelong learning (LL): The existence of a national and/or regional strategic policy framework for lifelong learning within the limits of Article 165 TFEU. | YES | A national or regional strategic policy framework for lifelong learning is in place that contains measures: | Not applicable at UK level because of devolved arrangements , and therefore not appropriate for the PA. | N/A | There is not a UK wide strategic policy framework. Education, skills and lifelong learning are devolved matters. Where this investment priority is included in a Programme then that programme will include a description of how these criteria are met. |
| | | — to support the developing and linking services for LL, including their implementation and skills upgrading (i.e. validation, guidance, education and training) and providing for the involvement of, and partnership with relevant stakeholders; | | | |
| | | - for the provision of skills development for various target groups where these are identified as priorities in national or regional strategic policy frameworks (for example young people in vocational training, adults, parents returning to the labour market, low skilled and older workers, migrants and other | | | |

| Applicable Ex-ante conditionality for which national bodies are responsible | Applicable ex-ante conditionality fulfilled | Criteria | Criteria fulfilled | Reference (if fulfilled) | Explanation (where appropriate) |
|---|---|---|---|---|---|
| | | disadvantaged groups, in particular people with disabilities); | | | |
| | | — to widen access to LL including through efforts to effectively implement transparency tools (for example the European Qualifications Framework, National Qualifications Framework, European Credit system for Vocational Education and Training, European Quality Assurance in Vocational Education and Training); | | | |
| | | — to improve the labour market relevance of education and training and to adapt it to the needs of identified target groups (for example young people in vocational training, adults, parents returning to the labour market, low-skilled and older workers, migrants and other disadvantaged groups, in particular people with disabilities) | | | |
| 10.4. The existence of a national or regional strategic policy framework for increasing the quality | Yes | A national or regional strategic policy framework is in place for increasing the quality and efficiency of VET systems within the limits of Article 165 | Not applicable at UK level because of devolved arrangements | N/A | There is not a UK wide strategic policy framework. Education, skills and lifelong learning are devolved matters. Where this investment priority is included in |

| Applicable Ex-ante conditionality for which national bodies are responsible | Applicable ex-ante conditionality fulfilled | Criteria | Criteria fulfilled | Reference (if fulfilled) | Explanation (where appropriate) |
|---|---|---|---|---|---|
| and efficiency of VET systems within the limits of Article 165 TFEU. | | TFEU which includes measures for the following:<br><br>– to improve the labour market relevance of VET systems in close cooperation with relevant stakeholders including through mechanisms for skills anticipation, adaptation of curricula and the strengthening of work-based learning provision in its different forms<br><br>– to increase the quality and attractiveness of VET including through establishing a national approach for quality assurance for VET (for example in line with the, European Quality Assurance Reference Framework for Vocational Education and Training) and implementing the transparency and recognition tools, for example European Credit system for Vocational Education and Training. (ECVET). | , and therefore not appropriate for the PA. | | a Programme then that programme will include a description of how this criterion is met. |
| 11. The existence of a strategic policy framework for reinforcing the Member States' administrative | N/A | A strategic policy framework for reinforcing a Member State's public authorities' administrative efficiency and their skills with the following elements are in | N/A | N/A | The UK administrations do not intend to use the investment priority to which this EAC applies. |

| Applicable Ex-ante conditionality for which national bodies are responsible | Applicable ex-ante conditionality fulfilled | Criteria | Criteria fulfilled | Reference (if fulfilled) | Explanation (where appropriate) |
|---|---|---|---|---|---|
| efficiency including public administration reform | | place and in the process of being implemented:<br>— an analysis and strategic planning of legal, organisational and/or procedural reform actions;<br>— the development of quality management systems;<br>— integrated actions for simplification and rationalisation of administrative procedures;<br>— the development and implementation of human resources strategies and policies covering the main gaps identified in this field;<br>— the development of skills at all levels of the professional hierarchy within public authorities; the development of procedures and tools for monitoring and evaluation. | | | |
| | | - to improve the labour market relevance of VET systems in close cooperation with relevant stakeholders including through mechanisms for skills anticipation, adaptation of curricula and the strengthening of work- based learning provision in its different forms; | | | |

| Applicable Ex-ante conditionality for which national bodies are responsible | Applicable ex-ante conditionality fulfilled | Criteria | Criteria fulfilled | Reference (if fulfilled) | Explanation (where appropriate) |
|---|---|---|---|---|---|
| | | — to increase the quality and attractiveness of VET including through establishing a national approach for quality assurance for VET (for example in line with the, European Quality Assurance Reference Framework for Vocational Education and Training) and implementing the transparency and recognition tools, for example European Credit system for Vocational Education and Training. (ECVET). | | | |

## 2.4 THE METHODOLOGY AND MECHANISM TO ENSURE CONSISTENCY IN THE FUNCTIONING OF THE PERFORMANCE FRAMEWORK IN ACCORDANCE WITH ARTICLE 21 OF THE CPR

1. The UK is required to confirm the methodology and mechanisms that will be put in place to ensure consistency in the functioning of performance frameworks across the ESI Funds. Individual performance frameworks (indicators and their respective milestones and targets) must be established for each Programme, be set at the level of each priority and be set out in accordance with the standard format contained within the Common Provisions Regulation. An overview of ESI fund performance, within the UK, will be derived through the amalgamation of data drawn from individual performance frameworks.
2. To achieve this requires the use of a single set of performance indicators, across all UK Programmes. The Managing Authorities within the UK will therefore identify and define one (or a small number of) output indicator(s) and one financial indicator for each priority axis (or Fund equivalent) within each individual Operational Programme, and will use, as far as possible and relevant, the common definitions provided within the guidance documents to the relevant regulations.
3. These output indicators will be drawn from the list of common indicators from the various Funds. The UK will use guidance produced by the EC to ensure there is consistency in interpreting the definitions for the common indicators, to ensure commonality in reporting the achievements of programmes across UK programmes. Where the indicators do not have common definitions the UK will work across departments and Managing Authorities to ensure the indicators are utilised in a common manner.
4. A common analysis of need and common method of linking output back to those identified needs will be identified to enable each Programme to set its own targets and milestones, based on how they propose to allocate funding, but still facilitating common reporting. As a result different programmes will have different baseline results, and will therefore be able to make their own case for ‘what they would like to change’ effectively the intervention logic for an OP. Depending on what that change is, each Programme would then select from the list of indicators. The constituent parts of the UK will work together to promote consistency in reporting against the common indicators, taking account of any differences in the design of priority axes.
5. Throughout the development of the Programmes, the UK and devolved administrations have been meeting to discuss the indicators and the development of the individual Performance Frameworks. This group, led by BIS, will continue to meet to ensure that the indicators are implemented in a consistent manner and to exchange information of high value outcomes and best practice. Electronic data exchange will take place from each Managing Authority to the EC as required under the relevant regulations. In addition to reporting directly to the EC the UK will also share data amongst the Managing Authorities to meet the reporting requirements under Article 52 where progress against the indicators will be collated.

## 2.5 AN ASSESSMENT OF WHETHER THERE IS A NEED TO REINFORCE THE ADMINISTRATIVE CAPACITY OF THE AUTHORITIES INVOLVED IN THE MANAGEMENT AND CONTROL OF THE PROGRAMMES AND, WHERE APPROPRIATE, OF THE BENEFICIARIES, AS WELL AS, WHERE NECESSARY, A SUMMARY OF THE ACTIONS TO BE TAKEN FOR THIS PURPOSE.

1. As set out at paragraph 2.1 above, BIS currently performs a co-ordinating role on behalf of Managing, Certifying and Audit authorities for ERDF and ESF across the UK in respect of cross-cutting policy and operational issues and anti-fraud activities. Co-ordination on policy and operational issues takes place largely through the medium of the Co-ordination of the Committee on the Funds (COCOF). In the 2014-20 programming period BIS expects to continue to perform the equivalent function on behalf of the UK through the successor to COCOF, the Expert Group on the European Structural and Investment Funds (EGESIF), as well as through the anti-fraud forum, COCOLAF, supported by Managing Authorities.
2. A number of additional co-ordination functions will be needed in 2014-20. First, the Common Provisions Regulation is broader in scope than the Structural Funds general provisions regulation and encompasses other Funds relevant to the UK – EAFRD and EMFF – necessitating wider co-ordination. Second, as set out at paragraph 2.1, there will need to be a stronger focus on performance. BIS expects to include within its functions a co-ordinating role in ongoing monitoring of the achievement of the milestones and targets of the performance management regime and will co-ordinate the preparation of the progress reports in 2017 and 2019. This will require stronger arrangements for monitoring ongoing performance and clear governance structures.
3. The Government recognises the importance of ensuring sufficient administrative capacity is in place to deliver these responsibilities so it will ensure that the necessary resource is made available.
4. For EAFRD, there will remain a separate UK co-ordinating body. Delivery of EAFRD is a devolved responsibility.
5. As set out above, delivery of the ESI Funds (with the exception of EMFF, nominally a UK-wide programme) is a devolved responsibility. The assessments of capacity of the various Managing Authorities across England and the devolved administrations are set out in the national chapters.

**EMFF**

6. The Marine Management Organisation will continue in its role as the UK Managing Authority for the EMFF as it has been for the EFF, with the scheme being delivered by Intermediate Bodies in each Devolved Administration, as now. All bodies involved in the oversight and delivery of the scheme will need to identify the resources and skills required to meet the challenges of delivering the new fund from existing structures. . The risk has been identified that the new programme may place greater burdens on both administrators and applicants. To mitigate that risk, each body is considering how technological improvements, process efficiencies and risk based approaches might be used. An assessment of the administrative needs to deliver and monitor the EMFF programme at UK and devolved level will be undertaken; and any appropriate measures and/or needs identified for the new programme will be implemented before it commences.

## 2.6 A SUMMARY OF THE ACTIONS PLANNED IN THE PROGRAMMES, INCLUDING AN INDICATIVE TIMETABLE, TO ACHIEVE A REDUCTION IN THE ADMINISTRATIVE BURDEN FOR BENEFICIARIES

1. The UK Government is committed to ensuring that arrangements for project application, management and monitoring will be kept as efficient, effective and accessible as possible in all the UK's nations. As delivery of ESI Funds programmes is a devolved responsibility, each administration's actions to reduce the administrative burden for beneficiaries will be set out in its own chapter.

**EMFF**

2. Applicants for EMFF grant funding will be required to provide high-levels of information to support the Member State to govern the programme in line with regulatory requirements. For small grant applications, the level of information required may be disproportionate to the grant funding requested. To mitigate this, the bodies involved in delivery will look to develop methods of collecting this information which places the lowest administrative burden on the applicant as possible. This could include simplified application forms and assessment processes for smaller grant applications.
3. The Intermediate Bodies also plan to make effective use of online application systems which will have benefits for both project applicants and delivery bodies. The use of online systems will mean that systemic controls ensure that vital application information is included and correct when applicants are applying for funds. The use of these systems will also bring efficiencies for delivery bodies. Effective project and programme based management information will be more readily accessible which will allow targeted and timely actions to be instigated.

# ENGLAND CHAPTER

## 1 ARRANGEMENTS TO ENSURE ALIGNMENT WITH THE UNION STRATEGY OF SMART, SUSTAINABLE AND INCLUSIVE GROWTH AS WELL AS THE FUND SPECIFIC MISSIONS PURSUANT TO THEIR TREATY-BASED OBJECTIVES, INCLUDING ECONOMIC, SOCIAL AND TERRITORIAL COHESION (ARTICLE 15(1) (A) CPR)

### GROWTH ACROSS ENGLAND – THE CURRENT PICTURE

**Analysis at the regional (NUTs 1) level**

1. As of 2012, England accounted for approximately 85% of UK Gross Value Added (GVA)[165], followed by Scotland (7.7%), Wales (3.4%) and Northern Ireland (2.1%). England has the highest level of GVA per head amongst the four nations and the highest level of productivity (see Figure 39).

| | GVA, 2012 | GVA per head, 2012 | Productivity* 2011 |
|---|---|---|---|
| UK | £1,383,082 | £21,674 | £27,300 |
| England | £1,173,512 | £21,937 | £27,700 |
| Wales | £47,344 | £15,401 | £23,000 |
| Scotland | £106,342 | £20,013 | £27,300 |
| Northern Ireland | £29,410 | £16,127 | £22,400 |

**Figure 39: Output and productivity measures by UK Devolved Administrations. *(nominal GVA per hour worked),**
*Source: Office for National Statistics*

2. Despite above average performance relative to the UK overall, there is substantial variation across English regions. As Figure 40 shows, in 2012, London's GVA per head was 170% of the England average, versus just 73% for the North East. Whilst GVA figures are not adjusted for the lower cost of living outside of London (which would narrow these differences), research has suggested that large disparities remain even after accounting for price differences across regions[166]. There are similarly large disparities in productivity performance across NUTS 1 areas, with nominal GVA per hour worked in London 129% of the English average, versus 86% in Yorkshire and the Humber (as of 2011).

[165] GVA measures are workplace-based at current basic prices. GVA per hour worked (productivity) is in nominal terms and is smoothed.
[166] BIS Economics Paper No. 7. Understanding Local Growth (2010).

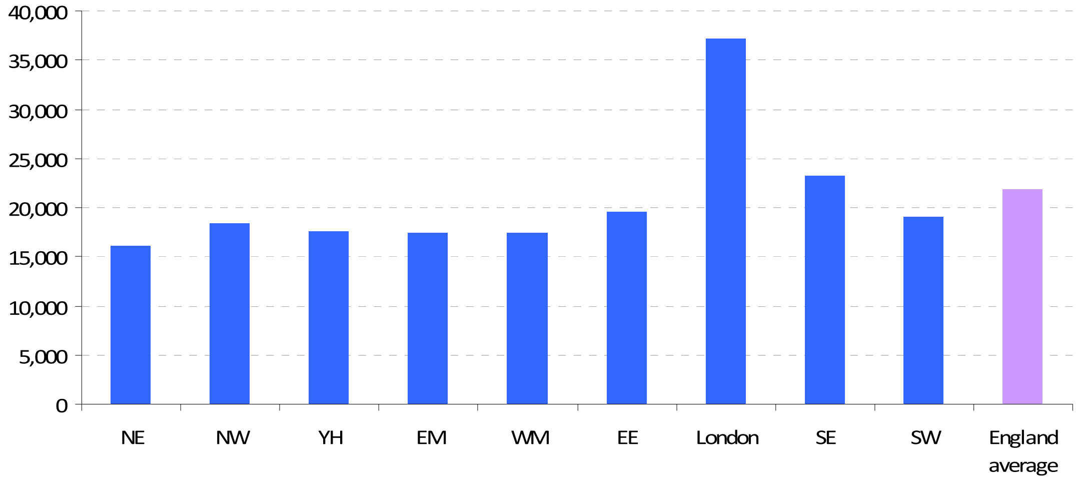


**Figure 40: Nominal GVA per head, UK Regions, 2012**
*Source: Office for National Statistics*

3. Figure 41 below shows the coefficient of variation, a measure of dispersion, for English NUTS 1 areas in the run up to the financial crisis. It shows that dispersion is both high and rising, having particularly increased since 2001. Much of the variation in regional performance is due to London which, along with the South East, is the only NUTS1 area above the English average on both GVA per head and productivity measures. However, there are imbalances amongst (and within) the regions, including London.

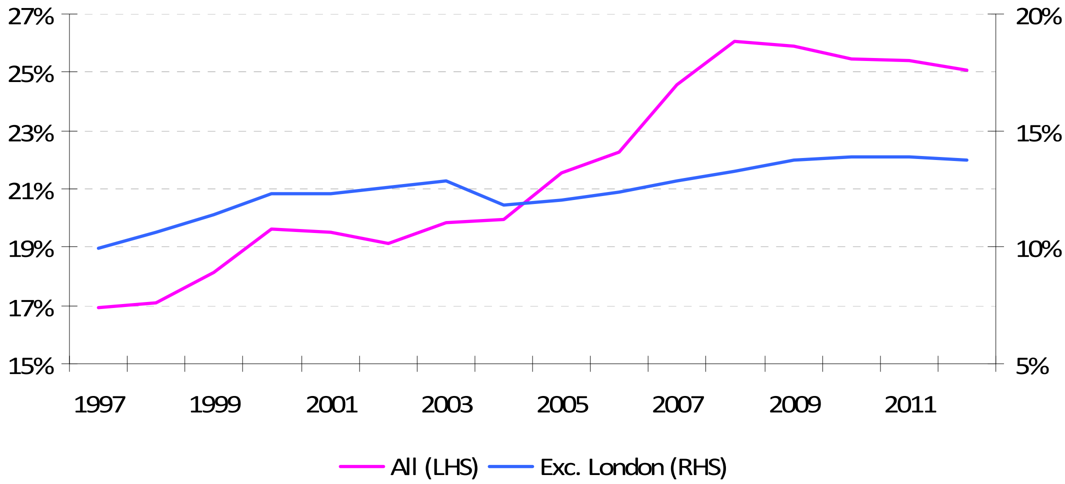


**Figure 41: Coefficient of variation of Residence based GVA per head levels, English NUTS 1 areas, 1997-2012 England and England excluding London, 1997-2012**[167]
*Source: Office for National Statistics*

## City level analysis

4. When compared internationally, England is in some ways unusual in that economic activity is very heavily concentrated in one location (London). Figure 42 below illustrates this point in population terms. 'Zipf's law' is the name given to the distribution of city populations that is commonly observed in many countries around the world. Given the size of London, this rule predicts that while England's smaller cities are roughly what

[167] Notes: 1. The Coefficient of Variation is a measure of dispersion calculated as: Standard Deviation/Mean. 2. Estimates of regional GVA are on a residence basis, where the income of commuters is allocated to where they live rather than their place of work.

you would expect given international comparisons, its ‘second tier’ cities should be larger than they actually are (as represented by the dots below the line).

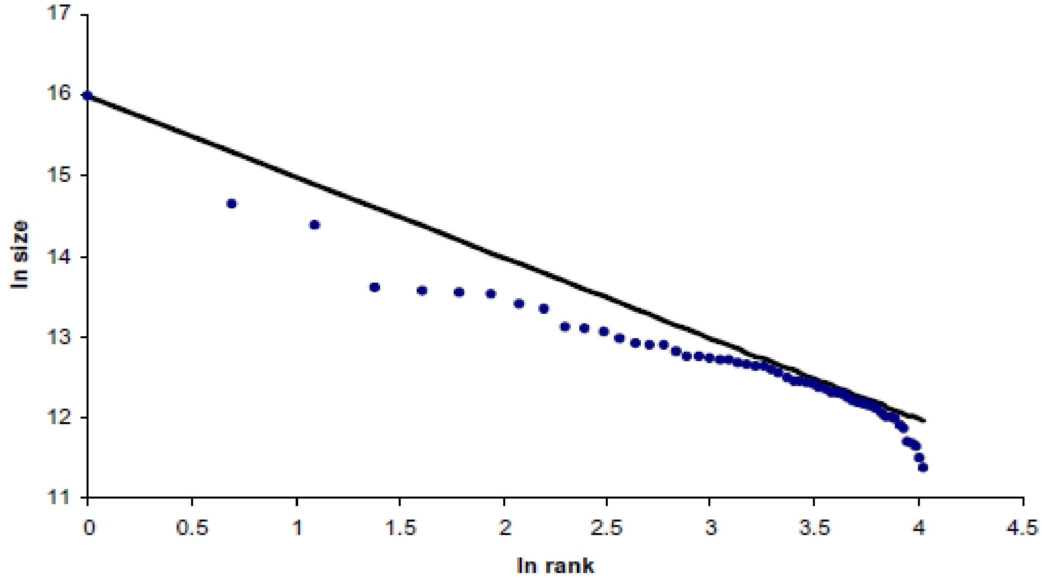


**Figure 42: Zipf Plot for English Cities Showing England’s “Second Tier” Cities are Undersized**[168]

*Source: Figure 1 in SERC Policy Paper 1*[169]

## Sub-regional analysis

5. While discussions on the geography of economic activity in England are often dominated by the ‘London versus the rest’ narrative outlined above, this often masks detailed analysis of variation within individual regions. The importance of such is illustrated in figures 5 and 6 below. Figure 43 shows how GVA per head varies both across regions (the averages) and within regions (the range). For example, although the South East has the highest GVA per head of any region outside of London, it contains a number of relatively poor performing areas such as the Isle of Wight, which has a GVA per head of 64% of the English average.

[168] Notes: The figure plots mid-year 2005 population of English cities against their rank in the urban hierarchy. The fact that the second tier of cities appear to be too small can be seen from observing that they lie below the zipf line (which roughly summarises the relationship between the size and rank of cities that holds across many different countries). In contrast, note that medium-sized cities sit roughly on the zipf line. Data is from the State of the Cities.

[169] Overman, H. and P. Rice (June 2008) ‘Resurgent Cities and Regional Economic Performance’, SERC.

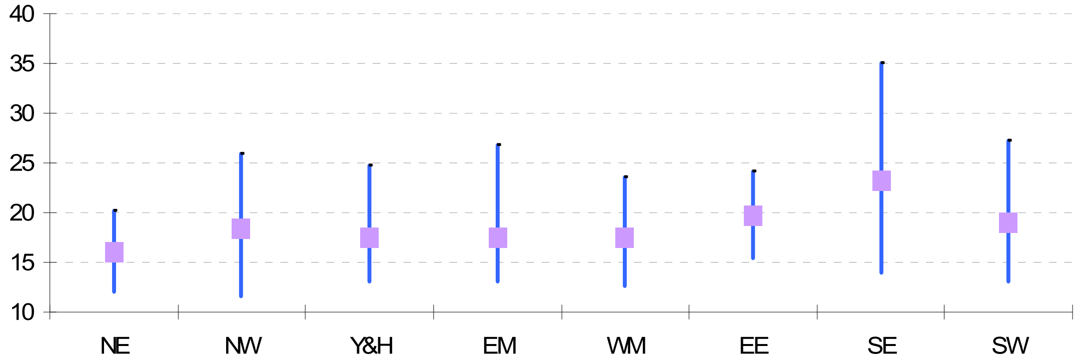


**Figure 43: GVA per head (£000s) variation in English regions excluding London, 2012**
*Source: Office for National Statistics*

6. Figure 44 similarly illustrates that there is substantial variation at the local level. Taking Cheshire NUTs 2 area as an example, while the growth figure for 2008 to 2012 is only 0.12%, this masks significant variation at the NUTs 3 level. For example, Cheshire East registered a positive growth rate just above 1.0%, whilst Cheshire West and Chester contracted by approximately 1.2% over this period. Clearly the circumstances facing these areas are different.

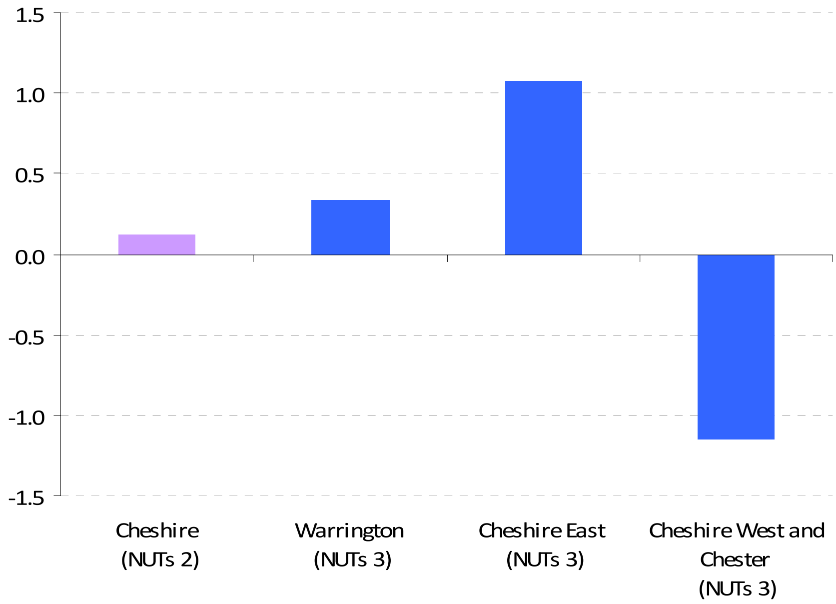


**Figure 44: Average annual compound average growth rate in GVA, 2007-2011, West Midlands**
*Source: Office for National Statistics*

7. This graph demonstrates that there is a lot of variation in performance, even at the detailed local level. This is in turn is due to differing barriers, opportunities and market failures facing these areas. In order for European funding to be most effective, it must be tailored to meet and address these local circumstances; realistically, this will involve a localised approach to its use in areas.

## DEVELOPING THE PRIORITIES FOR THE ESI FUNDS IN 2014-2020

**Growth Programme**

8. The wide variations in GDP and productivity across England, and the myriad and complex reasons for these variations, has prompted the Government to take a new approach to local growth policy in England, shifting power away from central government to local communities, citizens and independent providers. Government believes in local solutions for local growth, designed by those who best know their local areas.
9. At the heart of this new approach are Local Enterprise Partnerships (LEPs), introduced after the abolition of the Regional Development Agencies. A LEP is a private sector-led partnership between local authorities and local businesses which sets the strategy for achieving economic growth in its area. There are 39 LEPs covering England. They are formed around functional economic areas (see figure 45) and are roughly consistent with NUTS2 areas - much smaller than the areas covered by the RDAs, reflecting need for greater local differentiation.

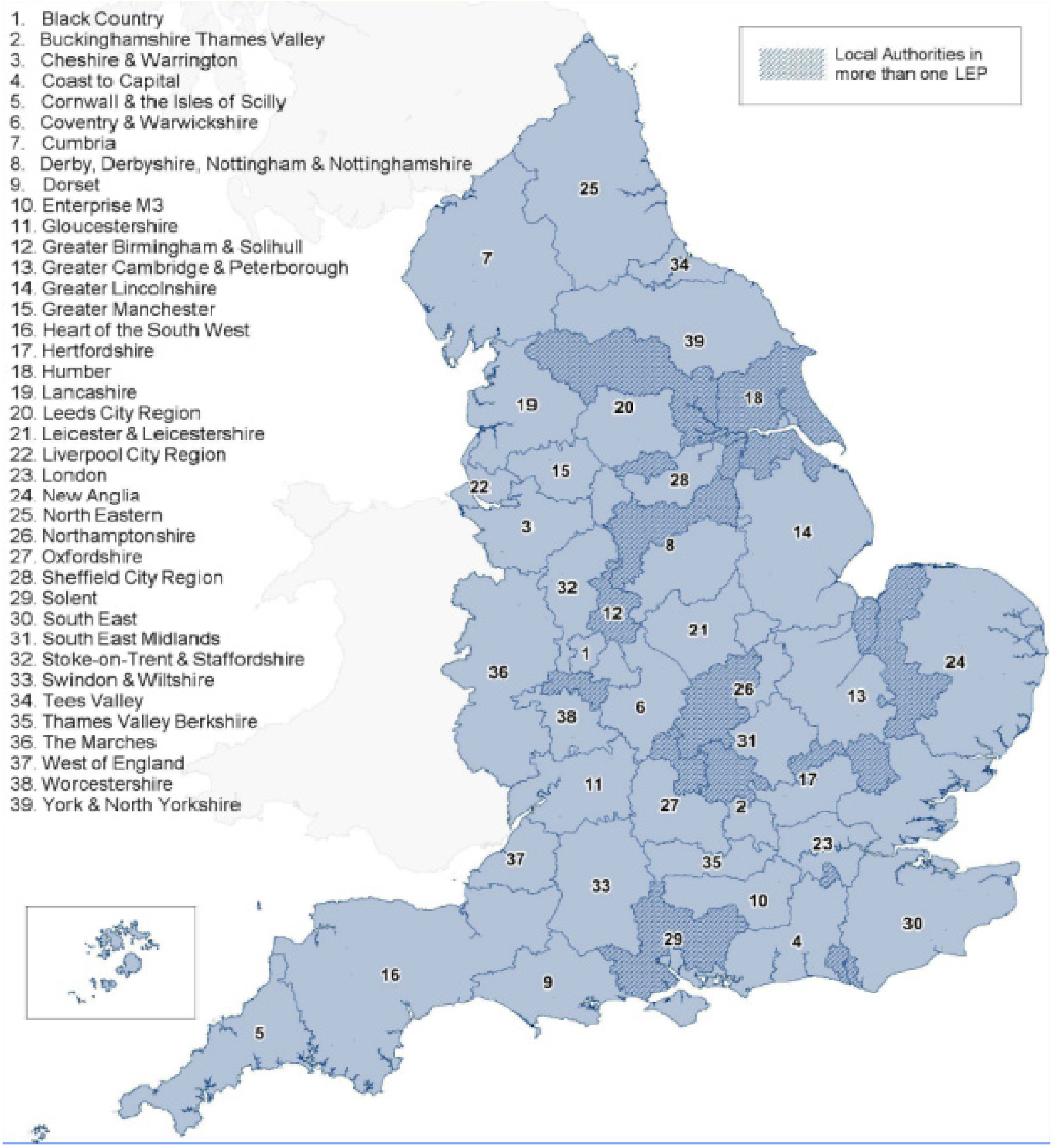


**Figure 45: LEP areas in England**

10. Government is devolving functions and budgets to LEPs where is makes sense to do so. As part of this, Government has allocated over 95% of the ERDF and the ESF[170] and 6.4% of the EAFRD to LEP areas and invited LEPs and partners[171] to develop 'ESI Funds Strategies' for use of their allocations. This is known as the 'ESI Funds Growth Programme for England'.

[170] €153 million will be allocated to the National Offender Management Service which supports prisoners from prison and into paid employment upon their release (from the ESF).

[171] Local partners include a broad range of economic, social and environmental organisations such as businesses (including social enterprises and mutuals), rural interests and networks, Local Nature Partnerships, trade unions, local authorities, civil society interests and networks, equality and non-discrimination bodies, and skills bodies (including the Skills Funding Agency), universities and further education institutes.

11. LEPs and partners must develop their ESI Funds Strategies in accordance with guidance from Government. This guidance sets out the list of priority activities that ESI Funds might be used to support in England. This list was developed by following the process set out in the European Commission's fiche on intervention logic, using the Government's analysis of development needs and opportunities in the context of EU 2020 and relevant national growth policies. The guidance to LEP areas also sets out the Government's expectation that LEPs and partners should not spread funding too thinly and should respect the principle of thematic concentration by adhering to the allocation minima across thematic objectives set out in European regulation.
12. While LEPs and partners will select priorities for investment within the Government's intervention logic framework, their selections and the overall pattern of activities and impact will to a large extent be defined by the scale of the needs and therefore allocations to LEP areas (see table below).

| **Type of Region** | **ERDF** | **ESF** | **EAFRD** |
|---|---|---|---|
| More-developed | £1,699m | £1,918m | £177m |
| Transition | £900m | £589m | |
| Less-Developed | £381m | £127m | |

13. LEP allocations for 2014-2020 have been based on the spatial distribution of funding in the 2007-2013 programmes for ERDF and ESF. This reflects the fact that the gap between England's best and worst performing areas has widened or stayed the same in the past decade. For EAFRD the allocation is based on rural population with some adjustments.

**EAFRD programme (Rural Development Programme for England)**

14. The Government's objectives for the Rural Development Programme in England are to:
    - improve the environment: this includes helping to ensure that by 2021 the natural environment is improved as set out in the Natural Environment White Paper;
    - increase the productivity and efficiency of farming and forestry businesses, in order to improve their competitiveness and reduce the reliance of farmers and land managers on subsidies; and
    - promote strong rural economic growth.

15. 6.4% of rural development spending in 2014 to 2020 will be directly available to Local Enterprise Partnership areas through the Growth Programme. LEPs and partners have set out in their investment strategies how the EAFRD allocated to their area be invested in building knowledge and skills, support new and developing micro and small rural business, invest in small scale renewable and broadband investments and support tourism activities. A further 8% of total rural development funding in 2014 to 2020will be focused on growth through support to farming productivity and through Leader: there will be a meaningful role for LEPs and partners in these other parts of the Rural Development Scheme.

**EMFF programme**

16. The EMFF priorities for England have been developed in consultation with Stakeholders, industry representatives, and reflect the SWOT analysis and needs assessment produced for the programme. Encouraging localism and accessing additional financial support and investment from other ESI funds (via local ESI Funds

partnership groups and LAGs) to support coastal communities and activities complementary to EMFF is seen as an opportunity to be explored further for England.

**England Intervention Logic**

17. The intervention logic for the ESI Funds in England and the indicative investments for 2014-2020 under the Growth Programme, the Rural Development Programme for England and the EMFF Programme is set out in the following sections. The various threads of the intervention logic have been organised by thematic objective. Disparities across different areas in England are often illustrated using LEP-level data, as these are the organisational units of delivery for the majority of England's ESI Funds. However, LEP-level data is not available for several key indicators. In these cases, the geographical unit selected is the best to illustrate the point made in the narrative.
18. In most of the following sections, the intervention logic threads are not divided between the classifications of areas used in the ESI Funds regulations ("less developed", "more developed" and "transition"). This is because the types of activities proposed under most thematic objectives are common to the three categories of area. The exceptions to this are the intervention logic threads under the climate change adaptation and sustainable transport thematic objectives. The types of activities proposed under these thematic objectives do vary across the different categories of area.

# 1.1 AN ANALYSIS OF DISPARITIES, DEVELOPMENT NEEDS, AND GROWTH POTENTIALS WITH REFERENCE TO THE THEMATIC OBJECTIVES AND THE TERRITORIAL CHALLENGES AND TAKING ACCOUNT OF THE NATIONAL REFORM PROGRAMME, WHERE APPROPRIATE, AND RELEVANT COUNTRY-SPECIFIC RECOMMENDATIONS ADOPTED IN ACCORDANCE WITH ARTICLE 121(2) OF THE TREATY ON THE FUNCTIONING OF THE EUROPEAN UNION AND RELEVANT COUNCIL RECOMMENDATIONS ADOPTED IN ACCORDANCE WITH ARTICLE 148(4) OF THE TREATY ON THE FUNCTIONING OF THE EUROPEAN UNION

## SMART GROWTH

### STRENGTHENING RESEARCH, TECHNOLOGICAL DEVELOPMENT & INNOVATION

**Development needs and growth potentials across England**

1. The Europe 2020 headline target for this thematic objective is to increase the gross expenditure on research and development (R&D) to 3% of GDP. As set out in chapter 1, in the UK the current level of investment is 1.77% of GDP. The estimate for England is slightly higher than the UK figure. Despite the gradual upward trend in expenditure by businesses on R&D, its proportion to the size of the overall economy has remained broadly static for a number of years.
2. **Across England, there is significant variation in levels of overall investment in R&D.** Figure 46 shows the variation across NUTS2 areas, which broadly match LEP

areas. Some areas are well ahead of the target set in the EU 2020 Strategy. These include London, the East, the South East and some parts of the North West. Levels of investment in R&D in other parts of England trail significantly. These are predominantly rural and more economically deprived post-industrial areas in the North, North West, West and South West.

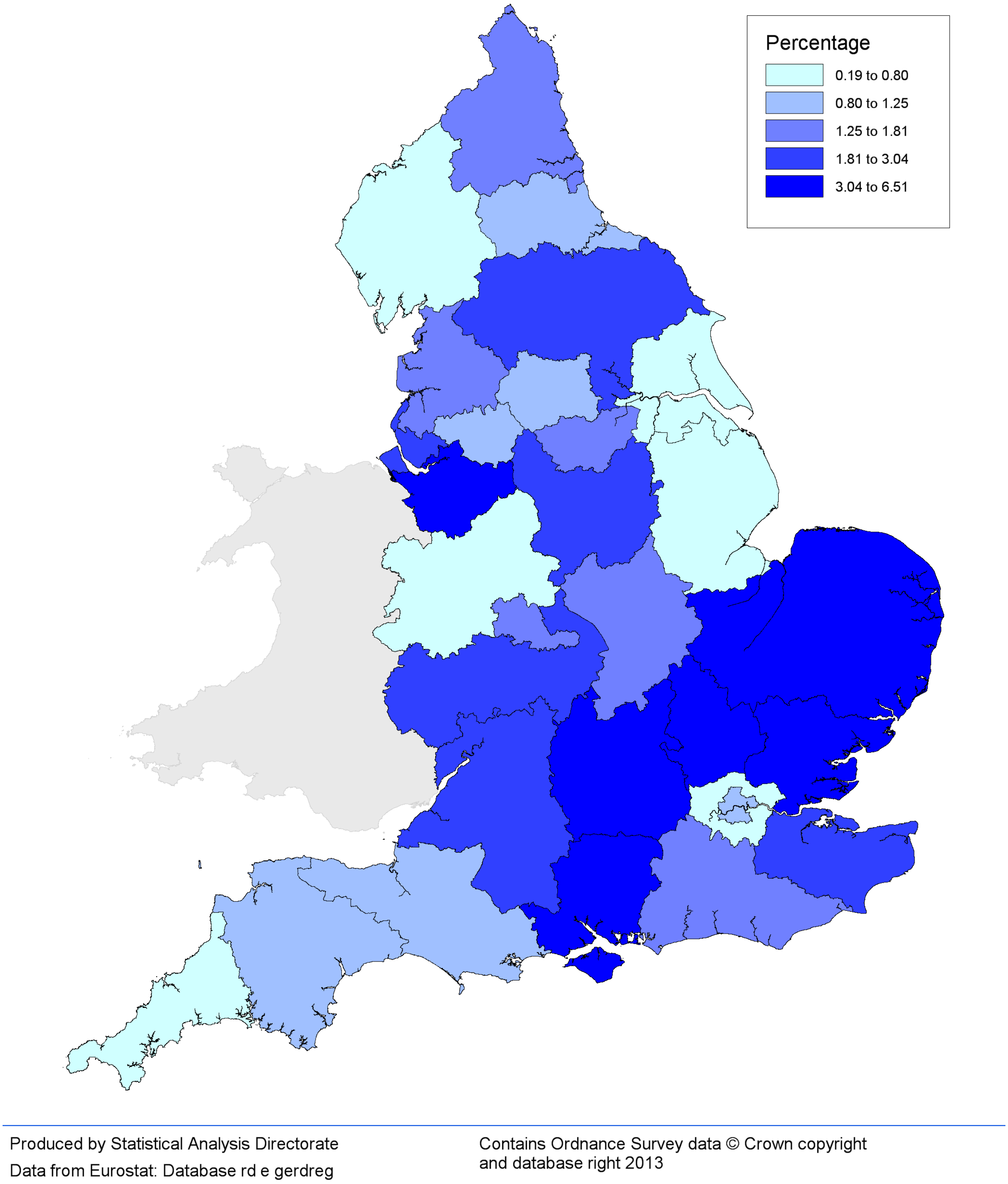


**Figure 46: Gross expenditure on R&D (as % of GDP) across NUTS2 areas**
*Source: Eurostat Database rd_e_gerdreg*

3. As well as value of investment in R&D, there is significant variation across England in the numbers of businesses actively innovating to bring new products to the market.

Figure 47 shows numbers of R&D tax credits[172] claimed in England's NUTS 1 areas as a percentage of total numbers of firms in the areas. This geographical disparity in levels of commercialisation across NUTS 1 areas matches the geographical disparity of gross expenditure on R&D as a percentage of GDP.

| Registered Office Location | Number of claims | Amount claimed (£ million) | Number of active businesses (2012) | Amount claimed (£) per active business |
|---|---|---|---|---|
| North East | 390 | 18 | 63725 | 282 |
| North West | 1,210 | 60 | 232400 | 258 |
| Yorkshire and The Humber | 840 | 38 | 165840 | 229 |
| East Midlands | 775 | 46 | 156190 | 295 |
| West Midlands | 990 | 72 | 187420 | 384 |
| East of England | 1,315 | 154 | 238540 | 646 |
| London | 2,135 | 355 | 439405 | 808 |
| South East | 2,410 | 319 | 380620 | 838 |
| South West | 1,020 | 57 | 206260 | 276 |

**Figure 47: R&D tax credit claims by registered office location, 2011-12**
*Source: Office for National Statistics. Table RD5.* **http://www.hmrc.gov.uk/statistics/research-tc.htm** *(Aug.13)*[173]

4. **There is also a disparity across firms of different sizes across England.** Although the number of claims made by SMEs for R&D Tax Credits in 2011/12 outnumbered the number of claims made by large companies by 9,920 to 2,620, the total value of these claims very much favoured larger firms. Large companies in England received tax credits to the value of £727 million in the same period whilst SMEs made claims to the value of £381 million.

5. Across England, there is also wide variation in the levels of collaborative research between enterprises, research institutions and public institutions. Figure 48 shows the cash value of collaborative research done across England in 2011/12. Collaborative research activity is underpinned by institutions of higher education and Public Sector Research Establishments. England boasts 26 universities of the world's Top 200[174] with 16.9% of the world's top-cited articles[175], and 61% more citations per paper than the world average[176]. There is therefore huge potential for growth in England in collaboration of research institutions and businesses.

[172] R&D tax credits are a corporation tax relief designed to encourage greater R&D spending. Government estimates that claims are made for around two-thirds of all spending by businesses on R&D.
[173] Geographical allocation is based on the postcode of the company's registered address, which might not correspond to where the R&D activity takes place, so caution must be exercised when interpreting these figures; figures exclude claims where the location is not known; numbers are rounded to the nearest 5; and amounts are rounded to the nearest £1m
[174] Further details at: http://www.timeshighereducation.co.uk/world-university-rankings/2013-14/world-ranking
[175] Elsevier (2013) International Comparative Performance of the UK Research Base
[176] as measured by the Field-Weighted Citation Impact

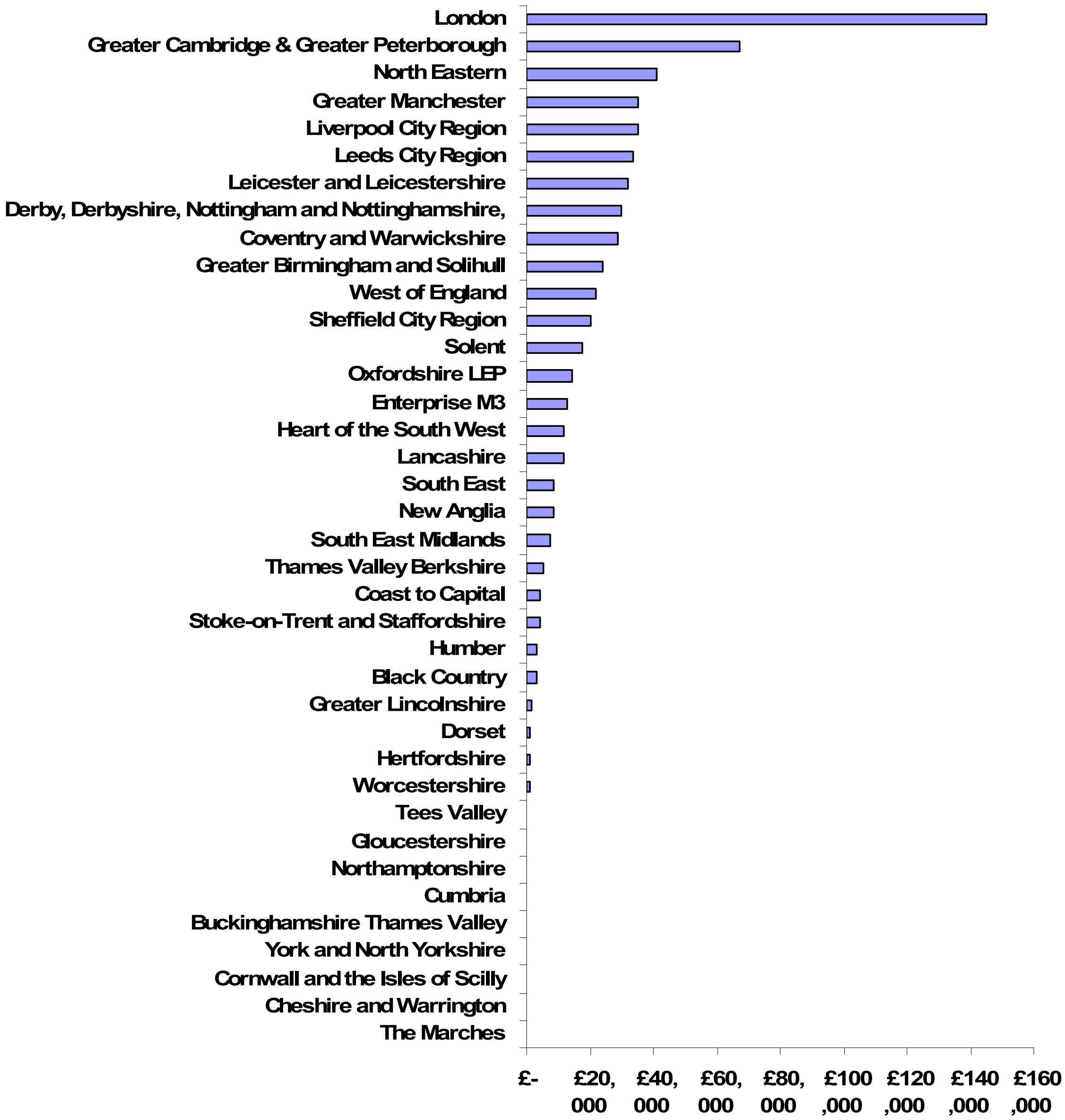


**Figure 48: Cash value of collaborative research England in 2011/12 (figures are estimates due to overlapping LEP boundaries and in £000's)**
*Source: HE-CBI*

6. The reasons for geographical variation in levels in investment in innovation are complex and long standing:

- the relative concentration of more productive economic activity and more knowledge intensive industries in London, the wider South East and the larger cities;
- geographical concentration of genuinely world class research intensive universities and research campuses, such as those at Daresbury, Harwell and Babraham, which provide access to advanced facilities and expertise, provide homes to high-tech companies and are magnets for investment;
- programmes such as the EU Framework Programmes and many of the UK's investments in research and innovation, including those funded by the Research Councils and the Technology Strategy Board, are targeted deliberately to centres of research excellence, largely irrespective of their location; and

- the economic geography of England is highly complex and diverse. The concentration of industrial sectors differs markedly in different parts of England.[177] Naturally, the scale and potential scope for innovation in rural areas is significantly different to that in those parts of England where, for example, advanced manufacturing, life sciences, aerospace and automotive industries predominate.

7. The recent Future of Farming Review (which focused on England) considered that the low numbers of farmers retiring or exiting from agriculture is restricting the opportunities available for new entrants to enter and progress through the sector. There is a loose link[178] between an increase in the age of farmers and a decreasing willingness to continue training that may support the take up of innovative practices and technologies. Risk averse farmers and foresters may not easily take up, or follow early adopters of, unproven techniques/ technology. In addition poor confidence in the profitability of the farming and forestry sector, and other external factors, can make them even less willing to accept the risks associated with innovation. It can also result in lack of workforce succession planning. With the average age of farmers in England continuing to rise there is an opportunity to undertake specific, targeted interventions to assist new entrants entering the industry and remove barriers to exit, facilitating a more innovative, entrepreneurial workforce where possible.

**National policy context**

8. The UK chapter sets out the main overarching policy context, including the UK's Innovation and Research Strategy for Growth. It also highlights the key UK-level interventions, including the tax incentives to encourage companies to increase their investment in research and innovation. These are complemented by substantial capital for Research Councils, large facilities and the Technology Strategy Board, which is the UK agency responsible for promoting business-led innovation in technology.
9. In addition to the UK strategy for Agricultural Technologies, the Government is in England supporting a Sustainable Intensification Research Platform to drive applied research and improve translation of research into practice.

**Objectives and results for ESI Funds**

10. Recent policy developments and UK funding programmes are increasingly designed to support the commercialisation of research. However, large elements of the UK's ongoing science and research budgets will be invested in excellent 'pure' and 'blue skies' research. This continuing focus on excellence is likely to lead to a continuing geographical concentration of innovation investments in specific parts of England which are already performing well.
11. ESI Funds investments should therefore complement domestic policies by providing leverage to encourage the further commercialisation of research, especially in those parts of England which have relatively low levels of R&D&I investment.
12. Consideration of the range of development needs and growth potentials in the context of national policy suggests the following objectives for the ESI Funds in England:

[177] As evidenced in the 'heat maps' published within the Witty Review
[178] Further details at: https://www.gov.uk/government/organisations/department-for-environment-food-rural-affairs/series/farm-business-survey

| **Investment Priority** | **Specific Objectives** | **Result indicators** |
|---|---|---|
| Strengthening research, technological development and innovation by:<br>(b) promoting business investment in R&I, developing links and synergies between enterprises, research and development centres and the higher education sector, in particular promoting investment in product and service development, technology transfer, social innovation (see below), 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 | Increase the number innovative new products and processes brought to the market by supporting businesses to invest more in innovation, especially in those areas with relatively low levels of gross expenditure on R&D as percentage of GDP | • Number of businesses that are actively innovating to bring new products to the market |
| | Increase collaborative research between enterprises, research institutions and public institutions | • Further embed innovation and build greater value chain connections within and across relevant functional economies, especially with the use of those enabling technologies that transfer across sectors (Smart Specialisation result) |
| | Increase the capacity of physical innovation infrastructure, particularly in those areas which trail the EU target. | • Number of businesses that are actively innovating to bring new products to the market |
| For the farming and forestry sectors, EAFRD will focus on encouraging innovation by supporting the use of new technology and practices through better collaboration between land managers, supply chains and research institutions. | Facilitate improved uptake of technological innovation, through support for knowledge exchange and collaboration between farmers piloting new technology.<br><br>Increase the uptake of improved, innovative business practices, and better cooperation between farm businesses as well as providing support for new entrant farmers in the early years of developing their business. | • Increase in cooperation in the farming and forestry sectors (EAFRD) |

13. Social innovation is the process of finding and implementing new ways to tackle major problems that affect society as a whole or specific groups. It draws on the determination and knowledge of local communities, of voluntary organisations, or of social

entrepreneurs, alongside businesses, individuals and researchers. It seeks to deliver better social outcomes by drawing on their collective resources of time, skills, networks and relationships, often using new technologies, to build scale and spread change.

14. Whilst Social innovation is not a 'cross-cutting' theme, European Regulations require that social innovation is promoted across the European Social Fund. Social innovation can also be supported on an optional basis with the European Regional Development Fund under the Thematic Objectives of Research, Development & Innovation and SME Competitiveness.
15. The approach to Social innovation in England has 3 potential component elements:
    - The active leadership and involvement of groups of local people at all stages of the life cycle of a project. This is a key component of social innovation.
    - 
16. And at least one of the following desirable elements:
    - The development of innovative ways of working which are more socially aware, leading to delivery of greater commercial or non-commercial value that is capable of greater scale and/ or wider use; and
    - The exchange of knowledge between research centres, businesses and other organisations to develop and bring new/ different products and services to the market or to wider use.

**Priorities for investment**

*Growth Programme*

17. Every single LEP area is seeking to invest in the Research, Development & Innovation thematic objective. The total value of proposed ESI Funds investment under this thematic objective is £679 (€773[179]) million[180]. This figure includes 22.2% of all ERDF investment in 2014-20.
18. Most LEPs are planning to use just over 20% of their ESI Funds allocations for innovation investments. As the LEP areas with the largest total ESI Funds allocations tend to have the lowest levels of innovation activity, the actual values of innovation investments will be highest where innovation levels are lowest and needs correspondingly greatest (predominantly rural and more economically deprived post-industrial areas in the North, North West, West and South West).
19. Investments in this thematic objective will be brought forward by LEPs and partners within the strong context of Smart Specialisation. Details are set out in 'Smart Specialisation in England'; a document submitted as a separate but complementary document to the ERDF Operational Programme.
20. LEPs and partners have selected a limited number of priorities for investment in innovation:
    - Many LEPs and Partners see opportunities to benefit from, and contribute to, the priority sectors and 8 Great Technologies identified in the Government's Industrial Strategy which are most relevant to their LEP areas. Approximately 50% of local partners are also seeking invest in local specialist sectors or niche technologies. Many rural partners see the benefits of investing in new agricultural technologies;
    - Many LEP areas are strengthening their systems of collaborative leadership for innovation; the more active engagement of universities is very evident. Many LEPs

[179] Exchange rate €1=£0.8562
[180] It is understood that a number of LEPs are seeking to increase their allocations to TO1 when submitting their final EU SIF Strategy.

and partners are keen in principle to collaborate with partners in other LEP areas including firms and universities with similar sector specialisms;

- Approximately half of all LEP areas identified the economic potential of new jobs and growth resulting from an ageing population in England. They are seeking to invest in partnership with the Academic Health Science Networks to benefit from technological capacity of the National Health Service; and
- A number of LEP areas identified the opportunities of working with groups representing civil society in new forms of social innovation in support of a number of Thematic Objectives.

21. Investments under other thematic objectives will also support innovation, especially in the SME Competitiveness thematic objective where it can be expected that elements of large Financial Engineering Instruments will target ‘proof of concept’ and technology based firms. Innovation is also an important component activity within the Low Carbon Economy thematic objective.

*Rural Development Programme for England*

22. For the Farming and Forestry sectors support for innovation under the next RDP will build on and complement existing investments. For instance, the UK Strategy for Agricultural Technologies set out the importance of knowledge transfer in improving farming innovation, and in England the Government expects to fund European Innovation Partnerships Operational Groups. These bring a range of actors, especially farmers and researchers, together to support the swift practical application of research and innovation results. Government expects for example that some input will be needed to connect producers with researchers and others who are interested in exploring the same issue or topic. This may be done by funding an individual or individuals or an organisation to act as a contact point and make the links.
23. The Government also expects that co-operation, for instance along the supply chain, and support for innovation will be key features of a new Farming and Forestry Productivity Scheme in the next RDP. This might include investment in physical assets such as buildings or apparatus that support innovative practice, especially when such investment is linked to participation in a project to drive innovation, such as that undertaken by an EIP operational group.
24. For the next CAP period, Government is exploring greater provision of advice to farmers as an important part of driving better farming practices, environmental improvement and innovation in farming.

## ENHANCING ACCESS TO, AND USE AND QUALITY OF, INFORMATION AND COMMUNICATION TECHNOLOGIES

### Development needs and growth potentials across England

25. The Digital Agenda for Europe has three goals particularly relevant to the discussion in this section:

- the entire EU to be covered by broadband above 30 Mbps by 2020;
- internet speeds of 100 Mbps to half of all households by 2020; and
- 33% of SMEs to make online sales by 2015.

26. In England, 76% of premises could access superfast broadband in 2013, up from 68% in 2012. However, there is wide variation in coverage in different types of area in England: 24% in rural areas, 79% in semi-urban areas, and 89% in urban areas.[181] Ofcom data for 2013[182] also shows areas with relatively low numbers able to access superfast broadband. The lowest being; Rutland (7.2%); Kingston upon Hull (12.1%); East Riding of Yorkshire (21.6%); Cumbria (26%).
27. The data also shows there are some areas of England where the percentage of those with a broadband connection are receiving less than 2Mbit/s is relatively high; Herefordshire (18%); Rutland (17.6%); North Lincolnshire (16.6%); and Milton Keynes (15%).
28. As well as disparity in supply of broadband, there is a development need in terms of **SMEs fully exploiting the opportunities of broadband and ICT**.

### National policy context

29. Currently no Local Authority area is expected to reach 100% coverage through private sector investment alone. In particular, the cost of infrastructure deployment in hard to reach and remote areas increases substantially. These areas often include out-of-town business parks and clusters of remote businesses where significant economic, social and environmental benefits would be delivered through superfast broadband provision.
30. As noted in Chapter 1, Government is investing alongside English local authorities through its current Rural Broadband Programme to address this market failure. Drawing on 2007-13 European funding programmes, £720m is being invested to provide superfast broadband to 90% of England. The UK chapter also set out that the Government has also announced further £250m, to be matched locally, to extend superfast availability to 95% of the UK by 2017; £210m of this funding will be made available in England.

In addition to the initiatives set out in the UK Chapter, the UK Government created a new computer curriculum for schools in England in order to improve the number and quality of computer science graduates.

### Objectives and results for ESI Funds

31. ESI Funds could deliver significant economic impact in England by match funding the Government investment to extend superfast broadband in areas where the market has failed. In particular, ESI Funds could help increase overall coverage to 95% and support delivery of 100% coverage in some areas, in line with the Europe 2020 target. In addition, the ESI Funds should support SMEs to embrace e-commerce and increase the number of SMEs trading online.
32. In summary, consideration of the range of development needs and growth potentials in the context of national policy suggests the following objectives for the ESI Funds in England:

[181] Ofcom 2013 UK Communications Infrastructure Report, October 2013
[182] Further details at: http://maps.ofcom.org.uk/broadband/broadband-data/

| Investment Priority | Specific Objectives | Result indicators |
|---|---|---|
| Enhancing access to, and use and quality of, ICT by:<br>(a) extending broadband deployment and the roll-out of high-speed networks and supporting the adoption of emerging technologies and networks for the digital economy (ERDF); and<br>(b) developing ICT products and services, e-commerce, and enhancing demand for ICT (ERDF).<br><br>Upgrading rural business communities' digital skills and to enable them to provide evidence of demand for superfast broadband to encourage private sector providers to establish services commercially (EAFRD). | Increase the coverage of superfast broadband in areas where the market is failing, particularly where this is creating a barrier to SME growth (all SMEs to have access to superfast broadband) | • Percentage of premises with access to superfast broadband.<br>•<br>• Percentage of rural population benefitting from new or improved IT infrastructure including superfast broadband (EAFRD) |
| | Increase the number of SMEs using and having access to digital technologies including trading online | • Percentage of SMEs making online sales |

33. Results under this objective will support other objectives such as innovation, increasing SME competiveness, low carbon protecting the environment and climate change. Action is also dependant on skills support.

**Priorities for investment**

*Growth Programme*

34. 26 LEP areas have proposed investments under this thematic objective. The investments have a total value of around £163 million (around 2.8% of LEPs; ESI Fund allocations). Consistent with the intervention logic provided to them, LEP areas' proposals are for increased broadband deployment and for support for SMEs around e-commerce.
35. Many of the LEP area proposals have identified that further roll-out of superfast broadband is a high priority in order to enable SMEs to have the access they need to the internet in order to improve business productivity and increase trade, including at the international level. In areas where this is not in commercial roll-out plans, the local partners propose further support to make the investments viable to the private sector.

## Enhancing the Competitiveness of Small and Medium Enterprises

**Development needs and growth potentials across England**

36. Encouraging entrepreneurship and support for SMEs are key priorities for Europe 2020. While there is no specific Europe 2020 headline target for this thematic objective, the European Council has recommended that the UK improves the availability of bank and non-bank financing to SMEs and explores with the market ways to improve access to non-bank financing such as venture and risk capital.
37. As noted in the UK chapter, SMEs in England operate in one of the best business environments in the world. SMEs deliver a combined turnover of just under £1,600

billion at the start of 2013, which is almost half of all private sector turnover. Overall SMEs have experienced faster growth in their productivity and are narrowing the gap with large firms. In 2011 GVA per employee in England, for large firms was £51, 000, whilst for SMEs it was around £43,600.

38. Although overall levels of SME competitiveness are good, **there remain wide regional disparities in enterprise activity across England**, with London and the South East continuing to lead:

- in terms of productivity, SME GVA per employee in England in 2011 was on average £43,600. Average SME GVA per employee in London and the South East were £65,000 and £44,500 respectively. Average SME GVA per employee in other areas ranged from £33,300 in the North East to £42,000 in the East of England;
- a disproportionately large fraction (over a third) of those employed in SMEs in England are found in London and the South East.

39. Agriculture in England generates £7.2bn in GVA, which represents 0.6 % of national GDP. It employs 228,000 people, 0.9 % of total employment[183.] . We know that farm businesses in England that undertake activities such as budgeting, financial monitoring and benchmarking are generally higher performers than businesses that do not undertake these activities (Farm Business Survey, (FBS)). Around half of farmers have indicated that they are not interested in employing business management practices while less than 20% of farmers carry out some form of benchmarking activity (FBS 2011/12).

40. In rural areas 73% of people employed in registered businesses work for small or medium sized enterprises (less than 250 employees), compared to urban areas where the proportion is 39% (2012/13). This indicates the importance of smaller businesses to the growth and employment opportunities in rural locations[184].

[183] DEFRA, (2012), *Agriculture in the UK* statistics for 2011
[184] Further details at: https://www.gov.uk/government/publications/statistical-digest-of-rural-england-2013

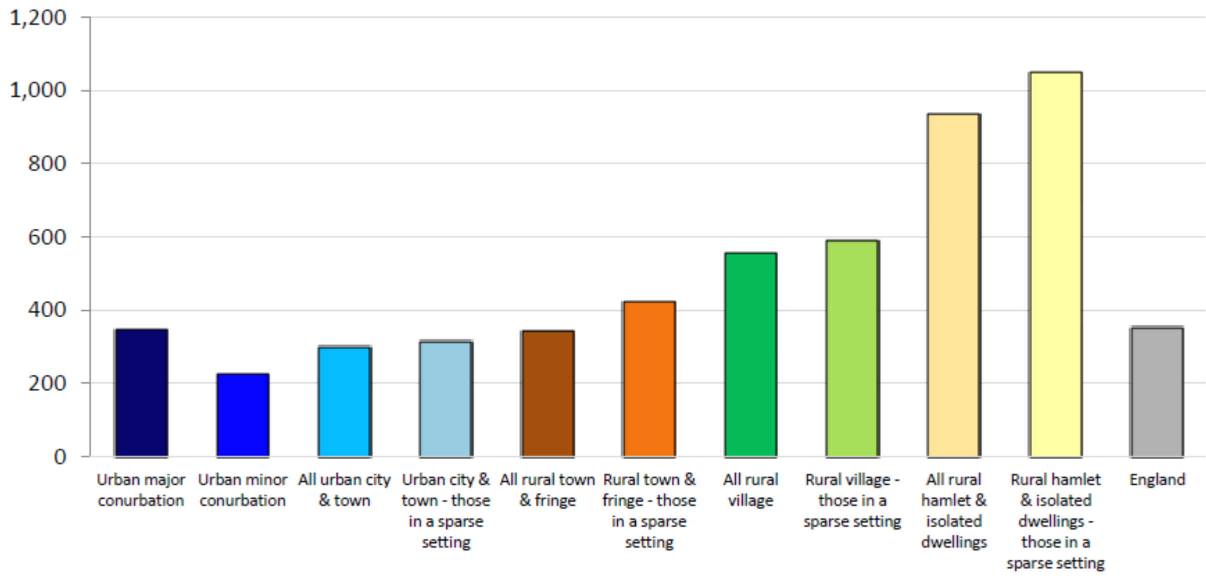


**Figure 49: Percentage of employed within registered businesses (single-site or headquarters) by size bands and settlement type, in England 2012-13**

*Source:* *https://www.gov.uk/government/publications/statistical-digest-of-rural-england-2013*

41. Across England, there are disparities in entrepreneurism, measured in terms of business start-ups, in some areas and amongst some groups:

- 37% of the number of start-ups in 2013 were located in London and the South East, while LEPs in the north contributed around 23%[185];
- despite the fact that the proportion of working age adults in the UK that were either setting up or running a new business increased from 5.5% to 7.1% between 2008 and 2013, some groups are particularly under-represented in enterprise relative to their share of the overall population, notably:
    - women, 18% are majority women led); and
    - minority ethnic groups, 6.2 % are minority ethnic group led[186] but make up approximately 14% of the population in England).[187]

42. SME growth continues to be significantly lower than the level of growth ambition. 68% of SME employers have an aspiration to grow over the next 2-3 years, but only about a third of SME employers surviving for three-years or more grow in terms of turnover, and about a fifth in terms of employment. High growth business[188] across England numbered approximately 8535 in 2011 of which 45% were found in just five LEP areas - London, South East, Leeds City Region, Greater Manchester and Enterprise M3. While the numbers of these businesses are low, they contribute disproportionally to both productivity and jobs. Figure 51, looks at how the percentage of high growth business in LEP area varies across England. Compared to the England average of 5.1% only nine LEP areas have a rate higher than this.

[185] Bank search 2013 data
[186] - where women/ethnic minority groups make up more than 50 per cent of the partners or directors in day-to-day control of the business, or where the sole proprietor is a woman/ethnic minority groups . BIS Small Business Survey.
[187] Numbers of women led and ethnic minority led businesses (based on using the latest 2013 BPE estimates with Small Business Survey data) are 880,000 and 303,000 respectively.
[188] High growth businesses are defined by the OECD as those with at least 10 employees and who have experienced growth at an annual average of 20% over a three year period.

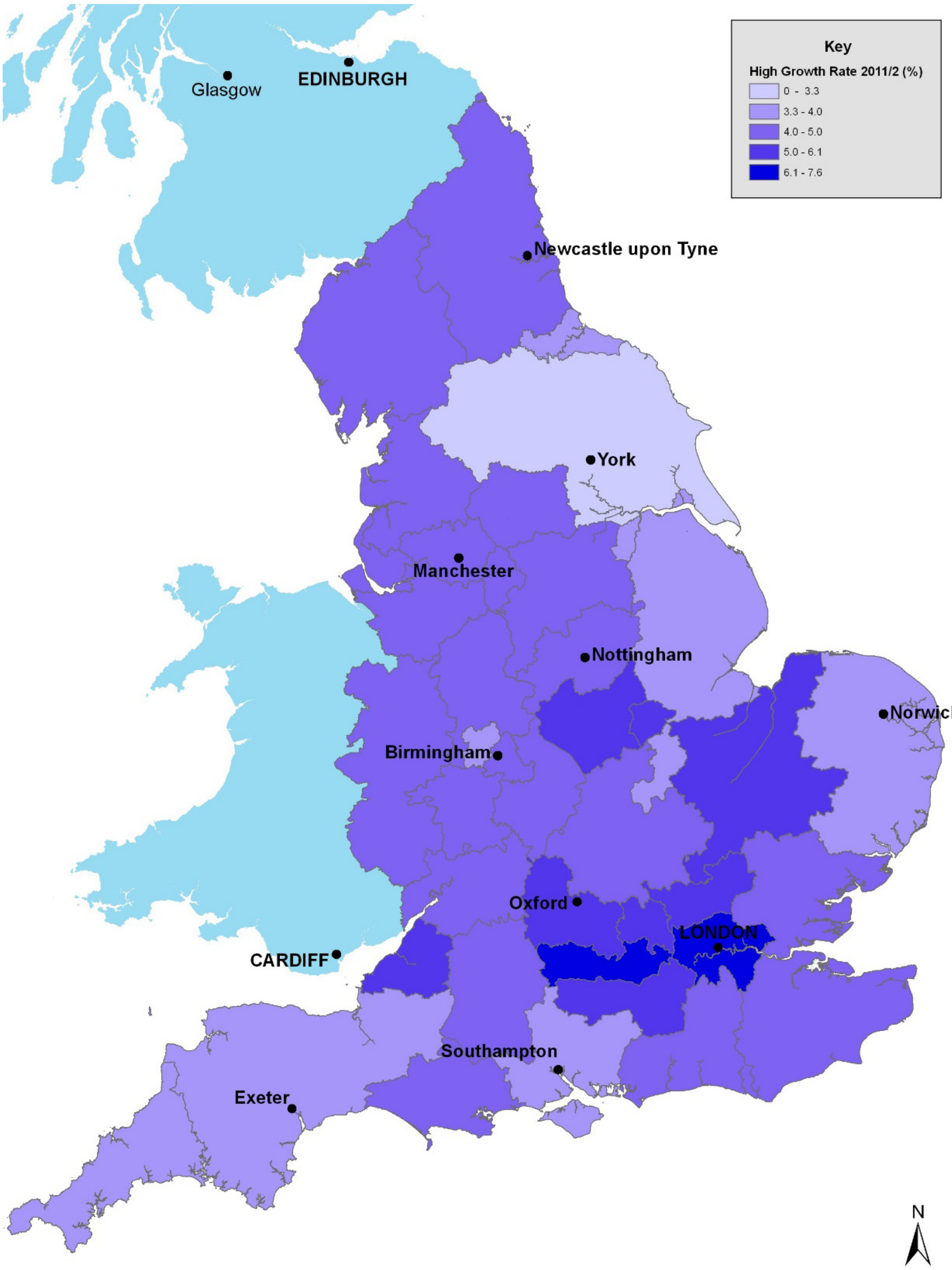




**Figure 50: Map showing % of high growth business as a percentage of business stock across LEP areas in 2011**
*Source: ONS Business Demography publication; the data relates to enterprises with 10 or more employees that were registered for ether VAT and/or PAYE in either 2010 or 2011*

43. **Availability of equity and debt finance for SMEs is key to enabling growth.** The market for venture capital investment is heavily weighted towards London and the South East. This is likely due to industrial mix, a greater culture of seeking venture capital investment and the clustering of venture capital funds. The percentage market gap

appears to be largest in the West Midlands and North West, as well as Yorkshire and the Humber, and smallest in the East of England, South East and East Midlands.

44. The pattern of overall market size for angel investment appears to be similar to that for venture capital, with London (particularly) and the South East being the largest by far. The reasons for this are similar to those mentioned above for venture capital (industrial mix, culture, possibly “investment readiness”), but the location of angels may be more important in this case: business angel investment is generally not “formalised” to the same extent as venture capital, and investment that is less formal and more “personal” is likely to take place closer to home – which will disproportionately be around the South East for the wealthy individuals who make angel investments.

45. The rural economy is not just reliant on agriculture or small scale production, and there are growing manufacturing and service sectors, suggesting it is flexible and adaptive. Businesses in rural areas make a substantial contribution to the national economy. In England they generate around 22% of employment and 19% of Gross Value Added (GVA)[189]. For example tourism is estimated to be worth £96.7bn to England´s economy, taking into account direct and indirect impacts, and supports 2.2 million jobs.

46. However, businesses in rural areas face some specific barriers to growth, including lack of access to high speed internet connection, lack of access to skilled workforce and distance to markets. Deloitte research[190] identified a number of barriers to growth in the tourism sector, including; a lack of joined up marketing to promote places to attract visitors and a lack of investment in staff training. Also businesses in remote, island and upland areas that are not on the mains gas supply and are often blighted by volatile prices from supply of other essential fuel sources such as bottled gas and heating oil. A major barrier that restricts the growth in rural community renewable energy projects is access to finance.

47. The aquaculture sector in England is one where there is significant potential for investment, including new business start-ups, either from the EMFF or from other ESI funds. Most aquaculture businesses are small and medium enterprises and experience the same issues as SMEs in other sectors in accessing finance. Such growth in the English aquaculture sector would help contribute to the needs of EU28 for sustainable seafood supplies to 2020 and beyond.

**National policy context**

48. The key objectives for Government enterprise policy are:

- to focus investment on the smaller number of SMEs with greatest potential to contribute disproportionately to economic growth;
- to build growth capability among SMEs more generally, focusing on the market failures that can hold SMEs back; and
- to foster a more entrepreneurial society in the UK, by reducing barriers to entrepreneurship and supporting entrepreneurs.

49. In ‘Small Business: GREAT Ambition’, the Government sets out how it will deliver these objectives by helping small businesses access finance, employ more staff, develop new ideas and break into new markets, and by freeing them from unnecessary regulation that prevents them from building their operations.

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[189]Statistical Digest for Rural England. Defra. 2013

[190] Further details at: http://www.visitbritain.org/Images/Final%20proof%2015%20Nov_tcm29-39296.pdf

50. Government is also seeking to simplify the landscape for business support. Business support at the local level will be brought together through Growth Hubs – a single place businesses can go to get help. This will improve the coordination of support provided by local public and private sector partners, creating a more streamlined and coherent offer for businesses, based around local needs.
51. As highlighted by the European Council, the availability of finance for SMEs is still an issue in England. As noted in the UK chapter, the British Business Bank, expected to become operational later in 2014 subject to EU State aid approval, will use £3.9bn of resources to unlock up to £10 billion of funding for smaller businesses over the next five years across the UK. It will bring together the management of the Government's existing business finance schemes, including loan guarantee, venture and risk-capital schemes.
52. Government wants to encourage farming and other businesses in the agri-food chain to innovate, impact less on the environment and maximise opportunities for co-operation across the supply chain. This will enable businesses to respond to market demand and increase their competitiveness in domestic and global market places. The objective is to increase the productivity and efficiency of farming and forestry businesses, in order to improve their competitiveness and reduce the reliance of farmers and land managers on subsidies.

**Objectives and results for ESI Funds**

53. In line with the Government's priorities, the objectives for ESI Funds investment under this thematic objective will be to build the pipeline of high growth business, in order that we can maintain/increase the proportion of high growth business, and foster a more entrepreneurial culture. The ESI Funds will support these priorities by addressing barriers in: accessing finance, linkages between skills providers and business, internationalisation, business advice, business incubator provision, access to and exploitation of ICT, supply chain development and sectoral support.
54. As outlined above, disparities in entrepreneurial activity vary across England due to a variety of reasons, from local industrial make up and history to infrastructure, skills and locations of centres of research. Government business support is limited to several national schemes. ESI Funds will be used to address the gaps in national business and finance support by:

- building on national business support offers to provide a more tailored local offering; and
- setting up LEP area or multi-LEP area based business and finance support schemes. By taking a fund of funds approach, these FIs will have the flexibility to target a range of investments from micro-finance through to equity, guarantee and straight forward loan funds.

55. There is no government support in relation to business incubation space. However, Government recognises that at a local level there may can be market failures in provision of incubation space. In these circumstances, ESI Funds can be used to correct this market failure.
56. In summary, consideration of the range of development needs and growth potentials in the context of national policy suggests the following objectives for the ESI Funds in England:

| Investment Priority | Specific Objectives | Result indicators |
|---|---|---|
| Enhancing the competitiveness of SMEs by:<br>(a) promoting entrepreneurship, in particular by facilitating the economic exploitation of new ideas and fostering the creation of new firms, including through business incubators (ERDF);<br>(b) developing and implementing new business models for SMEs, in particular with regard to internationalisation (ERDF);<br>(c) supporting the creation and the extension of advanced capacities for product and service development (ERDF);<br>(d) supporting the capacity of SMEs to grow in regional, national and international markets, and to engage in innovation processes (ERDF);<br>(e) supporting the development and creation of small and micro-businesses in rural areas with innovative development of tourism, food chain linkages and renewable energy (EAFRD); and<br>(f) supporting small and micro farming businesses to take up improved, innovative business practices; diversify including shifting to climate suitable produce and services; cooperate better with other farm businesses and across the food supply chain. And provide support for new entrant farmers in the early years of developing their business (EAFRD). | Build the growth capability of SMEs and in doing so the number of high growth firms | • Number of high growth businesses<br>• Number of business start-ups<br>• Number of SME jobs created<br>• SME productivity (average GVA per employee)<br>• Number of SME jobs created (EAFRD)<br>• |
| | Increase entrepreneurism, particularly in areas with low levels of enterprise activity and amongst under-represented groups | • Number of business start-ups |

**Priorities for investment**

*Growth Programme*

57. SME competiveness will be the highest priority for the 2014-2020 Growth Programme in terms of value of investment. LEPs and local partners have proposed to invest a total of £1,291m (€1,507m) under this thematic objective. This figure represents more than 40% of all ERDF and close to 40% of the EAFRD in the Growth Programme. Local partners' investment proposals are consistent with the ESI Funds objectives set out above. All LEP areas have proposed to allocate funding to support this objective.

58. Most LEP area proposals focus on the following key activities:

- Access to Finance – Approximately £450 million has been set aside for this. There are plans in all LEP areas, bar six, to contribute to an Access to Finance financial instrument. Most LEPs wish to contribute to a pan-LEP regional Access to Finance financial Instrument. Over half of the money proposed has been set aside to finance a new JEREMIE type financial instrument in the three areas covered by existing JEREMIEs (the North East, North West and Yorkshire & Humber). Close to half of the money will be used to develop up to five new JEREMIE type instruments, with current proposals covering the East Midlands, West Midlands, London, South East, and Cornwall. The remaining areas are looking to develop five small stand-alone Access to Finance Financial Instruments. These proposals for Financial Instruments will only be implemented where they are underpinned by a robust evidence base via a formal ex-ante assessment

- Business support – All LEP areas have plans to provide business support to help SMEs grow. Most propose to work directly, or align their own offers, with national business support schemes, including the Manufacturing Advisory Service, Growth Accelerator and UK Trade and Investment.
- Incubation space – Many LEP areas have plans to invest in business incubator space to address local market failures.
- Growth hubs – Many LEP areas mention that growth hubs will be the mechanism for ensuring that support is joined up locally so the offer makes sense to business.[191]

59. LEP areas have also proposed to support SME growth through investments under other thematic objectives, including innovation, ICT, low carbon and skills.

*Rural Development Programme for England*

60. Government intends for businesses in the farming, forestry and other land-based sectors to become more productive, efficient and resilient. For this reason, Government will focus spending on farming and forestry competitiveness where it will have a tangible impact on farm business performance, for example helping farmers innovate, cooperate and diversify and through supporting new entrants.

*EMFF in England*

61. LEP areas with coastal coverage or areas where there is potential to grow or support aquaculture sites can provide assistance to SMEs in these areas. Support could be either be access to additional finance other than EMFF; or through advice on innovation or technological initiatives.

[191] A growth hub is a local public/private sector partnership led by the LEP or Local Authority to deliver co-ordinated business support to local firms. Growth hubs are tailored to local needs but their aims are to:

- raise awareness of business support so that businesses know what help is available and how to access it.
- assess the needs of businesses seeking help so that they are referred to the most appropriate support.
- help businesses make contact with and learn from other businesses through networking and peer to peer forums.

## Sustainable Growth

### Supporting the Shift towards a Low Carbon Economy in All Sectors

**Development needs and growth potentials across England**

62. Figure 52 shows the Europe 2020 headline targets and current performance against these targets levels in the UK and England for this thematic objective.

| Europe 2020 headline target | Current situation in UK | Current situation in England |
|---|---|---|
| Greenhouse gas emissions 20% lower than 1990 | -26.1% | -30.9% |
| Greenhouse gas emissions in sectors not covered by ETS 10% lower than in 2005 | -11.9% | Not Available |
| 20% of energy from renewables | 4.2% | Not Available |
| Reducing final energy consumption by 18%, compared to a 2007 baseline.[192] | -19.7% | Not Available |

**Figure 51: EU2020 comparison table for targets relating to the Low Carbon Economy**

63. However, **across England there is significant variation in carbon emissions, particularly from industrial and commercial sources.** Chapter 1 showed the variation across NUTS1 areas in carbon emissions per capita from different types of activity. Industrial and commercial emissions are significantly higher in the North East and Yorkshire & the Humber (in order) than elsewhere in England. This is due to the concentrations of industry in these areas.

64. **There is significant growth potential in the low carbon goods and services sector in England.** As noted in chapter 1, the global market is worth £3.3trillion of which the UK193 share is £122bn. From 2009/10 to 10/11 it grew at 4.7% in the UK and employs nearly 1million people in 51,000 companies Partly this requires us to support growth in the sector in the UK/England and partly this requires us to support companies to invest in Low Carbon innovation and companies to implement that innovation.

65. **There is significant potential to increase energy efficiency in England**. A good measure of energy efficiency in homes relates to household investment in heat saving measures. The UK currently has 13.5m homes with cavity wall insulation and 16.3m homes with loft insulation of at least 125mm, out of about 27m homes.

66. In relation to energy efficiency in industry, in 2011 UK industry had reduced total emissions by 70.6 MtCO2e since 1990 – a reduction of around 41.5% over 21 years as

[192] The EU level target requires the EU as a whole to reduce primary energy consumption by 20% in 2020 relative to a 2007 baseline. The UK notified the European Commission of its indicative national target for 2020 in April 2013. The target set represents an 18% reduction in final energy consumption, equivalent to a 20% reduction in primary energy consumption.

[193] Where data is not available at the England level then the UK figure is used instead to illustrate the argument.

well as reducing total energy consumption by 48% since 1980 and by 35% since 1990.[194] In England industry reduced emissions by 63.0 MtCO2e (45.3%) since 1990.

67. **There are significant differences in levels renewable investment across England** as shown in figure 53 which also demonstrates the linkage between investment and jobs and the potential to drive future growth via further renewable energy investment).

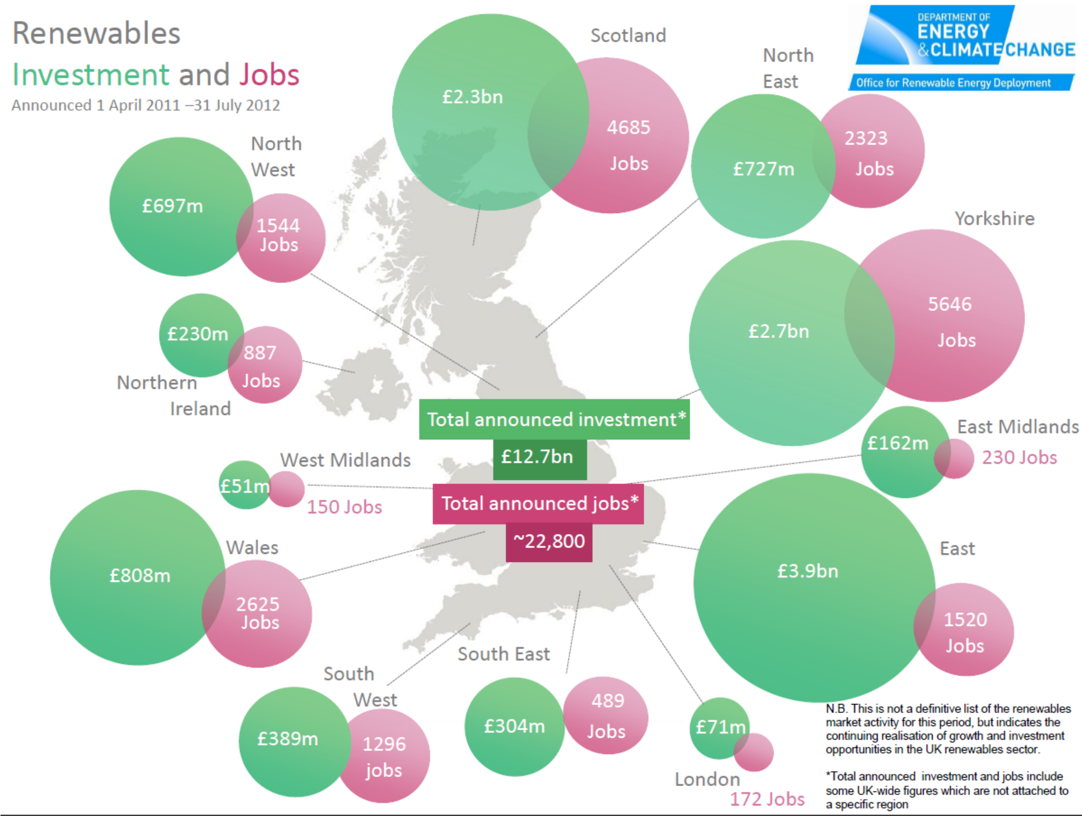


**Figure 52: Renewables investment levels across UK/England**
*Source: Department for Energy & Climate Change*

68. The extent to which agricultural land and forestry contribute to storing carbon is expected to decline. Soil degradation in England (in the form of erosion, compaction and loss of soil organic matter) was estimated in the Soil Strategy for England in 2009 as costing the economy £150-£250m per year (including through lost production)[195]. Currently around 80% of England's peatlands are drained and used mainly for intensive farming in the lowlands, and extensive farming and grouse moors in the uplands, activities which reduce the extent by which they may act as carbon sinks (e.g. under burning rotations).

69. Currently, woodlands in England remove 2.2 million tonnes CO2 equivalent (FC Woodlands Indicator 8), although this is projected to decline over the next 20 years as a result of the age profile of forests and the relatively low level of woodland creation in recent years compared with the 1950s to 1970s (LULUCF GHG inventory projections to 2050). Woodland creation levels are still low (~1,800 ha in 2012-13), but have increased since 2010, largely as a result of Rural Development Payments.

[194] Further details at: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/224130/uk_energy_in_brief_2013.PDF

[195] Further details at: http://www.defra.gov.uk/environment/quality/land/soil/documents/evidence-paper.pdf

**National policy context**

70. Chapter 1 set out the Government's ambitious targets for 2020 to shift the UK to a low carbon economy.[196] Although there are no specific targets for England, policies are in place to both maximise the opportunities and minimise the costs of the transition to a green economy[197] particularly with a view to reducing the levels of Green House Gas (GHG) emissions[198,] increasing the share of renewable energy and enhancing the energy efficiency of homes, business and transport.

71. These include:

- In relation to the **GHG emissions target** key policies are: the Climate Change Act 2008[199]; the UK Carbon Plan[200]; the Carbon Price Floor[201], the Heat Strategy[202]; the Forestry Policy Statement[203]; and the Greenhouse Gas Action Plan for Agriculture[204]
- In relation to the **Renewable Energy target** key policies are: Renewables obligation[205] and feed-in tariff for electricity[206], Renewable Heat Incentive[207], Renewable Transport Fuel Obligation[208]; Electricity Market Reform (EMR)[209] via the Energy Bill; and the Gas Generation Strategy[210]
- In relation to the **Energy Efficiency target** key policies are: Enabling the Transition to a Green Economy and the accompanying Policy Timeline[211]; the establishment of the UK Green Investment Bank; Green Deal; The Energy Efficiency Strategy[212]

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[196] Further details at: http://www.hm-treasury.gov.uk/d/national_reform_programme_2012.PDF
[197] Further details at: http://www.businesslink.gov.uk/Horizontal_Services_files/Enabling_the_transition_to_a_Green_Economy__Main_D.pdf
[198] Further details at: https://www.gov.uk/government/policies/reducing-the-uk-s-greenhouse-gas-emissions-by-80-by-2050
[199] Further details at: http://www.legislation.gov.uk/ukpga/2008/27/contents
[200] Further details at: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/47621/1358-the-carbon-plan.pdf
[201] Further details at: http://www.hmrc.gov.uk/climate-change-levy/carbon-pf.htm
[202] Further details at: https://www.gov.uk/government/publications/the-future-of-heating-meeting-the-challenge
[203] Further details at: https://www.gov.uk/government/publications/government-forestry-policy-statement
[204] Further details at: http://www.ahdb.org.uk/projects/documents/GHGAPDeliveryPlan04April2011.pdf
[205] Further details at: https://www.gov.uk/government/policies/increasing-the-use-of-low-carbon-technologies/supporting-pages/the-renewables-obligation-ro
[206] Further details at: https://www.gov.uk/government/policies/increasing-the-use-of-low-carbon-technologies/supporting-pages/feed-in-tariffs-scheme
[207] Further details at: https://www.gov.uk/government/policies/increasing-the-use-of-low-carbon-technologies/supporting-pages/renewable-heat-incentive-rhi
[208] Further details at: https://www.gov.uk/renewable-transport-fuels-obligation
[209] Further details at: https://www.gov.uk/government/policies/maintaining-uk-energy-security--2/supporting-pages/electricity-market-reform
[210] Further details at: https://www.gov.uk/government/publications/gas-generation-strategy
[211] Further details at: http://www.businesslink.gov.uk/Horizontal_Services_files/Enabling_the_transition_to_a_Green_Economy__Main_D.pdf
[212] Further details at: https://www.gov.uk/government/publications/energy-efficiency-opportunities-in-the-uk

(including Electricity Demand Reduction); the Plan for Growth[213]; the Climate Change Levy & Climate Change Agreements[214], and the CRC energy efficiency Scheme[215]

- In relation to **heating for buildings and industrial decarbonisation** key areas of policy development are detailed within: The Future of Heating: A strategic framework for low carbon heat in the UK[216] plus The Future of Heating: Meeting the Challenge[217].

72. As set out in the UK chapter, transport is also a key contributor to GHG emissions particularly in urban areas (and poor air quality). In England there are a number of initiatives in place to encourage people to leave the car at home. The Government is taking forward a number of initiatives[218] to make these modes of transport more attractive to encourage people to leave the car at home.This includes the Door to Door Strategy[219] which focuses on four priority areas through:

- making use of current and new technologies to give travellers access to the information they need to plan sustainable door-to-door journeys;
- improving ticketing choices and payment options so that more people can travel with a single transaction across multiple modes of transport;
- increasing choice through better connectivity and efficiency on transport; and
- making it easier to change between different modes of transport during a journey.

**Objectives and results for ESI Funds**

73. Given the scale of the challenge in delivering against national targets and the relatively small amount of ESI Funds available, it is important for ESI Funds interventions to be focused where they can add most value

74. The UK and England have reached the EU target level for GHG reductions. National targets for 2020 will be reached through current Government policy interventions. However as demonstrated above the size of the LCEGS sector across the globe is huge. Therefore, ESI Funds should be focused on developing the markets and innovation which will support the shift to a low carbon economy in order to fully realise the economic benefits of this shift.

75. ESI Funds can complement national initiatives to improve energy efficiency of companies, buildings and transport through innovation in low carbon technologies. ESI Funds can also be used to improve the energy efficiency of homes by using the Funds to complement the Green Deal (for example through retrofitting of housing).

76. The need to increase the percentage of energy from renewables to meet EU and UK targets will be met by large-scale investments, for example on/off-shore wind capacity, and small-scale investments, for example micro-generation. Large-scale renewable energy production investment will largely be met through implementation of national policy. Therefore, the main focus of ESI Funds' investments should be on small-scale renewable projects, whole place energy solutions and low carbon innovation.

[213] Further details at: http://www.hm-treasury.gov.uk/ukecon_growth_index.htm
[214] Further details at: https://www.gov.uk/government/policies/reducing-demand-for-energy-from-industry-businesses-and-the-public-sector--2/supporting-pages/climate-change-agreements-ccas
[215] Further details at: https://www.gov.uk/crc-energy-efficiency-scheme
[216] Further details at: https://www.gov.uk/government/publications/the-future-of-heating-a-strategic-framework-for-low-carbon-heat
[217] Further details at: https://www.gov.uk/government/publications/the-future-of-heating-meeting-the-challenge
[218] Further details at: https://www.gov.uk/government/policies/improving-local-transport
[219] Further details at: https://www.gov.uk/government/publications/door-to-door-strategy

77. Rural Development funding will support carbon storage through agricultural and forestry land management: it will target under-managed woodland and support the production of wood fuel, but a key part of that is about improving the condition of woodland with a view to reducing the net future costs to Government of climate mitigation and adaptation actions. Modernised infrastructure with a lower energy consumption will also be supported for farming and forestry businesses. Rural development funding will support carbon storage through agricultural and forestry land management. In summary, consideration of the range of development needs and growth potentials in the context of national policy suggests the following objectives for the ESI Funds in England:

| **Investment Priority** | **Specific Objectives** | **Result indicators** |
|---|---|---|
| Supporting the shift towards a low-carbon economy in all sectors by:<br>(a) promoting the production and distribution of energy derived from renewable sources;<br>(b) promoting energy efficiency and renewable energy use in enterprises;<br>(c) supporting energy efficiency, smart energy management and renewable energy use in public infrastructure, including in public buildings, and in the housing sector;<br>(d) promoting low-carbon strategies for all types of territories, in particular for urban areas, including the promotion of sustainable multimodal urban mobility and mitigation-relevant adaptation measures; and<br>(e) promoting research and innovation in, and adoption of, low-carbon technologies. | Increase innovation in, and adoption of, low carbon technologies | • Increase in the size of the low carbon environmental goods and services sector. |
| | Increase implementation of whole place low carbon solutions and decentralised energy production | • Reduction in carbon emissions in areas with whole place low carbon plans.<br>• Increase in the level of local energy renewables |
| | Increase energy efficiency and implementation of low carbon technologies | • Energy efficiency measures adopted in companies, buildings and transport |
| Use rural development funding to promote lower energy consumption in farming and forestry businesses | Improve energy efficiency in farming and forestry businesses | • Number of operations supported for investments of small scale infrastructure, including investments in renewable energy and energy saving (EAFRD) |
| Use rural development funding to reward land managers where there is market failure for carbon sequestration activities. | Improve carbon storage through agricultural and forestry land management. | • Percentage of agricultural and forest land under management to foster carbon sequestration (EAFRD) |

78. All investments under this thematic objective will contribute to a reduction in GHG emissions. However, GHG emissions have not been included as a result indicator above as the focus of ESI Funds investments will be on delivery of economic benefits

associated with the shift to a low carbon economy and other environmental benefits. Also, it will be very difficult to attribute a specific proportion of overall GHG reductions to ESI Funds investments.

**Priorities for investment**

*Growth Programme*

79. LEPs and partners in England are proposing to invest nearly £594m (€665m) of ESI funds under Thematic Objective 4.

80. There have been a wide range of LEP proposals for action in accordance with the above analysis of needs and desired areas of focus/results. These can be summarised as follows:

- Build the market in Low Carbon Environmental Technologies, Goods and Services:
- Domestic energy efficiency and low carbon construction techniques;
- Adopting Low carbon technologies to build the sector supply chain;
- Focusing on goods and services with embedded low carbon technologies;
- Carbon Capture, Energy Storage and Waste to Energy projects; and
- Knowledge transfer with HEIs and FEIs
- Non Domestic Low Carbon Technologies and Energy Efficiency:
- Energy efficiency via industrial processes, recovery of 'waste' heat, CHP;
- Moving to renewable and low carbon fuels;
- Low carbon innovation in relation to waste; and
- Building retrofit and energy efficiency especially whole building solutions.
- Whole place low carbon solutions:
- Smart Cities, low carbon transport, urban design, smart grids, demand management;
- Decentralised renewable energy, district heating, geothermal, micro-generation;
- Resilient energy infrastructure;
- Green and blue infrastructure to reduce energy requirements;
- ICT to reduce carbon emissions/improve energy efficiency;
- Low carbon modal shift, smart systems, electric/low carbon vehicle infrastructure; and
- Low Carbon financial instruments.
- Innovation and adoption of low carbon technologies:
- R&D, innovation, supply chain work for low carbon technologies/materials;
- Technology centres of excellence and test facilities;
- Renewable technologies in the UK renewable energy roadmap;
- Mitigation related adaptation technologies;
- Low carbon vehicles and fuels; and
- Knowledge transfer with HEIs and FEIs.

81. Many LEP areas are planning action in a wide range of the areas above. LEP area investment in domestic retrofit varies considerably, depending on progress already made in this area particularly in relation to social housing. Most LEP areas are planning a range of actions in relation to non-domestic energy efficiency. Urban LEP areas plan to focus more on whole place low carbon solutions, although investment in natural assets and the multiple benefits that can be delivered by investing in green space and water assets, and investments associated with ICT are often included under different thematic objectives.

82. There are a range of Low Carbon Financial Instruments being proposed, from investment in Low Carbon infrastructure working with Green Investment Bank, through

to a Low Carbon Investment Fund being promoted by the University of East Anglia. Financial Instrument proposals under Thematic Objective 4 amount to investment of nearly £120m of ESI funds.

83. A number of LEPs are proposing investment in Low Carbon innovation and renewable technologies, linked to existing strengths and natural assets in these areas (for example wind/off shore technologies in coastal LEPs).
84. The diverse geography of England enables a variety of renewable energy options to be pursued, including geo-thermal, and several areas already have strengths which the ESI Funds could be used to further develop.

*Rural Development Programme for England*

85. This will include improving management of carbon-rich organic soils and woodland and forests and encourage appropriate land use change to woodland and forestry. Support will also be provided to reduce energy consumption by promoting: small scale anaerobic digestion through training for farmers or funding of ancillary equipment to improve the running of a facility; precision application techniques for water and pesticide and; improved storage of water and slurry.

## PROMOTING CLIMATE CHANGE ADAPTATION, RISK PREVENTION AND MANAGEMENT

**Development needs and growth potentials across England**

86. As noted in Chapter 1 and as identified in the UK Climate Change Risk Assessment published in 2012, the most significant and specific climate change challenge faced by the UK economy is increased flood risk due to increased rainfall and sea-level rise. Flood damages in England have risen by around 60% over the past 25 years and already exceed £1billion per annum in direct costs to communities and business.
87. Figure 54 below sets out a general picture of flood risk across the country. From the scale provided, it is clear that areas at high risk are spread widely, but there are particular issues along the East coast, the West and South Western areas of England.

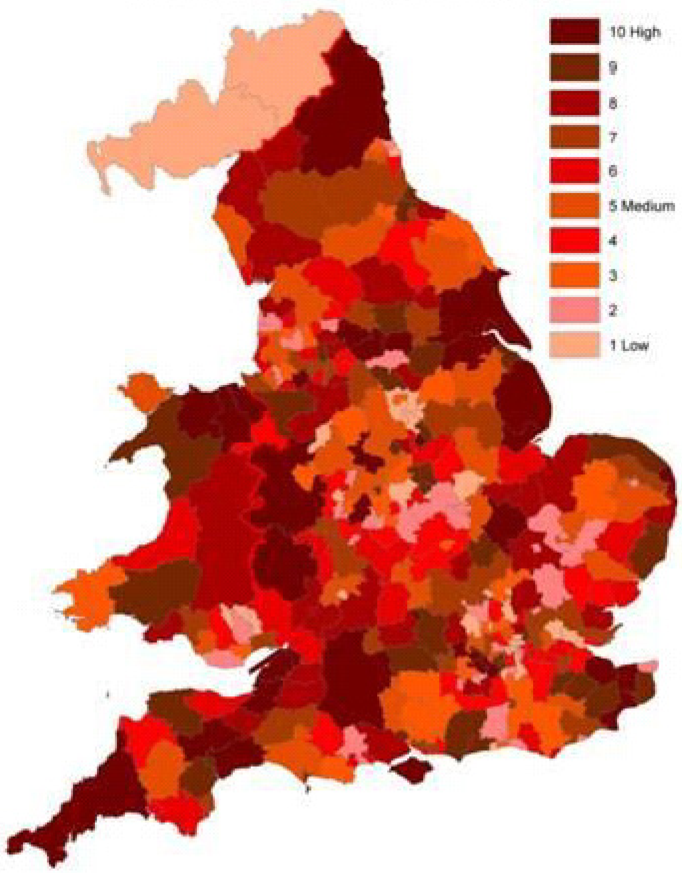


**Figure 53: Estimated Flood Risk damages to English and Welsh Districts**

88. Across England, there are areas of land that are ideal for economic development, either directly or by investment in green infrastructure, but which remain undeveloped due to high flood risk. Specific sites include Hull, Greater Birmingham, Greater Lincolnshire and Cornwall and reflect a mix of urban and rural communities and their associated issues.

89. Qualitative evidence from the Frontier Economic study indicated that flood and coastal erosion has a greater impact on SMEs than on larger businesses – Government is running some pathfinder projects to explore how case study can support this.Government is also funding economic research to aid understanding of the contribution flood risk management makes to economic growth and initial findings from this show that small all and micro-businesses tend to be less resilient to the impact of flooding because of the reduction in flexibility in using resources at their disposal.

90. The *Climate Change Risk Assessment* [220] identifies floods, changing rainfall patterns and increased temperature as the major threats to the rural economy and agriculture. All these threats can severely affect agricultural production and might require changes in agricultural practice.

[220] Further details at: https://www.gov.uk/government/publications/uk-climate-change-risk-assessment-government-report

**National policy context**

91. The National Adaptation Programme[221] recognises that the extreme events, such as the flooding which occurred in 2012, 2013 and early 2014, or the drought of early 2012 are likely to become more frequent and more severe in the coming decades, bringing potential disruption to the economy. The most urgent risks are associated with flooding.

92. The National Flood and Coastal Erosion Risk Management (FCRM) Strategy for England provides a framework for domestic policy as well as delivery of the Flood Directive in England. Its overarching aim is to ensure that flooding and coastal erosion risks are managed and co-ordinated, so that impacts are minimised.

93. Defra will be making record levels of investment in capital improvement projects; £370m in 2015/16 and then rising to over £400m in 2020/21: - more than £2.3 billion invested in capital over a 6 years period.

94. Over half of this spending is classified as capital and will be spent on the construction of schemes, new developments in flood forecasting and on flood warning systems. The remainder (revenue spend) is primarily spent on maintaining flood defences and emergency planning and response.

95. Risk Management Authorities (e.g. Environment Agency, Local Authorities, Water companies) work in partnership with local communities to prioritise domestic funding for FCRM. Investments are made in both hard and soft infrastructure - Government policy is that all potential options should be assessed when considering approaches for managing flood risk. This includes flood management schemes that work with natural processes, such as planting trees in uplands or restoring peat bogs.

96. The Government introduced Partnership Funding to make sure that investment is not constrained by what Government alone could afford to do, to increase certainty and transparency over the level of Government funding for each project, leverage further investment towards worthwhile projects, allow a greater level of local ownership and choice, encourage more cost-effective solutions, and better target central Defra funding toward areas at significant risk and deprivation.

97. These investments are focused primarily on protecting domestic housing as is the new proposal to ensure availability of affordable home insurance to those living in areas at high flood risk. Partnership Funding Schemes focused on economic growth require greater investment from external sources to meet the costs of delivery.

98. Drawing on the findings of the CCRA, the National Adaptation Programme covers a range of actions to increase the resilience of agriculture, forestry and the natural environment to climate change and allow it to seize emerging opportunities. To address the issue of unsustainable abstraction, Defra is continuing to work with licence holders to reduce the amount of water taken from the environment through the Environment Agency's Restoring Sustainable Abstraction programme. In the longer term Defra is reforming the abstraction regime to make it more resilient to the challenges of climate change and population growth.

99. Defra is currently developing the next English Rural Development Programme for 2014-20. This will be a major opportunity to invest in the rural environment and farming competitiveness and has adaptation embedded in it as a cross-cutting theme.

[221] Further details at: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/209866/pb13942-nap-20130701.pdf

100. Flooding is projected to have significant negative impacts on UK agriculture. Actions identified to help reduce flood risk include maintaining good soil quality, protecting peatlands and government working with the Association of Drainage Authorities. Internal Drainage Boards manage drainage ditches and pumping stations that help protect 9.7% of England. Half of this is grade 1 agricultural land and this drainage system also protects over half of our energy generation capacity and important transport infrastructure from regular flooding.

101. The implementation of soft engineering measures can slow and retain water on the hillside reducing flood risk downstream and helping maintain summer base flow in rivers. Investment in green infrastructure is another important method to reduce flood risk identified in the NAP, with additional benefits for urban overheating and air quality.

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**Objectives and results for ESI Funds**

102. As set out above, nationally-funded FCRM programmes prioritise domestic housing. ESI Funds could be used to contribute to capital or green infrastructure schemes to enable sustainable economic development in areas where flooding risk causes demonstrable market failure. In particular, ESI funds investments should bring land ideal for economic development into use providing opportunities for economic growth and building resilience.

103. ESI Funds could be used to allow SMEs to fully take advantage of the Government's partnership funding approach by providing extra support to enable an increase in targeted to business schemes to go ahead where the local community needs to leverage additional funding from external partners and businesses.

104. Investment in appropriate flood (and coastal erosion) risk management measures will make a significant contribution to adapting local environments to the impacts of climate change. It will help to ensure that the local economies of many of England's most vulnerable communities are made more resilient and able to support sustainable and convergent economic growth.

105. **Climate change adaptation will be programmed in the Rural Development Programme as an overarching objective.** Support will be provided to the land based sector to increase resilience of food production, through a number of adaptation measures such as water and soil management, improved silviculture and training and knowledge transfer on how best to manage the risks associated with a changing climate.

106. In summary, consideration of the range of development needs and growth potentials in the context of national policy suggests the following objectives for the ESI Funds in England:

| Investment Priority | Specific Objectives | Result indicators |
|---|---|---|
| Promoting climate change adaptation, risk prevention and management by promoting investment to address specific risks, ensuring disaster resilience and developing disaster management systems (Article 5b) | Enable economic development through investment in flood and coastal risk management where there is demonstrable market failure | • Amount of industrial land available for development as a result of ESI Funds intervention.<br>• Number of business start-ups in previously vulnerable areas. |
| Supporting greater resilience in the land based sectors in terms of projected long term trends and increases in extreme weather events. | To increase farm, forest and ecosystem resilience to the projected impacts of climate change. | • Climate change adaptation and mitigation will be programmed in the Rural Development Programme as an overarching objective.(EAFRD). |

**Priorities for investment**

*Growth Programme*

107. LEP areas have proposed to invest a total of £80m (€93m) specifically on FCRM. This figure represents 2.6% of all ERDF and 1.1% of the EAFRD element of the Growth Programme. LEP area investment proposals are consistent with the ESI Funds objectives set out above. Figure 55 shows that investment proposals are very much focused on those areas at high risk of flooding, and where there is significant need to stimulate economic development (low GDP per capita). Specific proposals include:

- Humber
- Yorkshire
- Greater Lincolnshire
- Cornwall and Isles of Scilly

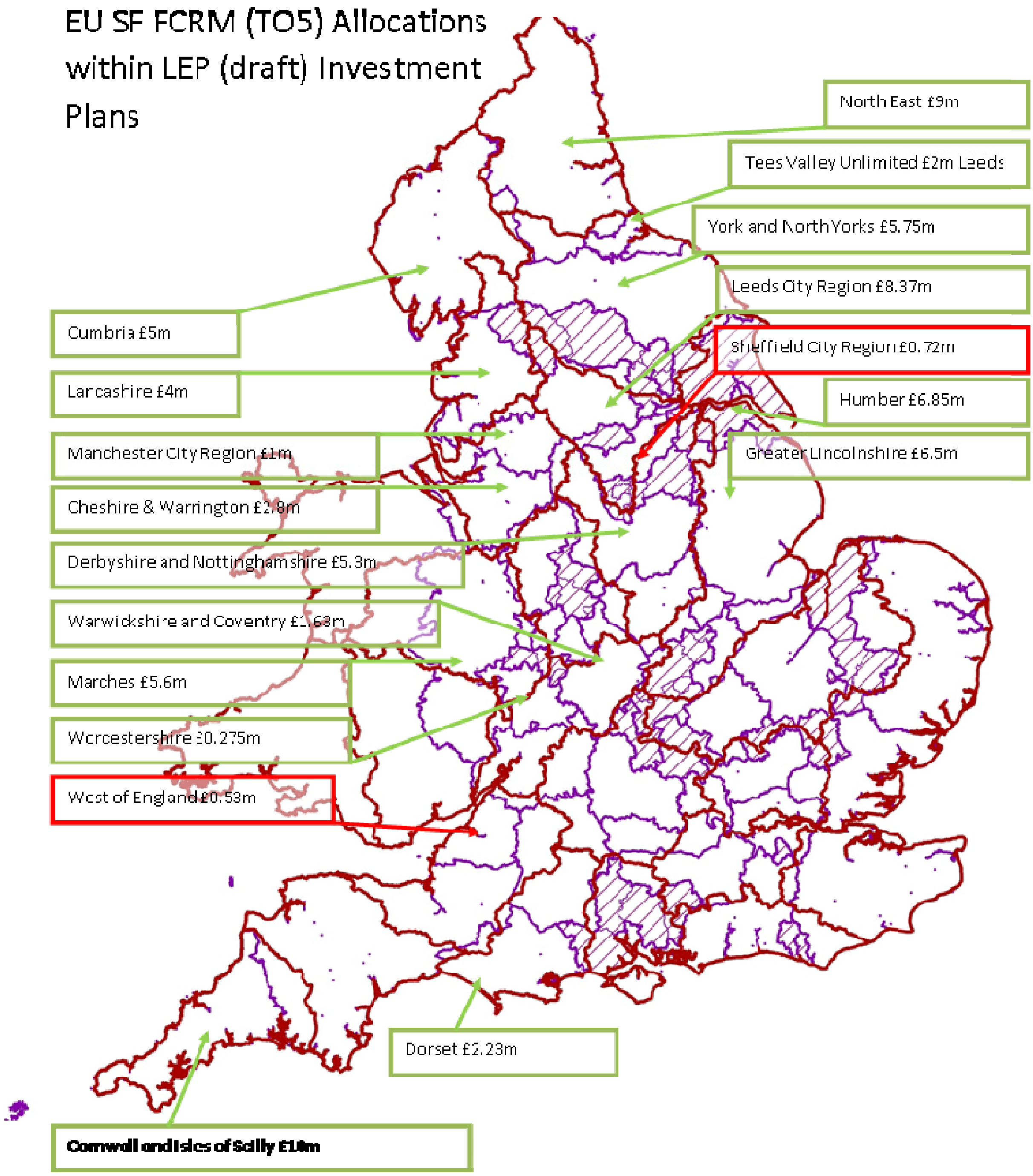


**Figure 54: Distribution of LPE Flood and Coastal Erosion Risk Management investments**
*Source: LEP Strategies*

108. LEP area investment proposals around FCRM to enable economic growth are generally in areas where prospects for developer contributions and private sector investment into FCRM are weakest. In these areas, the need to correct the market failure is even more acute. It is expected that public sector funds will be used as match for ESI Funds investments.

*Rural Development Programme for England*

109. Examples of activities that RDP may support include:

- Protection and restoration of peatlands with the associated wider benefits for water quality, soils and biodiversity;
- Low and zero tillage farming methods and other sustainable soil management practices through advice, training and investment in physical assets;
- Better and more appropriate on-farm drainage and water storage; and
- Training and knowledge transfer on how best to manage the risks associated with a changing climate and build resilience in farming and forestry businesses.; and
- Factoring in projected changes in rainfall when deciding the best options for storing and applying fertiliser or pesticides.

## Protecting the Environment and Promoting Resource Efficiency

### Development needs and growth potentials across England

*Protecting the Environment*

110. Chapter 1 set out the need for the ESI Funds to protect the natural environment and ensure efficient usage of resources. The Ecosystem Markets Task Force report[222] urges business to integrate the real value of nature into their thinking, noting that it is as vital to invest in these services as we would in innovation or infrastructure. For the economy as a whole such a shift in understanding should drive innovation, improve resilience and enhance competitiveness. The Natural Environment White Paper concluded that evaluating the state of the natural environment should be considered at a scale that reflects natural boundaries and features, rather than sub-national levels, such as by LEP areas.

111. Over 70% of England is farmed land, containing a mix of intensively managed and semi-natural habitats. The market fails to provide public goods (such as landscape amenity or a thriving wildlife) and mitigate negative environmental impacts associated with land management activities (farming and forestry). In addition to the habitats that feature in the farmed landscape, networks of multi-functional green space, urban and rural, can deliver a wide range of environmental and quality of life benefits for local communities[223]. These are usually referred to as 'Green Infrastructure'.

*Biodiversity*

112. Despite improvements overall we are currently below the trajectory for achieving our Biodiversity 2020 targets of 50% of our Sites of Special Scientific Interest (SSSIs)[224] to be in favourable condition by 2020[225]. Many species are declining in population and

[222] Realising nature's value: The Final Report of the Ecosystem Markets Task Force. March 2013
[223] National Planning Policy Framework
[224] In England, all Special Areas of Conservation designated under the European Birds and Habitat Directives are also Sites of Special Scientific Interest (SSSI) . A SSSI is one of the country's very best wildlife and/or geological sites.
[225] Further details at:
https://docs.google.com/file/d/0B9V3MFss6gRxVi1QY1hQOUpxMmc/edit?usp=sharing&hl=en-GB&forcehl=1&pli=1

across our best-known groups, about a quarter of all species are at historically low levels or significantly threatened[226].

*Air quality*

113. High levels of atmospheric nitrogen are one of the factors that have driven the observed decline in farmland biodiversity through encouraging the dominance of competitive nutrient demanding species. Ammonia emissions have increased slightly in recent years and are projected to fall by only 8% between 2005 and 2020. Agriculture accounted for 82% of ammonia emissions in 2011. Nearly all LEP areas face challenges concerning nitrogen critical loading and critical levels for ammonia concentration. Figure 56 compares LEP areas with those parts of England which exceed the upper and lower critical levels for ammonia concentration (1 ug/m3 and 3 ug/m3). The 1 ug/m3 is protective of lichens and bryophytes (where they form a key part of the ecosystem integrity); the 3 ug/m3 critical level is protective of other vegetation. The former is widely exceeded.

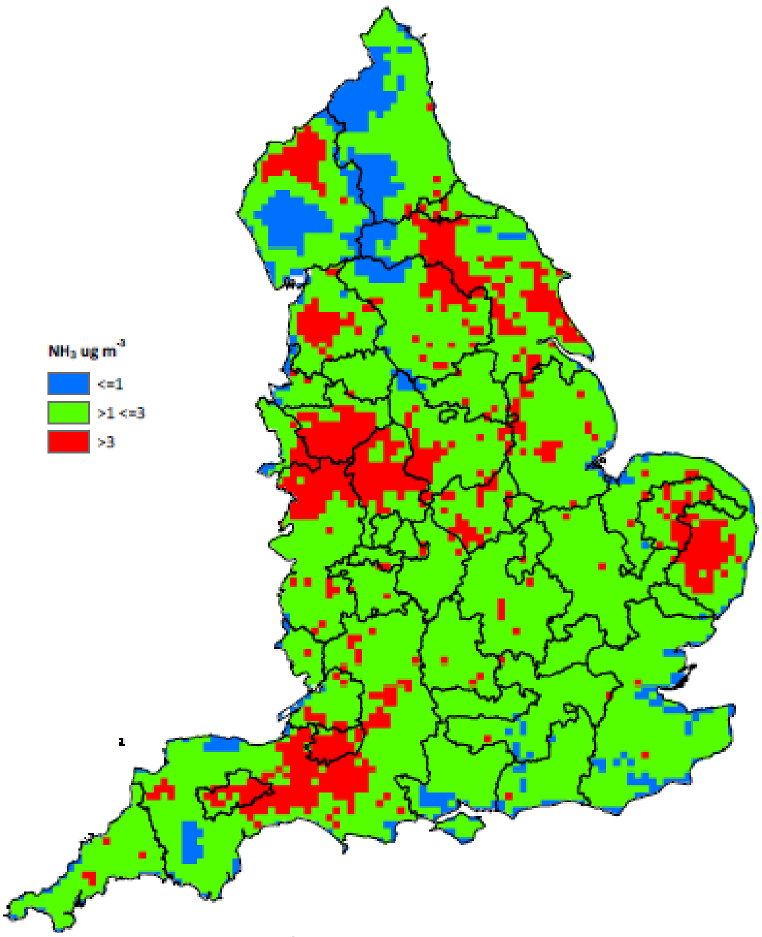


**Figure 55: LEP boundaries overlaid on CBED 5x5km NH3 concentration data mapped in critical level class intervals**

*Source: Defra 2012*

114. Figure 57 compares LEP areas with the locations of sensitive habitats that are at risk due to the nutrient nitrogen critical load being exceeded.

[226] Natural England (2010) *Lost life: England's lost and threatened species*. Sheffield: Natural England.

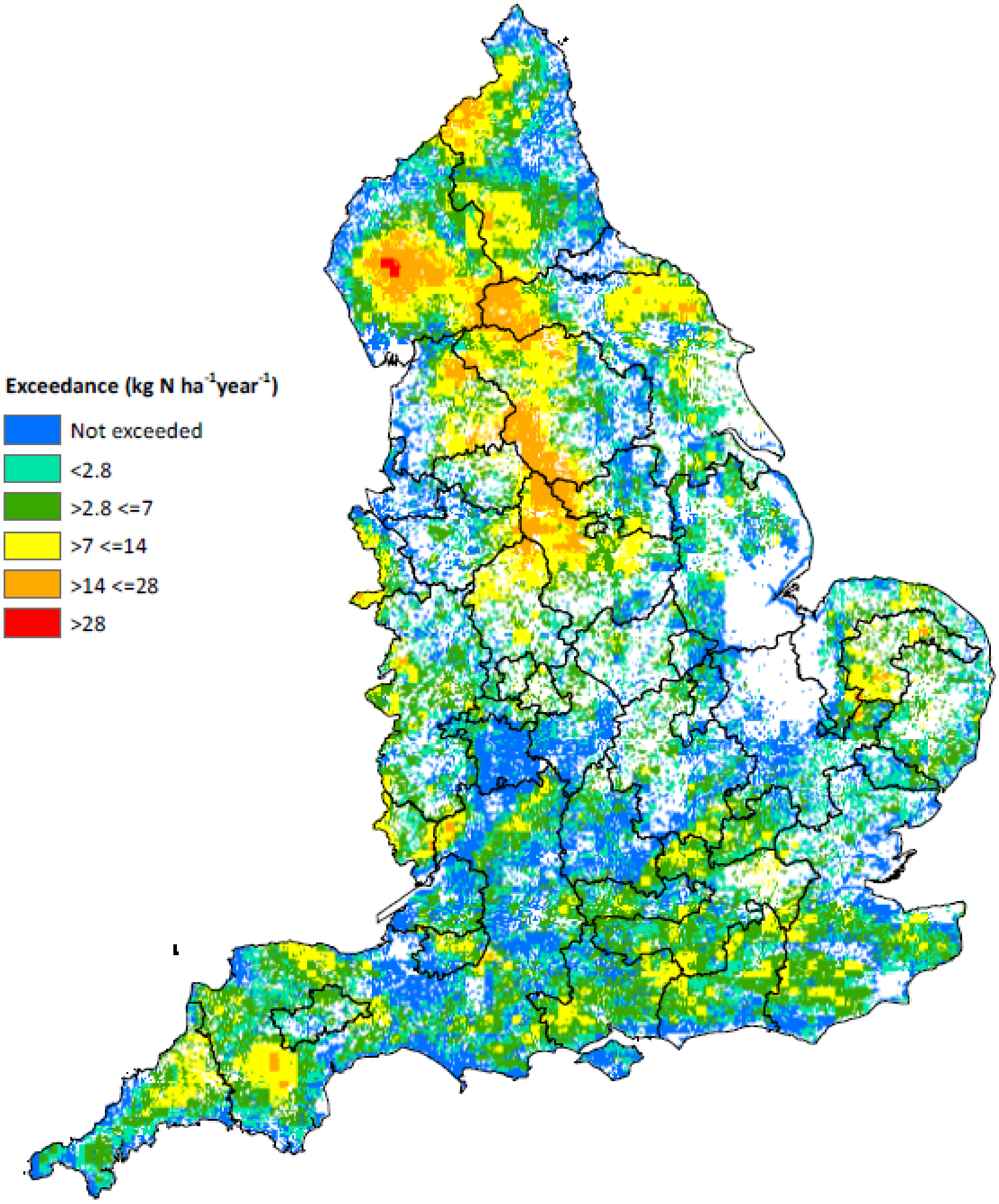


**Figure 56: LEP boundaries overlaid on the exceedance of the 5th-percentile critical loads of nutrient nitrogen (all habitats combined) by CBED 5x5 km (grid-average) nitrogen deposition for 2009-11**
*Source: Defra 2012*

*Water quality*

115. The estimated total annual cost of water pollution to river and wetland ecosystems and natural habitats in England and Wales is between £716million and £1,297million[227]: the cost of environmental damage from polluted urban wash-off has been estimated at

[227] Explanatory Memorandum To The Nitrate Pollution Prevention Regulations 2008 2008 No. 2349

£150 - £250 million[228]. Currently 27% of water bodies in England have good status and this is expected to improve to 31% by 2015 – similar levels of improvements are envisaged by densely populated and industrial countries in the EU. High concentrations of nitrate were found in 32 per cent of English rivers in 2008 compared with 36 per cent in 1995[229]. Monitoring from the Catchment Sensitive Farming programme showed a ca. 30% reduction of in-river pesticide concentrations between 2006/7 and 2010/11 in five Priority Catchments targeted for pesticide advice. However Environment Agency figures from late 2011[230], suggest pollution from agriculture as the likely cause in 33% of known failures (nutrients, BOD/ammonia, sediment, morphology) to achieve Good Ecological Status for water bodies in England.

*Soil quality*

116. Soil delivers essential ecosystem services and functions, including food production, water filtration, flood management, carbon storage, climate regulation, and support for biodiversity and wildlife. Soil is a finite resource and forms slowly over many years. Soil degradation has been estimated by the Soil Strategy for England[231] as costing the economy £150-£250m per year (including through lost production). In one recent survey (Defra 2008 Farm Practices Survey) half of farmers reported that they have experienced soil erosion.

*Landscape and Historic Environment*

117. The public goods supplied by landscape and the historic environment in rural areas provide a major contribution towards the rural business economy including through tourism and recreation. A survey by the Council for National Parks in Yorkshire[232] found that over two thirds of businesses believed that high landscape quality had a positive impact on their performance. Visitors to the National Parks in Yorkshire spend £660 million, which is estimated to support around 12,000 jobs and to generate further indirect economic activity.

118. The Countryside Quality Counts (CQC) study during its second reporting period (1999 – 2003) found that existing landscape character was maintained in 51% of England's landscapes, whilst in 10% existing landscape character was enhanced.

*Promoting Resource Efficiency*

119. England's economy and way of life rely on a range of renewable, non-renewable and natural resources to produce the products and services we need and to sustainably grow our economy. The efficiency of materials and land use are not readily measurable at the sub-national level but we know that our leading eco-innovation areas are

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228 ENVIRONMENT AGENCY 2007. Response to Royal Commission on Environmental Pollution consultation 'Urban Environment'. http://www.rcep.org.uk/reports/26-urban/documents/urb-env-summary.pdf

229 Further details at: http://www.environment-agency.gov.uk/research/planning/34383.aspx

230 EA could provide more up to date information but need more time. Contact ann.hall@environment-agency.gov.uk

231 Further details at: http://www.defra.gov.uk/environment/quality/land/soil/documents/evidence-paper.pdf

232 The economic impact of National Parks in the Yorkshire and Humber region. Council for National Parks (2006)

renewable energy, energy efficiency, and waste recycling[233] and that old, energy inefficient buildings stock, increasing cost of natural resources, longer term industrialisation and urbanisation and response to climate change are key challenges.

120. There is an opportunity to achieve a better balance between food security and environmental security, i.e. smart use of natural resources to underpin long-term food production and delivery of wider public goods, therefore securing future farm viability and achieving early competitive advantage in a resource-constrained world ('future-proofing farming').

121. Pressures on water catchments are greatest in South East and Eastern England because of them being the driest parts, coupled with the highest population density and household water use. The demand for water to irrigate crops in East Anglia also adds to the pressure on resources during the driest times of the year. A report by the Government "The Further Benefits of Business Resource Efficiency"[234] noted that the agriculture sector could possibly save £84m from water saving measures. Over the next 30 years, there will be increasing pressures from the rising population and associated development. Looking further ahead, the impact of climate change could have a major impact on the water that will be available for all uses.

**National policy context**

122. Action is needed in both urban and rural environments if we are to safeguard our natural assets and the essential services they provide. Government has a range of policy responses to these threats and opportunities.

123. National policies that contribute to this thematic objective seek to maintain healthy ecosystems and ecosystems services (the services that the natural environment provides that benefit people). The Government's Natural Environment White Paper (NEWP)[235] makes clear that sustainable use of our natural capital is integral to our economy. Evidence from the Natural Capital Committee [236] indicates we are failing to conserve our natural capital assets and to invest in them adequately. In 2012 48 Local Nature Partnerships (LNPs) were announced in response to a commitment in the NEWP to work at a strategic level to embed consideration of the value of the natural environment (and the important services it provides to local economies and people) in local decision making. They have a wide membership and are expected to demonstrate local leadership to improve the natural environment and to help grow the green economy.

124. Environmental Land Management schemes compensate farmers and other land managers in England for the costs of delivering environmental public goods on their land including for (among others) biodiversity, landscape quality and natural resources. More than 6.5 million hectares (70.8% of available farmland in England) is in an agri-environment scheme whilst 311.2 thousand hectares (29%) of private woodland is in a forestry scheme.

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[233] eco-innovation provides opportunities to achieve smart, sustainable economic growth in England, delivering new products and services with lower impacts on the environment and improved resource efficiency.
[234] Further details at: http://randd.defra.gov.uk/Default.aspx?Menu=Menu&Module=More&Location=None&Completed=2&ProjectID=16943
[235] Further details at: https://www.gov.uk/government/publications/natural-environment-white-paper-implementation-updates
[236] Further details at: http://www.defra.gov.uk/naturalcapitalcommittee/files/State-of-Natural-Capital-Report-2013.pdf.

125. The NEWP outlines a vision for the natural environment of England over the next 50 years and *Biodiversity 2020: A strategy for England's wildlife and ecosystem services* builds on this and provides a comprehensive picture of how Government is implementing international and EU commitments. The England Biodiversity Strategy[237] calls for a 200,000 ha increase in priority habitat by 2020, and the need to get 90% of all priority habitats into favourable or recovering condition.

126. The ambient air quality directives (2004/107/EC and 2008/50/EC) set legally binding limits for concentrations in outdoor air of major air pollutants that impact public health (and ecosystems). Where limits are not yet met, the Government has published air quality plans. Separate legislation exists for emissions of air pollutants with the main legislation being the National Emission Ceilings Directive (2001/81/EC) and the UNECE Gothenburg Protocol which sets national emission limits (ceilings) for SO2, NOX, NH3 and volatile organic compounds for countries to meet from 2010 onwards. The new EU proposals for a revised National Emissions Ceilings Directive set tighter limits for ammonia for 2030 and would extend the Directive to cover emissions of small particulate matter (PM2.5) from 2020 and methane from 2030. The Gothenburg protocol was revised in 2012 and new emission reduction targets were agreed for 2020, including for fine particulate matter ($PM_{2.5}$)

127. 104 catchment partnerships are established which are independently led to identify pressures on the water environment and agree priorities that reflect the local needs of society, business and the wider environment in order to agree actions to feed into River Basin Management Plans under the Water Framework Directive. These partnerships will seek to work alongside other Defra place based initiatives such as Local Nature Partnerships and Nature Improvement areas to feed into LEPs' plans. Government is encouraging local authority planners to work with catchment partnerships.

128. Initiatives like the *Green Food Project*, and *Grown in Britain* and the push to get neglected woodlands into sustainable management are considering how we can increase food and wood production / productivity whilst improving the environment. The Government is working with the fishing industry to progressively eliminate discards to improve the economic and environmental sustainability of the fishing industry.

*Promoting Resource Efficiency*

129. Government's *Resource Security Action Plan* aims to develop better coordination between government and industry and to make sure businesses are armed with good information about the availability of resources to make the right choices. Defra's *'zero waste' economy for England* sets out a comprehensive review of waste policies and ambitious waste goals for 2014–20. Working largely through voluntary agreements (a collaborative and non-regulatory toll to deliver desired outcomes) the Waste Resources Action Programme helps businesses and individuals use as little resource as possible, extract the maximum possible value from resources while they are in use and generate as little waste as possible. Defra's *Anaerobic Digestion strategy* and action plan is aimed at enabling this industry to thrive in England over the next few years.

130. *Water for Life* sets out the future challenges the sector faces from climate change and a growing population, and a vision for future water management in which the water sector is resilient, water companies are more efficient and customer focused, and water is valued as a precious and finite resource.

[237] Further details at: https://www.gov.uk/government/publications/biodiversity-2020-a-strategy-for-england-s-wildlife-and-ecosystem-services.

## Objectives and results for ESI Funds

*Environmental protection*

131. Chapter 1 set out the importance of ecosystems services, yet the benefits are consistently overlooked or undervalued in conventional economic analyses[238]. ESI funds will generally be focused on maintaining, enhancing and preventing the degradation of natural capital assets.

132. Outside of the farmed landscape, ESI funds will be used to invest in the creation, enhancement and expansion of Green Infrastructure that will serve as a catalyst to local economic growth by attracting inward investment, attracting increased visitor spend, reducing the costs of adverse environmental conditions, providing health benefits and generating employment[239]. A number of LEPs have also included proposals under this Thematic Objective to remediate and regenerate brownfield land to alleviate contamination and protect the ecosystem services that greenfield land and agricultural soils provide.

133. In the farmed landscape rural development funding will be used to intervene in the way land is managed where there is market failure in terms of the provision of public goods (such as landscape amenity or a thriving wildlife) and the mitigation of negative environmental impacts associated with land management activities. These will be addressed through agri-environment and forestry schemes to restore, preserve and enhance the natural environment in order to help meet Biodiversity 2020 goals and the legal requirements of the Habitats, Birds Directives and Water Framework Directive. The schemes will focus on maintaining and improving our most valuable sites and making landscape scale improvements in the wider countryside.

*Resource efficiency*

134. ESI funds should build on the successes of existing initiatives such as the Waste Resources Action Programme to help businesses optimise the use of resources in ways that improve business performance in terms of resilience, profitability and/ or competitiveness. Many businesses and communities have limited resources to support and adopt innovative practices that would boost their performance and competitiveness: there is value in supporting new uptake and transfer of knowledge and experience of eco-innovation between businesses and communities.

135. In summary, consideration of the range of development needs and growth potentials in the context of national policy suggests the following objectives for the ESI Funds in England:

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[238] UK National Ecosystem Assessment, http://uknea.unep-wcmc.org, (2011).
[239] To what extent does green infrastructure improvement act as a catalyst for economic growth? An assessment of the international and UK evidence (previously project number WC0810) - WC0820 http://randd.defra.gov.uk/Default.aspx?Menu=Menu&Module=More&Location=None&Completed=0&ProjectID=19056#Description

| **Investment Priority** | **Specific Objectives** | **Result indicators** |
|---|---|---|
| Increasing competitiveness by boosting the elements of nature that produce value (directly and indirectly) to people (*natural capital*) through providing support for:<br><br>a) Creating, enhancing and expanding areas of Green Infrastructure<br>b) Remediating and regenerating brownfield land to alleviate contamination and protect the ecosystem services that greenfield land and agricultural soils provide.<br>c) New and enhanced recreational routes and infrastructure that attract business through their contribution to coherent and resilient ecological networks. | Investing in Green Infrastructure and actions that support the provision of ecosystem services on which businesses and communities depend to increase local natural capital and support sustainable economic growth | • Improvement in the economic viability of areas through infrastructure investments including Green Infrastructure. (ERDF) |
| To use rural development funding to reward land managers for the provision of environmental public benefits, and to mitigate negative environmental impacts, where there is market failure for:<br><br>a) maintaining and improving England's most valuable sites<br>b) making landscape scale improvements in the wider countryside<br>c) providing resources for farmland birds and pollinators<br>d) tackling at source water pollution. | To restore, preserve and enhance the natural environment. | Percentage of agricultural/forest land under management contracts:<br>• Contributing to biodiversity<br>• Improving water management<br>• Improving soil management and/or preventing soil erosion<br>(EAFRD) |
| To promote resource efficiency that improves business performance by: | Investment in the uptake of innovative technologies and resource efficiency measures to increase | • An increase in companies deploying low carbon practices, processes, services or products. |

| Investment Priority | Specific Objectives | Result indicators |
|---|---|---|
| a) Supporting new uptake and transfer of knowledge and experience of eco-innovation and other new and existing technologies that address environmental protection issues to support their competitiveness<br>b) Supporting businesses to develop business models that support a 'circular economy' in which business extracts the most efficient use of resources. | environmental protection, resilience and performance of businesses and communities. | (ERDF and EAFRD) |

136. Many of the investments under this thematic objective will contribute to a reduction in GHG emissions. However, GHG emissions have not been included as a result indicator above as the focus of ESI Funds investments will be on delivery of economic and other environmental benefits associated with environmental protection and resource efficiency.

**Priorities for investment**

*Growth Programme*

137. The majority of LEPs recognise the importance of their natural assets in underpinning growth, and that having a high quality natural environment is an important component of their offer back to business. LEP areas in England are proposing to invest nearly £119.6 million of ESI funds under Thematic Objective 6: a large proportion of that will be through ERDF.

138. There have been a range of LEP proposals for action in accordance with the above analysis of needs and desired areas of focus/results. These can be summarised as follows:

- Investing in Green Infrastructure to enhance the quality of heavily urbanised environments, to improve their appeal and thus increase likelihood of attracting additional investment and employment opportunities;
- Investing in Green Infrastructure to provide accessible green space that offers recreation, quality of life, health, economic growth and inward investment opportunities;
- Incorporating Green Infrastructure into development sites to enhance the appeal and overall sustainability of the investment;
- Investment in Green Infrastructure to enhance the tourism sector and associated recreation opportunities;
- Investing in Green Infrastructure to provide sustainable transport links to new and existing sites of employment;

- Investment in degraded/ brownfield sites to enhance their ecosystem function and appeal for development as employment sites;
- Support for business waste reduction and reuse activities; and
- Support business resource efficiency as a driver for SME competitiveness and sustainable growth in key sectors.

*Rural Development Programme for England*

139. Rural Development funding will be used to support successful land management. Government intends to implement a new Environment Land Management scheme effective from 1 January 2016, with forestry planting grants starting in 2015. This will be a multi-objective scheme contributing to the delivery of outcomes on biodiversity, soil and water issues; historic environment; landscape; genetic conservation and educational access. It would also retain the general aim of helping the natural environment to prevent or mitigate climate change by, for example, reducing greenhouse gas emissions as well as providing and protecting carbon storage. Overall, biodiversity will be the priority for the scheme, although we will seek to maximise opportunities to deliver biodiversity, water quality and flooding benefits together (synergies). The scheme will also contribute towards the delivery of a proportion our water quality objectives.

140. Rural Development funding will also be used to support farming and forestry businesses improve the ratio of outputs to inputs through more effective use of water, fertiliser, pesticides and energy, by for example using precision application techniques for water and pesticides and improved storage of water and slurry.

## PROMOTING SUSTAINABLE TRANSPORT AND REMOVING BOTTLENECKS IN KEY NETWORK INFRASTRUCTURES

### Development needs and growth potentials across England

141. The UK has a specific Country Specific Recommendation in relation to infrastructure which is to "pursue a long-term strategy for improving the capacity and quality of the UK's network infrastructure, including measures to address pressures in transport and energy networks by promoting more efficient and robust planning and decision-making processes, and harnessing appropriate public or private financing arrangements".

142. Across England, there are a number of areas in which potential for economic development has been and will continue to be adversely impacted by poor transport links to the trans-European transport network (the TEN-T network).

143. Peripherality remains a continuing constraint for Cornwall and the Isles of Scilly (England's only area categorised as 'less developed') with distance from markets a key issue and a number of gaps in the strategic transport network. These include:

- congestion points in the road network acting as a block on the development of employment space, economic growth and productivity;
- the need to encourage more sustainable forms of travel;
- commercial and passenger access for Isles of Scilly residents and businesses to the mainland which continue to be a pressing issue with an escalating need for resolution.

144. Cornwall's lack of a single dominant centre in terms of population and functionality impacts upon the economy and future growth potential. Cornwall and the Isles of Scilly is dominated by a dispersed network of key town-based economies surrounded by a network of rural villages, hamlets and communities. The interrelationships between

these economies in this settlement pattern are different from those in most other rural areas because there is no large city region agglomeration effect.

145. Transport connectivity including roads, rail, ports and air are a key driver for a successful growth in the Less Developed region and provides the basis for facilitating private sector investment, supply chain development, job creation and GVA allowing the dispersal of skilled jobs and labour mobility in a rural region.

146. Equally, the Less Developed region features an archipelago of islands 28 miles off the mainland. Connectivity and enabling infrastructure to and from the islands and on the Isles of Scilly are at present a barrier to growth and development. There is a need for further investment in transport infrastructure to and from the mainland and between the islands, with an equally pressing need for investment in water and sewerage infrastructure

147. Economic development is also hampered by transport infrastructure issues in some of England's areas categorised as 'transition' regions. Some of our more peripheral regions including Cumbria, Lincolnshire and Humber require investment in transport to improve connectivity, enhance accessibility to jobs and economic growth. This has the potential to make a substantial contribution to UK economic growth where it is linked to access to assets such as energy e.g. Britain's Energy Coast in Cumbria. By investing in a small number of improvements to existing interchanges and routes and making use of multi-modal opportunities this has the potential to increase mobility, better link employment sites/opportunities to residential locations and reduce carbon emissions. Where appropriately linked it can also drive sector growth while protection the environment – for example ensuring increased numbers of visitors does not lead to increased car transport with associated negative environmental impacts.

148. Even in some areas categorised as 'more developed', such as Cheshire, Derbyshire and Nottinghamshire, modest transport investment can improve the accessibility and viability of priority employment and development sites and address some of the difficulties faced by for local employers in accessing personnel from the wider labour market. A number of such developments have the potential to promote major new investment, including inward investment, and logistics investment where linked to rail and waterways investment locations. Such targeted, relatively small investment with the potential to open up multi-modal opportunities can therefore have a major impact not only on the economy but also on the environment.

**National policy context**

149. As noted in Chapter 1, the Government is committed to taking decisive action to continue to improve the capacity and quality of its networks.

150. The Government's directly funds nationally important transport infrastructure (major roads and railways) as detailed in the National Infrastructure Plan (NIP). Decisions on regional and local transport infrastructure (98% of England's roads are owned and maintained by Local Authorities) investment should be made at local level and, in the case of major projects, by LEPs. Government is devolving significant funding to LEPs for investments in infrastructure (major roads and public transport schemes) that can have a direct and decisive impact on economic growth.

**Objectives and results for ESI Funds**

151. In 'transition' and 'less developed' regions, there may be scope for the Funds to support appropriately targeted multi-modal investments where to do so would make an area more economically viable, increase mobility, better link employment sites/opportunities to residential locations and reduce carbon emissions ultimately

leading to increased numbers of businesses being able to establish themselves in the surrounding area. In the case of 'less developed' regions there may also be scope for a wider range of sustainable transport infrastructure investments to enable them to address their severe economic challenges.

152. In 'more developed' regions there are insufficient ESI Funds available to make a significant contribution to the funding of major transport infrastructure investments under this thematic objective. However modest transport investment can improve the accessibility and viability of priority employment and development sites, as well as facilitate some projects focussing on sustainable modes such as walking and cycling. The economic and environmental benefits of such small targeted investments can be impressive, promote major new investment, including inward investment and developing multi-modal transport options.

153. In summary, consideration of the range of development needs and growth potentials in the context of national policy suggests the following objectives for the ESI Funds in England:

| **Investment Priority** | **Specific Objective** | **Result indicator** |
|---|---|---|
| promoting sustainable transport and removing bottlenecks in key network infrastructures by:<br>(a) supporting a multimodal Single European Transport Area by investing in the TEN-T;<br>(b) enhancing regional mobility by connecting secondary and tertiary nodes to TEN-T infrastructure, including multimodal nodes;<br>(c) developing and improving environmentally-friendly (including low-noise) and low-carbon transport systems, including inland waterways and maritime transport, ports, multimodal links and airport infrastructure, in order to promote sustainable regional and local mobility;<br>(d) developing and rehabilitating comprehensive, high quality and interoperable railway systems, and promoting noise-reduction measures;<br>(e) improving energy efficiency and security of supply through the development of smart energy distribution, storage and transmission systems and through the integration of distributed generation from renewable sources | Improving the economic viability of areas by appropriate, targeted multi-modal transport investments to facilitate access to economic development opportunities and develop regional and local mobility | |

**Priorities for investment**

*Growth Programme*

154. In keeping with the analysis set out above, few LEP areas have proposed spending under this thematic objective: partners have made proposals with a total value of £101 m (€118m), representing 4.1% of all ERDF investment in 2014-20 in England.

155. As expected, most LEP areas making proposals for transport infrastructure are in 'less developed' and 'transition' regions where there is significant potential for ESI Funds investment in transport to have a transformative impact on economic growth and where allocations are sufficiently large to allow such investments alongside the higher priorities in the Growth Programme.

156. However a small number of "more developed" areas have suggested very targeted modest investments to improve the accessibility and viability of priority employment and development sites and address some of the difficulties faced by for local employers in accessing personnel from the wider labour market. The types of investments proposed include:

- Investment in infrastructure to unlock employment sites and improve access to jobs;
- Improvements to existing interchanges and routes and making use of multi-modal opportunities to increase mobility, better link employment sites/opportunities to residential locations and reduce carbon emissions; and
- Sustainable travel interventions promoting walking, cycling and smart ticketing etc.

# INCLUSIVE GROWTH

## PROMOTING SUSTAINABLE AND QUALITY EMPLOYMENT AND SUPPORTING LABOUR MOBILITY

**Development needs and growth potentials across England**

157. The Europe 2020 headline target for this thematic objective is "to raise to 75% the employment rate for women and men aged 20-64, including through greater participation of young people, older workers and low-skilled workers and better integration of legal migrants". As set out in chapter 1, using the 20-64 age range as in the Europe 2020 target, the UK employment rate is 74.2% and the England employment rate is 74.0%. In the UK, the 16-64 age range is commonly used in labour market statistics, and using this age range the employment rate in the UK is currently 72.3% and in England the employment rate is 71.4%.[240] The employment rate is currently increasing and unemployment is falling.

158. In England, the employment rate for women is 67% per cent[241] and has been growing consistently. In part this is attributable to the equalising upwards of women's pension age and the introduction of benefit conditionality for the lone parents of older children. A higher proportion of women work part-time (42%) than men (11%) in

[240] Further details at: http://www.ons.gov.uk/ons/rel/lms/labour-market-statistics/february-2014/statistical-bulletin.html

[241] *ibid*

England,[242] however this does not necessarily imply that these jobs are of lower quality as overall in the UK over 80% of people work part-time because it suits them.[243]

159. **Across England, there are significant variations in employment rate for 16 to 64 year olds.** The LEP areas with rates below the national employment rate are northern or midlands LEP areas with the exception of London and Cornwall and the Isles of Scilly. Those with the lowest rates are also mainly urban (Tees Valley 65.5%, Greater Birmingham and Solihull 65.6%, Black Country 66.3%, North Eastern 66.5%, Liverpool City Region 66.8%, Greater Manchester 67.5%). Within LEP areas, employment rates tend to be lowest in inner city areas, former industrial areas and some coastal towns. The employment rate in 2011 was higher in rural areas (74.6%) than in urban areas (69.2%), but has fallen for both in recent years. It was highest in *less sparse rural villages & hamlets* (75.0%) and lowest in *less sparse urban areas* (69.2%)[244].

[242] Annual Population Survey for the year to September 2013, part-time employment rates 16-64
[243] Further details at: http://www.ons.gov.uk/ons/rel/lms/labour-market-statistics/february-2014/statistical-bulletin.html, Table 3
[244] *ibid*

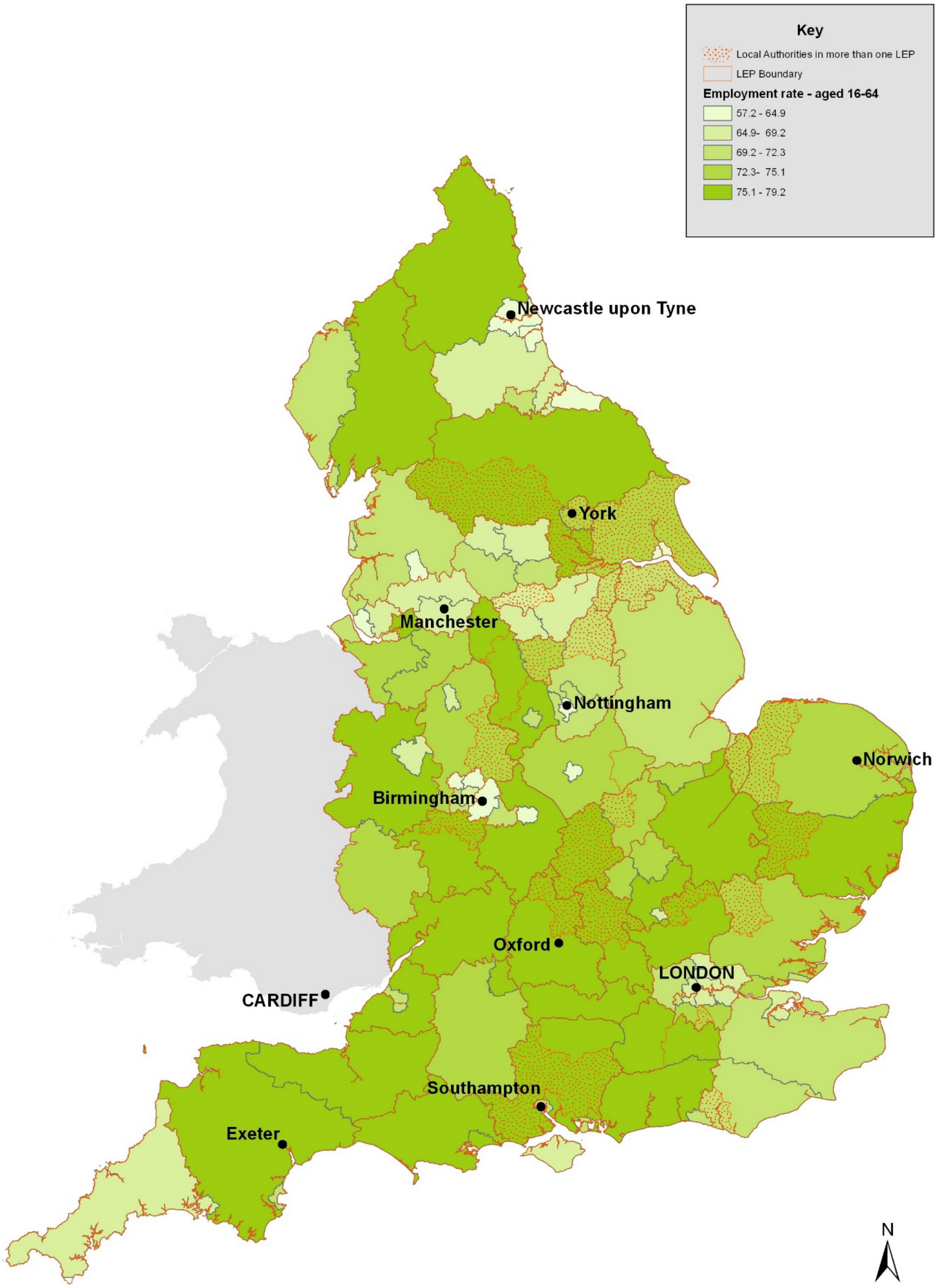




**Figure 57: Employment rate (16-64) by LEP area**
*Source: NOMIS*

160. The unemployment rate in the 12 months to September 2013 for those aged 16 and over in England is 7.7%. “The comparable figure before the last recession was 5.4% in the 12 months to September 2008”. The highest rates of unemployment (over 9%) are in urban northern/midland LEP areas (Tees Valley LEP 11.9%, Humber LEP 9.7%, Sheffield City Region 10%, Liverpool City Region 9.7%, Greater Manchester LEP 9.1% and North Eastern LEP 9.8%) and some midlands LEP areas (Greater Birmingham and Solihull LEP 11.4%, Black Country LEP 11.1%).[245] The remainder of the areas with above average unemployment rates are again mostly northern LEPs, with the exception of the London LEP.

161. The current UK inactivity rate of 22.1% is the lowest for two decades meaning that more people are engaging in the labour market, either in work or actively looking for work.

162. As noted in chapter 1, the UK has a country specific recommendation about improving the employability of young people, in particular those not in education, employment or training

163. The youth unemployment (16-24) rate in England is 20.9% (in 12 months to September 2013). The figure before the last recession was 14.2% in the 12 months to September 2008. It is particularly acute in areas within the following LEP areas which qualify for the Youth Employment Initiative: Birmingham and Solihull LEP, Black Country LEP, Coventry and Warwickshire LEP, Liverpool City Region LEP, London LEP, North Eastern LEP and Tees Valley LEP. Youth unemployment is also an issue in other LEP areas which contain high concentrations of young unemployed people in smaller areas, especially Hull (29.8%) in Humber LEP, Nottingham (26.3%) in D2N2 LEP and Leicester (35.2%) in Leicester and Leicestershire LEP.[246]

164. The vast majority of young people continue in education or training when they leave school, and make a successful transition to either higher education or employment. But there are still too many who either ‘drop out’ or struggle to make the transition to the labour market at age 18-19. As a result, the proportion of young people NEET rises sharply at age 18-19. At age 16 4.6% are NEET, at age 17 6.0%, at age 18 13.8% and at age 19-24 18.2%.[247]

[245] *Ibid*

[246] Source: Annual Population Survey data published on www.nomisweb.co.uk. for October 2012 to September 2013. This is annual data and therefore not as current as the headline Labour Market Statistics (February 2014) based on the Labour Force Survey.

[247] DfE Statistical First Release 16/2013, Labour Force Survey, Quarter 1 2013 https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/201104/Quarterly_Brief_NEET_Q1_2013_pdf.pdf

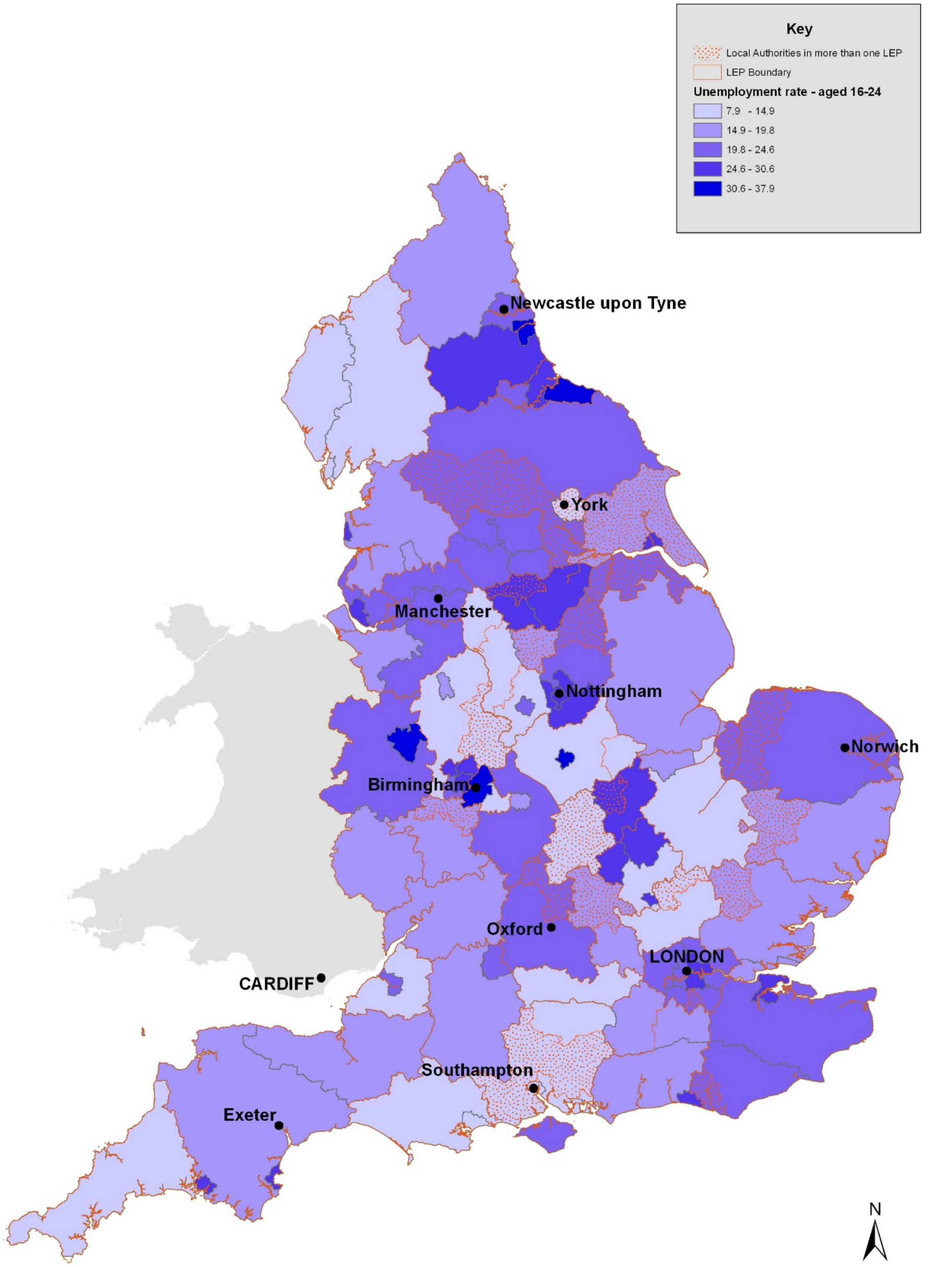




**Figure 58: youth unemployment rate (16-24) by LEP area**
*Source: NOMIS*

165. The Commission for Rural Communities reports[248] that young people living in rural areas frequently have to travel long distances to work, training and education, yet the high cost and low availability of public and private transport can have a negative impact on opportunities; there are concerns that the additional cost of delivering employment and training services in rural areas is leading providers to focus on more highly populated parts of the country.

166. Rural businesses in England generate around 22% of employment. The Agricultural sector accounts for around 7% of employment in rural England (focusing on primary production). In the ten years from 2010 to 2020, LANTRA forecast the sector will need a minimum of 194,000 more employees to meet demand for growth. Other sectors employ proportionately higher numbers of people, including Wholesale and retail, Manufacturing, Health and Education. Employment in tourism-related businesses in rural areas is 443,000, which represents 14% of total employment in rural areas. Source: Defra data extraction from IDBR

**National policy context**

167. Chapter 1 set out the overarching drivers to promote employment. These include creating the right business environment to encourage job creation, including through taxation and a flexible labour market. In addition the welfare system is being reformed to ensure work pays and that every jobseeker gets the support they need to find a job. Personalised support is given to those at risk of long-term unemployment, and fully-funded training is available for claimants of Jobseekers' Allowance where a lack of skills has been identified as a barrier to finding work.

168. In addition, Government funded Traineeships in England are helping unemployed people aged 16-24 into apprenticeship s and other sustained jobs. The initiative will have three elements: a focused period of work preparation training; high quality work placement with an employer; and English and maths for those without a level 2 in the subjects. The initial expectation is that the duration of the traineeship will be six months on average.

169. Government has established five Rural Growth Networks which serve as a set of pilots focused on tackling the barriers to economic growth in rural areas (such as a shortage of work premises). Government funding has provided the pilots with considerable flexibility to test a range of different models and mechanisms appropriate for the circumstances in their very different rural areas. The five networks covering Cumbria, Warwickshire, Heart of the South West, North East and Swindon and Wiltshire are now starting to provide sound and practical examples of what does and doesn't work. A progress report from December 2013 indicated that the networks have created or safeguarded over 3000 jobs. The practical lessons which are beginning to emerge are already being shared with Local Enterprise Partnerships.

170. For coastal and fisheries areas in England there are opportunities to support sector specific employment and training initiatives for those either currently already in the fisheries industry, or looking to enter. These opportunities will be mainly focused at the local level rather than the national level, and will primarily come about on the initiative of local communities, businesses or actors (such as ESI Funds partnership groups and LAGs) to address local needs. There are also opportunities for those in the fisheries sector to diversify into other areas, and as such access the appropriate support required. It is envisaged that support should primarily be offered from other ESI funds, such as the ESF, rather than wholly from the EMFF.

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[248] Further details at: http://www.defra.gov.uk/crc/files/Executive-Summary-Barriers-to-education-employment-and-training-for-young-people-in-rural-areas.pdf

**Objectives and results for ESI Funds**

171. ESI Funds investments will help to tackle barriers to entering work, staying in work or making progress at work, including by providing skills training and other support; in particular paying attention to transitions between unemployment and work. There will be a particular focus on disadvantaged people and young people not in education, employment or training.

172. In many areas, ESI Funds investments will align with and build on national policies and programmes, particularly the Work Programme, by supporting additional and/or more intensive local provision tailored to local needs. In some areas, ESI funds will fill gaps where the Work Programme and other national interventions do not tackle key barriers at local level.

173. As part of wider packages of support, ESI Funds investments will also use self - employment as a route out of worklessness. ESI Funds will support activities to encourage the unemployed to start and grow businesses (including social enterprises).

174. ESI Funds will be used to support interventions to increase the employment rate of women where they face specific barriers to participation, for example in entering sectors or occupation where they are under-represented. However, this will not be a specific national objective or investment priority, as the key target groups for public intervention tend to have more men than women. .

175. In summary, consideration of the range of development needs and growth potentials in the context of national policy suggests the following objectives for the ESI Funds in England:

| **Investment Priority** | **Specific Objectives** | **Result indicators** |
|---|---|---|
| Access to employment for job-seekers and inactive people, including the long-term unemployed and people far from the labour market, also through local employment initiatives and support for labour mobility | More unemployed or inactive people enter jobs (including self-employment) or engage in job searching, especially those who are at a disadvantage or who need to improve their skills. | • People participating in ESI Funds programmes entering employment, including self-employment, upon leaving the programmes |
| • Sustainable integration into the labour market of young people, in particular those not in employment, education or training, including young people at risk of social exclusion and young people from marginalised communities, including through the implementation of the Youth Guarantee | More young people are in education, employment or training, especially those who are NEET or at risk of becoming NEET. | • People below 25 years of age participating in ESI funds programmes in employment, including self-employment, or education/training or who gain a qualification upon leaving the ESI Funds programme |

176. Investments under this thematic objective will support individuals closer to the labour market than those targeted by investments under the social inclusion thematic objective (see next section).

[
## Priorities for investment

*Growth Programme*

177. LEPs and local partners have proposed to invest about £939m (€1,096m) under this thematic objective in 2014-2020, most of which will be from the ESF £917m (€1,071m). About £149.2m (€174m)[249] will be available through the Youth Employment Initiative.

178. LEP area ESI Funds Strategies identify groups who are disadvantaged in the labour markets in their areas and who need additional help to address their barriers to work. In line with the intervention logic set out above, LEP area Strategies identify how the ESI Funds will support additional provision of support to these target groups, aligning with and building on national programmes, such as the Work Programme, as well as filling gaps in national programmes. The main activities proposed by LEP areas include:

- additional and innovative approaches to pre-employment training;
- additional support for long-term unemployed people, including those who have left the Work Programme, and including new approaches to work experience and training;
- training workless people and those facing redundancy who need to upgrade their skills or learn new skills (including basic skills and English for speakers of other languages);
- responding flexibly to employer demand in local labour markets where LEPs and their partners identify specific needs.

179. Most LEP areas have proposed a particular focus on young people, including those who are not in education, employment or training, especially in areas eligible for the Youth Employment Initiative. Key themes from the LEP strategies include:

- providing more intensive, specialised support for the most marginalised and disadvantaged young people;
- improving careers advice and guidance;
- improving literacy and numeracy skills; and
- working with employers to help young people make a successful transition to working life.

180. These activities will directly contribute to the Country Specific Recommendation on addressing youth unemployment and reducing the number of young people with very poor basic skills.

181. ESI Funds investment may support activities targeted specifically at either men or women to increase participation and support their progression, particularly in occupations or sectors where men or women are under-represented.

182. Most LEP areas are planning to invest around 16.2% of their ESI Funds allocations in employment-related activities. As the LEP areas with the largest total ESI Funds allocations tend to have the highest levels of unemployment, the actual values of employment support investments will be highest where unemployment is highest (urban northern/midland LEP areas, some midlands LEP areas and London).

[249] In current prices.

## PROMOTING SOCIAL INCLUSION, COMBATING POVERTY AND ANY DISCRIMINATION

### Development needs and growth potentials across England

183. The Europe 2020 headline target under this thematic objective is "promoting social inclusion, in particular through poverty reduction, by lifting at least 20 million people out of the risk of poverty and exclusion". The indicator used to measure progress against this target is the number of people at risk of poverty or social exclusion. In England, data for this indicator are not available by LEP area, so for the purposes of spatial analysis economic inactivity has been used as a proxy.

184. The Country-Specific Recommendation under this thematic objective for the UK is to "step up measures to facilitate the labour market integration of people from jobless households; and ensure that planned welfare reforms do not translate into increased child poverty". **The level of inactivity and workless households in England is too high, contributing to a set of labour market, social and competitiveness issues.** Currently 22% of people aged between 16 and 64 in England are not active in the labour market due to ill health, caring responsibilities, or full-time education. Not all inactivity is problematic as there are many reasons why an individual may need to be inactive in the labour market. However, increasing the number of people actively seeking work would help to boost the employment rate and economic growth.

185. **Across England, there are significant territorial variations in rates of economic inactivity in the 16-64 age range.** The highest inactivity rates (aged 16-64) are in Cornwall and the Isles of Scilly LEP (26.4%), North Eastern LEP (26.2%), Liverpool City Region LEP (25.8%), Greater Birmingham and Solihull LEP (25.7%), Greater Manchester LEP (25.7%), Tees Valley LEP (25.4%), Black Country (25.3%) and Lancashire LEP (25.3%). The lowest levels are mainly located in the southern LEPs.

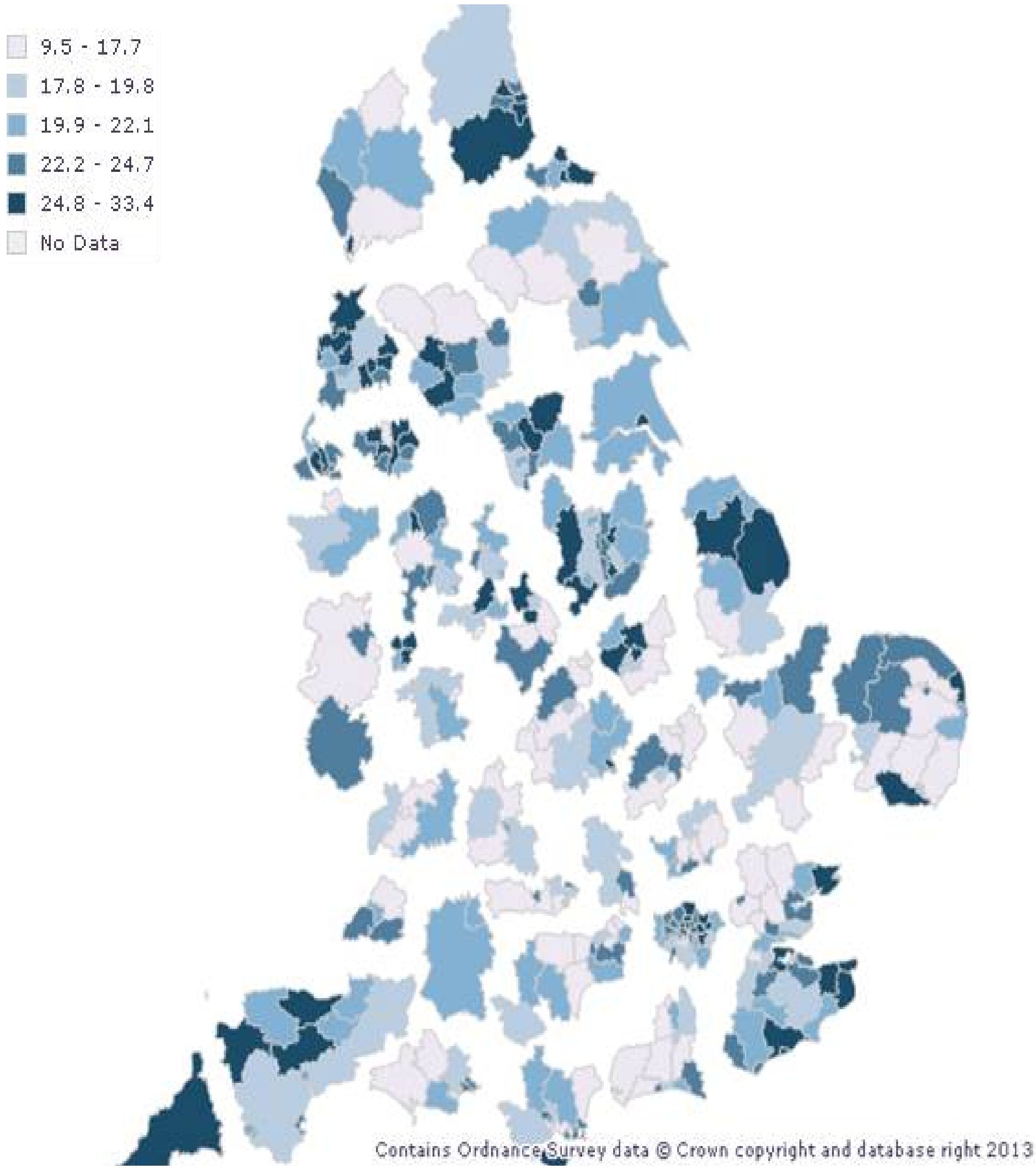


**Figure 59: Economic inactivity rate (16-64) by LEP area**
*Source: Office for National Statistics*

186. The higher levels of inactivity are mainly in areas which have seen a significant decline in heavy industries such as steel production, coal mining and shipbuilding.

187. The number of households in England where no-one works stands at around 2.8 million in which about 1.4 million children are present. Workless households are more likely to be in poverty and be dependent on benefit, and research suggests that growing up in a workless household has a negative effect on children's future labour market outcomes.

| Region | Workless households | |
|---|---|---|
| | Number | Per cent |
| North East | 201,000 | 22.8 |
| North West | 459,000 | 20.1 |
| Yorkshire and the Humber | 314,000 | 17.5 |
| East Midlands | 251,000 | 17.4 |
| West Midlands | 321,000 | 18.8 |
| East of England | 261,000 | 13.6 |
| London | 396,000 | 15.3 |
| South East | 342,000 | 12.7 |
| South West | 271,000 | 16.3 |
| England Total | 2,815,000 | 16.6 |

**Figure 60: Workless Households in England**
*Source: Office for National Statistics*

188. **People with multiple disadvantages face greatest barriers to work**. Analysis from household survey data found that 11% of adults in England experience, at any one time, three or more of six areas of disadvantage (education, health, employment, income, social support, housing and local environment).

189. Some families face particular barriers to working their way out of poverty. For example:

- Disabled people are more than twice as likely to not hold any formal qualifications as are non-disabled people. Around half of disabled people of working age are not in employment. Of these, two in five would like to work;
- Research has shown that certain ethnic minority groups (notably those from Pakistani, Bangladeshi and Black African groups) face greater difficulties in accessing work compared to the majority of the population; and
- Language barriers or low/unrecognised qualifications can make finding work difficult for refugees. This, combined with the disruption and likely trauma suffered, can make work seem out of reach for a number of these families.

190. People at risk of social inclusion also include offenders and ex-offenders. A recent study of prisoners found that: almost half (47%) said they had no qualifications; and 13% said that they have never had a paid job.

191. The Country-Specific Recommendation under this thematic objective for the UK also states that the Government should “fully implement measures to facilitate access to childcare services”. At April 2012, 4.7 million families in England with around 2.3 million children received tax credits and of those around 350,000 receive childcare support. Childcare support in the tax credit system and disregards in Housing Benefit and Council Tax Benefit currently costs around £2 billion per year.

192. According to the Department of Transport‘s measure of accessibility of services, a range of key services are less accessible in rural areas on average than in urban areas, as well as transport these include schools, hospitals, GP practices, employment services and access to shopping centres‘. Alternative methods and models of service delivery (such as broadband, for example) continue to be important to meet the needs of rural communities. Support to help rural communities to access services and utilise other sources of energy is also important.

193. Rural areas have proportionately older people. An increased ageing population may place further strain on stretched public services. With approximately 50% of those living in rural areas aged over 45 years, the rural population is on average older than in urban

areas[250]. The most marked difference between rural and urban populations is at the 16 to 29 age group. In urban areas this age group accounts for 20% of the population whereas in rural areas they make up just 14%. This poses a further threat to business growth in terms of reduced access to younger workers.

**National policy context**

194. As noted in Chapter 1, the Government considers that work is the best route out of poverty. The new Universal Credit system plays a key role, ensuring that being in work pays. The Government is committed to tackling poverty and welfare dependency; helping people without jobs to find work and support themselves and their families; and ensuring that the most vulnerable in society are protected.

195. The Government's strategy ' Social Justice: Transforming Lives' sets out the Government's commitment to giving individuals and families facing multiple disadvantages the support and tools they need to turn their lives around. A new set of principles inform this approach

- a focus on prevention and early intervention;
- where problems arise, concentrating interventions on recovery and independence, not maintenance;
- promoting work for those who can as the most sustainable route out of poverty, while offering unconditional support to those who are severely disabled and cannot work;
- recognising that the most effective solutions will often be designed and delivered at a local level; and
- ensuring that interventions provide a fair deal for the taxpayer.

196. The strategy identifies those working at the local community level, from public, Voluntary and Community, and Social Enterprise sectors, as well placed to identify and drive forward the solutions that are needed.

197. In 2010 the Government published the This Green Paper *'**Breaking the Cycle** Effective Punishment, Rehabilitation and Sentencing of Offenders*; which set out the Government reforms to the treatment of offenders. This is based on four principles: protecting the public; punishing and rehabilitating offenders; transparency and accountability; and decentralisation.

198. The strategy document "More Affordable Childcare" (July 2013) set out Government's plans to support children by contributing to childcare costs. All three and four year olds in England are entitled to 570 hours each year of free early learning, delivered flexibly to meet parents' needs (although this is usually taken as 15 hours per week for 38 weeks). This entitlement was extended to around 130,000 two year olds from September 2013 (from families claiming certain benefits or who are looked after by their local authority). From September 2014, the entitlement will be extended further to reach around 260,000 two year olds, including children from low income families, children who are adopted and children who have a special educational need or disability. Total investment in early learning for two year olds will rise to £760m in 2014-15.

199. Under Universal Credit, families will be able to recover childcare costs in line with the current arrangements: up to £532.29 for one child or £912.50 for two or more children per month. Extra money will be invested under Universal Credit so claimants working less than 16 hours can claim support with childcare costs.

[250] Statistical Digest for Rural England. Defra. 2013.

200. The Government's view is that these domestic initiatives will be sufficient to address any disparities around childcare provision in England. Therefore, ESI Funds will not generally be used to support childcare. However, ESF service providers will still be encouraged to provide childcare where this is identified as a barrier to participation and support is not otherwise available.

**Objectives and results for ESI Funds**

201. The country specific recommendation on low-income households and child poverty will be mainly addressed through Government policies such as Universal Credit and other welfare reforms. ESI funds will not be used directly to implement welfare reforms or the tax-benefit system, but will be used for activity that complements reforms such as the introduction of Universal Credit by enhancing services for those with complex barriers. ESI Funds will help to reduce levels of economic inactivity and worklessness by buying additional and more intensive support (over and above government programmes) to help unemployed and inactive people move towards work, enter work and progress in work, in a way that responds to local needs. This might include pre-employment training; specific support for long-term unemployed and disadvantaged target groups; advice and guidance; training and basic skills. Locally tailored delivery will ensure ESI Funds are used to provide programmes for individuals with disadvantages that are outside the scope of mainstream, government-funded activities.

202. ESI funds will not be invested directly in implementing the Government's childcare measures. However ESF will be able to finance supporting measures, such as training for childcare workers where a local need is identified. All ESF providers will also be able to provide support with childcare where this is identified as a barrier to participation and support is not otherwise available.

203. ESI funds will also be available to help offenders and ex-offenders who would benefit from additional employment and skills provision. The focus of this activity will be to: enhance the employability of offenders and increase access to employment and skills opportunities. This will complement existing provision, particularly the Offender Learning and Skills Service (OLASS) in prisons as well as other existing employment and skills services.

204. ESI Funds will help individuals exploit the potential for entrepreneurship and social enterprise to provide a route out of poverty and worklessness. In particular, ESI Funds will be used for the provision of locally-tailored schemes dedicated to support of social entrepreneurship, filling the gaps left by more generic local business support schemes.

205. In summary, consideration of the range of development needs and growth potentials in the context of national policy suggests the following objectives for the ESI Funds in England:

| Investment Priority | Specific Objectives | Result indicators |
|---|---|---|
| Active inclusion, including with a view to promoting equal opportunities and active participation, and improving employability | To address the main reasons of root causes of poverty that are barriers to work so more people move closer or into employment. | • Long term unemployed or inactive (not in education or training) participants in ESI Funds programmes who are engaged in job searching, education/training, gaining a qualification, or in employment, including self employment, upon leaving |

| | | |
|---|---|---|
| | | the ESI Funds programmes. |

206. Investments under this thematic objective will support those further from the labour market than those targeted by investments under the employment thematic objective (see previous section).

207. Although the Community-Led Local Development (CLLD) tool will play an important role in supporting social inclusion at local level, the remit of CLLD strategies will be wider than just social inclusion so the intervention logic for CLLD in England is set out under section 3.1.1 below.

**Priorities for investment**

*Growth Programme*

208. LEP areas have proposed to invest about £725m (€846m) under this thematic objective in 2014-2020, most of which will be from the ESF, £635m (€741), with a smaller amount from ERDF £80m (€93m) and EAFRD £11m (€13m). About £115m (€134m) of the total (£58m (€67m) ESF, £43 (€50m) million ERDF and £13m (€15m) EAFRD) will be used for CLLD across 15 LEP areas (see section 3.1.1 for further details on CLLD.

209. In line with the intervention logic presented above, local partners have proposed to invest in additional provision of services to help people tackle barriers to work and move towards employment. By identifying how their proposed activities will complement existing local services and address gaps in services, the strategies help to maximise the impact and effectiveness of spending. LEP areas have identified groups who are disadvantaged in the labour market in their areas and who need additional help to address their barriers to work. These include, for example, long-term unemployed people, people with disabilities or health barriers, people with caring responsibilities, lone parents, ethnic minorities, ex-offenders, people from jobless households, and inactive people (including those not on benefits who have the potential to enter the labour market but who may need considerable support to enter work).

210. The main activities that will be supported by LEP areas include:

- tackling barriers to work in troubled families;
- supporting bottom-up active inclusion activity in particular locations;
- supporting early action before problems become entrenched, especially for those with multiple barriers to participation;
- supporting activities to combat discrimination in the labour market, e.g. targeting specific ethnic minorities or communities;
- growing the social investment market to support social enterprises and develop the capacity of social entrepreneurs to address the needs of local communities.

211. Most LEP areas are planning to invest around 12.6% of their ESI Funds allocations in social inclusion activities. As the LEP areas with the largest total ESI Funds allocations tend to have the highest levels of social exclusion, the actual values of inclusion investments will be highest where they are most needed.

212. Across England, ESI Funds will also be used to provide additional support to offenders and ex-offenders without work, especially from very hard to help groups.

## INVESTING IN EDUCATION, TRAINING AND VOCATIONAL TRAINING FOR SKILLS AND LIFELONG LEARNING

**Development needs and growth potentials across England**

213. The Europe 2020 headline target for this thematic objective is to increase the proportion of 30-34 year-olds with tertiary or equivalent education to 40%. As set out in chapter 1, in 2013 47.7% of 30-34 year-olds had tertiary or equivalent education in the UK and in England the estimated proportion was 50.2%.

214. **Skills levels and gaps vary significantly across England.** The Labour Force Survey is used to measure the level of adult educational attainment in the population. Provisional data for 2012 show that of men aged 19 to 64 and women aged 19 to 59[251] :

- 80.6 per cent were qualified to at least Level 2;
- 61.6 per cent were qualified to at least Level 3;
- 39.5 per cent were qualified to Level 4 and above.

215. There is a clear link between qualification level and employment rates. For those with below level 2 qualifications the employment rate in England was 59.9% in 2012. This compares with an employment rate of 84.4% for those qualified at Level 4 and above.

216. A recent OECD report[252] found that England is around the OECD average for literacy ranking 11/24 and is below the OECD average for numeracy ranking 17/24. However the report also highlighted the low performance of 16-24 year olds compared to older age groups.

217. However, these national trends mask large differences in skills disparities across LEP areas. Figure 62 and 63 show the percentage of individuals aged 16-64 with no qualifications (as a proxy for low levels of skills) and the percentage of individuals aged 16-64 with a NVQ (national Vocational Qualification) level 4+ as a proxy for higher level skills.

218. There are a range of skills gaps both within and between LEP areas. For example, in Greater Birmingham in 2012, 13.7% of adults aged 16-24 had no qualifications and 28.1% had NVQ4+. In Buckinghamshire and Thames Valley, 5.1% of adults aged 16-24 had no qualifications and 41% had NVQ4+. This is partly attributable to higher school achievements in areas covered by Southern LEPs (particularly the South East) and also probably a net movement of graduates into London.

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[251] Further details at: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/285181/learner-participation-outcomes-and-level-of-highest-qualification-release.pdf

[252] Further details at: http://skills.oecd.org/skillsoutlook.html

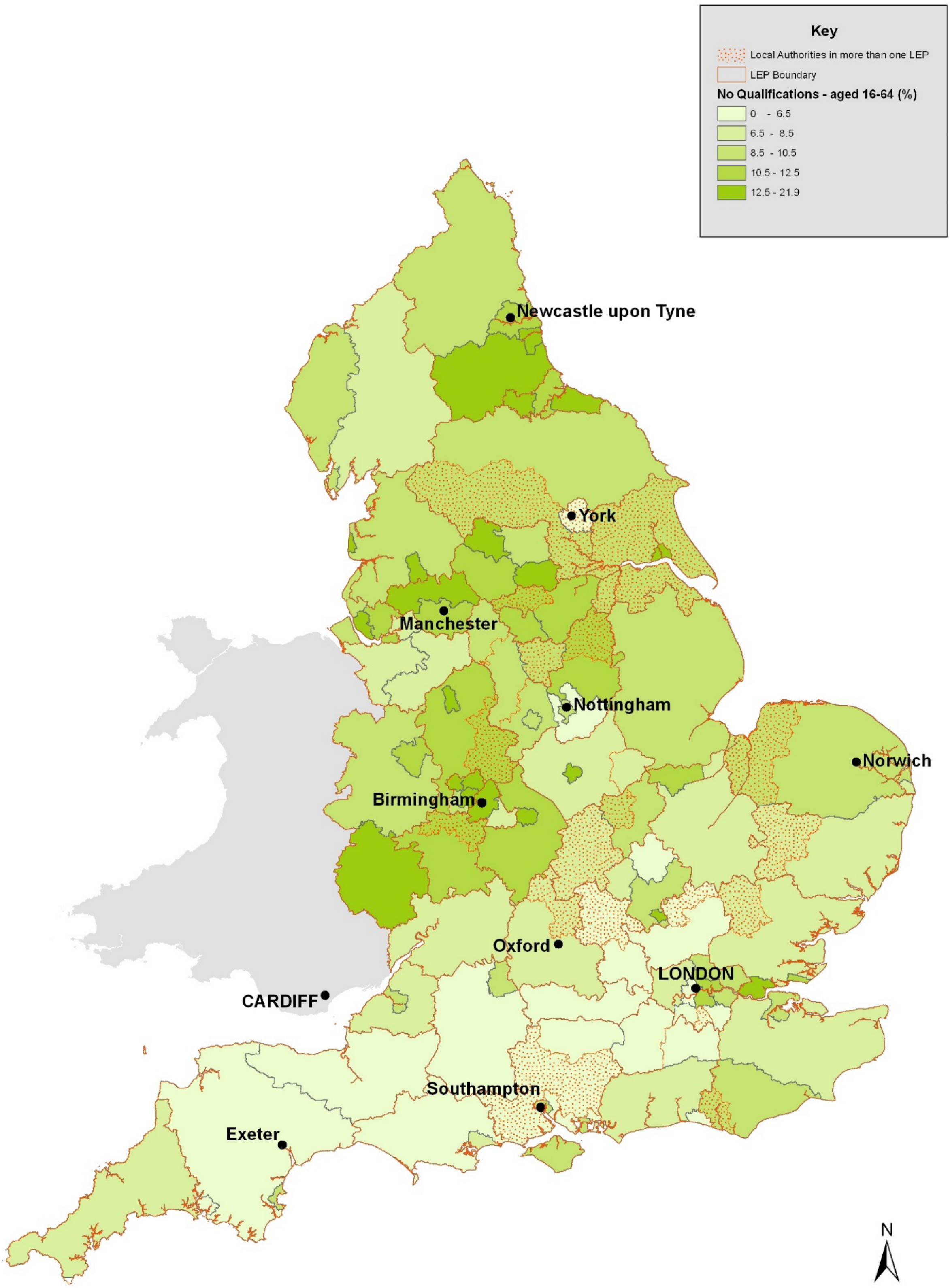





**Figure 61: Percentage of individuals aged 16-64 with no qualifications**
*Source: NOMIS*

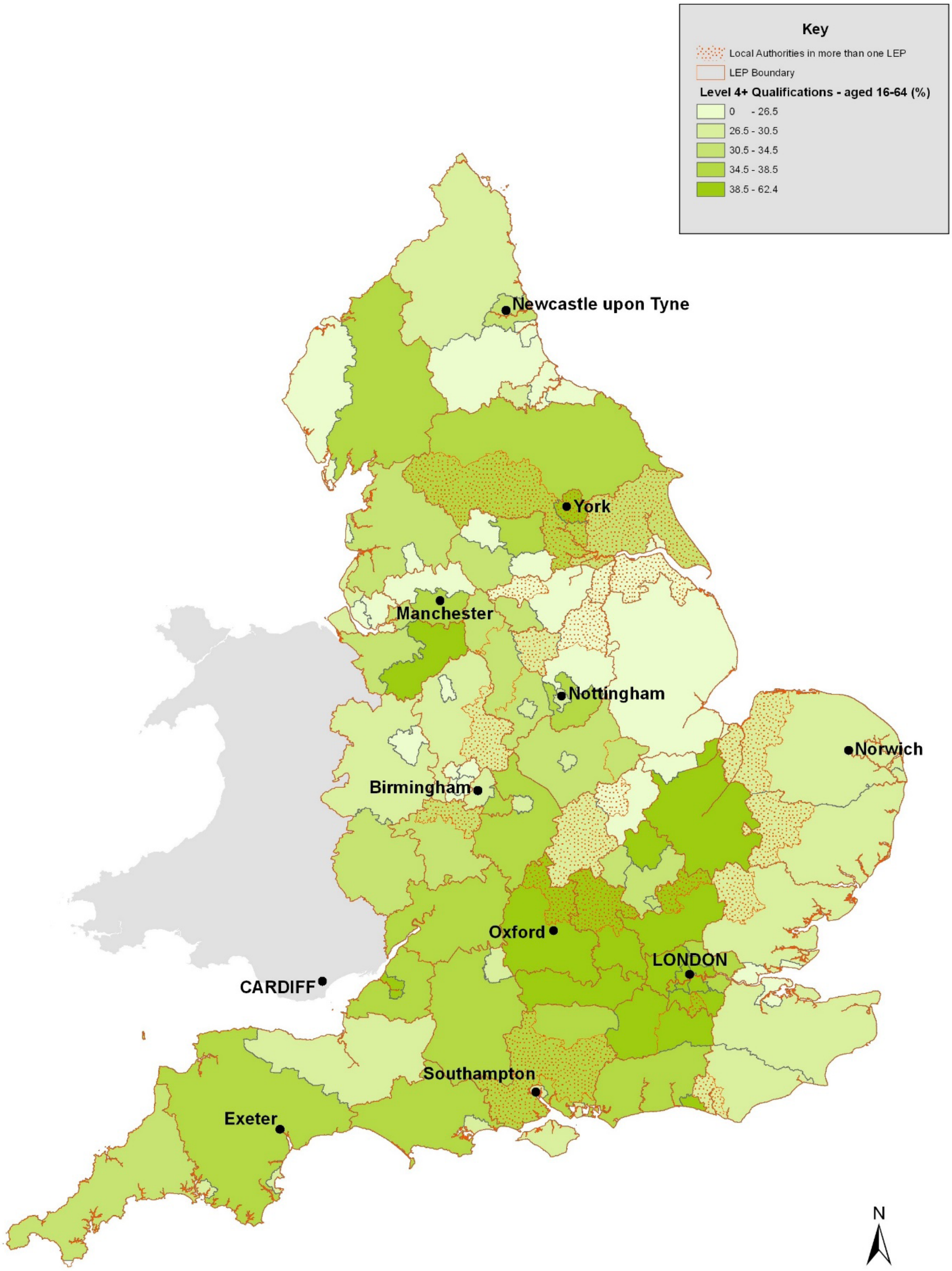





**Figure 62: Percentage of individuals aged 16-64 with Level 4+ Qualifications**
*Source: NOMIS*

219. Higher proportions of people with low or no qualifications are mainly concentrated in large urban LEPs and some rural LEPs. The OECD Rural Policy Review found rural areas in England on average have a work force that has a higher proportion of

individuals with lower levels of skill, both in terms of formal education and in work-related training. The land based and environmental sector (predominantly based in rural areas) has significant potential for growth through to 2020, but there is a skills shortage which holds businesses back.

220. Reasons for this include the relatively high cost of training in relatively remote rural areas, and farmers / foresters not adequately appreciating the business and other benefits that they could achieve with better skills levels for themselves and their staff. Farm Business Survey figures indicate that a significant proportion of farmers are unable to gain business skills due to a mixture of a lack of provision or the costs involved.

221. We know from the Farm Business Survey that the number of farmers (heads of holding) currently engaged in Continuous Professional Development is relatively small, so although the investment per worker in skills in the agriculture industry may be higher than other sectors, skills and training may nevertheless be underprovided. In 2011 Lantra (the Sector Skills Council for land-based sectors) identified key areas for skills development including safety, skills loss through an ageing workforce (often single operators unable or unwilling to take on apprentices), adapting to climate change, biosecurity, business planning and marketing. Increasing the skills base of the agriculture and forestry sectors in environmental management will help land managers optimise their resources and harness their land and business potential to deliver multiple outcomes for them and wider society.

222. Levels of qualification vary across coastal LEP areas; although these areas have some of the highest proportion of higher qualified learners, there are also high levels of people with low or no qualifications.

223. **There is some evidence to suggest the skills system in England is not as responsive to employers' needs as it should be.** Skills shortages vary across the country – in England the number has nearly doubled since 2009, from 63,000 to 124,000. Almost 3 in 10 vacancies are reported to be hard to fill; representing more than 1 in 5 of all vacancies. Skilled trades represent the highest level of skills shortages followed by Machine operatives, managerial and professional roles, caring leisure and other services.[253] In a survey, 20% of manufacturers reported skills gaps, while 31% of high tech manufacturers have recruited from outside the UK because of a lack of suitably qualified people within the UK.[254] In terms of employer investment there is evidence of less training being provided on an individual basis and total employer investment in training decreased by 5% over 2011-2013. [255] This points to gaps at many levels, but in particular in advanced and higher level skills, consistent with the European Council's Country Specific Recommendation on skills in the UK.

224. For those currently working in the fisheries and aquaculture sector, the EMFF will continue to provide investment opportunities for sector specific training and learning initiatives. Those wishing to diversify outside of the sector will also be encouraged to look at the opportunities offered by the other ESI funds in supporting their learning and training needs. In these instances it is expected that those looking to diversify will look at engaging with ESI Funds partnership groups, LAGs and other support networks for assistance.

[253] UK Commission for Employment and Skills; Employer Skills Survey 2013 (January 2014)
[254] National employers skills survey for England 2009; Key findings Report, UK Commission for Skills , March 2010
[255] UK Commission for Employment and Skills; Employer Skills Survey 2013 (January 2014)

**National policy context**

225. The FE skills system is being reformed. The priorities remain a broad range of current Government initiatives including traineeships to improve young people's chances in gaining employment; a core offer of Apprenticeships to all young adults and English and maths for those that need it up to GCSE grade C or better standard (level 2). We have embedded English and maths in all our major programmes and within study programmes for 16-19 year olds. We continue to enable adults to improve their English and maths and to achieve skills and qualifications even where they missed out earlier in life. We support a wide range of different types of provision so that adults can learn in the way that suits them, including workplace learning, community learning, traditional college courses and online learning. Unemployed people with very poor English and maths are required to train to bring their skills up to the level expected by employers.

226. The skills offer must meet the needs of employers and this will include clear vocational routes, valued as highly as academic routes, to higher education study. The vocational route for young people through qualifications, Technical Levels, Intermediate-level, Advanced-level and Higher Apprenticeships, onwards to Higher Education study, should provide an equally valued ladder of aspiration to that of a purely academic route. Government policies are also encouraging innovation in the use of available educational technologies to promote online learning alternatives to traditional delivery routes and blended learning.

227. The Government is committed to improving the quality of careers information, advice and guidance, and have introduced a statutory duty on schools and equivalent requirements on colleges to help deliver this. The National Careers Service (NCS) offers a quality face-to-face service to unemployed adults and those with greatest need, as well as telephone and web services for all ages. Going forward the focus will be on motivation, raising aspirations and successful customer outcomes.

228. These policies are designed to tackle national issues such as the relatively high proportion of people with low levels of qualifications, young people NEET, skills shortages at all levels and in developing qualifications and skills that meet employers' needs. All these skills issues occur in varying degrees of intensity across LEPs and all categories of region.

229. In terms of Higher Education (HE), student choice and provider opportunity is a cornerstone of Government policy. In 2011/12 Government spent approximately £14bn on teaching, research and student support.

230. Skilled graduates are central to economic growth, and the Government has encouraged universities and business to work in partnership to ensure that supply meets demand. The National Centre for Universities and Business, launched in 2013, brings together university and business leaders to consider issues around skills needs, work experience and graduate recruitment.

231. The Government wants to get more people from disadvantaged backgrounds into higher education. A new framework is being established with increased responsibility placed on universities to widen participation. The Government have also asked Higher Education Funding Council for England (HEFCE) and Office for Fair Access (OFFA) to develop a national strategy for access and student success at undergraduate level; but also has an interest in participation at postgraduate level.

232. While skills, knowledge transfer and training delivery for the land based sector is available commercially, uptake is insufficient to achieve objectives.

**Objectives and results for ESI Funds**

233. ESI Funds will be used to complement and build on national skills activities. As set out above, development needs vary significantly across different areas in England. Therefore, ESI Funds will support a wide variety of interventions and across different localities, supplementing national schemes in some cases and filling gaps in national provision in others. ESI Funds will be used both to directly fund interventions to improve information, advice and guidance to, and the skills levels of, individuals and to support structures and working arrangements to increase the likelihood that skills interventions will lead to jobs for participants.

234. In terms of direct interventions for individuals, ESI Funds will be used to support the following activities:

- training for the unemployed and the most disadvantaged learners or those with complex needs;
- basic skills interventions;
- intermediate, technical and high level vocational provision for the unemployed and for career progression;
- supporting low skilled people in low paid work to help them progress;
- intermediate, technical and higher level skills;
- skills and training packages in response to redundancies;
- information, advice and guidance activities to engage, inspire and encourage learning and re-skilling and up-skilling;
- informal learning and community based learning;
- specific activities to promote equality and diversity, retention, progression and employability in further and higher education; information, advice and guidance and effective engagement in employment;
- technical skills for the farming and forestry industry; and
- promoting enterprise and entrepreneurism and help with leadership and management skills in SMEs.

235. In terms of interventions to support arrangements which will increase the relevance of skills interventions, ESI Funds will support the following activities:

- building capacity and support for collaborative projects, placements, internships or other activities with SMEs that enable students and graduates to gain industry relevant experience and skills;
- additional and enhanced support for Apprenticeships and Traineeships (but not direct funding of training or wage costs) especially for the most disadvantaged. This will include increasing the numbers of Traineeships and Apprenticeships
- promotion of a supportive environment for new Higher Level Apprenticeships (especially in manufacturing and industrial strategy priority sectors and other TO priorities).
- support for the development of industry backed intermediate and higher level skills especially priority sectors in other TOs and national industrial strategy priorities (mainly manufacturing, engineering, STEM skills and new and emerging technologies)
- brokering opportunities to encourage and increase work experience, work placements, Apprenticeships, Traineeships and graduate placements including for disadvantaged learners;
- developing better links between business and educators, Further Education providers and other education partners to equip students with the skills to start and grow a business to meet local business needs; and

- capacity-building activities, including local collaboration and co-ordination of training, networking and joint activities.

236. In summary, consideration of the range of development needs and growth potentials in the context of national policy suggests the following specific objectives for the ESI Funds in England:

| **Investment Priority** | **Specific Objectives** | **Result indicators** |
|---|---|---|
| Enhancing equal access to lifelong learning for all age groups in formal, non-formal and informal settings, upgrading the knowledge, skills and competences of the workforce, and promoting flexible learning pathways including through career guidance and validation of acquired competences | More people gain the skills they need to achieve their goals and support local growth. | • Participants gaining a qualification or unit, or successfully completing a course, or progressing into or within education or training. |
| Improving the labour market relevance of education and training systems, facilitating the transition from education to work, and strengthening vocational education and training systems and their quality, including through mechanisms for skills anticipation, adaptation of curricula and the establishment and development of work-based learning systems, including dual learning systems and apprenticeship schemes; | Skills provision is more responsive to the needs of the local economy and more individual's progress into or within skills provision, through increased employer engagement and participation in the planning, design and delivery of vocational education provision. | • Successfully completed projects to increase employer engagement and the number of individuals progressing into or within skills provision. |
| Increase the level of industry-specific technical skills and general business management skills in the land based sector to improve productivity and competitiveness, support the uptake of innovation, and to improve environmental and economic performance. | To increase the skills base of the agriculture and forestry sectors to help land managers optimise their resources and harness their land and business potential to deliver multiple outcomes for them and wider society | • Number of participants to trainings and other skills acquisition actions (EAFRD) |

**Priorities for investment**

*Growth Programme*

237. Skills is the second highest priority thematic objective in the Growth Programme – the total value of proposed ESI Funds investment is £1,095m (€1,278m). This figure represents 41.1% of all ESF investment in 2014-20 and 0.1% of ERDF.

238. Consistent with the intervention logic presented above, all LEP areas highlight the need to enhance access to lifelong learning and skills/competence programmes, and to increase the labour market relevance of education and training. There is a particular focus on:

- support for activities to start and grow a business and support for local SMEs' skills needs (especially management and leadership) particularly in new and growth sectors, and to encourage diversification in rural and coastal areas;
- support for improving the skills levels, and therefore employability, of people with low or no qualifications, particularly young people NEET in urban and rural LEPs;
- expanding and enhancing Apprenticeships and Traineeships to meet local needs;
- support for intermediate, technical and higher level skills for specific local industries and sectors, especially STEM (science technology and maths) industries, including new and emerging technologies, other TO e.g. low carbon and local clusters;
- promoting and developing better links between business and educators, especially through information, advice and guidance, including further and higher education.

239. The wider range of local development needs and growth potentials are also reflected across LEP ESI Funds Strategies:

- in LEP areas with high proportions of people with low or no qualifications (large urban LEPs, some rural LEPs, some coastal LEPs), there will be a focus on basic and employability skills (including maths and English), inspiration and engagement of those who are NEET or at risk of becoming NEET;
- many rural LEP areas (or LEPs with significant rural areas) with significant skills gaps plan to focus on developing SMEs skills needs, particularly in leadership and management, as well as promoting enterprise and entrepreneurship;
- some rural and semi-rural LEP areas focus on developing intermediate and higher level skills in new technologies and to support new and emerging sectors and local clusters, especially in the knowledge based economy, alternative energy sources and the low carbon economy, as well as supporting enterprise and entrepreneurship; and
- In large urban LEPs and particularly the South of England with strong HEIs there is a focus on developing better links with HE, developing post graduate opportunities and supporting and promoting the exploitation of research.

*Rural Development Programme for England*

240. For the land-based sector, funding will include provision of cross-cutting advice and skills that can blend environmental and productivity knowledge transfer including for new technology processes, business management and environmental topics.

## 1.2 A SUMMARY OF THE EX-ANTE EVALUATIONS OF THE PROGRAMMES OR KEY FINDINGS OF THE EX-ANTE EVALUATIONS OF THE PARTNERSHIP AGREEMENT WHERE UNDERTAKEN BY THE MEMBER STATE AT ITS OWN INITIATIVE

**ERDF**

1. An independent, ex-ante evaluation of the 2014-20 Operational Programme for England is currently in progress. A series of meetings and exchanges have taken place to provide comments on document drafts and discuss the actions needed to further develop the programme. The evaluators also carried out initial consultations with a range of external stakeholders at an early stage in the process.
2. To date, the evaluators have had provided initial reviews of the core socio-economic analysis for the Programme, comments on the overall programme strategy, thematic objectives and emerging investment priorities. A workshop has been held to reflect on the draft intervention logics for each of the thematic objectives. The process has

extended to dialogue on the development of the monitoring and evaluation framework for the Programme, including outputs and results indicators.

3. In line with the European Commission's guidance on ex-ante evaluation, the process is iterative in nature. Feedback provided by the evaluators has been taken on board by the drafting team, with further comments made on amendments and additions as the Operational Programme takes shape. The evaluators have also contributed to dialogue between the programme development team and the European Commission.
4. A Strategic Environmental Assessment is an integral component of the ex-ante evaluation. The scoping of the SEA has been completed and shared with statutory consultees for comment. This will be followed by the SEA of the draft Operational Programme, and formal consultation on the SEA report.
5. An Equality Assessment is also in progress, with an initial screening exercise having been completed, and consultation carried out with the programme development team. Further, specific consultation on the programme's potential equality impacts will take place in due course.

**ESF and EAFRD**

6. The ex-ante evaluations of the ESF and EAFRD England Programmes are in progress and the final reports will not be available until the final drafts of the Programmes are prepared for submission to the European Commission.

## 1.3 Selected Thematic Objectives and Summary of the Main Results Expected for Each of the ESI Funds

| **Thematic Objective** | **Main Results** |
|---|---|
| (1) strengthening research, technological development and innovation | • Increase the number of businesses that are actively innovating to bring new products to the market (ERDF); and<br>• further embedding innovation and building greater value chain connections within and across relevant functional economies, especially with the use of those enabling technologies that transfer across sectors (smart specialisation indicator). (ERDF)<br>• increased innovation in the fisheries and aquaculture sectors to improve the sustainability and competitiveness of both industries (EMFF)<br>• Increase in cooperation in the farming and forestry sectors (EAFRD) |
| (2) enhancing access to, and use and quality of, information and communication technologies | • increase the competitiveness of SMEs by support them in their development of ICT products and access to services including broadband. (ERDF); and<br>• Enhancing Access to ICT (EAFRD)<br>• Integrating scientific knowledge with ecological knowledge in the fishing industry (EMFF)<br>• Percentage of rural population benefitting from new or improved IT infrastructure including superfast broadband (EAFRD) |

| Thematic Objective | Main Results |
|---|---|
| (3) enhancing the competitiveness of small and medium-sized enterprises, the agricultural sector (for the EAFRD) and the fisheries and aquaculture sector (for the EMFF) | • increase in SME productivity (ERDF);<br>• increase in SME jobs created (ERDF);<br>• Increase in business start ups (ERDF); and<br>• encouraging the Competitiveness of SMEs (EAFRD)<br>• increasing the competitiveness and productivity of the fisheries and aquaculture industries, including the processing sector (EMFF).<br>• increase the value added in fisheries and aquaculture products (EMFF)<br>• Number of SME jobs created (EAFRD) |
| (4) supporting the shift towards a low-carbon economy in all sectors | • an increase in the energy efficiency of companies, buildings and transport (ERDF);<br>• an increase in companies deploying low carbon practices, processes, services or products (ERDF); and<br>• Supporting the move to a Low Carbon economy (EAFRD).<br>• Contribute to development of marine energy sector (ERDF & EMFF)<br>• Percentage of agricultural and forest land under management to foster carbon sequestration (EAFRD)<br>• |
| (5) Climate Change | • improving the economic viability of areas through infrastructure investments (ERDF).<br>• Supporting investments to modernise fishing vessels, in particular adopting more selective gear and possibly replacing engines (EMFF).<br>• (Climate change adaptation and mitigation will be programmed in the Rural Development Programme as an overarching objective.) |
| (6) Environment / resource efficiency | • improving the economic viability of areas through infrastructure investments including Green Infrastructure (ERDF); and<br>• an increase in companies deploying low carbon practices, processes, services or products (ERDF).<br>• Supporting the transition to a more sustainable fisheries industry, in particular meeting the requirements of the reformed Common Fisheries Policy to improve fish stocks (discard free fisheries) and achieve maximum sustainable yield (EMFF).<br>• Percentage of agricultural/forest land under management contracts:<br>    • Contributing to biodiversity<br>    • Improving water management<br>    • Improving soil management and/or preventing soil erosion (EAFRD) |
| (7) promoting sustainable transport and removing bottlenecks in key network infrastructures | • improving the economic viability of areas through infrastructure investments (ERDF).<br>• Supporting collective purchasing (energy, transport and packaging) in the fisheries processing and marketing sectors (EMFF). |

| Thematic Objective | Main Results |
|---|---|
| (8) promoting sustainable and quality employment and supporting labour mobility; | • more unemployed and inactive people enter employment (ESF); and<br>• more young people who are not in education, employment or training start to participate in the labour market or learning (ESF). |
| (9) promoting social inclusion, combating poverty and any discrimination; | • increase the number of long-term unemployed or inactive people engaged in job searching, education or training, gaining a qualification, or in employment (including self-employment) upon leaving (ESF).<br>• Supporting the development of fisheries and coastal areas, encouraging diverse sections of the community to work together in partnership to improve economic sustainability (EMFF) |
| (10) Investing in education, training and vocational training for skills and lifelong learning | • More people gain a qualification or unit, or successfully complete a course, or progress into or within education or training. (ESF).<br>• Successfully completed projects to increase employer engagement and the number of individuals progressing into or within skills provision (ESF)<br>• Encouraging new entrants into the fisheries and aquaculture industries; and providing learning opportunities, or re-skilling, to meet new or changing market trends, for those already in the industry (EMFF)<br>• Number of participants to trainings and other skills acquisition actions (EAFRD) |

## 1.4 THE INDICATIVE ALLOCATION OF SUPPORT BY THE UNION BY THEMATIC OBJECTIVE AT NATIONAL LEVEL FOR EACH OF THE ESI FUNDS, AS WELL AS THE TOTAL INDICATIVE AMOUNT OF SUPPORT FORESEEN FOR CLIMATE CHANGE OBJECTIVES

### 1.4.1 Table: The indicative allocation of support by the Union by thematic objective at national level for each of the ESI Funds (EUR) (total Union support, including the performance reserve).[256]

| | ERDF €m | ESF €m | EAFRD €m [257] | EMFF €m [258] | TOTAL €m |
|---|---|---|---|---|---|
| 1.Strengthening research, technological development and innovation | 763 | 0 | 152 | TBC | 915 |

[256] All allocations set out in this table have been subject to rounding so may not total up.
[257] EAFRD allocations in this table include voluntary modulation.
[258] EMFF is an UK wide programme. The details of the thematic objective breakdown for EMFF is solely set out in the UK chapter.

| | ERDF €m | ESF €m | EAFRD €m [257] | EMFF €m [258] | TOTAL €m |
|---|---|---|---|---|---|
| 2. Enhancing access to, and use and quality of, information and communication technologies | 165 | €0 | 19 | TBC | 185 |
| 3. Enhancing the competitiveness of small and medium-sized enterprises, the agricultural sector (for the EAFRD) and the fisheries and aquaculture sector (for the EMFF) | 1,413 | €0 | 130 | TBC | 1,544 |
| 4. Supporting the shift towards a low-carbon economy in all sectors | 730 | 0 | 50 | TBC | 780 |
| 5. Promoting climate change adaptation, risk prevention and management | 89 | 0 | 0 | TBC | 89 |
| 6. Preserving and protecting the environment and promoting resource efficiency | 111 | 0 | 2,859 | TBC | 2,970 |
| 7. Promoting sustainable transport and removing bottlenecks in key network infrastructures | 116 | 0 | 0 | TBC | 116 |
| 8. Promoting sustainable and quality employment and supporting labour mobility | 0 | 1,043 | 173 | TBC | 1,216 |
| 9. Promoting social inclusion and, combating poverty and any discrimination | 91 | 894 | 0 | TBC | 986 |
| 10. Investing in education, training and vocational training for skills and lifelong learning | 0 | 1,238 | 44 | TBC | 1,282 |
| 11. Enhancing institutional capacity of public authorities and stakeholders and an efficient public administration | 0 | 0 | 0 | TBC | 0 |
| Technical assistance | 145 | 132 | 30 | TBC | 307 |

| | ERDF €m | ESF €m | EAFRD €m [257] | EMFF €m [258] | TOTAL €m |
|---|---|---|---|---|---|
| **TOTAL** | 3,628 | 3,308 | 3,460 | TBC | 10,397 |

## 1.5 The Application of Horizontal Principles and Policy Objectives for the Implementation of the ESI Funds

### 1.5.1 Arrangements for the partnership principle including an indicative list of the partners referred to in Article 5 CPR and a summary of the actions taken to involve them in accordance with Article 5 CPR and of their role in the preparation of the Partnership Agreement and the progress report referred to in Article 52 CPR

1. The Department for Business, Innovation and Skills and English Managing Authorities has been engaging with stakeholders in development of the priorities for the ESI Funds and implementation mechanisms in England since early 2012[259]:
    - An informal written consultation was launched in March 2012 to hear views from around England. The Government's response was published in July 2012[260];
    - BIS recruited four secondees from the local government, voluntary and higher education sectors into a 'Partnership Team', which input external expertise in development of priorities for the ESI Funds and worked with stakeholders around England;
    - Government has used established networks such as LEADER Groups, ERDF Local Management Committees and the ESF Board to disseminate information and gather views; and
    - Teams of experts from within and outside government were assembled to consider the thematic objectives of the Common Strategic Framework and how investment priorities relate to government policy and priorities.

2. Following extensive engagement with a wide range of stakeholders, the Government's proposals for top-level priorities and new delivery arrangements for England were agreed by Ministers in Autumn 2012. These were then tested during a series of consultative 'road shows' across England, which were attended by more than 1,000 individuals. Invitation lists for the road shows were drawn up carefully to ensure representation from all relevant sectors.
3. The Government announced its decision to proceed with the delivery arrangements tested at the road shows in March 2013. Since that time, Local Enterprise Partnerships and other key local partners have worked to develop ESI Funds Strategies for their areas. These set out local priorities for local areas' allocations from the Growth

[259] Further details at: https://www.gov.uk/government/policies/making-european-funding-work-better-for-the-uk-economy#who-weve-consulted
[260] The full list of responds to the consultation are set out in an annex to the Government's response: https://www.gov.uk/government/consultations/european-structural-and-cohesion-funds-consultation-on-proposed-changes-to-managing-the-funds

Programme (ERDF, ESF and part of EAFRD). LEPs and partners have developed their Strategies using guidance from Government on key priorities and intervention logic. The government guidance also set out clearly the requirements for LEPS and local groups to work with a broad range of interested parties from all relevant sectors in developing their Strategies. Local partners submitted final ESI Funds Strategies to Government in January 2014. Government is now using these Strategies to further inform the ERDF, ESF and EAFRD programmes for England. The draft Programmes will have been subject of further formal written consultation by Government before submission.

4. The ESI Funds Growth Programme Board (henceforth "the Board") for England was established in September 2013 to oversee development of the ESI Funds Growth Programme. The Board has representatives from local government, LEPs, the voluntary sector, higher and further education establishments, environmental groups, equalities bodies, UK Government and the European Commission[261]. The Board has a strategic role in helping to steer development of the Growth Programme and the England chapter of the Partnership Agreement. During implementation of the Programmes, the Board will be reconstituted and formally designated as the Programme Monitoring Committee for the ERDF and ESF Operational Programmes.

**EAFRD**

5. As well as using feedback from the road shows and stakeholders groups focused on the Growth Programme, DEFRA have designed the main part of the next Rural Development Programme with close cooperation from a range of partners. The RDPE External Working Group consisting of representatives of a broad range of interested stakeholders[262], have met monthly since September 2012 to discuss all aspects of programme policy and design. This group reports to the current EAFRD Programme Monitoring Committee. Ministers and officials have also hosted a series of six events with Rural Farming Networks. A formal written consultation on the new Common Agricultural Policy and EAFRD programme was conducted in November 2013. The responses have had a significant bearing on the decisions taken by Government, for example on the rate of interpillar transfer in the CAP. Government published a responses to the formal written consultation in December 2013 and February 2014.

**EMFF**

6. To help develop the EMFF priorities for England, a stakeholder workshop was held in June 2013 to identify the measures for investment. These helped form the SWOT analysis and needs assessment for the English programme. A consultation on the proposed measures for the EMFF in England was also launched in March 2014; the responses received from stakeholders and the industry will be taken into consideration when making the final decision on what measures will be prioritised for support in the UK Operational Programme.

[261] Full membership of the board can be found at: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/268708/european-structural-and-investment-funds-growth-programme-board-membership.pdf

[262] Full list set out in the Annexes.

## 1.5.2 Promotion of equality between men and women, non-discrimination and accessibility (with reference to Article 7 of CPR)

1. The UK Chapter describes how domestic legislation in the UK will ensures ESI Funds will be delivered in way which promotes equality. It also sets out some specific actions which Managing authorities will take in order to ensure the domestic legislation is transposed into ESI Funds delivery. This section provides further detail on additional considerations around equality in England.
2. DWP commissioned an evaluation of the mainstreaming of Gender Equality (EO) and Equal Opportunities (EO) within the ESF in England in 2010[263]. The key findings of the final report [ref] were:
   - GE and EO legislation are valuable tools in the promotion of equalities, placing equalities issues high on the agenda of publicly funded bodies;
   - ESF stakeholders promote equality in line with their public duties but improvements in the quality of GE and EO policies should be encouraged;
   - Training on GE and EO for staff at all levels is highly desirable so that they can support and advise providers in mainstreaming GE and EO;
   - There were some concerns from niche providers that the dual approach was under threat from an increase in prime contracting;
   - Outreach, especially via community organisations, to disadvantaged groups is an important tool for meeting targets.
3. The ESF Programme for 2014-2020 (and the related ex-ante evaluation for the programme) will consider the relevant lessons learned from the evaluation and the current ESF programme's dual mainstreaming approach (equalities are promoted as a cross-cutting theme at project level and through specific projects for target groups). The next ESF programme will operate through a number of funding mechanisms in addition to co-financing. This approach will still allow for niche projects and bottom-up interventions to be supported and it is hoped that this will strengthen the dual approach to promotion of equality between men and women, non-discrimination and accessibility.
4. The ERDF Programme for 2014-2020 will also promote equal opportunities and diversity, including through positive action where this is appropriate and meets legal conditions. The ERDF programme may support the following activities to promote equality between men and women, non-discrimination and accessibility:
   - Ensuring that employment opportunities created as a result of investment in innovation are offered in an inclusive fashion;
   - Encouraging and supporting employers to adopt and apply diversity and family-friendly policies;
   - Stimulating greater interest in starting businesses among young people and communities where there is limited enterprise culture;
   - Ensuring that promotion of enterprise and business support is relevant to all sections of the community and takes account of any language and cultural barriers;
   - Engaging women, under-represented and excluded groups with enterprise;
   - Engaging women, under-represented and excluded groups with business finance;
   - Ensuring wide accessibility, including targeting of hard-to-reach groups, where the Programme supports training and other Human Resource Development actions.

[263] Further details at:
https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/194251/667summ.pdf

5. The integration of equality between men and women, non-discrimination and accessibility will be the subject of monitoring and thematic evaluation over the life of the next ERDF Programme.
6. The delivery of ERDF and ESF together through the Growth Programme in 2014-2020 will allow increased exploitation of synergies between the Funds. The delivery model should encourage some projects with a holistic approach at local level, with business development/creation facilitated by ERDF aligned closely with ESF provision of employment and skills programmes. This creation of effective labour market pathways is of particular relevance to those facing inequality on the basis of their protected characteristics.
7. The Rural Development Programme in England for 2014-2020 will support equality between men and women, non-discrimination and accessibility by promoting schemes amongst target groups. In particular, equality issues relating to access to the countryside will be explored as part of the criteria and design of environmental land management, Growth Programme and LEADER schemes. Equalities and distributional, as well as non-economic social impacts, will be considered as part of on-going monitoring and evaluation of the programme.
8. In order to inform selection of priorities within the next Rural Development Programme, Defra's conducted an assessment of the equality impact of potential spending decisions in the programme. The assessment shows that those with protected characteristics are impacted to the same extent as those without protected characteristics. This reflects the nature of the Rural Development Programme – it is open to everyone who meets the relevant criteria and focuses largely on public goods rather than delivery of citizen-targeted public services. Defra will update the Equality Assessment for the next Rural Development Programme prior to submission of programme to the Commission in 2014.

**Growth Programme**

9. In developing their ESIF Strategies LEPs and partners were asked, through the Government's Supplementary Guidance[264] published in July 2013, to give due consideration to equality between men and women, non-discrimination and accessibility. This included asking LEP areas to set out:
    - a commitment to promoting equality and combating discrimination in line with domestic legislation and European Regulations;
    - proportionate evidence around equalities issues in the Local Enterprise Partnership area and how the Local Enterprise Partnerships' investment decisions will impact on those issues; and
    - evidence that partners with expertise in equality have helped prepare the investment strategy and will continue to assist throughout the implementation and monitoring of programmes.

## 1.5.3 Sustainable development (with reference to Article 8 of CPR)

1. In addition, to the activities set out in the UK Chapter in England there are specific issues relating to the mainstreaming of climate change adaptation that we will cover in England.

[264] Further details at: https://www.gov.uk/government/publications/european-structural-and-investment-funds-strategies-supplementary-guidance-to-local-enterprise-partnerships

2. The National Adaptation Programme (NAP)[265] sets out the actions that government, councils, businesses and civil society are taking to address the key risks identified in the UK Climate Change Risk Assessment and ensure that England is resilient to a changing climate. The ESI Fund investments in England will contribute towards the implementation of the NAP specifically in relation to those objectives which strengthen economic development through wider adaptation and resilience. As such climate change adaptation will be integrated across the design and implementation of the relevant England ESI Funds programmes to:

- Bring forward investments that help increase the resilience of local economy and areas to the impacts of climate change and safeguard growth;
- Ensure greater appreciation of climate change impacts in risk management processes;
- Ensure climate change impacts considered sufficiently to ensure business continuity;
- Avoid investments that further amplify risk or result in mal-adaptation;
- Increase awareness and support skills development to help businesses make well informed decisions and managed their own risks; and
- Where possible promote opportunities for growth in the adaptation goods and services markets.

**Growth Programme**

3. In developing their ESIF Strategies LEPs and partners were asked, through the Government's Supplementary Guidance[266], to give due consideration to sustainable development.
4. LEP area European Structural and Investment Funds Strategies set out how positive environmental impacts will be enhanced and negative effects minimised; and how environmental protection requirements including resource efficiency, climate change mitigation and adaptation, disaster resilience and risk prevention and management have been promoted in the identification of priorities. This included measures to:

- manage and reduce impacts from climate risk and future proof developments;
- pursue environmentally sustainable procurement and commissioning; and
- create new green and blue infrastructure to protect and enhance ecosystem services/ natural capital.

5. In the developing their European Structural and Investment Funds Strategies, partners have also given consideration to:

- the Polluter Pays principle[267] which will need to apply to all activities; and
- the expectation that capital investments in building and infrastructure will normally be expected to achieve the following nationally recognised standards: BREEAM

[265] Further details at: https://www.gov.uk/government/publications/adapting-to-climate-change-national-adaptation-programme
[266] Further details at: https://www.gov.uk/government/publications/european-structural-and-investment-funds-strategies-supplementary-guidance-to-local-enterprise-partnerships
[267] The Polluter Pays Principle underlies the UK system of environmental law. This includes the Environmental Damage Regulations 2009, Producer Responsibility Regime, and Environmental Permitting Regime

Excellent[268] for new build; BREEAM Very Good for refurbishment; and CEEQUAL Very Good[269] for infrastructure projects.

6. Managing Authorities will work with local partners to ensure that:

- Local governance structures include representation from appropriate Sustainable Development experts and champions;
- Local area European Structural and Investment Funds Strategies embed sustainable development at programme level in line with UK and European policy;
- All projects make a relevant contribution to the sustainable development
- Sustainable Development impacts are monitored, evaluated and communicated

**Rural Development Programme for England**

7. Sustainable development will be at the core of the Rural Development Programme (RDP). The Programme will be focused on "Improving the Environment" as set out in the Natural Environment White Paper. The majority (87%) of funding through the RDP will be directed towards environmental land management for agriculture and forestry. The remainder of the Programme will focus on "Promoting strong rural economic growth" and "Increasing the productivity and efficiency of farming and forestry businesses
8. Environmental land management incentives will build on an environmental baseline set by the horizontal regulations (environmental cross compliance) and additional holding scale entry requirements to maintain key features and ensure 'no detriment'. Investments in forest management will, in most cases, be supported by a woodland management plan in line with new UK Forest Standard accreditation. A new environmental land management scheme will be multi-objective and integrate agriculture, forestry and aspects of catchment management within a single scheme. An integrated CAP wide skills and advice service will be offered to farmers and land managers in accordance with the Rural Development Regulation.
9. Competitiveness and productivity grants will promote improvements in resource use efficiency alongside other aspects of business improvement.
10. Investments through community lead local development via the LEADER approach will seek to ensure no detriment to the environment and the development and assessment process will require a sustainability statement.

## 1.5.4 HORIZONTAL POLICY OBJECTIVES

1. None

[268] Further details at: http://www.breeam.org/
[269] Further details at: http://www.ceequal.com/

# 2 ARRANGEMENTS TO ENSURE EFFECTIVE IMPLEMENTATION - ARTICLE 15 (1) (B) CPR

## 2.1 THE ARRANGEMENTS, IN LINE WITH THE INSTITUTIONAL FRAMEWORK OF THE MEMBER STATES, THAT ENSURE COORDINATION BETWEEN THE ESI FUNDS AND OTHER UNION AND NATIONAL FUNDING INSTRUMENTS AND WITH THE EIB

1. As set out at the beginning of the England chapter, the ESI Funds in England will be delivered through three blocks, comprised of four Programmes:

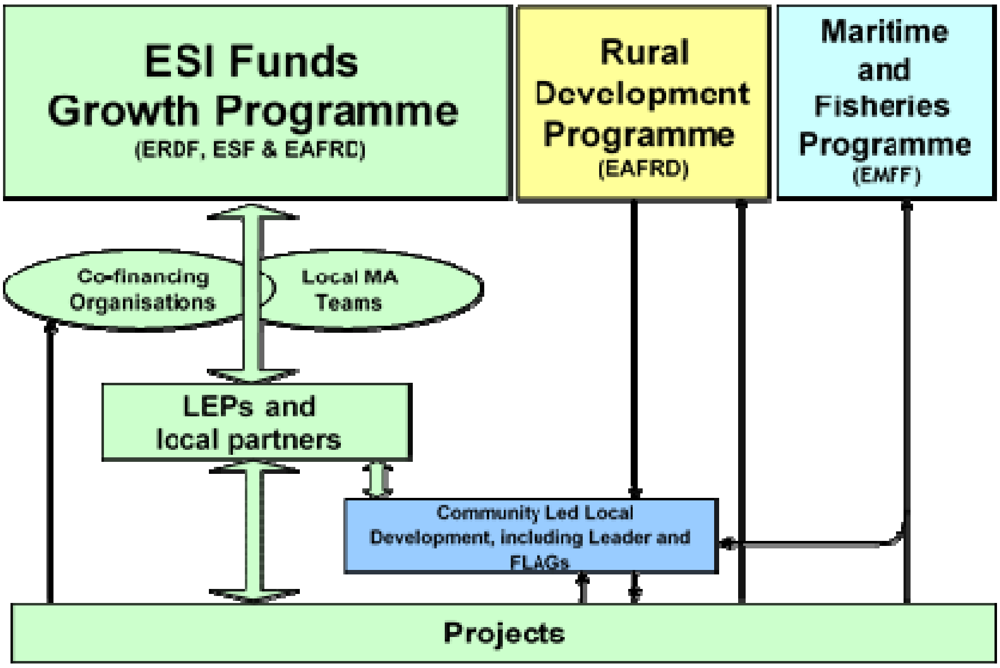



**Figure 63: Diagram setting out how the ESI Funds will be delivered in England**
*Source: Department for Business, Innovation and Skills*

2. The EAFRD that is part of the ESI Fund Growth Programme will be part of the EAFRD operational programme along with the rest of the Rural Development Programme.

**ESI Funds Growth Programme**

*Operational programmes*

3. Within the ESI Funds Growth Programme, ERDF and ESF will be run as two national programmes, each with its own Operational Programme and Programme Monitoring Committee.
4. Central to the delivery of these programmes is strategic subnational economic growth. Government has set up Local Enterprise Partnerships to oversee economic development at local level and has notionally allocated a share of ERDF and ESF to each local area as well as 5% of EAFRD. Local Enterprise Partnerships were invited to work up ESI Fund Strategies through local partnerships including public, private, third sector, community, HE, environmental and other partners.

5. These strategies set out a clear intervention logic for their areas. They set out the local area's opportunities and challenges; its priorities for spending; and the planned outcomes. They form part of the wider economic growth strategy for the area. The intervention logic in these strategies is reflected in the wider intervention logic for the national Operational Programme (OP) for each Fund. The OPs have been drawn up through extensive consultation with partners across the public, private and voluntary sectors. They set out the needs and consequent changes for which the Funds should be used.

*The respective roles of Managing Authorities and local partners*

6. Managing Authorities are responsible for ensuring that the programme is delivered in line with the regulations and represents good value for money and are ultimately accountable to the European Commission. For this programme, subject to the completion of the formal designation procedure as set out in the Common Provisions Regulation and EAFRD Regulations, Government Departments will act as Managing Authorities: DCLG for ERDF [ESF position to be confirmed] and DEFRA for EAFRD.
7. The functions of the Managing Authority as defined in the regulations are to take responsibility for the following:
    - Manage the programme: Support the PMC; submit reports; provide information (guidance, reports, etc.) to all relevant parties; set up and run a computer system; ensure data is collected, entered and stored in a manner that can be used for the effective management of the programme;
    - Selection of Operations: Draw up and apply, after approval by the relevant PMC, the national selection procedures and criteria; assess and appraise to ensure that the operations are compliant and fall within the scope of the relevant fund; satisfy itself that the applicant has the capacity to deliver; provide the funding agreement; and
    - Financial Management and Control: Verify compliance in delivery and control through administrative checks and on-the-spot checks; ensure the beneficiaries have an adequate accounting system; manage fraud prevention; ensure adequate audit trail; manage declaration of expenditure to the Commission and; submit annual reports.
8. The Common Provisions Regulation requires partners to be involved in the preparation of the partnership agreement and progress reports and throughout the preparation and implementation of programmes, including participation of programme monitoring committees. The Code of Conduct on Partnership sets out the main principles and good practices for the involvement of partners. And they play a role in preparing calls for proposals, progress reports, monitoring and evaluation.
9. The success of the programme will depend on close and cooperative working between the Managing Authority and partners. Roles and responsibilities must be clearly set out in appropriate governance and defined so that accountability is clear at all levels of the Programme.

*Partnership working: governance*

10. The Structural Funds and their Operational Programmes will be overseen by a national Programme Monitoring Committee (PMC). The PMC will be chaired by the Managing Authority for the Programmes and the secretariat will be provided by the MA. It is foreseen that it will meet four times a year. Membership will be drawn from a wide range of partners across the public, private and voluntary sector. The remit of the Committee is to oversee the Programmes in line with the requirements set out in the regulations.

11. The PMC for the Structural Funds will be supported by a number of sub-committees. It is envisaged that these will include:

- Thematic committees covering innovation, SMEs, low carbon and skills, employment and social inclusion;
- Cross-cutting thematic committees for equalities and sustainability;
- Functional committees for communications, evaluation and other relevant topics;
- A Technical Assistance sub-committee; and,
- A Performance and Accountability sub-committee to oversee delivery of the programme, guard against conflicts of interest and provide a forum for holding both partners and the MA to account; and
- Sustainable Urban Development.

12. It is further envisaged that the Structural Funds PMC will be supported by 39 Local Sub-Committees, one for each Local Enterprise Partnership area. Government will seek recommendations from Local Enterprise Partnerships and partners in their area on the membership of the local sub-committee in accordance with the EU Regulations[270]. Local sub-committees will be chaired by local partners and supported by the Managing Authorities. They will report to the PMC and by extension to its sub-committees. Their membership must include the full range of local partners as set out in EU Regulations. The exact format of such groups and its fit with local governance is a matter for partners provided arrangements are compliant with the EU regulations.
13. The Local Subcommittee will in relation to funds within the scope of the EU Growth Programme:

- Publicise and promote the opportunities that the funds provide for economic growth;
- Develop a pipeline of operations that meet the local needs in line with the ESIFs;
- Develop and agree the breadth, scope and timing of calls required in each local area;
- Develop and agree with the Managing Authorities selection of operations, especially in regard to prioritisation, the additional opportunities and the fit with local needs;
- Agree with the Managing Authorities the level and detail of information required to monitor the progress of ESIF implementation against spend, milestones and results agreed in their ESIF strategy, recommending remedial actions where necessary.

14. The Rural Development Programme will be overseen by the EAFRD PMC. The PMC for the Structural Funds will advise the EAFRD PMC on issues concerning growth, such as those that may require modifications be made to the Rural Development Programme.

*Partnership working: roles and responsibilities*

15. The successful delivery of funds within the EU Growth Programme will depend on close working between the Managing Authorities and Local Enterprise Partnerships who will co-ordinate and bring in local partners on a fully inclusive basis. This will be based on a clear split of roles and responsibilities, and on close and frequent communication at working level. The Local Sub-Committee will provide a formal basis for this relationship. It will be chaired by a locally-determined partner organised through the Local Enterprise Partnership with the ERDF/ ESF Managing Authority as Deputy Chair. Provided that the

[270] The Common Provision Regulations Article 5(1) sets out the need to pull together a partnership to be involved in the development of the Partnership Agreement and Programmes. The members of the partnership should include representatives of civil society, including environmental partners, non-governmental organisations, and bodies responsible for promoting social inclusion, gender equality and non-discrimination (Article 5(1)(c).

membership and functions meet the regulations for the Programme, the exact form of the Local Sub-Committee can vary with local need.

16. The Managing Authorities are responsible for managing the Operational Programmes in accordance with the principle of sound financial management.

17. The Managing Authorities will do so by working in partnership with economic and social partners and bodies representing civil society at national, regional and local levels throughout the whole programme cycle consisting of preparation, implementation, monitoring and evaluation.

18. For the funds within the EU Growth Programme Local Enterprise Partnerships will be responsible for coordinating these partners and driving the production and delivery of a strategy which makes best use of the Funds in delivering growth in their area and reflects the aims set out in the Strategic Economic Plan. This Local Enterprise Partnership organised partnership will collectively bring forward operations which deliver the best balance of outcomes and agree those with the Managing Authorities.

19. In outline Government envisages the process working as follows:

- Local partners will undertake a role in publicising and communicating opportunities for investment; the Managing Authorities will ensure requirements on publicity and communications are met;
- Local partners coordinated by the Local Enterprise Partnership will promote desired investments for key local priorities and how they might be met through the Funds on a basis agreed by the Local Sub-Committee. They will develop a pipeline of operations;
- The Local Sub-committee will develop and agree Annual Implementation Plans and will work with the Managing Authorities on developing and designing commissioning and bidding arrangements for their area in line with EU regulations. The Local Sub-Committee will agree with the Managing Authorities what calls should take place and when: the Managing Authorities will ensure compliance and carry out the calls agreed with the Local Sub-Committee;
- The Local Sub-Committee will receive all bids, and discuss strategic fit, value for money and fit with achieving the overall local objectives in the ESIF investment strategies. It will also consider the technical appraisal carried out by the Managing Authorities. It will then agree which bids it regards as priorities and areas in which further work may be needed for example on compliance. The Managing Authorities will then invite full bids;
- All bids which reach this stage will be considered by the Local Sub-Committee, which will also consider the full technical appraisal carried out by the Managing Authorities. Again the Local Sub-Committee will agree which bids it regards as priorities. The Managing Authorities will then issue funding agreements for compliant operations which are supported by the Local Sub-Committee. The Managing Authorities will not approve any operations that have not been approved as meeting the ESIF strategy by the Local Sub-Committee; and of course it will not approve any operation which is not compliant;
- The Local Sub-Committee will be responsible for overseeing the delivery of investments and outputs, and as such will have access to project data for its area. The Managing Authorities will be responsible for managing tenders and contracts;
- The Local Sub-Committee will have the ability to challenge the Managing Authorities and beneficiaries, to hold projects and providers to account and have involvement in any corrections or sanctions arising from irregularities; and
- The Local Sub-Committee will help design and oversee programme evaluation, which will be carried out on its behalf by the Managing Authorities.

20. Managing Authorities will (amongst other tasks) ensure that:

- A single standardised business process is used for all ESF and ERDF operations using standard documentation and a shared information system. The administration of EAFRD will follow similar principles but the processes will rest within the larger EAFRD administrative processes which will be aligned to the ESF and ERDF processes where possible.
- Coordination between ESF and ERDF is effectively "hard-wired" into the system. The system will allow collaboration across Local Enterprise Partnership geographic areas and allow applicants to bring funds together to achieve desired outcomes. For example, local communities might support new businesses in a food supply chain, using ERDF to provide support for local companies, ESF to help build local skills and EAFRD to support training. As the ERDF, ESF and part of the EAFRD Operational Programmes underpinning the Growth Programme sit at the national level, coordination between the ESI Funds will not be constrained by variations between spatial boundaries of the Funds.
- Partners coordinated by the Local Enterprise Partnership will work to ensure that ESI Funds' investments are aligned and complementary to interventions funded through local public and private sector funding. Partners are close to the practical implementation and understand the local economic needs and are therefore very well placed to advise on this complementarity and alignment. At national level, relevant Government Departments and Agencies have been involved in development of the framework to bring national public funding as match funding alongside ESIF funds to offer national 'Opt-In' arrangements (the 'opt-in model').

*Technical Assistance*

21. The Government proposes to make up to half of the 247m euros set aside for ERDF and ESF Technical Assistance available to Local Enterprise Partnerships and local partners to support the delivery of their ESIF strategies in 2014-20 subject to the requirements set out in European regulations. TA will be made available to partners to support eligible activities through open calls.

*Rural Development Programme for England*

22. Investments under the new RDP will be delivered through the following schemes and programmes:

| **Scheme/programme** | **Delivery through** |
|---|---|
| Land Management Scheme | Natural England and the Forestry Commission |
| Farming and Forestry Productivity Scheme; | Defra's Rural Development Team |
| EU Growth Programme; | Defra's Rural Development Team will undertake the delivery role |
| LEADER Programme | Defra's Rural Development Team will be responsible for managing delivery through the LEADER approach in line with EU regulations and will work alongside Local Action Groups to ensure that the 5% maximum programme spend criterion is met. |

23. The Rural Payments Agency will retain responsibility for all paying agency functions and all other aspects of the programme.

24. While these schemes and programmes will be delivered separately they will complement each other, delivering across the broad range of EU priorities and focus

areas. All delivery bodies will use the single CAP Delivery system to record applicant details and hold all detailed underlying transactional data.

25. Whilst ERDF and ESF will be brought under one Programme Monitoring Committee (through the functions of the ESI Fund Growth Programme Board) there will be a separate committee for Rural Development (RD) as the majority of EAFRD is being delivered through a standalone RD programme, outside of the ESI Fund Growth Programme. This will be the PMC for EAFRD money channeled via the SI Fund Growth Programme. The ESI Fund Growth Programme Board will, with issues concerning growth, ensure alignment between the ESI Fund Growth Programme and the new RD Programme. It will do this through advising the RD monitoring committee on the development of the ESI Fund Growth Programme, such as where changes in the ESI Fund Growth Programme might require an amendment to the RD programme. The RD monitoring committee would remain responsible for agreeing this amendment.

26. Beneficiaries of RD funding may also be in receipt of other Common Agricultural Funds. Beneficiaries of CAP payments will be required to meet the cross compliance conditions of Good Agricultural and Environmental Condition (GAEC) and comply with a number of Statutory Management Requirements (SMR) relating to the environment, public and plant health, animal health and welfare, and livestock identification and tracing. In accordance with the provisions of Article 39 (3) of Council Regulation No 1698/2005, RDPE payments under Environmental Stewardship, Hill Farm Allowance, the English Woodland Grant Scheme, and payments for the establishment of short rotation coppice are only made for activities that go beyond these provisions. Therefore, there will be no dual funding of activities carried out to meet the requirements of the GAEC from the RDPE.

27. Government will engage with the LIFE National Contact Point to explore complementarities between the new Rural Development programme and prospective LIFE projects.

28. Horizon 2020 will fund research and innovation (including in the agriculture/food security area) through a competitive process run by the Commission at a European level. EAFRD is not used to fund research so there is no overlap in this respect. There is the potential to support innovation in both EAFRD and H2020, but the latter requires EU added value which, in the main, necessitates a European collaborative approach (project consortia of at least 3 countries) so the different national/EU approaches will mean little overlap.

*EMFF*

29. The England Intermediate Body, the Marine Management Organisation, will deliver the English EMFF programme and will prepare a monitoring and control system as appropriate. The priorities for EMFF support in England will be outlined in more detail in the operational programme, however supporting the implementation and delivery of the reformed common fisheries policy will be the main focus.

30. To support the priorities for the sustainable development of fisheries areas under the EMFF, it is envisaged that fisheries and coastal communities in England will be able to access Growth Programme Funds. This could be through applications to the main ESI Funds Growth Programme or via Community Led Local Development initiatives (see section 3). Fisheries Local Action Groups (FLAGs) will be encouraged to engage with LEPs to identify opportunities to use the ESI funds for local projects.

## NON-ESI FUNDING FROM THE UNION

### Horizon 2020

31. There are opportunities to build coordination between the ESI Funds and the EU's other sources of funding for research, development and innovation (Horizon 2020, Erasmus+, COSME, Erasmus+ and Creative Europe) both 'upstream' and 'downstream' (see Figure 65).

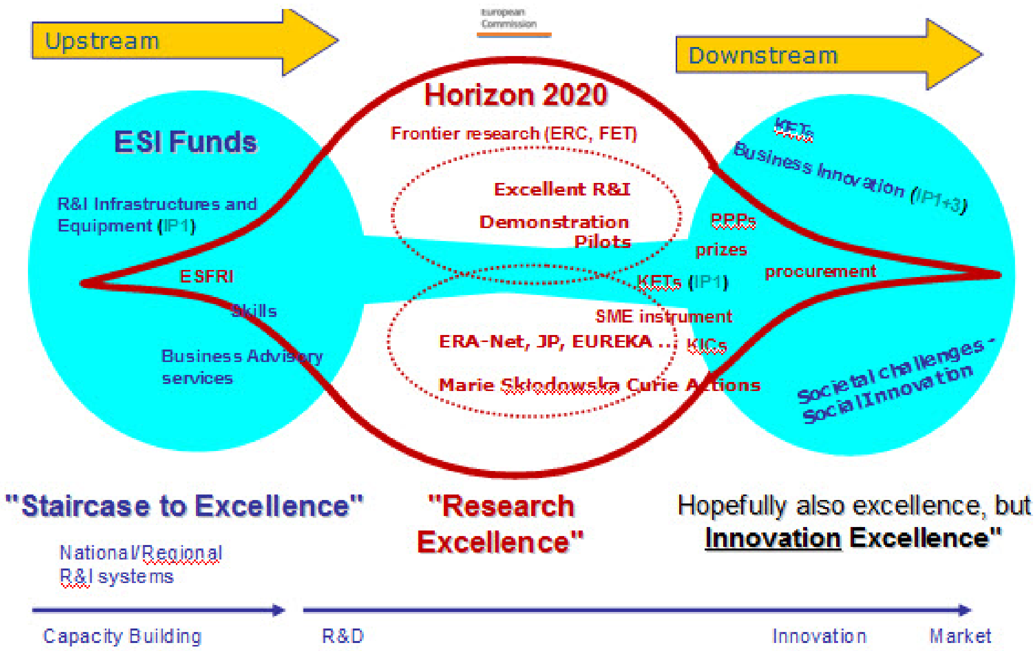



**Figure 64: Relationship between ESI Funds and Horizon 2020**
*Source: European Commission*

32. In this concept "upstream" activities are those primarily funded (but not exclusively) by the ESI Funds in advance of other related activities subsequently funded by the Union instruments. Upstream activities can, in principle, be used to build capacity to support the later engagement of firms, universities and research centres in the main Union instruments, especially the Horizon 2020 programme. Upstream activities could include support for physical infrastructure, equipment and higher level skills. As set out in section 1.1 of this chapter, in 2014-2020 upstream investments using ESI Funds will be targeted particularly to those parts of England who trail the EU 2020 target (these areas often lack physical infrastructure and an effective local innovation eco-system).

33. 'Downstream' activities to bring new products and processes to the market economy are also funded primarily (but not exclusively) by the ESI Funds following the successful use of the Union instruments. Downstream activities can include demonstration facilities, support for prototyping or pilot production, and pre-commercial procurement, including opportunities to drive innovation through new forms of public procurement. Downstream activities will be the main focus of innovation investments using ESI Funds in 2014-2020 in England.

34. The United Kingdom currently performs very well in accessing and making good use of the Union's instruments to support research, development and innovation, especially the

7th Framework Programme. The most recent update[271] from the consolidated FP7 database shows the UK receives the second largest share of funding, €6,142 million, and equivalent to 15.4% of the total, and is involved in more successful projects than any other country, with 41.2 % of all grant agreements to date. Whilst competition is likely to intensify, the UK can still reasonably expect to continue to perform well in the future in accessing these funds. This suggests there will be significant opportunities to build synergies with ESI Funds on the 'downstream'. However, there will be two factors limiting these opportunities:

- Horizon 2020 and the other Union instruments are generally targeted towards funding excellent research and innovation wherever it is based. As these instruments are essentially spatially blind and the ESI Funds are deliberately spatially targeted, there is often a mismatch between the availability of ESI Funds in one place and the likelihood of Horizon 2020 and other Union instruments being allocated to that same place; and
- Horizon 2020 and other Union instruments are competitions for resources, with calls opened at different times and intervals[272]. The inherent uncertainty of competition makes it difficult to plan complementary investments of ESI Funds with zero opportunity cost.

35. In developing their ESI Funds Strategies for the Growth Programme for England, LEPs and partners will consider local need for upstream and downstream activities in line with the intervention logic for ESI Funds. Universities have been heavily involved in the development of LEP area Strategies and will have an instrumental role in identifying these opportunities. H2020 Contact Points[273], European Enterprise Networks (EENs) and the Government's proposed Advisory Hub for Smart Specialisation will also have an important role to play at this first planning stage.

36. During implementation of the Operational Programmes underpinning the Growth Programme, LEPs and partners will work with Managing Authorities to ensure opportunities for coordination and alignment with other Union funding instruments are fully realised:

- LEPs and their partners will want to open different forms of 'calls for projects' to a wide range of local partners. The Managing Authority will inform LEPs and their partners of the intended dates and processes of calls from H2020 and the other instruments to help ensure alignment;
- During the project application process, LEPs and the Managing Authority will signpost applicants to the network of Horizon 2020 Contact Points, EENs and the proposed Smart Specialisation Advisory Hub. In developing project selection criteria for approval by the PMC, the Managing Authority will examine the selection criteria for H2020 to identify the potential for common questions where these are appropriate to ESI Funds as well; and
- Article 65 of the Common Provision Regulations notes that an 'operation' may receive support from one or more ESI Funds or from one or more programmes and from other Union instruments, provided that the expenditure item included in a request for payment for reimbursement by one of the ESI Funds does not receive support from another Fund or Union instrument, or support from the same Fund

[271] eCORDA database, released 1 November 2013

[272] It is noted that the first wave of calls for H2020 were opened in December 2013, i.e. well in advance of the approval of any ESIF Operational Programme

[273] Support for firms and research centres to engage with H2020 will be delivered principally through a network of National Contact Points. Each NCP will raise awareness of H2020 and provide guidance on thematic priorities, instruments and coordination with ESI Funds, advice and assistance on administrative procedures, contractual issues and partner search, signposting and feedback.

under another programme. Government will ensure compliance with this article by 'sequencing' support for projects from the different funds – i.e. one project is funded either by Horizon 2020 or by ESI Fund; that project ends, and is accounted for separately; and then a subsequent project is funded by the other Fund.

**LIFE+**

37. The LIFE fund in particular will include 'Integrated Projects' which will look to mobilise a range of funding, especially from other EU programmes to maximise the benefits that multiple funds working together could achieve. This synergistic approach to funds would be particularly useful to help deliver the EU's wider objectives for the environment expressed in various objectives of EU Environmental Directives and Strategies. These include Natura 2000 objectives and the UK Priority Action Framework, Water Framework Directive objectives and River Basin Catchment Plans, Waste Framework Directive obligations and Waste Spatial Plans, Air quality and emissions Directives via National Air Quality Action Plans, EC Climate Change Adaptation Strategy and National Adaptation Plans as well as actions that support national initiatives which reflect the EU aspirations for climate change action mitigation and resource efficiency.

**ERASMUS+**

38. Within the ESI Funds Growth Programme, LEPs and partners have identified that ERASMUS+ has the potential to complement the skills thematic objective by supporting the development of STEM (science, technology, engineering and maths) skills identified by employers as crucial for future prosperity. Other activities identified include developing projects to support staff mobility across all sectors of lifelong learning, tapping into the programme's knowledge alliances between Higher Education Institutes and employers, sector skills alliances to promote creativity, innovation and entrepreneurship, mobility for HE and VET students, mobility for Masters Students and youth exchanges and youth volunteering.
39. To complement the employment thematic objective, LEPs and partners have identified how ERASMUS+ can improve employability through improving the links between education and training providers and businesses, and improving the skills and employment prospects for young people and the long term unemployed.
40. The ERASMUS+ knowledge alliance initiative is an area which could be explored to see if there is potential to make effective linkages to social inclusion activities to add value and greater impact.

**EURES**

41. Within the Growth Programme, some LEP areas plan to utilise the EURES job matching initiative to complement activities around advice and guidance towards employment and skills. In addition, EURES has been identified as a programme to support initiatives and projects to assist activities to promote the mobility of workers.

**Programme for Employment and Social Innovation (EaSI)**

42. LEP areas have identified the potential for complementarity in areas such skills and employment for young people, improving the working conditions, addressing gender/age imbalances and tackling barriers faced by vulnerable people. It is possible that local partners may wish to use ESF to test new approaches to employment and social inclusion developed through EaSI, and to disseminate good practice.

### European Investment Bank

43. Financial Instruments are designed to deliver equity, loan and mixed investments to areas, and are a way of increasing the efficiency of European Structural and Investment funds. The Instruments can make these funds go further by leveraging in additional public, private or social co-investments. They can bring in additional expertise which increases the efficiency and effectiveness of the use of public money and they can enable the recycling of funds for the long term – even beyond the life of the programme. The England Programmes will seek to use Financial Instruments both in conjunction with the EIB, as set out below, or by drawing in match from other sources.
44. The EIB is a major co-financer of current financial instruments in the UK. The main proposal for the delivery of Venture Capital and Loan funds in England for 2014-20 is for LEP areas to voluntarily pool their notional allocations into a series of sub-national fund-of-funds. These will likely be based on existing JEREMIE structures in the three areas that they currently exist, but also to introduce new pan-LEP fund-of-funds in other parts of England. In many cases, the EIB is likely to be the main source of match funding for these funds.
45. The Government is also exploring the potential to use financial instruments in a number of other areas. A small number LEP areas wish to set up, or roll forward existing, JESSICA-type instruments for urban development. Some LEP areas are also exploring setting up revolving loan funds to be used to support retrofitting of local social housing developments with energy efficient measures. In both these cases, the Government is working closely with the EIB to develop the proposals, with the EIB potentially playing a major role in the financing and delivery of financial instruments in these areas.

## 2.2 The information required for ex ante verification of compliance with the rules on additionality (based on Article 95 and Annex X CPR)

1. Not applicable - see corresponding section in UK Chapter.

## 2.3 A summary of the assessment of the fulfilment of applicable ex ante conditionalities in accordance with Article 19 and Annex XI at national level and of the actions to be taken, the responsible bodies, and the timetable for their implementation, where ex ante conditionalities are not fulfilled

1. Not applicable - see corresponding section in UK Chapter.

## 2.4 The methodology and mechanism to ensure consistency in the functioning of the performance framework in accordance with Article 21 of the CPR

1. Within the ESI Funds Growth Programme, the Government considered which results indicators and which of the common output indicators proposed in the European

Regulations are most relevant to the priorities for investment in England developed using the Commission's intervention logic. The selection of output and results indicators produced for each thematic objective, plus information on unit costs and results/outputs from previous programmes, was provided for LEPs and partners to use in development of their local ESI Funds Strategies. LEPs and partners chose the outputs and results they aim to achieve through their activities and specified the level of outputs they aim to deliver. Managing Authorities will use the aggregated output/result indicators and output estimates from LEPs to inform the Operational Programmes.

2. The fact that the ERDF, ESF and part of the EAFRD have been brought together into a single delivery system means that a consistent approach to performance management across the Funds is essential.

**EAFRD**

3. As part of its monitoring and evaluation activities Defra is required to submit to the European Commission data for a range of indicators relating to spend and outcomes of EAFRD funds. Monitoring and evaluation of ESI fund performance will be assessed using a selection of indicators taken from each fund, to which Defra will contribute indicators for the EAFRD portion of the fund. The Managing Authorities administering the various funds will work together as part of a group led by the Department for Business, Innovation and Skills to ensure that the indicators are consistent across all funds and representative of the activities undertaken.

**EMFF**

4. The development of the English priorities within the EMFF Operational Programme will take into account the synergies and opportunities which the EMFF can leverage from the other ESI funds. This approach will be taken due to the small size and nature of the EMFF. From this approach the England Intermediate Body will be able to advise applicants for grant funding on complementary measures which they can apply for and which will support their aims and objectives. This approach will ensure that the EMFF funds are maximised for the fisheries sector and the specific measures which the EMFF can support.

## 2.5 AN ASSESSMENT OF WHETHER THERE IS A NEED TO REINFORCE THE ADMINISTRATIVE CAPACITY OF THE AUTHORITIES INVOLVED IN THE MANAGEMENT AND CONTROL OF THE PROGRAMMES AND, WHERE APPROPRIATE, OF THE BENEFICIARIES, AS WELL AS, WHERE NECESSARY, A SUMMARY OF THE ACTIONS TO BE TAKEN FOR THIS PURPOSE

**ESI Funds Growth Programme**

1. The ESI Funds Growth Programme at one level represents a significant change of approach for the delivery of the Structural and Investment Funds in England but at another level it builds on the structures and lessons from the existing programme.
2. In particular, the Managing Authorities and the Department for Business, Innovation and Skills are working to develop virtual teams to provide integrated support to LEP areas on every aspect of the Growth Programme from development of ESI Funds Strategies and strategic fit with wider priorities through to detailed project appraisal, monitoring and

evaluation. Managing Authorities will continue to undertake the management and administration of the ESI Funds through local teams, supporting the LEP-based model across England. Systems and processes will be developed that build on the significant experience and knowledge of the Managing Authorities to provide robust administration and performance management.

3. Technical Assistance from both the ERDF & ESF Programmes will be used to reinforce the administrative capacity of the Managing Authority and its partners to support the delivery of the business process model.
4. In particular TA will be used to support MA staff costs for the compliant delivery of the programme and partner costs to support programme implementation as agreed by the MA, such as project development, information and publicity.
5. Support for MA costs will specifically relate to but not exclusively GDT teams, Policy teams, IT, Audit, Certifying Authority and Legal. Activities to be supported will also include 2007-13 programme closure (previously agreed by the Commission).
6. The assumptions made in terms of capacity are firmly grounded in the experience of managing the current and previous programmes which include both ERDF&ESF staff, against a back-drop of fiscal constraint.
7. All of the above will help to ensure that the ERDF&ESF Programmes are delivered in a clear and compliant way.

**ESF**

8. The Managing Authority will draw on the expertise and experience developed under previous structural fund programmes. This will be reflected by the use of Opt-in Organisations bringing match funding and delivery expertise to the new programme. The major change is the role that Local Enterprise Partnerships and partners will play in identifying how funds should be used in their areas to support local growth (as set out in section 1.1). The localisation of funding in 2014-2020 is likely to require additional staff resource in the Managing Authority to deliver ESF. Technical Assistance will be used where appropriate.
9. Although there is not expected to be a significant need to reinforce the administrative capacity of beneficiaries to deliver thematic objectives 8, 9 and 10, there may be areas where ESF under these objectives or Technical Assistance could support more effective delivery. Examples of issues identified in local Structural and Investment Fund strategies include:
    - Greater co-ordination of services across LEP areas, for example careers services for young people and developing improved pathways to employment and self-employment.
    - Support for the effective delivery of employment, social inclusion and skills activities, including measures needed to ensure that procurement, monitoring, management information etc. comply with EU regulations and deliver high quality outcomes, including systems development and staff training.
    - External expertise where there are gaps in the knowledge and expertise of LEPs and delivery partners in relation to the cross cutting themes of equal opportunities and sustainable development, including staff development.
    - Capacity-building activities, in the form of training, networking measures and other activities jointly undertaken by the social partners (i.e. employers and trade unions).
    - Capacity-building for non-governmental organisations (Civil Society organisations), to encourage adequate participation of and access to actions supported by the ESF.
    - Support for the development of emerging innovative funding models to support communities and social entrepreneurs.

10. These are not prescriptive or exclusive. It may not be appropriate to use ESF on these at all or in all LEP areas. Other issues may emerge during the course of the programme.

**RDPE**

11. Government has identified lessons learned from three main sources related to administrative and beneficiary capacity:

- public consultation on implementation of the Common Agricultural Policy [November 2013];
- the Mid Term evaluation of the Rural Development Programme [2011];
- issues raised by the Commission (and ECA), and as set out in our Error Rate Reduction Plan [2013]

12. Some of the key lessons to be learned identified included:

| No. | Main lesson identified | Proposed action to address it |
|---|---|---|
| 1. | Retain, trusted advice and expertise to support the programme within Defra and its delivery bodies, and balance this when deciding on the level of administrative resources required delivering schemes.<br><br>In particular, recognise the importance of good quality advice in supporting environmental land management schemes to help ensure environmental outcomes are understood and land managed effectively | Information, training, guidance, advice and after-care will be provided for more complex Environmental actions, via Natural England and Forestry Commission specialist advisors. Advice and support will also be a feature of both our Farming and Forestry sector, Growth and LEADER actions, with delivery body / local action group support or in some cases, specific advisory services. |
| 2. | Improve the application process, both in terms of the time taken to apply for and consider applications, and the simplicity of processes and guidance | We will introduce rolling application windows to help speed up responses and provide rural businesses with a clearer indication of when they will expect a decision or be given further advice.<br><br>We will also take the opportunity to simplify processes where EU legislation allows and make processes as simple, effective and affordable as possible while minimising potential correction. The new Common Agricultural Policy Delivery IT system will implement a ‘digital by default’ approach, with the design principle being that the customer or applicant is in control of their information. This should mean streamlining the application process and making payment of claims simple. |

| No. | Main lesson identified | Proposed action to address it |
|---|---|---|
| 3. | Engage closely with stakeholders and potential applicants on the design of new schemes or grants | We will be finalising our new schemes and grants over the remainder of 2014 and will engage closely with stakeholders and potential applicants to feed views into the detailed scheme and grant offers to be provided under the programme. |
| 4. | Ensure continuity between programmes so that expertise and good practice developed under the current programme is not lost | We have provided some transitional funding between programmes to support LEADER groups as well as funding for key projects and schemes to ensure continuity. This will also include continuation of after-care services for agri-environment actions and continued advice and support to beneficiaries through 2014. |
| 5. | Build on local and sub-regional approaches that have worked well, in particular the Rural Growth Network approach | LEPs will work closely with RGNs and LEADER groups to ensure the approach to local rural growth is aligned and identifies key actions in rural areas. We have developed a revised approach and framework for LEADER based on best practice from LEADER groups. We will also look to build upon particularly good examples of regional initiatives such as the South West Healthy Livestock Initiative. |
| 6. | Ensure that there is a clear balance between national consistency and local delivery through the new Local Enterprise Partnership (LEP) approach, building on the lessons learned from regional delivery via the RDAs and national delivery via schemes like REG and FFIS. | We will work closely with relevant sectoral, national and local bodies, including Local Enterprise Partnerships (LEPs), LEADER groups, to ensure we implement a approach to grants or schemes that balances national consistency and local need. |

13. Defra, the RPA and delivery bodies will put in place on-going programmes of activity to ensure that administrative staff are appropriately trained to deliver the new programme, including:

- Operational guidance for all staff on all stages of application and claims processing;
- Regular updates to staff;
- Individual training for all staff which is refreshed where necessary and which will include specific training on relevant issues, e.g. for advisors providing support on specific legislation (e.g. environmental) or on administration of grants;
- Inductions will be provided to new staff with support provided from more experienced colleagues whilst becoming fully familiar with processes.

14. Actions to support administrative and beneficiary capacity include simplifying the approach to actual and standard costs across all schemes and improving internal control and coordination procedures including via regular reviews of control statistics, key and ancillary controls, and annual attestation.

**EMFF**

15. The England Intermediate Body (in cooperation with the UK Managing Authority) has built a wealth of experience during the governance and delivery of the EFF programme which has included implementing structural and administrative changes to the way the EFF fund was managed and delivered. The experience will be utilised to ensure that the governance structures of the England Intermediate Body are robust from the start of the programme. To further strengthen the administrative capabilities, the technical assistance budget will be utilised to fund staff and activities which are integral to managing and delivering the programme.

## 2.6 A SUMMARY OF THE ACTIONS PLANNED IN THE PROGRAMMES, INCLUDING AN INDICATIVE TIMETABLE, TO ACHIEVE A REDUCTION IN THE ADMINISTRATIVE BURDEN FOR BENEFICIARIES

**ESI Funds Growth Programme**

1. The Growth Programme for England will combine ERDF, ESF and a minority share of EAFRD in a framework designed to maximise local input whilst supporting the UK's national strategic priorities and complementing the EU 2020 strategy. This approach will throw up implementation challenges but will also provide opportunities for a more co-ordinated and accessible approach that will reduce burdens on beneficiaries.
2. Officials from the Managing Authorities along with the Department for Business, Innovation and Skills have developed a programme of work to explore how best to deliver these benefits. The programme of work, which will deliver outputs in time for the Growth Programme to go live, is focusing on objectives such as greater alignment of national eligibility rules for projects; defining standard business processes to be used for different types of projects; and development of a common portal for applicants with underlying management processes and forms harmonised so far as possible.
3. The aim is to make it very clear to the applicants what fund they are applying so that they are clear from the beginning about the requirements of the fund. However, as the principle is digital by default, the application is made on the IT system, and projects that apply for more than one fund or apply in more than one geographic area will only have to input the core information once.
4. Officials are also exploring how to deliver audit functions in a way that complements the approach described above. For example, where projects comprise elements of more than one fund, officials are exploring how audit visits can be combined or co-ordinated to increase efficiency and reduce burdens. This could be achieved either through more effective co-ordination of separate audit bodies or potentially through some limited merging of audit functions.
5. In term of reducing the admin burden for beneficiaries there is a twin track approach i.e.
   - through our business process model which will be the same for all of the funds with one application form etc.; and
   - Eligibility rules to provide clarity and will cover the issue of simplified costs.
6. In addition, the 'opt-in model' has been developed to allow local partners to tailor national 'match' funding and administrative support from key national programmes to local conditions. In addition, as these offers typically cover most or all LEP areas, the coordinated approach will reduce the administrative burdens on providers.

**ERDF & ESF IT Systems**

7. Through the proposed development of the new ERDF & ESF IT system which is intended to deliver an end to end service for our beneficiaries from application to contract, claim, monitoring and evaluation stage – aligning with EAFRD (especially around monitoring processes) etc. where ever possible. A new delivery system is also being developed for the whole of the Common Agricultural Policy. Further work will be needed on whether and if so, when, the two systems could be brought together.
8. The new system will be used by all Managing Authority teams including Certifying Authority and Audit Authority reaffirming the principle of "once only" i.e. the beneficiary is asked for information only once and is stored in a format that can be accessed by all relevant parties.
9. This is wholly in line with the Commissions e-cohesion agenda which under Article 112 says that Member States shall ensure that no later than 31 December 2015 all exchanges of information between beneficiaries and a managing authority, certifying authority and audit authority and Intermediary Bodies can be carried out by means of electronic data exchange.

**RDPE**

10. Defra undertook a consultation on the implementation of the Common Agricultural Policy in England in November 2013. As part of this Defra asked for views on how the process for applying for Rural Development funding could be made simpler or less bureaucratic and how this might this be balanced against the need to ensure clear accountability for public funds. Some of the key lessons to be learned identified included:

| No. | Main lesson identified | Proposed action to address it |
|---|---|---|
| 1. | Simplify the schemes being put in place | We are introducing a single scheme for all Environmental Land Management actions, which will incorporate our current Environmental Stewardship, English Woodland Grant Scheme and Catchment Sensitive Farming offers. We are also reducing the number of prescriptive requirements for multi-annual agreements and the number of options available. |
| 2. | Provide decisions on applications more quickly | We will set out a clear timescale for the application process to show when applications will be processed or further information is required. For farming and forestry grant schemes, we will design the application process so that the information required from the applicant and the degree of rigorous scrutiny in the assessment process is proportionate to the nature and size of the grant sought. |
| 3. | Provide a simpler (or common) application process, with information provided in Plain English and guidelines that are simple and easy to follow | We will provide clear guidance, step by step instructions, rules and flow charts for applicants to help them navigate the process on-line and through assisted digital services |

| No. | Main lesson identified | Proposed action to address it |
|---|---|---|
| 4. | Provide a clear view of what is available across the programme | As part of dissemination of the programme |
| 6. | Provide good quality advice and guidance to support applicants throughout the application process | See response under Administrative capacity. Information, training, guidance, advice and after-care will be provided for more complex Environmental actions, via Natural England and Forestry Commission specialist advisors. Advice and support will also be a feature of both our Farming and Forestry sector, Growth and LEADER actions, with delivery body / local action group support or in some cases, specific advisory services. |

**EMFF**

11. The England Intermediate Body will make greater use of online systems which will support applicants to increase application quality. This will also provide benefits for the delivery body as improvements in application quality will allow the Intermediate Body to focus greater time on scheme management.

# SCOTTISH CHAPTER

## 1 ARRANGEMENTS TO ENSURE ALIGNMENT WITH THE UNION STRATEGY OF SMART, SUSTAINABLE AND INCLUSIVE GROWTH AS WELL AS THE FUND SPECIFIC MISSIONS PURSUANT TO THEIR TREATY-BASED OBJECTIVES, INCLUDING ECONOMIC, SOCIAL AND TERRITORIAL COHESION (ARTICLE 15(1) (A) CPR)

1. Scotland embraces the vision of the EU Regulations for Regional Policy 2014-202 and its strong focus on achieving growth and jobs. Our ambition is that this Scottish Partnership Agreement directly supports the Scottish Government's wider aspiration to deliver sustainable economic growth for all in Scotland.
2. In the period from 2014-20 the **Scottish approach** to getting the greatest impact from the European Structural and Investment Funds is based on 7 key principles. The approach sees the fundamental purpose of the funds as securing ***structural reforms*** which will facilitate sustainable economic growth and create a more innovative and inclusive society.
3. ESIF will be deployed alongside many other, and larger, public and private funds which will also influence structural reforms, therefore the Scottish approach is to identify the "**best niche for ESIF"** within the wider funding and investment environment. Within the ESIF niche, **alignment** and **strategic concentration** of funds and investment will be key to achieving the greatest impact and complementarity between interventions.
4. The Scottish approach responds to important practical considerations - territorial challenges, simplification of implementation, and the capability of beneficiaries.
5. Scotland's territories bring diverse challenges whether rural, coastal, urban, sparsely populated, remote and peripheral, areas of prosperity, or areas of disadvantage. The Scottish approach recognises that where strategic thematic interventions will not address some **territorial challenges**, tailored interventions will be necessary to ensure balanced programmes of interventions achieve the greatest impact.
6. **Simplifying implementation** depends on establishing programmes around strategic interventions which can be match funded and are most likely to achieve ambitious outcomes. It also depends on **funding beneficiaries that have the capability and capacity** to manage interventions in compliance with audit and implementing regulations.

### 1.1 AN ANALYSIS OF DISPARITIES, DEVELOPMENT NEEDS, AND GROWTH POTENTIALS WITH REFERENCE TO THE THEMATIC OBJECTIVES AND THE TERRITORIAL CHALLENGES

**Macro-Economic Performance**

1. Scotland has seen welcome improvements to the employment and economic picture over 2013. The most recent data for the Scottish economy showed growth of 0.7% in

the third quarter of 2013. This followed an increase of 0.6% and 0.4% in Q2 and Q1 2013 respectively, and marks four consecutive quarters of growth, and annual growth of 2.2%.

2. Revised UK data also confirms earlier findings that Scotland had a less severe recession than the UK as a whole and is closer to pre-recession levels of output, although both countries remain below pre-recession levels -0.9% for Scotland and -1.9% for the UK. With output growing over the year, and with growth forecast to be stronger next year, Scotland is expected to move beyond 2008 pre-recession levels of output during 2014. Consumption has been the key driver of the recovery, and this trend is forecast to continue in 2014. If the recovery is to be sustained into the medium term however, increased competitiveness will be key with private sector investment and external trade needing to contribute more to the overall balance of growth.
3. 2013 has seen a continued improvement in the labour market, particularly when compared to one year ago. Employment is up, driven by a rise in full-time employment, and economic inactivity and unemployment are down, indicating a positive direction of travel in terms of Scotland's labour market recovery, and highlighting the adaptability and high level of skills within the Scottish workforce as key strengths to build on. Nevertheless, fragility is likely to remain as long as growth is consumption- rather than investment driven, as a sustained recovery will depend on continued economic growth driving increased demand for labour.
4. There has been a fall in youth unemployment over the year with Scotland's youth unemployment rate, as measured by the International Labour Office (ILO) rate, comparing favourably to that of the UK and other European countries. However, youth employment continues to be heavily concentrated in South West Scotland; as does long-term unemployment. One of the most significant long-term threats to sustainable growth in Scotland is now the loss of skills due to those unemployment trends.
5. Despite this recent positive performance, after 5 years of global financial turmoil, Scotland is not without its economic challenges. Public and private spending levels are lower and the ability to stimulate markets therefore decreased. The unemployment rate, 6.4 % over the 3-month period between September and November 2013, is substantially above its level five years prior to the recession (4.9 per cent). Real GDP remains below its pre-crisis peak level. Real wages in the economy have declined by 8% since the recession, and this, alongside the higher rates of unemployment, have contributed to a decline in people's living standards, particularly in areas with high levels of deprivation. Scotland, like the UK, also remains below the EU average productivity levels.
6. To boost and support the recent recovery, Scotland will focus the ESI Funds on addressing specific challenges and opportunities aligned to the EU 2020 agenda, and Scotland's Smart Specialisation Strategy, as set out below.

# SMART GROWTH

## STRENGTHENING RESEARCH, TECHNOLOGICAL DEVELOPMENT AND INNOVATION

7. Scotland is home to five of the world's top 200 Universities (2013), and has an excellent reputation for research. Spending on Higher Education Research and Development (HERD) in Scotland remains world class with Scotland coming top within the UK's regions and nations and third amongst those OECD countries for which the most recent data was available. Recent policy initiatives to invest in Innovation Centres continue this trend.

8. Commercialisation of that research, and business engagement with R&D&I, lags behind that excellent academic performance. Scotland's overall R&D rates, corresponding to 1.56% of GDP, is significantly behind EU 2020 targets and lower than the UK's. Only 0.52% of that is private sector investment (BERD), and 60% of that relies on a few large companies in sectors like aerospace and pharmaceuticals.
9. Of Scotland's approximately 300,000 SMEs, only 3-4,000 are estimated to be 'innovation active'. The UK Innovation Survey highlights specific constraints to innovation as cost factors (in particular, the availability and cost of finance and the direct cost of innovation) and perceived economic risks. UK-level data indicates that SMEs are more likely than large firms to rate these constraints as highly important. In Scotland, those in engaged in innovation activity were over three times as likely to perceive cost factors as barriers than businesses that did not innovate. This suggests that businesses learn about barriers to innovation as a result of their attempts to innovate, and that both the system and the appetite to take such risks needs to be improved.
10. Innovation and research interventions in Scotland tend to fall on the supply side, focusing on high-end academic research and spin-offs rather than engaging with and assisting companies. Those interventions which do target companies tend to target existing innovation-active businesses rather than seeking to engage new ones, or removing the perceived innovation barriers for existing players.
11. To deliver **structural reform** in this area, the main weakness to address is therefore demand for innovation, getting companies interested in investing in themselves. The **best niche** for the funds is therefore likely to be a shift away from supporting new research towards demonstrating, commercialising and applying it to achieve higher growth, better environmental protection, and long-term sustainable and innovative businesses. For ERDF, this will still require an element of supporting academic institutions in sharing their expert knowledge through centres of excellence, as well as support for SME's to engage with innovation. In some regions, there may also be a residual need to boost innovation capacity in parallel with linking this better to businesses.
12. All these elements will be focused using Scotland's Smart Specialisation Strategy (the Government Economic Strategy), which focuses on growth sectors, growth companies and growth markets. The key sectors for innovation and development are:
    - Creative industries – in a wide cultural sense, in sub specific sectors such as broadcasting or games, and increasingly in data storage, data mining and infomatics
    - Energy – research into technology and engineering, test facilities, manufacture installation and supply chain, and distribution
    - Financial services – particularly focused in city centres, and dependent on both quality of life to attract talent, and high levels of connectivity
    - Food and Drink – particularly value added markets reliant on high quality of nature, but also processing and packaging, this is a key sector in rural Scotland
    - Life Sciences – currently clustered near university and research facilities, and with high expansion and export opportunities in e-health (including capitalising on the Innovation Partnership on Active and Healthy Ageing) and animal health/sustainable agriculture
    - Tourism – with opportunities in nature and heritage, business tourism, major events (with three international events in 2014 alone) and destination towns and cities
13. The assets in each of the sectors are unevenly distributed across Scotland, but collectively offer targeted opportunities in a wide range of locations. By understanding what companies need to grow in each of the sectors, we can target differentiated interventions on:

- locations offering the best mix of assets,
- locations where development of new assets would make the biggest difference
- locations which we need to connect more effectively to areas of opportunity

14. Scotland's rural, coastal and marine areas must also take advantage of the strong performance in research and development and ensure that the learning can be transferred to deliver improvement. The Scottish Government currently invests more than £70 million per year on high quality research in rural and environment as part of its Strategic Research Programme and other domestic spend. EAFRD will add to this, providing a route for clusters, networks, and operational groups of interested parties to come together to develop new ways of working based on this rich resource. This will link in with the EIP on Agricultural Productivity to ensure learning can be transferred into Scotland from across the EU, and across the EU from Scotland.
15. Under the new Rural Development Programme Scotland is taking forward a dedicated scheme which will build on the success of the previous programme in order to translate innovative approaches into agricultural and land management practice to promote:

- Knowledge transfer and innovation
- Enhanced competitiveness
- Restoring, preserving and enhancing ecosystems
- Resource efficiency and shift to low carbon climate resistant economy

16. This approach will be aligned with the European Innovation Partnership (EIP) for agriculture productivity and sustainability. This will help fill gaps by better linking research and practical farming and ensure learning from across Europe can be translated into innovative projects in Scotland, and learning from Scotland available to farmers and land managers in Europe through the EAFRD Advisory Service and the Scottish Rural Network.
17. In the case of innovation in the marine, fisheries and aquaculture sectors support is expected to act in three ways: first to establish technical/economic feasibility through research, investigations and pilot-scale work, secondly through dissemination/education, and thirdly through direct traditional intervention with individual operators, i.e. supporting them to install the innovation on a commercial scale.

## ENHANCING ACCESS TO, AND USE AND QUALITY OF, ICT

18. Although next generation broadband availability has increased across the UK, the geography and dispersed population of much of rural and remote Scotland means that, even after significant public subsidy including ERDF funding, a significant proportion of the country lies beyond the current reach or plans of commercial infrastructure providers. This problem is most acute in areas such as Aberdeenshire (where 10.6% of premises will remain without next generation access after current planned commercial and public investment), Orkney (25%), Perth & Kinross (10%) and Western Isles (30%). Ofcom data also indicates that 10 per cent of fixed broadband lines in Scotland achieved average download speeds of less than 2 mbps in 2012.[274]
19. The areas that remain will be amongst the most challenging to connect in the whole of Europe. The rugged terrain and dispersed population across much of rural Scotland presents unique communications challenges and there is no prospect of these areas

[274] Ofcom, 2012, Infrastructure Report: 2012 Update. http://d2a9983j4okwzn.cloudfront.net/downloads/ofcom-uk-broadband-speed-report-2012.pdf.

being connected to fibre infrastructure by market mechanisms, without additional public subsidy. To add to the complexity, these areas are scattered across Scotland, with gaps in coverage from Shetland to the Scottish Borders (see map below). Coverage in the Highlands and Islands will only reach 84% on the basis of current plans.

20. The cost of infrastructure deployment increases substantially in rural areas. In addition, the cost of deploying superfast broadband to areas with relatively few users, often including business parks and other areas with predominantly business users, often outweighs the potential revenues, yet the economic benefits from extending coverage to these areas are extensive. Recent research undertaken by SQW on behalf of the UK Government has concluded that the public investment in superfast broadband in the UK will deliver significant economic benefits, as well as supporting innovation and greater small business competitiveness. Benefits include net economic impact of £20 for every £1 invested; long term productivity growth; a short term boost to jobs and the economy through construction work; and monetary savings to households and carbon emissions savings from reduced travel requirements.

21. The high level of return largely derives from the fact that broadband is a General Purpose Technology which has an increasingly critical role in the day-to-day operations of the majority of UK businesses and services. The public sector interventions are substantially improving the quality of this technology across a significant proportion of the UK, which, in the long term, will benefit hundreds of thousands of businesses, employing millions of people. By contrast, lack of access restricts business growth in key sectors such as renewable energy and food and drink, and restricts the development of digital skills amongst all sections of society. These areas have an ageing population and widespread digital connectivity and skills development is therefore critical to the cost effective delivery of healthcare and other services upon which local communities depend.

22. Reflecting the significant enabling role of ICT, the Scottish Government and partners are making a significant investment through our Step Change programme to extend broadband infrastructure to non-commercial areas. The Step Change programme is based on a gap funding model, where the public subsidy provided is <u>only to the level which is required to make the investment viable</u> to the private sector. The European Commission has given State aid approval for the UK's approach through its decision on the National Broadband Scheme for the UK. In its approval decision the Commission made the following points (paras 76 to 78):

23. 'As explained in section (7), the scheme is fully in line with both the National Broadband Strategy of the UK and the EU objectives as highlighted in the EU2020 strategy and the DAE, which has the "aim to deliver sustainable economic and social benefits from a Digital Single Market based on fast and ultra-fast internet and interoperable applications, with broadband access for all by 2013, access for all to much higher internet speeds (30 Mbps or above) by 2020, and 50% or more European households subscribing to internet connections above 100 Mbps". The project will contribute to avoid the digital divide in services which require very high speed broadband connection, between "final third" areas and urban areas that may benefit from competition of at least two competing infrastructure.'

24. Infrastructure investment alone will not achieve all the aims of the Agenda, and so business usage and exploitation of digital technology will be addressed through Increasing SME Competitiveness; and through Education, Skills and Lifelong Learning to develop both Scotland's high-growth ICT sector and the general skills which all businesses will require to engage with digital opportunities. Personal usage to access services and engage with e.g. employment opportunities remains a significant issue (digital exclusion), corresponding heavily with areas of other forms of social exclusion and deprivation; and with Scotland's demographics, with the population aged over 30

significantly more affected. This will be addressed through initiatives under Labour Market Mobility and Social Inclusion and Combating Poverty.

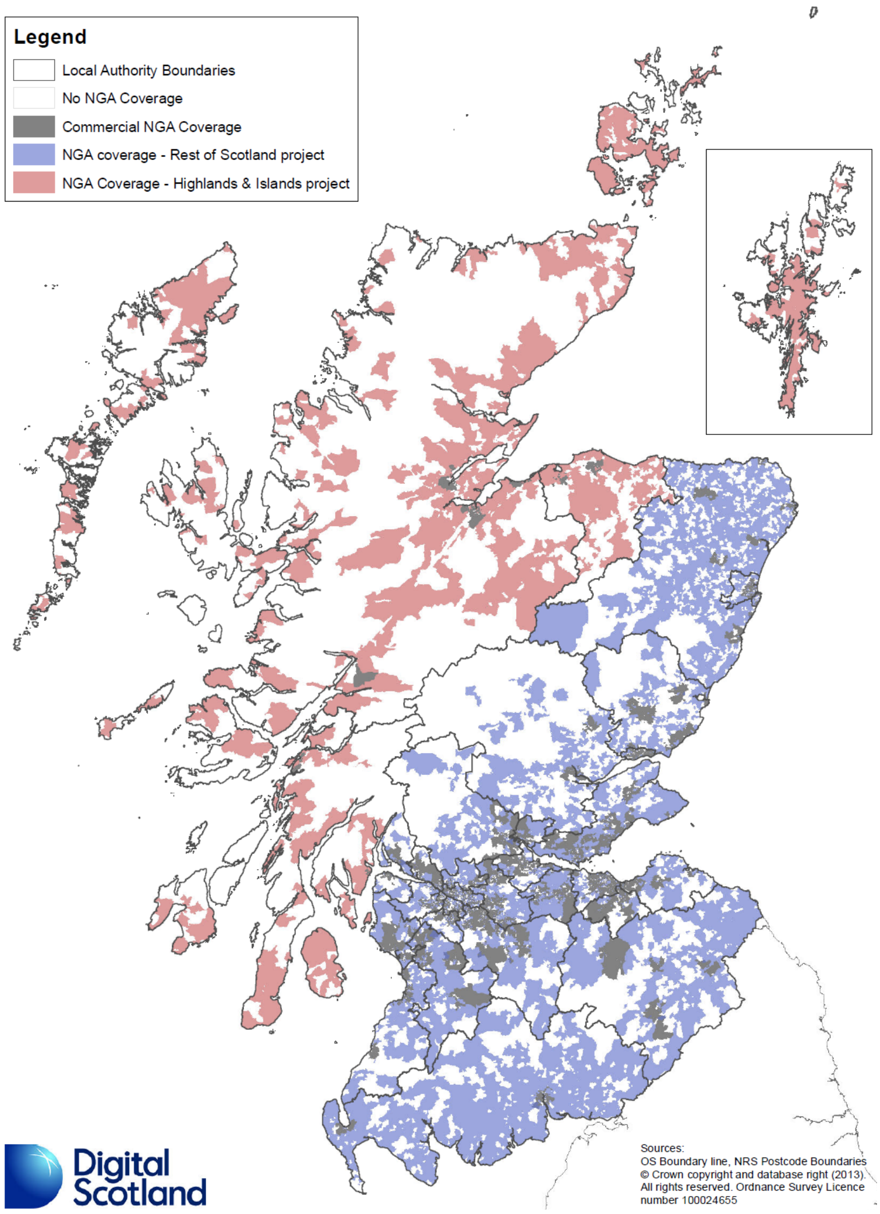



**Figure 65: Projected NGA coverage: Scotland**

## Enhancing the Competitiveness of SMEs

25. Scotland has a lower business stock than the UK as a whole; an historical trend that persists in 2013. Recent increases have been driven by substantial growth in unregistered businesses, and whilst this may be indicative of a rise in entrepreneurship in Scotland, it is more likely to be reflective of the impact of poor economic conditions on other work choices. Business survival rates are also lower than those of the UK, and evidence from a range of sources suggests that Scottish SMEs either lack, or have downgraded, their growth ambitions.
26. Scotland's economy is dominated by SMEs, with 99% of businesses having less than 249 employees (albeit with higher concentrations of small and micro businesses in rural

areas than in cities); with a high number of micro, small and medium enterprises are 'steady state' with limited capacity for growth.

27. High-growth firms are receiving increasing policy importance. Work by Nesta, an independent charity which promotes innovation in the UK, has found that high-growth firms make up 7% of all UK firms but account for a disproportionate share of job creation[275]. Over the three periods since 2002, the average share of high-growth firms is above five per cent in all the cities considered in their analysis. As the map below shows, of the four Scottish cities included within this analysis, Aberdeen and Edinburgh perform particularly well in comparison with other cities within the UK. Further analysis by Nesta found that 40% of UK high growth firms are located outwith cities; a figure which is relatively stable over time, and confirms that high-growth firms can emerge both in big cities and small villages.

Nesta's analysis on the geography of high growth firms
Source: Nesta

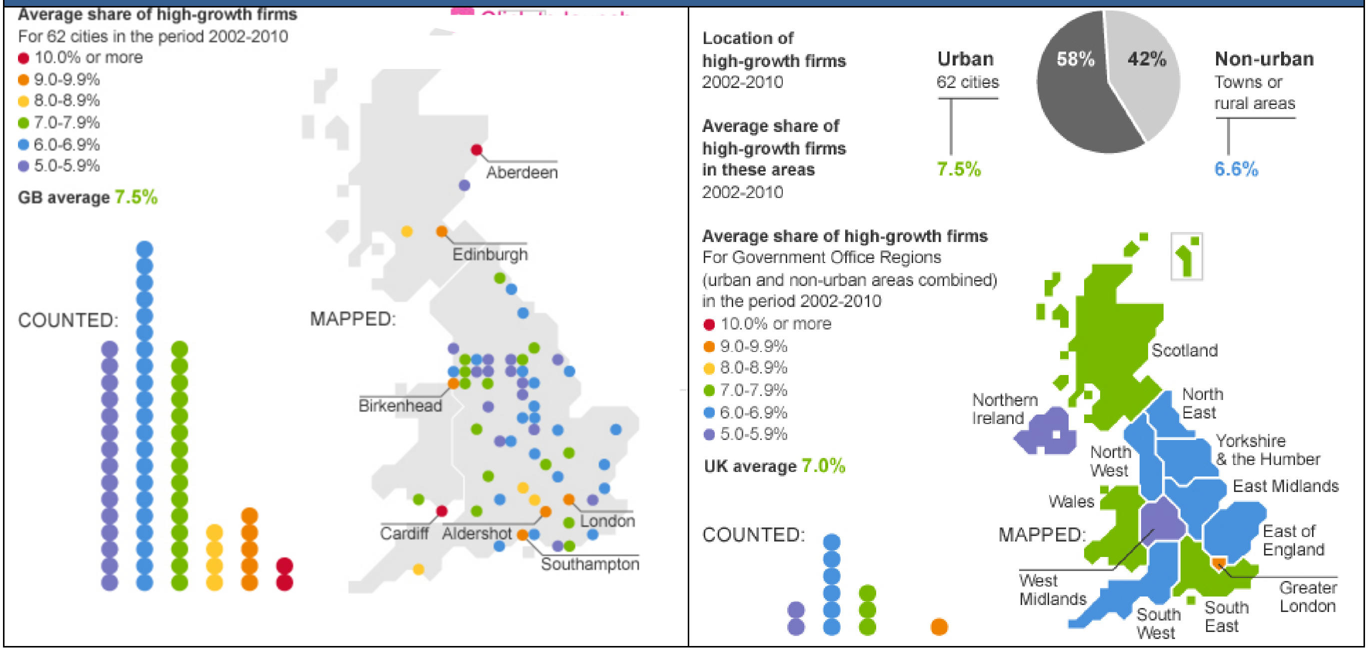



**Figure 66: Nesta's analysis on the geography of high growth firms**
*Source: Nesta*

28. A clear focus for the ESI Funds therefore needs to be assisting businesses and entrepreneurial individuals recognise and achieve their start up and growth potential, and further analysis shows four likely areas of focus.

- *Entrepreneurialism and leadership:* key bottlenecks remain in the entrepreneurial system around the current level of participation in post-secondary education among young adults (18-22), the level of internet usage, and Gross Expenditure in Research and Development (GERD). These show the clear need to link activity under this thematic objective to both RTDI (thematic objective 1) and Skills development (thematic objective 10).
- *Exporting and internationalisation:* Scotland's export are growing, and are a well-recognised path to company growth. However, data from the Small Business Survey

[275] Note: there are differences in the time periods and methodologies used between the SE and Nesta studies.

shows that only 13 per cent of SMEs in Scotland in 2012 were exporters, down from 16 per cent in 2007.[276]

- *Access to finance:* The prolonged economic downturn has meant a lack of finance available for business at appropriate risk levels. Despite improvements in 2012, the most recent evidence from the Bank of England suggesting that credit conditions remain constrained in the economy, particularly for small enterprises. Scotland has good experience with access to finance through Financial Instruments, and is likely to build on these to continue to support SME start up growth aspirations.
- *Digital Exploitation:* Although both the Small Business Survey and a 2010 SG Survey shows SME's increasingly accessing and being connected to broadband, a recent report by Lloyds Banking Group[277] found that over a third (37 per cent) of UK SMEs do not have a website and that one in five (20 per cent) are 'deliberately disconnected' from the internet. Digitalisation has concrete benefits for business, including time savings, attracting more customers, increased marketing effectiveness, cost savings and an increase in sales.

29. Current support for SMEs is fragmented. It is often provided by sector, or focused on relatively generic/basic advice and sign-posting or specialist support for companies who are already high growth. ERDF will **focus** on bridging this gap. The approach will involve all relevant agencies in offering a stream-lined set of support to a business focused on the four areas above, with an explicit aim of identifying ad promoting the next generation of high-growth companies in Scotland, in particular focusing on those which could achieve growth in the next five years, and on increasing the number of Scottish SME's which are 'born global'.
30. As with Innovation, this approach to helping SME's achieve their growth potential will follow the Smart Specialisation Strategy, focusing in on the key national and regional sectors identified as part of the Government Economic Strategy. A strong local dimension, through the use of existing and recognised business services, will ensure that local employability support and training are linked to increasing employment opportunities within assisted SMEs. The support will also be aligned to any Financial Instruments aimed at increasing access to finance for business.
31. It is important to recognise that even those businesses which are not the dynamic growth companies of tomorrow can be important to sustaining local communities and play a vital role within the supply chain. EAFRD will look to ensure that new and existing small and micro rural businesses have the opportunity to access business development finance. This offers an opportunity for the funds to **align**, ensuring that any SME anywhere in Scotland has access to a targeted source of funding to help it sustain, diversify or grow.
32. EAFRD will continue to support farming businesses to modernise and become more competitive with a particular focus on helping new entrants to support generational renewal. The Crofting sector is unique to Scotland and is a vital component of our social heritage. EAFRD will provide support to crofters to take forward improvements on their crofts which will help to sustain their business and enable cooperative working. EAFRD will also seek to support small-scale investments on small farms to help them modernise and adapt to changing conditions.

[276] Scottish Government, 2012, Small Business Survey Report 2012. http://www.scotland.gov.uk/Topics/Economy/ASBS/Report2012. In this survey, an exporter is defined as a business which sold goods or services or licenced products outside of the UK.
[277] Further details at: http://businesshelp.lloydstsbbusiness.com/assets/pdf/Britains-Digital-Opportunity.pdf

33. Whilst EMFF will support the modernisation of the significant numbers of fishery-based businesses in Scottish waters there will also be the need to ensure that the delivery of CFP reform and new management practices do not negatively impact on their viability. Support will therefore be required to ensure that businesses, both in the fisheries and aquaculture sectors, continue to be competitive and that the Fishing Communities they serve continue to thrive. As with the rural sector, smaller and locally-based businesses in the marine sector can be important to sustaining local communities and play a vital role within the supply chain, including in developing areas such as sea based tourism; and aquaculture, as part of the food and drink sector, has significant growth potential if managed well. EMFF will in addition look to ensure that new and existing business have the ability to access development finance including the use of Financial Instruments which where possible will be aligned with other ESI Fund Financial instruments. SME's can also benefit from the wealth of expertise and knowledge that is available from larger companies and the EMFF will support the exchange of such knowledge through collaboration and innovation projects.
34. Finally, the environment in which businesses operate and innovate is as important as providing direct support. Scotland's cities offer a significant concentration of businesses, human capital, entrepreneurs and connections; and are situated closely enough together to act as a single and larger-scale draw for investment and competitiveness – particularly if they become better connected and more interoperable. ERDF will support the development of a SMART cities approach, testing new technology, data and systems sharing for better city management. This will for a significant part of Scotland's contribution towards the 'sustainable urban development' theme, making Scotland's cities both more environmentally sustainable and more attractive places to invest.

## INVESTING IN EDUCATION, TRAINING AND VOCATIONAL TRAINING FOR SKILLS AND LIFELONG LEARNING

35. Scotland is in a very strong position regarding Europe 2020 targets on 30-34 year old educational attainment, with 50% currently reaching tertiary levels of education and supporting the excellent reputation of the educational sector in Scotland. However, 14% currently leave school early, and there is a decline in the percentage of 18-24 year olds gaining at least upper secondary level education, with 23% of the population holding no educational or skill qualifications at this level.
36. This means there is a **structural gap** between those who are highly skilled, such as graduates and the qualified professions, and those with low or no skills. Employment outcomes are linked to this, ranging from 84% for those with tertiary education; to just 41% for unqualified individuals.

37. Employment projections highlight further emerging challenges and opportunities, but in particular a continued decline in primary sector employment impacting on Scotland's rural areas, juxtaposed against the significant employment potential in knowledge-intensive emerging industries such as renewable energy, life sciences, chemicals, and food and drink sectors, drawn out in the Smart Specialisation Strategy. It also presents a social challenge in ensuring that everyone has an increased likelihood of participating in such a higher value-added economy.
38. The vision is that high and increasing skill levels in the workforce drive increased productivity and growth, higher real wages and long-term social mobility across Scotland. That means our prospects for sustainable growth will be driven by a world-class higher education system and a skilled workforce. The vision is backed by the development of a high quality intermediate vocational education and training which

delivers the skills employers need; and gradually reduces the need for social inclusion interventions.

39. To address these challenges, and to **complement** activity under Labour Market mobility and Social inclusion, the **strategic concentration** under this thematic objective will be on the post 16 sector to meet future skills requirements; and on existing workforce development to increase productivity and resilience. The Wood Commission, an extensive national investigation of post-16 skills provisions, has recommended an increase in higher-level vocational and technical education, for example through specific sectoral academies playing to regional strengths as part of Smart Specialisation, as well as advanced and increased apprenticeship provision, and better links between education and work. It is anticipated that ESF will support both individuals progressing through high and combined vocational/academic training, and the **significant structural change** which will be required in course development and employer engagement. The combination should make a significant structural contribution to reducing youth unemployment in future generations.

40. Skills development is another example of the possibilities of **alignment** between the ESI Funds, and integration across the thematic objectives. Sectors which are traditionally helped through EAFRD or EMFF, such as land management, food and drink, forestry, aquaculture and fisheries offer opportunities for vocational placements as much as sectors traditionally supported through ERDF, such as innovation or renewable energy; and specific skills will be required to support Scottish ambitions under resource efficiency and low carbon. Workforce development support under ESF is therefore also linked to the Smart Specialisation strategy though tailoring regional skills provision to those future sectoral needs.

41. In addition to developing the future workforce, lifelong learning in the existing workforce also has a huge role to play in moving Scotland from a heritage of primary production, heavy industry and service sectors into a more balanced economy. Labour Force Survey results show the proportion of individual in employment receiving job-related training within the last 3 months has remained steady at around 28% since 2007. There is a clear role for ESF in **focusing** on and developing plans to address the skills requirements within business and industry, and in gaining employer engagement with upskilling their employees as part of the business planning and development.

42. EAFRD will contribute to knowledge exchange and development of better land management skills to help improve performance and to reduce emissions. There will be a focus on non-formal qualifications, providing funding for skills development and knowledge transfer initiatives in the form of workshops, training courses, coaching, demonstration activities, information actions and farm visits. LEADER will also play a part in the provision of skills to groups within local communities, where the LDS has identified this as a need.

43. EMFF will contribute to lifelong learning and the dissemination of knowledge of an economic, technical, regulatory or scientific nature which will deliver innovative practices and new professional skills. In particular these will be linked to marine ecosystems, safety, innovation, entrepreneurship and activities in the marine sector, as well as encouragement for younger entrants into the sector and for those who seek to diversify out of the sector.

## SUSTAINABLE GROWTH

### LOW CARBON ECONOMY

44. The wider low carbon economy is a key priority for growth in the Government Economic Strategy, and it is estimated that jobs within the low carbon sector could grow by 4% a year to 2020 rising from 70,000 to 130,000 (over 5% of the Scottish workforce). Scotland has a significant opportunity to build on its expertise in off-shore energy, focusing on renewable resources; and this has the potential to create new industries and jobs in areas which are remote, rural and coastal; and offers scope for diversification in, for example, sea fisheries dependent areas. This opportunity encompasses supply chain development as well, strengthening SME competitiveness.

45. Energy consumption per capita is higher in Scotland than in other parts of the UK. This is primarily due to two factors: Scotland's relatively high consumption in the industrial and commercial sector (43.5% of energy consumption in 2010), and higher domestic energy consumption (31%) - which is due in part to the colder and wetter climate. Transport accounts for 25.5% of energy consumption. This poses a challenge for sustainable development, as growth traditionally links to a growth in emissions, and to achieve a low carbon economy, this needs to be de-coupled. This is a focus both for developing the low carbon economy and for promoting resource efficiency, and will make a substantial contribution to climate change mitigation.

46. To achieve this, Scotland has set itself ambitious targets for renewable energy and greenhouse gas emissions including:

    - to deliver the equivalent of 100 per cent of gross consumption through renewable sources in 2020, with an interim target of 50 per cent by 2015
    - a reduction in greenhouse gas emissions of at least 80% by 2050, with an interim 42% reduction target by 2020, compared to a 1990 baseline

47. These ambitions exceed EU 2020 targets, reflected in Scotland's current performance against those targets: 24.3% reduction in greenhouse gas emissions, and 24.1% of electricity requirements met from renewable sources, a figure which has nearly trebled in ten years.

48. Scotland's scope for developing and supplying renewable energy is significant – the practical offshore renewables resource has been estimated at 206 GW[278], a quarter of European off-shore potential and 10% of its wave power potential. By harnessing just a third of this resource, installed offshore renewables capacity could reach 68 GW by 2050 - more than ten times Scotland's peak electricity demand. Around 20% of the electricity generated in Scotland is exported to the rest of the UK, but with investment this could rise significantly. Scotland is therefore well positioned to develop and achieve 'blue growth' in parallel with and as part of overall renewables growth.

49. Low carbon is of course wider than electricity generation, and combined heat and power, and energy efficiency (in processes and products as well as in buildings) are areas where Scotland needs to improve over time, for example through supply chain development, and development of low carbon and environmentally friendly products in line with increasing consumer expectations.

50. With many other significant sources of funding available, and with a recognised gap between the project concept and realisation, there is a **specific niche** around culture

[278] The Offshore Valuation Group (2010), The Offshore Valuation. http://www.offshorevaluation.org/

change; developing and supporting a project pipeline into robust proposals for investment, and enabling higher-risk products and services to develop, with investment support potentially through financial instruments. In the long term, this kind of investment would then be seen as increasingly normal and less risky. Integrating aquaculture with offshore renewables, scaling up CHP and using new technologies for it, and pilot scale studies into marine algal biomass production (which is being investigated as part of the development of Scotland’s first Marine Plan) are good examples of higher-risk projects which could be supported through ERDF and EMFF.

51. Scotland does not propose to invest in Promoting Sustainable Transport as a separate thematic objective. However, there is a need to address the challenges Scotland’s geography presents for low-carbon transport, in particular encouraging a structural and behavioural change in two areas. The first is a modal shift. Cars, vans and lorries account for the vast majority of miles travelled per year per Scottish resident. In 2011, 11.2 % of driver journeys were delayed due to congestion. And the proportion of adults in Scotland usually travelling to work by public transport or active transport (such as walking or cycling) has remained broadly stable at around just 10% over the past decade. ESI Funds will support modal shifts through linking different local modes of active and low carbon transport particularly in urban areas, and better use of technology and integrated ticketing and information to encourage use of public transport.

52. The second change is in how transport is powered. With transport one of the main CO2 and particle emitters in Scotland, supporting the long-term development and testing of low-carbon energy sources for transport, and the infrastructure required to support it, is a priority. However, this is a relatively undeveloped area, with emerging technologies competing and risks for investors in picking the ‘wrong’ technology therefore very high. ESI Funds will support pilot projects for mixed low-carbon refuelling services, along areas to test the right energy source mix for an increasing number of sustainable connections between the places where people want to live, work and do business. This kind of project will only be supported where there is clear market failure, and will no longer be supported when and if it reaches commercial viability.

## PROTECTING THE ENVIRONMENT AND PROMOTING RESOURCE EFFICIENCY

53. High-value nature (land and marine) is an intrinsic and valuable part of Scotland’s brand, contributing to tourism and high quality food and drink sectors, making Scotland an attractive place to live and work; as well as bringing health benefits through bio-diversity and a safe and secure food supply.

54. With 75% of Scotland’s land in agricultural use, the sector has the potential to have a significant impact on the quality of the environment. The European Agricultural Fund for Rural Development will continue its significant **strategic concentration** on high-value nature, bio-diversity, and improved practices to lower the environmental impact of farming in Scotland, including support for an integrated and ecosystem approach to land management via increased co-operation and the provision of an advisory service to help drive improvements. This will build on the increased environmental benefits gained through greening of Pillar 1 of the CAP, and will include:

- *Peatland Restoration and Afforestation initiatives,* a significant rural contributor to the Scottish Governments efforts to reduce Scotland’s carbon footprint in order to mitigate the impact of Climate Change, to assist biodiversity and water quality goals, and to tackle soil erosion. Forestry is also a significant contributor to the rural economy in terms of business presence and employment
- *Water quality improvements* in line with the Water Framework Directive and the associated target to ensure that 92% of water bodies are in good ecological condition

by 2027 (currently 61%), particularly addressing diffuse pollution arising from agricultural operations through poor storage, pesticide usage, livestock contamination and excessive run-off, and targeted at Nitrate Vulnerable Zones as a priority, and in line with Scotland's River Basin Management Plans.

- *Promoting increased bio-diversity*, where a whole range of indicators shows urgent action is required, with declines in the abundance of breeding birds over the past three years, plant species diversity (10% decline), 44% of ecosystem services delivered by Scottish habitats being in decline (compared with 30% across the UK), the rate of designated sites in favourable condition remain static at 78%, and more priority farmland habitats in conservation status declining than improving. This will require incentivisation of farmers to adopt habitat-friendly management practices, and there will be a focus on Natura 2000 sites and Sites of Special Scientific Interest.

55. The combination of forestry and agri-environmental initiatives will more than meet the EAFRD ring-fence of 30% towards this thematic objective, amounting to 45% of the Scotland Rural Development Programme.

56. Scotland has a large percentage of land that is not favoured for most forms of agriculture, with around 85% being classed as LFA. This will remain a key aspect of the future programme as it is vital that we adequately support fragile farming businesses in rural areas. This will help to reduce the risk of land abandonment, with the resulting social and environmental issues that would cause.

57. Scotland also has large, diverse and productive marine resources, producing the great majority of the UK's seafood and maintaining a traditional industry important in may coastal areas of Scotland – all whilst maintaining a close focus on biodiversity, sustainability, and obligations under national and international legal instruments including the Maritime Framework Strategy Directive. Maintenance of a significant and truly sustainable fisheries sector (including aquaculture and processing) is the long term goal, one which faces challenges relating to the health of wild fish stocks, but also in relation to specific aspects of aquaculture and processing. The commercial fisheries sector will undertake transition in the coming years as CFP reform delivers MSY, removal of discards and improved management. This will have an impact on all sectors and opportunities for diversification and **complementarity** with other sectors will require to be developed to allow the marine sector to reach its full potential.

58. Over 70% of Scotland's populations live in its cities, so ERDF will **align and complement** rural and marine activity to protect and improve the environment by investing in green infrastructure in urban environments. Supporting the development of, for example, sustainable drainage, urban farming, and the greening of deprived urban areas will help regulate water and air quality, all of which are under pressure in urban environments, and provide health benefits and better places to live. The work, locally driven, will link to Labour Market Mobility and Social Inclusion, helping unemployed people either get into environmental improvement work, or building their skills and confidence. This method of engaging the people who live in urban environments in protecting and improving them is a key component of Scotland's approach to sustainable urban development.

59. Scotland also needs to invest in becoming resource efficient. As noted in the sectoral analysis of energy use under the low carbon economy thematic objective, commercial and industrial energy use accounts for a full 43.5% of the total (2010 figures), and domestic energy use for another 31%.

60. Significant investments are being made in existing domestic housing stock, and Scotland does not propose to use ESI Funds for this purpose, as there is a risk it will duplicate statutory obligations on housing suppliers and energy providers.

61. However, it is estimated that businesses collectively lose 2% of annual profits through inefficient use of energy, water and waste with over 90% of the materials used in production not finding their way into the final product.[279] The Small Business Survey 2012 asked SMEs whether they had taken any steps to reduce their environmental impact[280], and found that while improvement had taken place, 66% of SME's reported as unwilling to do more. In addition, Scotland's recycling rates have seen an impressive eight-fold rise from 2001, but at 38.2% remains modest compared to Europe's best performers; and increasing this further could both improve resource efficiency and give rise to a strengthened re-use and re-purposing industry in Scotland.

62. Individual initiatives will not be enough to promote the scale of **structural reform required**, and so under ERDF a co-ordinated package of business advice and whole-supply-chain support will aim to build a circular economy where waste and environmental harm is eliminated from the way we produce and consume goods and services. This will not invest in state-managed or private 'traditional' waste management sites (this would duplicate statutory duties), but rather work with business to identify new uses for what would otherwise have been seen as waste material, products, heat or water. As with low carbon, this may be complemented by financial instruments to support commercial scale investment.

63. There is also a need for more pinpointed business advice and support on resource efficiency in marine and rural industry. Using EMFF, for example, to deliver energy and fuel efficiency through all parts of the production chain and bringing wider resource efficiency to onshore processing activities. An enhanced and expanded referral system will be develop connecting business support services building on the collaborative Scottish Energy and Resource Efficiency (SERES) partnership. EAFRD will implement an expanded advisory service to ensure farmers and land managers have the information available to them in order to make improvements to working practices that will reduce costs, waste and energy usage.

## INCLUSIVE GROWTH

### EMPLOYMENT AND LABOUR MARKET MOBILITY

64. Scotland has seen an increase in unemployment since 2008, and a decrease in participation rates over the same period, although not as severe an increase as some other parts of the UK. The employment rate stands at 71.8 per cent in 2013 Q1, which is not far off the EU 2020 target, but with economic recovery still in fragile early stages, this must remain a priority area for the Social Fund. A number of areas need particular focus:

- There has been a significant increase in *youth unemployment*, particularly in South West Scotland, which qualifies for the Youth Employment Initiative, and in Clackmannanshire and Fife (23.9%). This is a priority to address as youth unemployment can have a long-term impact on earnings and probability of employment. There is also evidence that youth unemployment increases crime rates and has a long-term negative effect on life satisfaction.[281]

[279] Further details at: http://www.scotland.gov.uk/Publications/2010/11/15085756/5
[280] Scottish Government, 2012, Small Business Survey Report 2012. http://www.scotland.gov.uk/Topics/Economy/ASBS/Report2012
[281] A summary of key results is provided in David Bell and David Blanchflower (2010), UK Unemployment in the Great Recession, *National Institute Economic Review* 214, October 2010.

- The number of people in Scotland who were *long-term unemployed* for 12 months or more increased to 32.9% of unemployed people in 2012; up from 18.5% in 2008. Long-term unemployment can also lead to a loss of skill, reducing the economy's stock of human capital and reducing the individual's future employment prospects. *Under-employment* is also on the rise, again posing a threat to long-term skills retention, and creating a bottle neck in the labour market for those with lower skills levels.
- Rural Scotland has more *part-time and seasonal working, lower wages and an ageing workforce* than the UK as a whole*,* trends which have increased over the past four years, and at a faster rate than the rest of the UK. Of the four NUTS 2 regions in Scotland, Highlands and Islands has the highest rate of part-time work, due to a great extent to the high rate of *part-time work among women i*n the region: 50.6 per cent in 2012.
- Generally, the *gap between men and women* in employment is less significant than in many parts of Europe. There is slightly higher male unemployment (2% difference), but lower female activity rates (10% difference). Whilst the participation rate for women, at 73%, is higher than the EU average (65%)[282], women carry out more part-time work (as noted above for H&I); and are over-represented in caring and administrative occupations, and underrepresented in management and skilled trades.
- *Disabled groups* continue to be significantly under-represented in the labour market, with just half being in employment compared to 71% of the general population.

65. Under the European Social Fund, Scotland has developed Skills and Employability Pipelines, an approach which supports local employability projects and aims to create a continuum between those furthest from the labour market and those only requiring small amounts of support to enter higher-skilled employment or access training. This approach is **territorial**, allowing local tailoring to fit precisely the differences in regional and local labour markets, some of which are highlighted above; and to address the specific issues in each (e.g. older workers or low local skills levels or part-time working or gender-segregation). The approach has been limited to 18 of the more deprived local authority areas in the past; in 2014-20, following successful evaluations of the 2007-13 initiative, it will cover all of Scotland.
66. The emphasis of the pipelines tends to be at the lower-skilled and most socially disadvantaged end of the spectrum, and this activity therefore links very closely with Promoting Social Inclusion. Disadvantaged groups such as those with multiple barriers and health issues, low income families, workless households and disabled individuals will be key target groups, and the numbers of individuals in these target groups and the results for them will be monitored and form part of review terms for the pipelines. To directly address social inclusion, the model will also be expanded to address underlying barriers to participation and employment for target groups, including child care, digital skills / access, and health inequalities. These actions mainly form part of Stage 1 of the pipeline and will be supported under the Social Inclusion and Combating Poverty thematic objective. Other stages of the pipeline will be supported under this objective. By targeting vulnerable groups, in particular workless households, this activity will also contribute to the implementation of CSR 4 for the UK in addressing child poverty.
67. Towards the top stages of the pipeline, where the focus is on improving skills, this activity will **align** with activity under Education, Skills and Lifelong Learning, ensuring that an individual can move into higher skills and more highly-skilled employment.

[282] In 2011, the rate for males was 80.9 per cent in Scotland and 77.6 per cent in the EU. The rate for females was 72.3 per cent in Scotland and 64.8 per cent in the EU. Note that Eurostat data is not directly comparable to ONS labour market data, due to differences in definitions and data sources.

68. The Youth Employment Initiative will focus on intensive support for young people in South West Scotland with an ambitious programme of working with employers to provide training and recruitment support packages with additional support available for those young people who face multiple barriers to entering employment, and an early-intervention approach to those young people at risk of becoming inactive upon leaving formal education. The YEI will focus on just two outcomes – sustainable employment (measured 6 months after the support finishes) and formal qualifications, where a high proportion will be linked to growth sectors in the region. The initiative will align with current national and local Youth Employment Strategies, as well as initiatives under Education, Skills and Lifelong Learning.

## PROMOTING SOCIAL INCLUSION, COMBATING POVERTY AND ANY DISCRIMINATION

69. While the proportion of individuals living in relative poverty in Scotland has reduced over the last decade there are still pockets of need across Scotland, ranging from urban areas with multiple and complex deprivation; to rural, coastal and island areas which are particularly vulnerable to economic and demographic change and disproportionately affected by rises in fuel prices and changes which affect access to services. Furthermore, living standards have contracted by 8% since the beginning of the recession and the current economic situation, could have a significant negative impact on inclusion and poverty if employment opportunities continue to be limited.
70. The reasons for, and outcomes of, poverty are inextricably linked – poor educational attainment, low quality housing, distance to services (perceived or real), mental and ill health issues, low skilled employment and high concentrations of unemployment, high living costs coupled with low pay, and material deprivation. Many of the target groups are the same as those being supported through Labour Market Mobility. However, concentrated social exclusion will require more than assistance for the individual to enter work. Individuals are affected by families, and families by the communities in which they live. ESF will therefore support asset-based planning in communities, helping those communities mobilise and get the support they choose. This might be intensive preventative family-based interventions, localised approaches to fuel and food poverty, or help with digital access and basic skills to ensure a community is better connected and can access a wider range of services.
71. ESF will also support specific initiatives on financial inclusion, to ensure that individuals and families can learn to manage unsustainable debt levels, have access to basic banking and through this an ability to build a financial history, and can become more aware of a possible range of financial products and the positive and negative impacts they can have on poverty.
72. Both of these actions will take social innovation as a guiding principle, ensuring that new solutions can be piloted and tested locally, and will have a distinct role for the third sector and social enterprises. ESF support under this thematic objective will be strategically concentrated on the most fragile and deprived communities, whether urban, rural or coastal, and forms part of the **territorial** response to the needs of these communities. The focus on these communities should also ensure a contribution to the implementation of CSR4 for the UK, in particular in tackling child poverty as this is obviously heavily affected by family circumstances.
73. The ESF approach **aligns** with the combination of EAFRD/LEADER and EMFF (for rural and coastal communities), which will contribute heavily through its bottom-up approach to community development and enabling communities to develop plans to provide the most effective package to respond to particular issues around local development. These

plans will be developed within the Partnership Agreement framework focus on smart, sustainable economic growth, but unlike the targeted ESF interventions, will be available in all eligible areas if a Local Development Strategy is accepted. It is anticipated that LEADER under EAFRD will cover all rural areas in Scotland in 2014-20, an increase on previous programmes, and a minimum of 5% of EAFRD funding will be allocated to this activity as shown in table 1.4.

74. Other thematic objectives will also contribute more widely to social inclusion through a focus on carbon clever communities (enabling community projects and infrastructure), business growth and innovation and employability programmes.

## TERRITORIAL CHALLENGES

75. One of the most significant factors shaping Scotland's ability to reach Europe 2020 targets will be understanding and dealing with the underlying differences in Scotland's regions, and the types of territories within them – the **territorial challenges** – and the different policy responses required to address their specific needs.

76. The ESI Funds will operate nationally in Scotland – but the territorial dimension will inform specific targeting within national interventions, as well as shaping specific geographic interventions such as LEADER or territorial delivery options around the Highlands and Islands; or South West Scotland for youth employment.

77. Within Scotland, there are five broad typologies of territory, with considerable overlap; including a specific current issue with Youth unemployment.

### Areas of multiple deprivation

78. Whilst the overall economic picture remains reasonably resilient, pockets remain within Scotland which were worse off before the recession, and which have been hit harder by it, in terms of unemployment (including youth and long-term), income and social equality and inclusion. That these areas are in many cases the same areas which have been economically and socially excluded for decades (Greater Glasgow, Clyde Valley and the Ayrshires were identified as a 'special area' in UK legislation as far back as 1934) reveals the complexity of the issue. These areas have been a continued focus of regeneration, poverty, welfare reform, education, industry and skills policies, but remain fragile enough to take the first hit when the economy falters.

79. These areas are highlighted in the Scottish Index of Multiple Deprivation[283] (map on following page), which compares data zones in Scotland based a range of indicators such as income, educational attainment, health, and access to services, and tend to cluster around urban areas – around Glasgow, Dundee and the Ayrshires in particular. The real and perceived barriers to employment and social inclusion (level of lone parent households, child care, health and disability, former industries and lack of retraining) are more likely to increase than to decrease, unless significant numbers of jobs can be created locally and with a reasonable skills match.

80. Rapid solutions are unlikely, and interventions will need to both address immediate needs such as employability support (including skills, digital engagement, health and childcare) and long-term options such as retraining and workforce development to support alternative industries to those which have declined, or are declining. The interventions around social inclusion and combating poverty are likely to target these areas in greater concentration.

[283] Further details at: http://22fa0f74501b902c9f11-8b3fbddfa1e1fab453a8e75cb14f3396.r26.cf3.rackcdn.com/simd_448749_v7_20121217

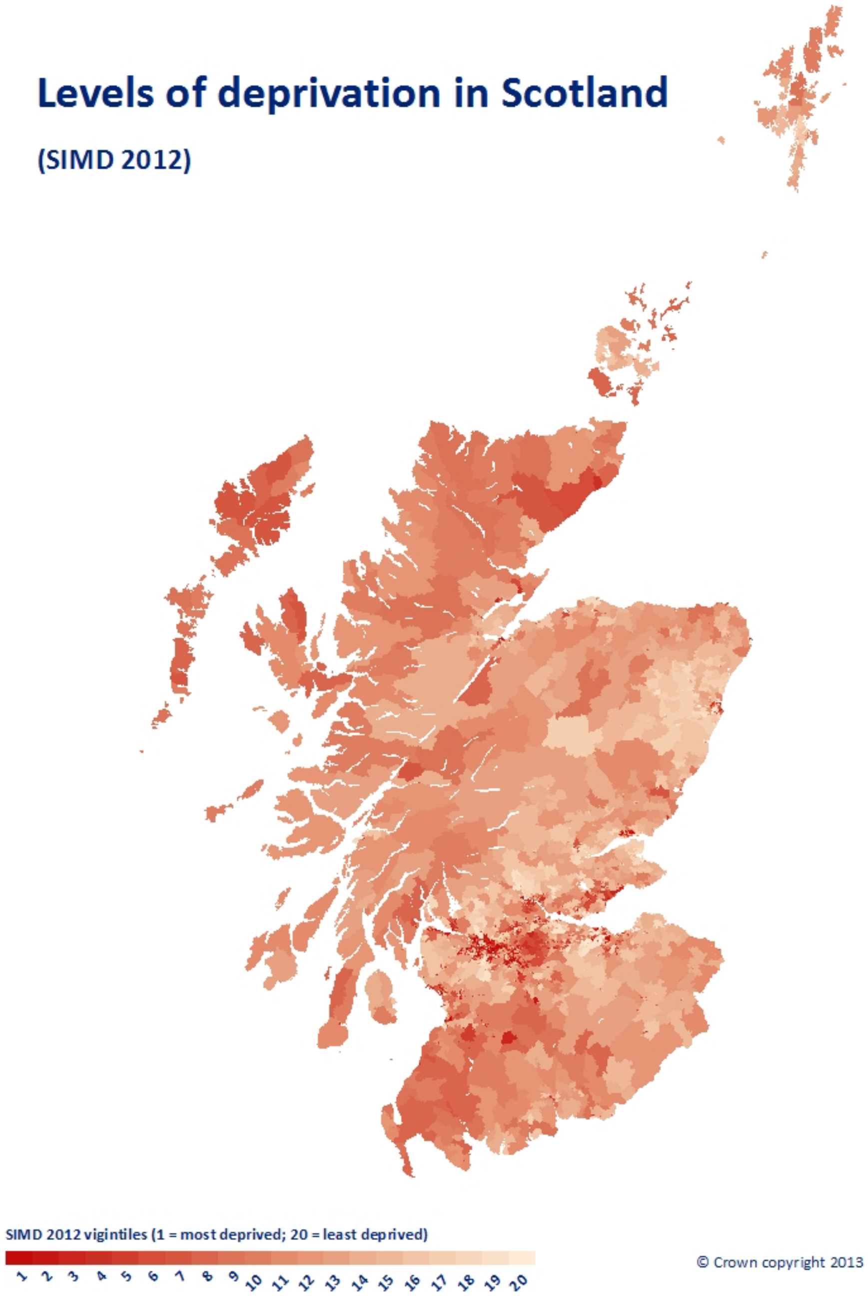



**Figure 67: Levels of deprivation in Scotland**

## Rural, Remote Rural and Island

81. The Scottish Index of Multiple Deprivation is not always an accurate measure of rural deprivation as it identifies small area concentrations of multiple deprivation, whereas poverty and deprivation is more spatially dispersed in rural areas. Rural areas on this index are more likely to qualify on criteria around remoteness from services, which is not as highly weighted as income deprivation, and the index may also be under-reporting e.g. income deprivation due to low take up of benefits (culture of independence, concerns about stigmatisation in smaller communities, poor access to information and advice, eligibility), lack of data in remote areas, and the exclusion of some of the key factors affecting rural areas such as fuel poverty.

82. Parts of rural Scotland, in particular the Highlands and Islands and parts of the Borders and Dumfries and Galloway thus have different but equally difficult issues to address. These include remoteness and permanent geographical handicaps, a high dependency on micro-businesses, self-employment and public sector employment, and falling employment in some primary sectors. Employment is more seasonal and more part-time than in the rest of Scotland; and the costs of living higher through fuel and transport costs. In a 2009 interpretation, based on Population decline (2001-2005), Population density, driving time to mid-sized service centre, and Income per household (from SIMD), this gives a different picture of deprivation in rural areas, with significant concentrations in the Islands, remote Highlands and Southern Scotland:

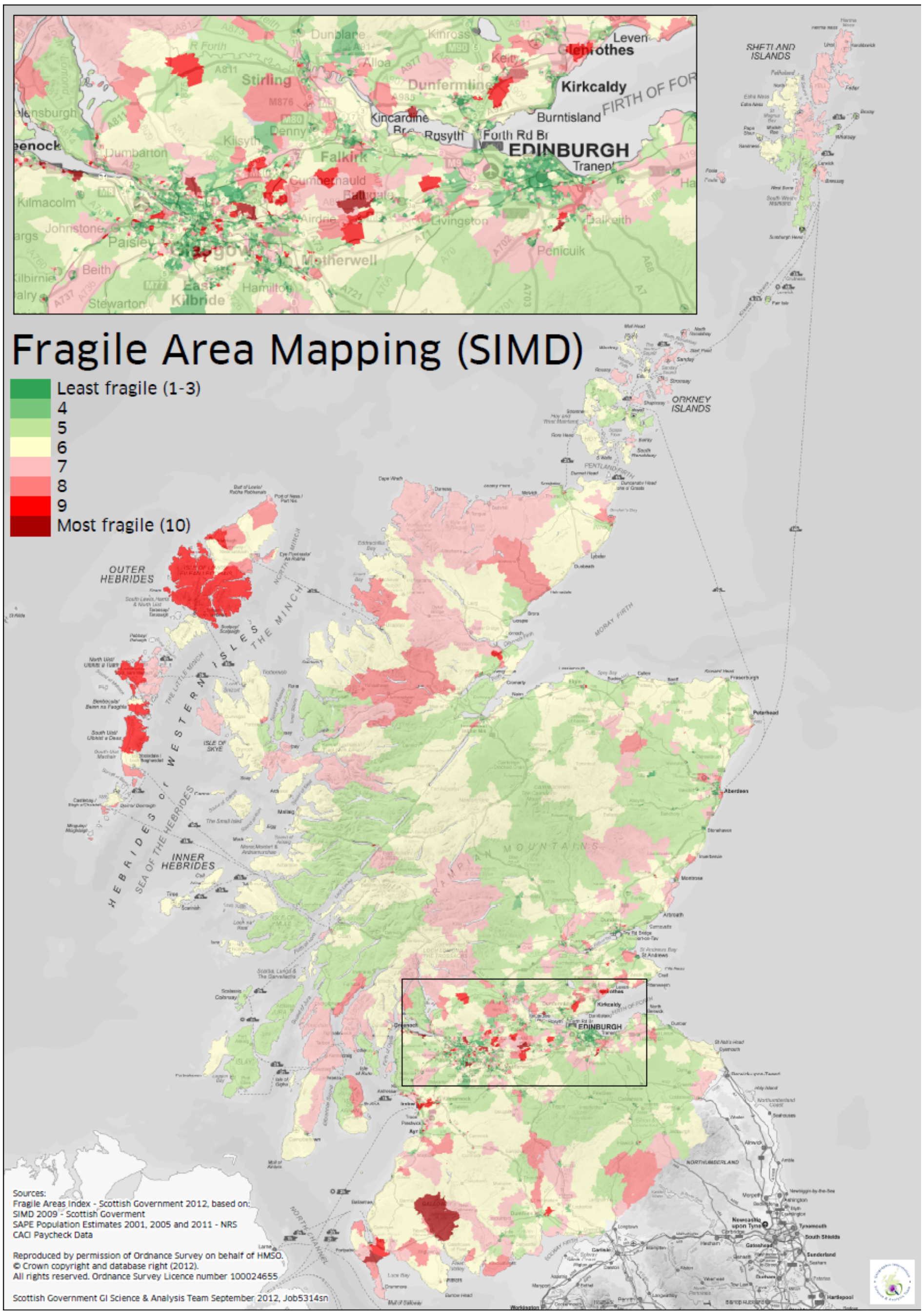



**Figure 68: Fragile Area mapping (SIMD)**

83. Youth employment is also different in these areas – young people simply leave to study and find work and have been doing so for generations, and this trend is masked in unemployment statistics. Although some return later in life, this also impacts on the demographics in remote and rural areas, resulting in a more rapidly ageing population than the rest of Scotland.
84. In these areas, business support interventions need to be tailored to micro-to-small, and to the predominant sectors; and skills need to match those particular sectors rather than nationally significant ones. Conversely, the same geography that poses challenges also offers opportunities – many of the key sites for renewable energy production in Scotland are in these areas, and the quality of the landscape and nature brings tourism (with the Highlands the second most visited tourist destination in Scotland, and the South rebuilding its reputation for high quality foods and textiles).
85. In terms of remoteness (rather than rurality) and permanent geographical handicaps the Highlands and Islands is the area most affected, and there is a need to acknowledge that this requires a particular response. As a transition region for the purposes of Structural Funds, the region will take part in the national ERDF and ESF programmes but interventions will be tailored and delivered by appropriate local partners in this region to address the additional requirements that the degree of remoteness, peripherality, physical and demographic challenges offer.

**Coastal/maritime**

86. Many of Scotland's fishery and coastal communities are potentially threatened by a reduction in the scale of the commercial catching sector, yet remain vital for the provision of infrastructure, support services and the workforce for the (sustainable) catching sector that remains. These communities are also vital in their own right, yet are often located in remote coastal / rural areas where there has traditionally been few other source of employment than the primary (catch) sector. They also face the same wider challenges of remote locations, for example distance to services and the domination of micro-business and self-employment.
87. There is significant potential to help these communities, and the individuals in them, to take part in developing Scotland's marine resources. This would require investment in training and re-skilling along with infrastructure investment to facilitate diversification into new marine industries such as marine and offshore energy and coastal tourism, and creating new economic opportunities.
88. Underlying these investments, Scotland is seeking to move towards marine management based on an ecosystem approach to all marine industries, which delivers healthier and more biologically diverse seas and would provide the foundations for economically viable rural and coastal communities in Scotland.
89. For example, the continued decline in marine biodiversity, as highlighted by Scotland's Marine Atlas, will directly impact on Scotland's fishing industry and related businesses such as processing and transport. Damaging fishing practices are not only unprofitable, but also damage the livelihoods of other, more forward thinking sustainable businesses, who understand they must manage marine resources carefully for the long term. An ecosystem approach to fishing sends a clear signal that the Scottish Government values sustainable Scottish businesses over those which are unsustainable and environmentally harmful.
90. Measures to enhance the resilience of our seas to the effects of climate change, such as Scotland's emerging network of Marine Protected Areas, will also help coastal communities. Warming waters negatively impact on breeding, feeding and nursery

areas for commercially important fish, their prey, and other marine species such as seabirds. Scotland’s marine wildlife tourism sector contributes £63 million to Scotland’s economy annually, and seabirds are often cited as the reason for visiting Scotland’s wild places. An independent survey at RSPB's Mull of Galloway reserve, in a part of Scotland where much of the local economy depends on tourism, found that over 70% of respondents cited seeing seabirds as either their main reason or one of the reasons for visiting the area. In just one of many other examples, in 2000, £1.3 million of tourism spending was attributed to Orkney’s birds and marine wildlife. The opportunities to diversify and expand marine based tourism through watching whales, dolphins, seals and sea-birds are growing in many parts of Scotland, although the industry remains in its relative infancy.

91. This ecosystem approach to marine management requires investment in fisheries and marine science, and in fit-for-purpose data collection, monitoring and compliance. Such spend is preventative, as it will prevent the deterioration of our seas and the industries and communities they sustain.

92. The EMFF could also help Scotland to meet its international environmental obligations for the marine environment, including ensuring Scotland’s waters attain Good Environmental Status by 2020 (EU Marine Strategy Framework Directive). For example, to preserve marine habitats which will have multiple benefits for flood protection, carbon storage, water quality and retention, and provision of fish spawning and nursery grounds, all of which are essential for the success of Scotland’s marine businesses and its coastal communities.

**Scotland’s Cities**

93. Scotland’s cities and their regions play a central role in driving economic growth, and are home to 70% of the population. Cities and their regions deliver two thirds of Scotland’s GVA (67% in 2011, NUTS 3 areas, ONS), produce 59% of Scottish exports (2010, Travel To Work Area basis from Community Innovation Survey, BIS) and 86% of Scotland’s population lives within an hour’s drive of one of our cities.

94. The unique geography, with cities located within easy travelling distance, and the developed specialisms of each city (for example off-shore oil and gas in Aberdeen; creative industries in Dundee; engineering in Glasgow; and financial services in Edinburgh) means that our cities can capitalise on collective strengths and investment opportunities, and present themselves as a single, more attractive unit to investors.

95. As centres of the bulk of our population cities make ideal test beds for new projects and they have been instrumental in rapidly progressing new initiatives such as smart ticketing. All of our cities working together means that from inception new systems are designed to operate between cities, enabling better long-term connectivity and giving a substantial launchpad for national initiatives.

**Youth Unemployment**

96. South West Scotland qualifies for the Youth Employment Initiative. This area includes many of the same communities affected by former industrial decline, high levels of unemployment and deprivation, and pockets of low educational attainment – but also one of Scotland’s highest GDP per capita NUTS 3 areas (Glasgow), with a very significant travel to work area. The 2007-13 programmes have already dedicated significant resource to starting to tackle the youth employment issues; and many national policies and ESI Fund interventions will also have an impact. However, with the scale of youth unemployment in this particular geographical area, the YEI in Scotland,

and the mainstream ESF it attracts, will be required to intensify and extend activity beyond what is available in the rest of Scotland, as well as trialling new approaches to early intervention for those at risk of becoming inactive and vocational training options.

**Summary of lessons learned for ESI Funds from 2007-13**

97. The design of a new programming period should not operate in isolation. The Scottish programmes have been subject to monitoring and evaluation throughout, and the following are the key lessons the Funds can collectively draw for future implementation:

- European funds, in the scale we receive, cannot cover all aspects of all policies. This and the shortage of match funding means we inevitably need to align with national policy to find co-financing and match, but with good alignment of EU and SG ambitions, the programmes can be used to gradually shift national policy towards EU 2020, making both Programmes and domestic policy more ambitious;
- Scotland does well at committing and drawing down EU Funds. However, the large number of small projects means fragmented outputs and more limited impact from the funds. Some schemes and priority axes need greater targeting (thematic or geographical) to achieve bigger outcomes;
- The gradual shift towards more strategic approaches (Strategic Delivery Bodies and Community Planning Partnerships in Structural Funds, or more integrated multi-outcome schemes in rural funds) have started to deliver these bigger impacts. However, it has not been easy to ensure that the delivery matches these higher ambitions, there is limited evidence of transformative impacts, and a feeling that the funding could achieve more remains;
- The programmes and schemes continue to be complex, both at European and at Scottish level. The trend has been to add more options to gain more potential benefits, but this has also led to compliance issues and additional audit burdens;
- Smaller organisations cannot, broadly speaking, cope with the audit and record-keeping burden required to draw down EU funds and allowing them to run separate projects draws a huge resource requirement both of project sponsors/beneficiaries (which could be better spent delivering high quality outcomes) and the Managing Authority and Audit Authority;
- It is difficult to ensure compliance for actual (defrayed) costs, and it would be beneficial to move to simplified cost models. This should also allow a better focus on monitoring outcomes and impacts of the funds, rather than the common focus on financial performance;
- Outputs and indicators have to be relevant and specific to what you want to achieve (e.g. measuring whether an SME has an e-commerce strategy is not the same as measuring whether they are using it or gaining the benefits of it). We will probably never quite be able to measure long term outcomes within a programme period, but we need better proxy outputs and results that relate real progress;
- Better technical support is required, both for applicants and for managing the programmes. IT systems need to be user-friendly and more flexible to allow high-quality monitoring of outcomes, and to ensure compliance with e-cohesion. Better information management, and better management information, would also mean that programme and budget changes are well-informed and targeting better outcomes;
- Horizontal themes were not as seriously treated in 2007-13 as mainstreaming them should have ensured. Horizontal themes should continue to have a dual approach (mainstreamed and specific projects) but should be considered a more integral part of planning the programmes and of assessing any applications;
- Evaluations and communications work better when they focus on telling the story of EU Fund achievement, rather than simply meeting regulatory requirements. A more qualitative approach on both, and a more consistent approach in terms of ongoing

and constant evaluation of what the programmes are delivering, would help counter public perceptions which inevitably focus on those areas of programme delivery which are not working smoothly;

- Managing Authorities could do more to facilitate and support bids to improve the quality and uptake of Funds. Project monitoring should follow up more routinely to better ensure committed funds translate into spend. If the volume of applicants and available resources would prevent this one-to-one mentoring, this could be prioritised by a risk assessment system;
- LEADER extended its coverage to 95% of Rural Scotland and has delivered some £50 million of funding to innovative projects in 2007-13. However, audit issues around clarity of guidance, availability of data and misinterpretation of rules have been significant, and the broad scope has added complexity, particularly in areas where other (domestic) local development plans exist. Clarity of guidance, purpose and scheme rules will be essential in the new programme; and
- EAFRD delivery saw a significant change to bring three different organisations together into a common way of working; and to integrate a new set of customer registrations for LEADER and community type projects. The change was not robustly managed, and this impacted on the way the programme was perceived by both staff and customers alike. However the long-term engagement and interaction between a wide range of stakeholders has been beneficial and should be continued.

## 1.2 A SUMMARY OF THE EX-ANTE EVALUATIONS OF THE PROGRAMMES OR KEY FINDINGS OF THE EX-ANTE EVALUATIONS OF THE PARTNERSHIP AGREEMENT WHERE UNDERTAKEN BY THE MEMBER STATE AT ITS OWN INITIATIVE

1. The evaluators of the Partnership Agreement and operational programmes in Scotland (ERDF, ESF and EAFRD) have been actively involved for more than a year in a schedule of work involving detailed reviews and feedback on socio-economic baselines, working papers and drafts of the partnership agreement and programme strategies. In addition, the programmes have all been subject to a Strategic Environmental Assessment (SEA) that has drawn on environmental indicators and potential impacts on these from the planned activity; and an Equalities Impact Assessment has been carried out for the ERDF and ESF.
2. The team evaluating the programmes under the ERDF and ESF has conducted a theory of change workshop and maintained a regular dialogue with the programme team. Similarly, the team undertaking the evaluation of the SRDP (and related SEA) have used appropriate techniques and regular dialogues with SG staff. As the programming process nears conclusion a round of formal stakeholder interviews and document reviews have been carried out to validate findings and recommendations.
3. At an early stage the programme teams developed baseline reviews of the socio-economic context and a collective SWOT analysis for all ESI Funds, supplemented by specific fund-level SWOT detail including around each of the six Rural Development Priorities for EAFRD. This highlighted a range of needs that underpin the strategy set out in the Partnership Agreement. Evaluators provided detailed comments on this work as it progressed, highlighting opportunities to address gaps in the analysis and make use of alternative information sources. In particular there was additional emphasis on understanding lessons from previous programmes. The analysis of the background data provided a sound basis for the programme strategy as summarised in the Partnership Agreement, and the starting point of a collective SWOT has ensured that all programme strategies are nested within the same needs analysis and are mutually consistent.

4. Overall, each of the operational programmes address the challenges laid down by Europe 2020. For actions funded by the ERDF and ESF this happens through the programme's alignment with the National Reform Programme and its detailed consideration of the Scottish and sub-regional situation and needs. There is evidence these have been formed and amended as a result of consultation and feedback. For the SRDP the designation of Rural Development Priorities which are structurally linked with the objectives of Europe 2020 within the appropriate Regulation, and the requirement that the SRDP is designed to serve these priorities, ensures that there is a high level of consistency within the design.
5. There are also good and explicit links between the programme priorities and established policy at Scottish Government level (which in turn dovetails with UK government policy). There is strong alignment between programme priorities and the strategic aims of most partners. Evaluators are clear that there are causal links between the needs, actions and outputs, and confident that there will be appropriate impacts.
6. Consultation on the financial allocations has taken place at a fairly late stage in the programming process. Broadly speaking there is an understanding the allocations reflect a range of pressures including capacity to deliver as well as reflecting the need for investment across the different thematic objectives and rural development priorities. We have encountered no major issues in our consultations but a common request is the need to retain flexibility, accepting that the need for some interventions may change over the seven-year programming span.
7. On ESF and ERDF, partners acknowledge that any negotiations for a programme of this scale will be complex and in general welcome the variety of consultation events, particularly at the beginning of the process. Some partners felt the process could have been more transparent as the link between discussions and decisions has not always been clear, and timescales and methods have changed and adapted as the strategy developed. The 'call for interventions' mid-way through the programming was poorly received by some partners who suggest they would have preferred more time to work up robust plans. There is also a question over the influence of audit and compliance on programme design; particularly as far as the role small organisations may be concerned.
8. However, a number of partners have also expressed support for the process, particularly in relation to ensuring that high quality projects are developed iteratively and can inform the overall strategy and targets. The evaluators' opinion is that the integrated process of developing operational programming has contributed to the internal coherence of the programme. Using a partnership approach (Strategic Delivery Partnerships) to consider broad outcomes for 'smart, sustainable and inclusive' fostered constructive discussion and debate on alignment, integration and synergies that promise to deliver an innovative approach to delivery. This needs to be amplified and further developed as the detailed planning progresses. Consideration of the best use of Financial Engineering Instruments to support these approaches has also resulted in significant modification of approaches.
9. Stakeholders and key partners in each of the operational programmes believe there is strong alignment between the challenges identified and the proposed interventions for dealing with these challenges. But there remain concerns across the partnership about inadequate consideration of poverty, capacity building (for the third sector) and social exclusion. The consultative process is reflected well over the course of developments, where the concerns expressed in earlier feedback is properly reflected. This includes, for example, recognition of the consensus that the Highlands & Islands should be considered separately in administrative and operational terms, and the inclusion of additional partners over time.

10. Within EAFRD, the focus on delivering on the EU Rural Priorities, and analysing SWOTs and needs on this basis involving the close collaboration of stakeholders, has ensured a high level of coherence.

11. Extensive consultation with stakeholders have taken place from a very early stage, including their inclusion in Working Groups on specific aspects of the proposed SRDP, including monitoring and evaluation, which have identified improvements over the workings of the SRDP for the previous period. In addition, two rounds of public consultation have taken place. Designers of the new programme have considered the best way of delivering parts of the SRDP where there is potential overlap with other ESI Fund operational programmes, such as the provision of business advice.

12. For the SRDP attention has been drawn to the requirement of proposed interventions to consider alternative mechanisms, a particular issue where support to businesses is designed to have both environmental and socio-economic impacts. However, ultimately the responsibility for the choice lies with the Scottish Government, but the reasons for that choice have to be transparent.

13. In conclusion, the evaluators recognise that, within each operational programme, there is detailed work to be completed in terms of implementation planning which will help iron out the remaining gaps in information and inconsistencies in analysis. There have been some issues in the way the programme has been developed with both pros and cons identified which will be covered in the full evaluations. The consultations and further documentary reviews show there is widespread support for the strategy being followed, albeit with some reservations. The Partnership Agreement and operational Programmes as they stand correctly identify the key barriers to achieving Europe 2020 objectives in Scotland and prioritises actions to address them.

## 1.3 Selected thematic objectives, and for each of the selected thematic objectives a summary of the main results expected for each of the ESI Funds

| Needs | Opportunities | Thematic Objective | Specific Objective(s) | Main Results ERDF | Main Results ESF | Main Results EAFRD | Main Results EMFF |
|---|---|---|---|---|---|---|---|
| • Increase commercialisation and take-up of R&D&I and regional requirement for R&D&I capacity increase;<br>• increase business demand for R&D&I support and investment;<br>• Increase industry/science partnerships in fisheries and aquaculture | • key sectors in life and health sciences, chemicals<br>• strong links to sustainable growth through renewable and low carbon technology innovation, and circular economies<br>• Digital sector and services growth<br>• Improve knowledge-based regulation and management | (1) Strengthening research, technological development and innovation | • To increase R&D spending in Scotland and develop a stronger culture of innovation within enterprises. | • Increase in the number of innovative enterprises as a % of all businesses in Scotland<br>• Increase in the number and value of academic spin-offs<br>• Additional leverage BERD (Business Expenditure on Research and Development)<br>• Increase in turnover from innovative investments in companies | | • Increase in turnover from innovative investments in food and drink sector<br>• Deliver new approaches to agricultural land management through innovation | • Increase in turnover from innovative investments in companies<br>• Deliver new approaches to fisheries and aquaculture management through innovation<br>• Development of new IT-based businesses in coastal fisheries areas, reducing reliance on expensive transport and haulage links |

| Needs | Opportunities | Thematic Objective | Specific Objective(s) | Main Results ERDF | Main Results ESF | Main Results EAFRD | Main Results EMFF |
|---|---|---|---|---|---|---|---|
| • To enhance ICT access in remote areas to avoid the competition gap and social inclusion | • Remote service delivery, particularly telehealth<br>• IT dependent sectors such as creative and data management and -mining | (2) Enhancing access to, and use and quality of, ICT | • To enhance the opportunity for economic and social growth in areas with a lack of provision | • Decrease in the % of population without broadband access of at least 30 mbps<br>• Decrease in the % of businesses without broadband of at least 30 mbps | | • Decrease in the % of population without broadband access of at least 30 mbps<br>• Decrease in the % of businesses without broadband access of at least 30 mbps | |

| Needs | Opportunities | Thematic Objective | Specific Objective(s) | Main Results ERDF | Main Results ESF | Main Results EAFRD | Main Results EMFF |
|---|---|---|---|---|---|---|---|
| • Lack of available business finance<br>• Increase growth and export readiness/ambitions of SMEs<br>• Support diversification and sustainability in fragile areas | • Large SME base to target<br>• Quality of Scottish produce and products, including marine products<br>• Increased adoption of digital technology, including SMART technology to enhance competitiveness<br>• Micro and traditional business growth in rural and coastal areas | (3) Enhancing the competitiveness of small and medium-sized enterprises, the agricultural sector (for the EAFRD) and the fisheries and aquaculture sector (for the EMFF) | • To increase export growth into high growth emergent markets, and diversify the export base<br><br>• Higher number of growth businesses<br><br>• Maintain and improve viability of rural and marine businesses | • Increase in the number of growth SMEs<br>• Increase in the number of FTEs in supported enterprises<br>• Increase in the number of SMEs obtaining risk capital finance<br>• Increase in the number of SME's taking on new/additional employees | | • Increase in the number of FTEs in supported enterprises<br>• Increase in number of new entrants to farming | • Increase in sustainable aquaculture production of finfish and shellfish<br>• Increase in the number of FTEs in supported enterprises<br>• Fleet restructuring and modernisation delivered through financial investments, supporting CFP reform obligations<br>• Increase rate of new business start-ups in fisheries areas |

| Needs | Opportunities | Thematic Objective | Specific Objective(s) | Main Results ERDF | Main Results ESF | Main Results EAFRD | Main Results EMFF |
|---|---|---|---|---|---|---|---|
| • Continue decrease in GHG emissions<br>• Low carbon investment projects often high risk or not investor ready<br>• Address modal shift in transport usage | • Significant potential for renewables, including marine and tidal<br>• Existing expertise in energy and off-shore engineering | (4) Supporting the shift towards a low-carbon economy in all sectors | • Decrease in greenhouse gas emissions through uptake of environmentally friendly transport modes<br><br>• Exploit opportunities for low carbon economy, supply chain growth and development in low carbon communities | • Increase in MW renewable energy generation<br>• Increase in the number of low carbon products , services and processes<br>• Increase in the number of low carbon communities<br>• Increase in use of public and active transport modes<br>• Increase in the use of alternative transport fuels | | | • Increase in the Blue Growth developments established, particularly marine biomass for energy purposes<br>• Increased use of renewable energy generation in aquaculture and processing & marketing |

| Needs | Opportunities | Thematic Objective | Specific Objective(s) | Main Results ERDF | Main Results ESF | Main Results EAFRD | Main Results EMFF |
|---|---|---|---|---|---|---|---|
| • build resource efficiency in all industrial and commercial sectors<br>• Improve the condition of Scotland's natural assets (designated sites, water quality, abundance of breeding birds, forest and peatland) and its marine environment<br>• Mitigating the impact of Climate Change | • Exploit the opportunities for "blue growth" from marine resources<br>• A circular economy could give rise to new re-use and re-purposing industries<br>• Maintain and increase public goods and competitive advantage from high quality nature | (6) Environment / resource efficiency | • To create more resource efficient enterprise and grow re-processing and re-manufacturing industries<br><br>• To maintain and improve the condition of Scotland's environments<br><br>• To contribute to climate change prevention and mitigation | • Increased energy efficiency and reduction of waste generated in business | | • Increased number of farms accessing advice to reduce energy and waste consumption<br>• Improvement in the condition of Scotland's protected natural and historical sites and its marine environment<br>• Increase in woodland and farmland supporting biodiversity or improving water management or soil management<br>• Increase in the area of woodland and farmland contributing to carbon sequestration<br>• Reduction in agricultural emissions of methane and nitrous oxide | • Increased energy efficiency and reduction of waste generated in business |

| Needs | Opportunities | Thematic Objective | Specific Objective(s) | Main Results ERDF | Main Results ESF | Main Results EAFRD | Main Results EMFF |
|---|---|---|---|---|---|---|---|
| • Unemployment, esp youth unemployment• Skills loss from long term unemployment• target groups and minorities under-represented in labour market• Increase skills and employability in target groups and areas• Decrease number of workless households | • Growth in areas which are stagnating through investment in human capital | (8) Promoting sustainable and quality employment and supporting labour mobility; | • To improve access to labour market opportunities for the unemployed and disadvantaged groups | | • Decrease in unemployment, especially amongst the 16-24 age group<br>• Increase in the number of young people in education, training or work<br>• Increase in the level of skills attained for supported beneficiaries • Increase in the number of graduates in positive destinations • Increase in digital literacy and advanced digital skills | | |
| • Areas of concentrated disadvantage/poverty/ fragility<br>• Prolonged deprivation/ workless households<br>• Risk of rising inequality<br>• Digital exclusion in target areas and demographies | • Link to higher and technical skills to minimise exclusion over the long-term<br>• Improvement/expansion in local services/infrastructure within communities (Leader) | (9) Promoting social inclusion, combating poverty and any discrimination; | • To alleviate inequality, disadvantage and poverty | | • Decrease in population in poverty or facing multiple complex needs | • Improvement in rural community capacity | • Improvement in rural community capacity |

| Needs | Opportunities | Thematic Objective | Specific Objective(s) | Main Results ERDF | Main Results ESF | Main Results EAFRD | Main Results EMFF |
|---|---|---|---|---|---|---|---|
| • Structural skills gap between high and low skills<br>• Decreasing demand for low skills base and changing skills demands for future industries | • Skills shortages in key sectors including oil and gas, and particularly mid to high skills<br>• Skills needs can be directly linked to growth sectors in each region | (10) Investing in education, training and vocational training for skills and lifelong learning | • To increase skills of individuals to support the development of key growth sectors | | • Increase in medium to higher level skills attainment, particularly for key sectors<br>• Increase options for post-16 education, particularly technical and vocational options • Reduction in the employment rate gap between low-skilled workers and non low-skilled workers | | |

## 1.4 THE INDICATIVE ALLOCATION OF SUPPORT BY THE UNION BY THEMATIC OBJECTIVE AT NATIONAL LEVEL FOR EACH OF THE ESI FUNDS, AS WELL AS THE TOTAL INDICATIVE AMOUNT OF SUPPORT FORESEEN FOR CLIMATE CHANGE OBJECTIVES

**1.4.1 Table: The indicative allocation of support by the Union by thematic objective at national level for each of the ESI Funds (EUR) (total Union support, including the performance reserve).[284]**

| | ERDF €m | ESF €m | EAFRD €m [285] | EMFF €m [286] | TOTAL €m |
|---|---|---|---|---|---|
| 1. Strengthening research, technological development and innovation | 100 | 0 | 7 | TBC | 107 |
| 2. Enhancing access to, and use and quality of, information and communication technologies | 46 | 0 | 6 | TBC | 52 |
| 3. Enhancing the competitiveness of small and medium-sized enterprises, the agricultural sector (for the EAFRD) and fisheries and aquaculture sector (for the EMFF) | 135 | 0 | 92 | TBC | 228 |
| 4. Supporting the shift towards a low-carbon economy in all sectors | 129 | 0 | 0 | TBC | 129 |
| 5. Promoting climate change adaptation, risk prevention and management | 0 | 0 | 0 | TBC | 0 |
| 6. Protecting the environment and promoting resource efficiency | 55 | 0 | 782 | TBC | 837 |
| 7. Promoting sustainable transport and removing bottlenecks in key network infrastructures | 0 | 0 | 0 | TBC | 0 |
| 8. Promoting sustainable and quality employment and supporting labour mobility | 0 | 170 | 0 | TBC | 170 |
| 9. Promoting social inclusion, combating poverty and any discrimination | 0 | 89 | 47 | TBC | 136 |

[284] All allocations set out in this table have been subject to rounding so may not total up.
[285] EAFRD allocations in this table include voluntary modulation.
[286] EMFF is an UK wide programme. The details of the thematic objective breakdown for EMFF is solely set out in the UK chapter.

| | ERDF €m | ESF €m | EAFRD €m [285] | EMFF €m [286] | TOTAL €m |
|---|---|---|---|---|---|
| 10. Investing in education, training and vocational training for skills and lifelong learning | 0 | 149 | 0 | TBC | 149 |
| 11. Enhancing institutional capacity and an efficient public administration | 0 | 0 | 0 | TBC | 0 |
| Technical Assistance | 9 | 8 | 10 | TBC | 28 |
| **Total** | 476 | 417 | 946 | TBC | 1,841 |

## 1.5 THE APPLICATION OF HORIZONTAL PRINCIPLES AND POLICY OBJECTIVES FOR THE IMPLEMENTATION OF THE ESI FUNDS

### 1.5.1 ARRANGEMENTS FOR THE PARTNERSHIP PRINCIPLE (WITH REFERENCE TO ARTICLE 5 CPR) (ARTICLE 14 (1) (C) CPR), INCLUDING AN INDICATIVE LIST OF PARTNERS AND A SUMMARY OF THE ACTIONS TAKEN TO INVOLVE THOSE PARTNERS

1. In accordance with Article 5 of the CPR, the Partnership Agreement has been developed with direct involvement from a wide range of stakeholders ensuring input from those with interest and involvement in particular funds and those with a broader policy perspective.
2. A Stakeholder Engagement Group was established early in 2012 and met regularly to review progress on all ESI Funds, comment on drafts and be involved in further working groups established to progress work on the thematic objectives in particular. These working groups involved a broader range of stakeholders with direct involvement in particular themes, including social, civic an environmental partners, economic interests and knowledge institutions alongside public bodies. These groups have been directly involved in suggesting and refining the major interventions and schemes around which the Operational Programmes will be established. A list of members of the Stakeholder Engagement Group is included in the Annexes.
3. In addition to this group, a number of working groups were established to concentrate on particular fund issues, the results of which were combined to effect the development of the Partnership Agreement. These covered:

- SRDP Groups – a number of groups involving stakeholders reviewing lessons learned, scheme operation, application systems;
- Lessons learned from current Programmes;
- Simplification Agenda;
- Indicators; and
- Sustainable Development.

4. A separate EMFF stakeholders group was established at the start of 2012 to guide the developments of the Scottish elements of the UK Operational Plan, starting with the SWOT.
5. An Equalities Group is being established which will incorporate academics, stakeholders and policy leads who will input into the design of proposals under the Operational Programmes, monitor and evaluate. In addition to these groups, a number of technical assistance projects were approved that fed directly into the development work which covered particular policy areas such as gender equality, third sector involvement, Roma Inclusion, lessons learned in the Highlands and Islands and Community Planning Partnership Management systems. These were all directly monitored by stakeholders.

**Added Value of Partnership**

6. The nature of the governance proposals highlighted in section 2 has required strong input from stakeholders identified as leading the key activities and interventions to be funded. Partnership arrangements were put in place to develop both delivery mechanisms and policy direction from May 2013, and this intensive engagement has helped shape the final Partnership Agreement and the Operational Programmes to ensure these are fit for purpose and focused on the things which will deliver EU 2020 goals; and to ensure that both Managing Authorities and partners are prepared for the launch of the programmes.

**Wider Involvement**

7. During the early development stages, a Future Funds blog was established to update Structural Funds stakeholders, invite comment and discussion with newsletters and surveys also posted. The Scottish Government also used the SRDP website to update stakeholders on EAFRD proposals. The fisheries sector has been actively involved in developing the EMFF proposals through the Stakeholder Group, and also through Scottish sectoral representation in the EFF UK PMC, with PMC members feeding back to / taking thoughts from their constituent groups.
8. Consultation on the Partnership Agreement was undertaken, in conjunction with the Operational Programme consultations on each fund, during May to early July 2013 and again in December 2013-February 2014, as well as through roadshows and the websites. 305 responses across both consultations were received with strong agreement with wider proposals for stronger integration and strategic implementation. A summary of responses:

- Recognition of the need for more strategic cooperation amongst public agencies;
- Clarification on how the funds integration proposals would work in practice;
- Lack of agreement that crofters should be restricted from applying to wider schemes;
- Acknowledgement that integration beneficial but that it should streamline and not result in further bureaucracy;
- Need to ensure specific needs of Highlands and Islands are accommodated in proposals;
- More strategic direction welcomed but still need these to respond to regional and local needs;
- Concern that Sustainable transport should be supported;
- Need to be more explicit about how Youth Employment/Health Inequalities/Active Ageing issues were being tackled; and
- Support for simplification and unit and standard cost models.

9. These responses have been carefully considered, and have been woven into proposals where possible. For example, the strategic intervention proposals which form the basis of programming have been tested with regional partners, to ensure Scotland wide interventions can reflect and respond to local and regional needs. Sustainable transport measures have also been incorporated specifically in recognition of their contribution towards the development of a low carbon economy.

## 1.5.2 PROMOTION OF EQUALITY BETWEEN MEN AND WOMEN, NON-DISCRIMINATION AND ACCESSIBILITY (WITH REFERENCE TO ARTICLE 7 OF CPR)

1. The Scottish Programmes will have a “twin-track” or dual approach to promoting and mainstreaming equality, including gender equality, non-discrimination and accessibility by combining scope for positive action through discrete projects which have a focus on addressing inequalities; and mainstreaming – a requirement that all funded projects evidence they address equality, non-discrimination and accessibility in their project activity. Mainstreaming involves developing operating methods, procedures and practices to ensure funded activities promote equality.
2. In addition to the promotion of positive action projects which specifically tackle inequality, discrimination and accessibility in the labour market, entrepreneurship, R&D and training, an equality perspective will be mainstreamed into Programme planning, preparation, implementation, monitoring and evaluation.
3. An equal opportunities working group is being established for the 2014-2020 programmes, and this group will bring together representatives of key equality organisations, project sponsors with experience in mainstreaming equality and tackling discrimination and accessibility issues and also staff from the Scottish Managing Authorities for structural funds and rural development. This group will help to develop a mainstreaming strategy and guidance for the 2014-2020 programmes, in conjunction with evidence from evaluations of mainstreaming equality in the current programmes.

## 1.5.3 SUSTAINABLE DEVELOPMENT (WITH REFERENCE TO ARTICLE 8 OF CPR)

1. Sustainability is fundamental to Scottish Government’s purpose of enabling Scotland to flourish. It recognises that the objective of sustainable economic growth will be shared by all Scotland’s people, helping to secure a high quality environment and a sustainable legacy for future generations. The Government’s updated Economic Strategy promotes economic growth and environmental responsibility as mutually reinforcing.
2. Scotland’s Environment Web reports the state of our environment as being generally good. Implementation of environmental legislation including the Water Framework Directive has seen significant improvements in water quality. Significant concerns remain; these include localised air pollution, diffuse pollution affecting water and soils, increases in waste, and loss of biodiversity. These affect human health, our wildlife and our economic welfare. The funding programmes will address these issues, as well as contributing to protection of the water environment as set out in the Water Environment Water Services Act.
3. The most significant environmental challenge is climate change. Scotland has ambitious targets for reducing greenhouse gas emissions under the Climate Change (Scotland) Act 2009. Energy efficiency in all sectors and behavioural change will be important to

help Scotland achieve its targets, and investments across all Funds will need to address this. The Scottish Adaptation Programme, to be published in 2013, will set out Scottish Ministers' strategic approach to climate change. In addition to the 20% of the funds that will be allocated to climate change measures, all investments will take Scottish Government priorities of climate change into account. Land use, including woodland and peatland restoration, is essential for reducing emissions and building the capacity to store carbon.

4. The Scottish Government is committed to the national resource efficiency strategy, Safeguarding Scotland's Resources, which sets out priorities for efficient use of resources with reference to the environment and the economy. Investments will address the priorities set out in the national resource strategy and will contribute to delivering Scotland's Zero Waste Plan. This will include using materials efficiently, avoiding waste and reusing products because they deliver significant benefits, both financially and environmentally.

5. The Scottish Government is committed to the EU goal of halting biodiversity loss and the degradation of ecosystems by 2020, and seeking their restoration. Our 2020 Challenge aims to increase biodiversity on land and in our seas, and support healthy ecosystems, maximising the benefits of a diverse natural environment and the services it provides. Protected places, such as those identified as part of the Natura 2000 network, are key parts of healthy ecosystems. The Scottish Government target is to bring the Natura network and all other designated nature conservation sites into favourable condition.

6. Scotland's seas are economically productive with a wide range of human activity depending on them. They are generally clean and safe. They support a diverse array of habitats and contain nationally and internationally important species. There are two key pressures on Scotland's marine environment that are both significant and widespread – the effects of climate change and the impacts of fishing on marine species and habitats.

7. Climate change increases certain environmental risks, most notably flooding, but is also linked to the introduction and spread of non-native species and introduced animal and plant diseases. Plant health controls in Scotland are based on the EU Plant Health Regime. They control the import, movement and trade in plants and they include measures to control the spread of pests and diseases. The Scottish Government wishes to encourage everyone to take responsibility for biosecurity to avoid the devastating effects of animal disease. This is vital in terms of controlling and eradicating any notifiable diseases, and more generally in terms of maximising livestock health, welfare and productivity in Scotland. This principle applies equally to Scotland's aquaculture sector, where some of the proposed innovation measures in EMFF are likely to have a significant positive impact, not only in health and welfare but also in areas such as climate change, environmental impact and feed sustainability.

8. The principles of sustainable development and resource efficiency, and the priorities set out above will be delivered by a dual approach across the ESI funds: by mainstreaming sustainability across all projects, and through specifically funded actions within the Thematic Objectives. All Programmes must be able to demonstrate that the economic, social and environmental impact has been considered; that environmental integration requirements are fully realised and the opportunity to maximise positive impacts are explored. Investments will be required to meet nationally recognised environmental benchmarks, for example, BREEAM Excellent and FSC timber. The fisheries and aquaculture sectors are increasingly embracing independently accredited certification schemes, and this trend will continue, with EMFF support, towards 2020.

9. In line with the polluter pays principle, programmes will not make payments for complying with established environmental legislation or to support any action that is a cross-compliance requirement. Where EU regulations permit, however, consideration will be given to supporting, over a strictly limited period, the investment that businesses

may need to make to enable them to comply with any new and higher regulatory requirements. Support for improved knowledge of, and ability to work with, environmental regulations, such as EIA, are envisaged for the EMFF Programme

10. Use of green public procurement guidance will apply across all the Funds. Where contract values exceed the EU procurement threshold, the EU procurement directives will help ensure avoidance or reduction of environmentally harmful effects of interventions.

### 1.5.4 Horizontal Policy Objectives

1. The horizontal themes of equality, non-discrimination and sustainable development will form the key focus for the implementation of the 2014-2020 programmes. However a number of additional horizontal policy objectives will be monitored focussing on:

**Innovation**

2. Innovation will be encouraged across all the thematic objectives with access to funding made available to encourage, test and pilot new ideas. This will especially be visible under the low carbon economy, education and skills, environment and resource efficiency and social inclusion and combating poverty. Social innovation will be treated as a horizontal policy across all actions pursued under the latter thematic objective and access to funding will provide an impetus to new approaches.

**Resource efficiency**

3. The ESI funds in Scotland will promote the practical implementation of resource efficiency measures within all investments, in particular those made under smart growth. Businesses that receive support will gain access to information and advice to encourage resource efficiency to form a natural part of the business growth support package.
4. These will be reflected across the thematic objectives with practical implementation measures put in place to enable success.

# 2 ARRANGEMENTS TO ENSURE EFFECTIVE IMPLEMENTATION - ARTICLE 15 (1) (B) CPR

## 2.1 The arrangements, in line with the institutional framework of the Member States, that ensure coordination between the ESI Funds and other Union and national funding instruments and with the EIB

1. Effective co-ordination and fuller integration of actions across the ESI funds and with other EU and national funding is fundamental in providing a more strategic approach to meeting the common aims and objectives set out in the Partnership Agreement for Scotland. In Scotland alignment is taken to mean one of three options: integration, for example where policy aims an target groups for investment are shared; effective demarcation, recognising the correct role for each fund either by type of area, by activity or by project scale; or complementarity and recognition of the very specialist role of some funds, e.g. specific environmental focus or urban focus, or the scale of skills

delivery. The delivery arrangements and mechanisms focus on a thematic rather than a fund/sectoral approach where possible .

2. The recognition that the funds can provide greater impact when combining and/or aligning to effect change and better outcomes for Scotland has resulted in a common approach to planning Programmes, structured around the 2020 themes of 'smart, sustainable and inclusive'. An extensive partnership process involved over 80 organisations in directly proposing, refining and recommending to Ministers the few ideas of scale and significance which would genuinely have an impact on Scotland's ability to deliver Europe 2020.
3. The Operational programmes will be designed around these 'strategic interventions' - projects, programmes or schemes of significant financial scale led by organisations with the capability and scale to manage the EU audit obligations and deliver significant outcomes (Lead Partners). These strategic interventions are considered to be the best opportunities to use ESI Funds to effect appropriate sustainable structural economic and social change. The strategic interventions will generally be long-term, and will be implemented over a number of years and in some cases over the life of the ESIF programmes.
4. The strategic interventions will be expected to have considerable scale, momentum and impact, and provide stable platforms around which significant co-financing and match funding can be committed over extended periods. There are risks with long term strategic interventions; the anticipated outcomes may not be achieved, the match funding may not be available for the entire life of an intervention, and different economic issues and priorities may emerge. Therefore, to ensure the Operational Programmes focus on delivering results and outcomes over the lifetime of the programmes there will be a significant review point, circa 2017, for the programmes. This means that most strategic interventions will be phased so that funds are not committed beyond the review point, (excepting those which incur long-term contracts such as agri-environment schemes) and the programmes can be re-orientated if appropriate.
5. A single Joint Programme Monitoring Committee covering all four EU funds will provide strategic direction and oversight of the separate programmes. Its role will be to ensure all programmes work towards the common strategic framework and shared objectives articulated in the Partnership Agreement. In relation to the EMFF, the Committee may play a role in reporting to the overall UK Committee. The Monitoring Committee will be chaired by the Managing Authorities and contain broad stakeholder representation. Precise regional arrangements for managing the Marine Fund in Scotland have yet to be agreed with the UK Government as the Managing Authority for this UK programme.
6. In addition to the Monitoring Committee, fund specific management fora will be developed for the wide group of stakeholders interested in each EU fund; and where detailed management and assessment is required. Specific regulatory tasks may be formally sub-delegated by the PMC to these groups where appropriate, and where agreed with The Commission. The views from these fora would be reported as appropriate to the JPMC on a regular basis.
7. Information and guidance on the ESI funds and wider EU funding opportunities will be accessible via a website gateway affording stakeholders a clear overview of the role of the different ESI Funds in Scotland. Opportunities for further integration are being explored including the promotion of case studies and best practice and news/updates.

**Co-ordination of the ESI funds with other Union and National Funding Instruments and the EIB**

8. The new regulatory framework provides many opportunities to work in a complementary manner with a range of instruments, both national and EU. A range of complementary

domestic policy instruments will be used to maximise the benefits of the ESI funds and include for instance those associated with the Youth Employment Strategy, Skills for Scotland, Community Empowerment proposals, Digital Scotland 2020, the National Food and Drink Policy, the Strategic Framework for Scottish Aquaculture amongst others.

9. The approach to innovation will require full consideration of the offer alignment with the opportunities afforded through Horizon 2020. The focus on Scotland's Smart Specialisation Strategy will provide synergies with Horizon 2020 and Creative Europe through the focus on Scotland's greatest potential growth sectors and technologies, whilst the focus on SME competitiveness will align with the opportunities through COSME. The new Innovation Centres being created by the Scottish Funding Council, with industry partnership, will also be an important aspect of the innovation 'mix'.
10. Resource efficiency is considered a horizontal policy objective for the Scottish Partnership Agreement and the intention is to use LIFE Environment and Climate Action funds to assist in moving this agenda forward alongside the focus on agri-environment in EAFRD. There are also many potential opportunities for synergy with the Green Infrastructure plans.
11. Maximising the use of the Erasmus for All programme to draw talented individuals to Scotland will be an important opportunity, especially with the range of skills requirements highlighted to complement the growth sectors and the low carbon transition interventions. Erasmus for All could also offer Scottish people the opportunity to learn new skills abroad, thereby broadening the skills set availbale to employers in Scotland.
12. In relation to coordination, the delivery partnerships through which the Scottish strategy for ESI Funds has been developed has helped build in joint working from the start, for example providing an opportunity to see innovation, skills and SME competitiveness as a combined endeavour rather than single programme strands; and allowing regional partners to provide strategic and local responses and solutions within national initiatives and so avoid duplication. As highlighted previously, a Joint Programme Monitoring Committee will be formed to monitor progress of all the ESI Funs and their contribution to the targets and objectives set out in this document. Furthermore, a portal is under development through a partner organisation whereby key information easily accessible across all the ESI funds and relevant information on other EU funds such as Horizon 2020 and ETC is available in a single location.

## 2.2 THE INFORMATION REQUIRED FOR EX ANTE VERIFICATION OF COMPLIANCE WITH THE RULES ON ADDITIONALITY (BASED ON ARTICLE 95 AND ANNEX X CPR)

1. Not applicable – see corresponding section in UK chapter.

## 2.3 A SUMMARY OF THE ASSESSMENT OF THE FULFILMENT OF APPLICABLE *EX ANTE* CONDITIONALITIES IN ACCORDANCE WITH ARTICLE 19 AND ANNEX XI AT NATIONAL LEVEL AND OF THE ACTIONS TO BE TAKEN, THE RESPONSIBLE BODIES, AND THE TIMETABLE FOR THEIR IMPLEMENTATION, WHERE *EX ANTE* CONDITIONALITIES ARE NOT FULFILLED

1. Not applicable - see corresponding section in UK Chapter.

## 2.4 THE METHODOLOGY AND MECHANISM TO ENSURE CONSISTENCY IN THE FUNCTIONING OF THE PERFORMANCE FRAMEWORK IN ACCORDANCE WITH ARTICLE 21 OF THE CPR

1. Not applicable - see corresponding section in UK Chapter.

## 2.5 AN ASSESSMENT OF WHETHER THERE IS A NEED TO REINFORCE THE ADMINISTRATIVE CAPACITY OF THE AUTHORITIES INVOLVED IN THE MANAGEMENT AND CONTROL OF THE PROGRAMMES AND, WHERE APPROPRIATE, OF THE BENEFICIARIES, AS WELL AS, WHERE NECESSARY, A SUMMARY OF THE ACTIONS TO BE TAKEN FOR THIS PURPOSE

1. The Scottish Government acts as Paying Agency and Managing Authority for the ESI Funds. Structural Funds Division have brought the functions previously delegated to Intermediate bodies in-house to ensure the expertise to manage the Funds is retained in the long term. The Agriculture, Food and Rural Communities Directorate has integrated its policy and delivery units so that these remain well-aligned throughout the programme period.
2. In addition to bringing expertise together in-house, the Lead Partner delivery arrangements outlined in section 2.1 have been determined through the need for better alignment and co-ordination of the funds with national policy direction, particularly as Scottish programmes are relatively limited in size. It is also in response to lessons learned from the 2007-2013 programming periods and ensuring delivery organisations have the capacity and resources to administer the funds efficiently and effectively.
3. These issues arising from the evaluation work on lessons learned included:

- Difficulties with recording and accounting for costs especially for revenue based costs across the funds;
- Resources required for administration and audit was out of proportion with the size and scale of the projects and, in some cases, for the size of applicant;
- Procurement was under-utilised as a method of gaining best value and reducing administrative risk and burden;
- Strategic delivery models worked well in delivering strategic approach under the Structural Funds; and

- Better guidance and support for quality project development is required for EAFRD and EMFF.

4. By focusing the administrative requirements on the larger organisations with more experience and systems and using more effective administrative tools, as outlined in section 2.6, we will ensure that we have a more robust and effective control system, as well as the ability to better align EU an domestic funding initiatives aimed at the same outcomes.
5. It is also clear that guidance, staff training, national rules, eligibility criteria and IT systems must be ready for Programmes to commence, and must be clear about eligibility, the purpose of any support, the expected outcomes and the associated requirements around safe management of the Funds. Both EAFRD and Structural Funds will be supported by new IT platforms, both of which will allow better real time monitoring and reporting than 07-13 systems, and which in the case of the Rural build will also manage Pillar 1 of the Common Agricultural Policy.
6. Staff training forms an integral part of implementation and management plans. For Structural Funds, this will involve developing and training for new roles around managing relationships with Lead Partners, and ensuring that project management, compliance and verification is ongoing in support of the longer-term interventions foreseen.
7. For EAFRD, staff will be focused and specialised in assessing and assisting applicants, e.g. agricultural staff will assess agricultural applications, environmental agency staff will assess environmental applications, forestry experts will assess forestry applications, and experts on business development will assess business development applications. Joint teams will undertake integrated assessments where this is required to ensure the delivery of multiple benefits. LAG co-ordinators will be supported by central guidance and a facilitated network.
8. ESF and ERDF will utilise Technical Assistance to fund the new data management system, administration of the funds and evaluation work, including support for Lead Partners for any additional work they have not previously has to carry out in the course of Structural Funds administration. EAFRD will be using Technical Assistance to fund an expanded and improved National Rural Network, and to provide funding towards the overall cost of the new IT system.

## 2.6 A SUMMARY OF THE ACTIONS PLANNED IN THE PROGRAMMES, INCLUDING AN INDICATIVE TIMETABLE, TO ACHIEVE A REDUCTION IN THE ADMINISTRATIVE BURDEN FOR BENEFICIARIES

1. A range of improvements will combine to effect benefits across all the funds and especially offer more resource efficient delivery and allow more concentration on what is being delivered and how to best achieve the results and objectives we want and need from the ESI funds across Scotland. These will all be fully implemented an in place prior to programme commencement unless otherwise stated.

**National/Regional/Local/Community Planning**

2. The territorial model developed will assist major public sector agencies in combining efforts, reducing administration and working more effectively across the range of appropriate agencies and funds. This builds on work taking place for domestic funding and policy reasons, and will therefore be in place prior to programmes commencing.

**Increased use of procurement contracting and commissioning**

3. Delivery partnerships, LAGs and FLAGs will be encouraged to commission and contract as much as possible, and to avoid splitting the Funds into very small amounts. This allows the programmes to deliver more strategically and effect change more quickly, as well as keeping consistent and verifiable records of funding decisions. Guidance on the detailed operation of the model will be available in 2014.

**Use of lead partners**

4. A small number of lead partners will be charged with delivering the objectives of the Partnership Agreement nationally and locally. These organisations will utilise a range of options including direct delivery through their own schemes, contracting or open and transparent commissioning, and will be responsible for compliance with national rules and the Regulations throughout their delivery chain.The governance structures associated with this lead partner model will be developed in early 2014 for operation by mid 2014, and will include checks on the capability of potential Lead Partners to fulfil this role in accordance with Article 124 of the Common Provisions Regulation.

**Increased use of simplified cost options**

5. Arguably the greatest administrative burden has been on smaller projects and revenue projects which found it onerous to track a lot of the smaller costs associated with delivery to meet requirements. Widening the use of unit costs, especially for training and revenue projects, and increasing the variety of simplified cost options to extend to ESI funds outwith ESF will assist in refocusing efforts on delivery of outcomes, rather than tracking minute expenditure. A number of simplified cost models will be incorporated into the National Rules during 2014, and will be in place prior to programme commencement These will be variable by region for those areas with permanent geographical handicaps; and by client group, with increased rates of support available for harder-to-reach client groups.

**Increased use of financial instruments**

6. In the period 2014-2020, Financial Instruments will be considered for SME competitiveness, low carbon economy, ICT/Digital and R&D&I. however, there is also scope for financial engineering which would benefit social inclusion (e.g. through micro-credit) and potentially other policy areas as the programmes are subjected to mid-term reviews. There may also be potential for loan fund to help rural community groups and the third sector. Financial instruments could span all the funds and will be developed to work effectively across all sectors of interest , and cater for a broader range of businesses. The development of financial instruments will start in 2014 and it is expected that some will be operational by 2015.

**Improved IT systems**

7. The timetable for the new EAFRD IT system will see initial launch in 2016, with early support available for programme launch in 2015. Although this means not all aspects will be ready for the beginning of the programme, Scottish Government is ensuring that the transfer from the current IT system to the new is planned to ensure effective data migration can take place.
8. The Structural Funds system will be ready for programme implementation in 2014 and has been developed using lessons learned from pervious systems and provides a

platform for data exchange, data interrogation and reporting. It is designed around the concept of strategic interventions operated by Lea Partners, and in combination with simplified cost options should allow the automation of some verification checks, as well as better risk-based sampling for full compliance checks an visits.

**Improved guidance and support**

9. Improved guidance and support will be complete by the early summer 2014, prior to programme launches.

**Staff training**

10. Relevant staff training on all Funds will be delivered during 2014 prior to programme launches, and completed before the end of 2014. Refresher training will be offered throughout the programme period as required.
11. These tools and methods should result in a reduction in the administrative burden for both applicants and the Managing Authorities. These will be further enhanced through increased co-ordination across the funds, sharing of best practice and collective utilisation of the outcomes from a number of evaluations and studies supported through technical assistance.
12. A website to access information on all EU funds in Scotland is also under consideration. This may include an online basic enquiry system applicants can use to then be directed onward to the correct fund, scheme, lead partner, project etc. This should be up and running for the launch of the programmes.

# WELSH CHAPTER

## INTRODUCTION

1. This chapter details the challenges that Wales faces in the period 2014-20 and provides a strategic view of the interventions that the Welsh Government is proposing to implement in pursuit of its strategic vision of “a confident, ambitious and entrepreneurial Wales, prospering from sustainable economic growth.”
2. Wales is a nation of three million people living and working across a diverse range of geographical, social and economic conditions. Its unique geography, social and industrial makeup combines to create challenging conditions in which to stimulate economic growth. Wales still suffers lower Gross Domestic Product per head compared to the UK average and has relatively high levels of youth unemployment, economic inactivity and poverty. The country also faces large connectivity challenges derived from both poor physical and virtual connections which led to a disconnect between people, skills and the labour market that hampers growth. To address these issues the Welsh Government is identifying, and will implement, focused and tailored interventions with the aim of creating economic growth and sustainable jobs which are accessible across Wales.
3. Alongside challenges opportunities arise. The geographical landscape of expansive countryside and rugged coast line offers untapped natural resources lending itself well to wind and marine energy, small scale sustainable fisheries and aquaculture businesses, tourism and recreation. These natural resources combined with the fact that the Welsh Government was the first government to have a legal duty for sustainability. Sustainable Development is the Welsh Government’s central organising principle and has led to stringent targets to encourage growth in renewable sectors, recycling and to cut waste. As well as the sustainability opportunities, Wales has other areas it can exploit to help achieve the goal of sustainable growth and jobs including two developing City Regions and a growing base of research and technical expertise, offering advantages in exploiting excellence in innovation. It also benefits from a developing network of high speed ICT connectivity, a strengthening skills base and an increasing proportion of workers with high level skills.
4. The 2014-20 Welsh Programmes will help to address the fallout from the recession, the continuing long-term structural weaknesses in the economy, and connect people, skills and jobs. They will also support the overall Welsh Government aims of “healthy people living productive lives in a more prosperous and innovative economy; safer and more cohesive communities, with lower levels of poverty and greater equality; a resilient environment with more sustainable use of our natural resources and a society with a vital sense of its own culture and heritage.”[287]
5. To achieve the Welsh Strategic Vision for the ESI funds the Welsh Government will continue to focus its Programmes toward even more targeted interventions. Promoting high quality, aligned operations that are genuinely coordinated with each other, with wider domestic Programmes; and that support the regulatory Cross Cutting Themes (CCTs) of Equality, Sustainable Development and our additional CCT of Reducing Poverty and Social Exclusion. The central aim for the new Programmes will be to create an environment which will support economic growth and jobs. Interventions will take account of the evidence base, current regional policy and practice, research findings

[287] Further details at: http://wales.gov.uk/about/Programmeforgov/about?lang=en

and the views of partners and stakeholders in Wales. This approach will guarantee Wales gains the best possible results for its investments.

# 1 ARRANGEMENTS TO ENSURE ALIGNMENT WITH THE UNION STRATEGY OF SMART, SUSTAINABLE AND INCLUSIVE GROWTH AS WELL AS THE FUND SPECIFIC MISSIONS PURSUANT TO THEIR TREATY-BASED OBJECTIVES, INCLUDING ECONOMIC, SOCIAL AND TERRITORIAL COHESION (ARTICLE 15(1) (A) CPR)

## 1.1 AN ANALYSIS OF DISPARITIES, DEVELOPMENT NEEDS, AND GROWTH POTENTIALS WITH REFERENCE TO THE THEMATIC OBJECTIVES AND THE TERRITORIAL CHALLENGES AND TAKING ACCOUNT OF THE NATIONAL REFORM PROGRAMME, WHERE APPROPRIATE, AND RELEVANT COUNTRY-SPECIFIC RECOMMENDATIONS ADOPTED IN ACCORDANCE WITH ARTICLE 121(2) OF THE TREATY ON THE FUNCTIONING OF THE EUROPEAN UNION AND RELEVANT COUNCIL RECOMMENDATIONS ADOPTED IN ACCORDANCE WITH ARTICLE 148(4) OF THE TREATY ON THE FUNCTIONING OF THE EUROPEAN UNION

**Macro-economic context for Wales**[288]

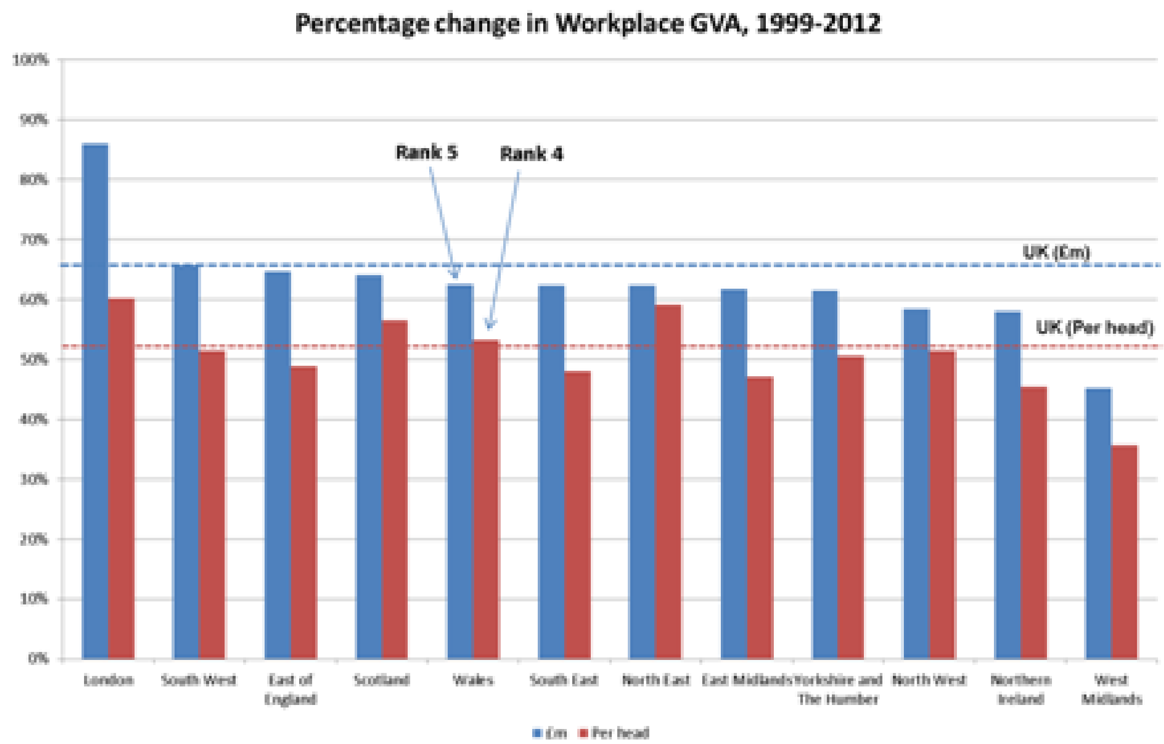
1. The socio-economic and SWOT analyses that underpin the development of the Welsh Programmes identify a range of opportunities that can be exploited and challenges that need to be overcome if Wales is to see growth in its economy and through that, the creation of sustainable job opportunities for its people.
2. Wales' population of 3.06 million is not evenly distributed across the country. The main population and industrial areas are in South Wales, an area which includes Wales' most populous cities of Cardiff (335,000 residents), Swansea (179,000) and Newport 128,000). These three cities, although relatively small, are important hubs and economic drivers for increasing prosperity in the adjoining areas.
3. The five South Wales Valleys Local Authority Areas generally demonstrate higher rates of deprivation and areas of the upper valleys have the highest relative concentrations of deprivation across Wales as a whole according to the Wales Index of Multiple Deprivation[289].
4. Much of Wales, particularly Mid and West Wales, is rural in nature which offers particular challenges in terms of connectivity, business structure and employment opportunities with agriculture providing a declining contribution to the rural economy.

[288] Further details at: http://www.ons.gov.uk/ons/rel/regional-trends/regional-economic-indicators/march-2013/regional-economic-indicators---march-2013.html
[289] Further details at: http://wales.gov.uk/statistics-and-research/welsh-index-multiple-deprivation/?lang=en

5. The urban industrialised border of Flintshire and Wrexham in the North East has well-developed links with parts of England particularly West Cheshire, Manchester and Liverpool. Commuting flows testify to these links as 31% of Flintshire's working residents work outside Wales and 17% of Wrexham's residents work outside Wales.

6. The peripherality of Wales, and West Wales and the Valleys in particular, is a feature shared by many regions across Europe where similar economic disparities can be seen. Between 2004 and 2010 gross domestic product per head expressed in purchasing power standard terms has fallen, relative to the EU27, in both Programme areas. In East Wales by 12% and in West Wales and the Valleys by 8%. This compares to with an average decline of 10% in the UK. This demonstrates that the falls experienced across Wales have broadly followed that of the UK as a whole; in fact, despite the recession, there has been some small level of convergence between Wales and the UK average. This compares to a historical picture in which, prior to 1999, disparities between Wales and the UK average were widening; since 1999 that widening gap has been halted and we are beginning to see the first signs of convergence. In terms of improvements in performance West Wales and the Valleys has been outperforming East Wales and the UK as a whole (albeit there is still a significant gap).

**Within UK, some Welsh convergence on GVA since devolution (big widening of gap took place in the 1990s):**




7. Developments in GDP per head and employment partly reflect the impact of the global recession and financial crisis of 2008/2009 which continue to affect the world economy and the economy of West Wales and the Valleys. The UK economy suffered a deeper downturn than the EU27 but within the UK there is evidence that Wales suffered a deeper recession to the UK average.[290]

8. Gross Value Added (GVA, which is similar to GDP) per head in Wales between 2010 and 2012 was approximately £6,000 lower than GVA per head in the UK. The majority

[290] Welsh private sector output dropped by 12% compared with an average of 8% across the UK.

of this gap is explained by lower value added per job (broadly speaking productivity). A lower employment rate, net out-commuting and a relatively high dependency ratio also contributed to the gap in GVA per head.

9. The productivity gap is influenced by: an adverse industrial structure / mix; poor skills mix; a lack of agglomeration effects (where firms gain benefits from proximity to other firms or a large urban economy); lower levels of capital investment; lower levels of business innovation; and lower levels of management skills and experience.

10. Comparing rural Wales to Wales as a whole we find that Gross Value Added is below average, although this may be influenced by the industrial structure of rural Wales having a higher proportion of low-productivity employment. Rural Wales has high numbers of SMEs and self-employment but there is some evidence that this may be a reflection of limited alternative employment opportunities rather than entrepreneurship. Economic activity and employment are above average but within that public sector employment and part time employment are also higher than average. Overall qualification levels are high in rural Wales. It may be difficult to retain young workers including graduates, as demonstrated by migration data, but the data does show net inward migration of older workers who may also be highly skilled. Earnings are below the Welsh average but incomes are around the average suggesting other sources of income.

11. In Wales there are several challenges facing coastal and maritime areas. For the fisheries sector there are gaps in data and inshore fisheries management and enforcement could benefit from additional resource. The fisheries sector which is comprised mainly by small scale coastal vessels is fragmented and challenges remain in managing fisheries interactions with environmentally sensitive areas. It will be important to retain knowledge within the sector while addressing the need to reform the CFP. Opportunities for the fisheries sectors include innovation in cost reduction and value adding strategies including through pilot trials and incentives to adopt new gear in relation to discards and achieving maximum sustainable yield (MSY), and improving knowledge regarding small scale coastal fisheries interactions with sensitive marine environments. The aquaculture sector in Wales faces limitations on the amount of available sites for their activities as production increases. The industry is also vulnerable to health, disease and water quality challenges. Costs are rising which leaves the sector open to low cost imports from third countries. The sector is also fragmented and suffers from a lack of coordination. However opportunities include improved co-ordination across the industry, increasing the sharing of best practice and giving the industry a unified voice, and collaboration with other marine industries along with innovation operations into diversification, such as renewables as a means of growing the industry.

# SMART GROWTH

## INVESTMENT IN R&D&I

12. In addressing the Europe 2020 target and supporting productivity growth through research and innovation, Figure 71 indicates a particular gap in Wales caused by lower levels of **Business Expenditure on Research and Development (BERD).** The Lisbon agenda identified that two thirds of expenditure on R&D should come through private investment[291]; a target met by the UK and EU averages but, a result of the reasons outlined in the supporting socio-economic analysis and ERDF Operational Programmes, not by Wales (at 46% BERD compared to the UK average of 66%).

[291] Agreed at European Council, Barcelona, 2002: http://cordis.europa.eu/search/index.cfm?fuseaction=prog.document&PG_RCN=6319877

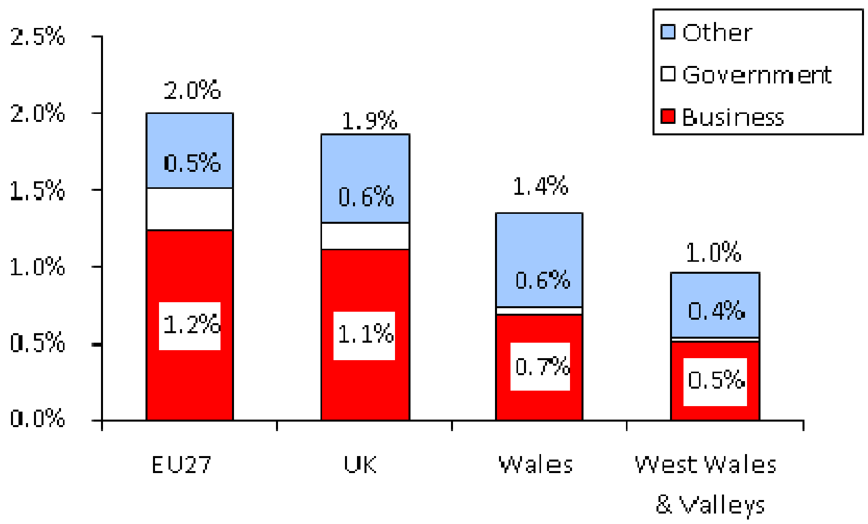



**Figure 69: Research and Development (%of GDP, 2009)**
*Source: Eurostat*

13. The strong advantage in **innovation** set out in the UK chapter is not equally distributed across the UK. While Wales has its own set of innovation advantages compared to other European regions, such as a well developed higher education sector and some internationally renowned industries,[292] and is identified as an "innovation follower" in the Regional Innovation Scoreboard[293] it is still lagging behind other parts of the UK. The challenges and opportunities set out in the UK policy *Innovation and Research Strategy for Growth*[294] are equally valid for Wales, but Wales is not at the same starting point as the other parts of the UK, all of which lag behind the South East of England. The Welsh Smart Specialisation strategy is composed of two core strategies in *Science for Wales*[295] and *Innovation Wales*[296]*,* both of which take a more nuanced look at specific challenges and opportunities within Wales to ensure that the Welsh Government can target both those areas where disparities exist and also build on existing strengths (through the smart specialisation process) to be an integral part of the world-class UK innovation and research systems.

14. In regard to **commercialisation of research** Wales faces challenges of peripherality and the knock-on effect of less R&I investment happening in Wales, though there are also distinct advantages in terms of encouraging inward investment in R&D&I; for example a lower cost of living and better quality of life, advanced manufacturing capabilities, and existing and emerging areas of smart specialisation. These are identified as part of the Smart Specialisation strategy and demonstrate specific expertise in skills, research, clusters and supply chains; some are set out in the table below (generally drawn from 2012/13 report on Science for Wales). Developing and maintaining these areas of excellence, in particular attracting and retaining high growth businesses also relies on an improvement in research and connectivity infrastructure attracting more "head office" functions to Wales.

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[292] Innovation Wales
[293] Regional Innovation Scoreboard (2012): http://ec.europa.eu/enterprise/policies/innovation/policy/regional-innovation/index_en.htm
[294] Further details at: https://www.gov.uk/government/publications/government-innovation-and-research-strategy
[295] Further details at: http://wales.gov.uk/topics/businessandeconomy/publications/130319sfw/?lang=en
[296] Further details at: http://wales.gov.uk/topics/businessandeconomy/innovation/?lang=en

15. Farming stands to gain as much as any commercial venture from research, but there is also evidence of slow uptake of the results of research, innovation and best practice, and a wide gap between top and bottom quartile performers. There are opportunities to bring the research bodies closer to the farmers and encourage a quicker and more general uptake.
16. Examples of smart specialisation identified in Welsh Smart Specialisation strategy (illustrative only – the specialisation areas and illustrative areas will be subject to continuous review and entrepreneurial discovery and are not intended to be exhaustive. They do not represent pre-selected areas of specialisation as each investment will be subject to review on a case-by-case basis. Information from December 2013):

| Grand Challenge* | Specialisation Examples | Illustrative areas supporting smart specialisation (examples only) |
|---|---|---|
| Life Sciences and Health | Life Sciences coordination | Hub in Cardiff Bay houses £100m investment fund and acts as one-stop-shop for life sciences stakeholders. |
| | | Life Sciences sector twinned with one of Europe's strongest biotech clusters (Medicon Village, Lund, Sweden). |
| | | BioWales is one of the UK's largest international life sciences conferences and brokerage events outside London |
| | Wound prevention and treatment | National centre of excellence in wound prevention and treatment as a focus for research, clinical and commercial excellence |
| | e-Health research | UK centre of excellence in Swansea (Improvement of Population Health through E-health Research) |
| | Cell Science | GE Healthcare's New Cell Science Laboratories in Cardiff |
| | | Cardiff University's European Cancer Stem Cell Research Institute |
| | Healthcare technologies | NISCHR healthcare innovation funding programmes for RD&I, proof of concept and technology diffusion |
| Advanced Engineering and Materials | Aerospace | Fan Case Centre of Excellence in Nantgarw, supported by GE Aviation, building on existing world class facilities, introducing new technologies such as composite repair. |
| | Opto-electronics | Bespoke research and development centre in Powys for variable speed drives and solar power conversion technologies to support expansion into new markets |
| | | OpTIC research and incubation centre for cutting-edge technology with specialisms in Glyndwr. |
| | Process manufacturing | The Sustainable Product Engineering Centre for Innovative Functional Coatings (SPECIFIC) aims to use buildings as 'power stations' to generate, store and release their own energy resources. Part of UK Innovation and Knowledge Centre programmes, based near Port Talbot |
| Low Carbon, Energy and Environment | Low Carbon Energy | Three Enterprise Zones focused on low carbon energy generation and related supply chains (e.g. circa £25bn planned investment in Anglesey Energy Island in combination of Nuclear, Biomass, and offshore Wind). |

| Grand Challenge* | Specialisation Examples | Illustrative areas supporting smart specialisation (examples only) |
|---|---|---|
| | | Low Carbon Research Institute centre of excellence for range of related RD&I into low carbon generation, storage, distribution and end use technologies. |
| | | Dedicated skills investments: Nuclear Skills Academy (Anglesey); Renewable and Environmental Centre (Colwyn Bay) |
| | Wave and Tidal Energy | Enterprise Zones established in Anglesey (Energy Island) and Haven Waterway, both featuring marine energy. |
| | | Wales's first commercial tidal energy farm, the Skerries Tidal Stream Array granted a marine licence and secured £10 million UK government funding |
| | | The Sustainable Expansion of the Applied Coastal and Marine Sectors in Wales (SEACAMS) integrating research and business opportunities around the coast of Wales, with specific interest in marine energy. Based at Swansea, Bangor and Aberystwyth Universities |
| | Smart Living<br><br>(see also Advanced Manufacturing and Materials Grand Challenge) | SolaVeil® Daylighting technology, as a retrofit solar energy control technology to control and stabilise the transmission, reflection and diffusion of solar radiation entering a building through glazing |
| | | SSE Smart Energy Training Centre in Pontypridd, supporting domestic energy efficiency measures, as well as the installation of environmental technologies including micro-renewable energy and water conservation |
| | | Cardiff EcoDesign Centre, which develops and delivers collaborative multi-sectoral ecodesign operations and is a centre of excellence for ecodesign |
| | Agriculture | Institute of Biological, Environmental and Rural Sciences world class research facility in Aberystwyth |
| | | £35m agriculture research facility and innovation centre in Aberystwyth University (the Aberystwyth Innovation and Diffusion Campus) to be completed by March 2015. Includes a £14.5m grant from the Biotechnology and Biological Sciences Research Council of which £2.5m is for research into improving upland farming (part of the UK Agricultural Technology Strategy). |
| | | £6.8m National Plant Phenomic Centre (Biotechnology and Biological Sciences Research Council (BBSRC) and Welsh Government funded) in Aberystwyth now open with the UK's most advanced research greenhouse. |

*NB: In the interests of brevity this does not include the ICT enabling Grand Challenge area which is another area where there are smart specialisms in Wales and described further in the smart specialisation strategy (for example clusters around Cardiff for the Creative Industries, in particular for film and TV).

## SMALL AND MEDIUM ENTERPRISE (SME) COMPETITIVENESS

17. In 2013 around 60% of private sector employment in Wales was in SMEs (33% in micro-businesses of up to 9 employees, and 28% in other SMEs)[297]. Of the enterprises in rural Wales, 94% are classed as having less than 10 employees. Outside of the larger urban areas this is even more prominent. Only around 2.8% of enterprises in rural Wales were classified as of medium or large size; with fisheries and aquaculture businesses in Wales also tending to be family run micro businesses. Small businesses, particularly micro-businesses, provide an important contribution to employment in rural Wales, with the wider economic evidence providing support for the role of SMEs in economic development.
18. Average SME productivity in Wales in 2011 was 69% of the UK average or 83% when London and the south east of England are excluded[298]. This productivity gap is a contributory factor towards the disparity in GVA with the rest of the UK and is affecting the **competitiveness of Welsh SMEs**. Investment in research and innovation is widely recognised as a key driver to increase productivity growth, but a number of other barriers exist to the creation and growth of SMEs in Wales. The problems faced are similar to those identified for the UK, but the problems are exacerbated by disparities, listed at the end of the macro-economic analysis, faced in Wales. A range of barriers affect the uptake of opportunities including exploiting green growth and improving **energy and resource efficiency** in SMEs.
19. A particular issue for SMEs highlighted in the UK Chapter is **access to finance**. There is evidence that this issue is even more pronounced in Wales given the lack of investment funds, business angels and other investors in the area; as they tend to focus on London, the South East of England and larger cities. For example survey evidence suggests that only 66% of Welsh SMEs were successful in accessing some of the finance they needed[299] which compares with around 74% across the UK[300]. This is particularly true for innovative companies where specialist risk capital and finance is required. For example: 44.3% of innovative firms find it difficult to access finance, compared to 32.6% of other firms[301]; and 37.8% of innovative firms who tried to access finance were unable to obtain any (doubled from 14% in 2007/8)[302].
20. The UK chapter sets out the role that ICT exploitation has in improving SME Competitiveness. Exploitation requires a relevant infrastructure to be in place. The UK generally has relatively good **ICT infrastructure**, but Wales again suffers from its relative peripherality in the UK and a challenging terrain for deployment. Wales had the lowest availability of cable **broadband** services (2012) and the second-lowest

[297] Welsh Government (2012). *Size Analysis of Welsh Business.* Avalable: http://www.wales.gov.uk/topics/statistics/about/reference/econsources/. Last accessed 16/04/2013.
[298] BIS provide data on numbers employed and turnover in SMEs in UK countries and regions. Productivity is calculated by dividing turnover by numbers employed. Data available at: http://www.bis.gov.uk/analysis/statistics/business-population-estimates . Further data on productivity across labour market available in Statistical bulletin: Labour Productivity, Q1 2013, ONS.
[299] Welsh Government (2013) 2012 Small Business Survey, BMG Research
[300] BIS Economics Paper No. 16: SME Access to External Finance, January 2012
[301] The UK innovation survey 2011, BIS, in June 2013
[302] Credit and the crisis: Access to finance for innovative small firms since the recession, Neil Lee, Hiba Sameen and Lloyd Martin, Big Innovation Centre, June 2013

availability of fibre broadband (2013) among the UK nations[303]. Access to Next Generation Broadband (NGB) and availability of superfast broadband (actual downstream speed of 30Mbit/s or higher) is lowest in Wales of all UK regions (48% compared to UK average of 73%; although this is up from 37% a year earlier). Private sector providers are making a range of market-led investments in commercially attractive areas of Wales, but the challenges of introducing ICT infrastructure to the peripheral and more challenging areas will not be met by the market. Significant ERDF investment is being made in 2007-2013 (through the Superfast Cymru Programme) to ensure next-generation broadband is delivered to 96% of the 1.4m premises in Wales by summer 2016. This will still leave a gap of 4% of Welsh premises without access in hard to reach areas least attractive to commercial providers. Future priorities will be to seek to build on the significant ERDF investment now underway to infill any gaps in coverage, utilising new technologies where beneficial. There are also opportunities to not just avoid those regions being left behind, but to seek to trial innovative and enhanced provision meeting the needs of clusters, businesses, and improving mobile connectivity.

21. Social Enterprises are a key feature of the Welsh SME base, and a growth sector. However, given that statistical data (and legal definitions) do not easily allow for identifying social enterprises as a subset, comparative data across the EU and UK is not available. As SMEs Social Enterprises will be able to access the full range of support available for SMEs though the ESI funds. A further consideration of specific support for Social Enterprises in Wales is set out in the respective ERDF Operational Programmes.

22. **Agriculture** covers around 80 per cent of the land in Wales, and is virtually all comprised of SMEs. The climate and geography of Wales mean that Welsh agriculture is largely about grazing livestock for meat and milk production. Growing arable or horticultural crops is a relatively small sector as are raising poultry or pig. Food and farming is a priority sector which accounts for almost 14,000 registered businesses, £5.2bn turnover, 45,000 jobs and £1.3bn GVA. The supply chain in Wales covers 23,300 registered businesses, £17.3bn turnover, 170,000 jobs and £4.0bn GVA. Long-term reductions in CAP Pillar 1 support threaten profitability of farms and the Welsh Government foresees the need to bolster knowledge management mechanisms in order to strengthen the core skills in agriculture and the opportunity to increase value added in the supply chain. Developing agriculture and the supply chain to develop the underlying profitability of the business models whilst ensuring the reduction in GHG emissions is going to be a significant challenge for the sector.

23. A traditional problem for **fisheries and aquaculture** businesses in Wales has been the ability to market or add value to their own catch, often selling to local processors or wholesalers who then sell the produce. This does not lever the best value out of the catch for the fisher. The Welsh Government has been undertaking work to address that need and further intervention will be necessary throughout the next funding period if that goal is to be achieved. Support is also needed to help fishers and aquaculturists to access new markets to support a more robust industry less vulnerable to the economic difficulties of the traditional European markets. A healthy and vibrant fisheries and aquaculture industry in Wales will play an important part in driving the blue growth[304] agenda in Wales.

[303] Refers to premises by postcode: *Communications Market Report: Wales* (August 2013), OfCom, p67

[304] Blue Growth is the long term strategy to support sustainable growth in the marine and maritime sectors as a whole. It recognises that seas and oceans are drivers for the European economy with great potential for innovation and growth. http://ec.europa.eu/maritimeaffairs/policy/blue_growth/

**Summary of needs and growth potentials justifying selection of key Thematic Objectives**

| Needs | Growth Potential | Thematic Objective |
|---|---|---|
| • Relatively low business investment in RD&I<br>• Relatively low levels of commercialisation of research<br>• Lower levels of access to the knowledge economy including knowledge transfer, market intelligence, benchmarking and producing to market requirements for farm and rural businesses | • Number of Universities engaged in world class research<br>• Longstanding culture of innovation, with some areas of expertise<br>• Part of world class UK research and innovation system<br>• Renewed policy focus on Research and Innovation backed by significant investment in Sêr Cymru.[305]<br>• Profit growth through innovation in farming and aquaculture businesses | (1) strengthening research, technological development and innovation (ERDF, EAFRD) |
| • Persistent market failure creating gaps in ICT infrastructure and connectivity<br>• Low level of e-commerce uptake in some areas<br>• rural isolation and technology confidence gaps need to be over come | • Major investments in ICT assets and roll out of 4G offers potential to support productivity growth<br>• New ICT developments offers the potential to increase connectivity to rural communities<br>• EAFRD to fund information actions to enable rural businesses and communities to improve supply-chains, adopt new technology, increase efficiencies and overcome rural isolation | (2) enhancing access to, and use and quality of, information and communication technologies (ERDF, EAFRD) |

[305] Sêr Cymru is a scheme established the Welsh Chief Scientific Advisor to encourage top scientist to Wales and create three national research networks. It is targeted at three “Grand Challenge” areas of advanced engineering and materials, life sciences and health, and Low carbon energy and environment.

| Needs | Growth Potential | Thematic Objective |
|---|---|---|
| • productivity and competitiveness of SMEs is low relative to other parts of the UK<br>• Wales would prosper from an increased business stock<br>• Levels of business growth are still low in Wales<br>• To reduce the amount of resources used by businesses<br>• Social enterprises in Wales need specific advice and support to become better businesses. Social enterprises are also more likely to seek specialist and tailored business support | • Growing Financial and Professional Services sector in Wales<br>• SMEs more competitive in manufacturing sector compared to rest of UK<br>• Growing energy and environment sector<br>• Eradicating supply chain inefficiencies could benefit SMEs across all sectors in Wales<br>• Diversification within and outside agriculture and fisheries<br>• Profit growth in farm businesses through genetics, breeding, energy efficiency and cost management<br>• Profit growth in food supply chain through more efficient chains, energy efficiency and cost reduction<br>• Profit growth in forestry via an integrated woodland management and creation package incorporating options more suitable for supporting commercial forest planting<br>• Profit growth in fisheries and aquaculture businesses through increased marketing and value added<br>• Social enterprises growth sector in Wales and represent significant minority of SMEs | (3) enhancing the competitiveness of small and medium-sized enterprises (ERDF), the agricultural and forestry sectors (EAFRD) and the fisheries and aquaculture sector (EMFF) |

**Experience of 2007-2013 and relevant evaluations**

24. In a survey of 778 businesses assisted by the 2007-2013 ERDF Programmes in the first half of the programming period approximately 35-40 per cent of surveyed businesses reported that ERDF support had a positive effect on turnover, profitability or productivity.[306] Across the survey, businesses reported that around 363 jobs had been created as a result of ERDF assistance. Based on this and taking into account deadweight, displacement and multiplier effects, it is estimated that 305 net new jobs resulted from ERDF support amongst the 778 surveyed businesses (this works out as net as a proportion of gross as 84% which compares quite well with other estimates of net as a proportion of gross).[307] Furthermore it is estimated that there were 390 net safeguarded jobs (once deadweight, displacement and multiplier effects are taken into account) across the 778 surveyed companies. Overall, amongst surveyed businesses, for every job that was created, approximately 1.25 jobs were also safeguarded. As very few businesses viewed the ERDF assistance as crucial for their continued existence this

[306] *ERDF Business Survey*, Old Bell 3, 2012
[307] For example, the Mid Term Evaluation Update of the Objective 1 Programme estimated that 33-48% of gross jobs created could be regarded as net jobs created (*Mid Term Evaluation Update of the Objective 1 Programme*, Old Bell 3, 2005, p.84)

indicates that businesses are not dependent upon ERDF assistance and that Programmes are not interfering with the churn in business survival.

25. The Enterprise Support Thematic Evaluation found that the changing economic conditions since the start of the Programmes have meant that the demand for operations' support varied considerably from that anticipated in their original design.[308] Operations experienced a shift in support from growth orientation to safeguarding the workforce. The evaluation also found that all sampled operations in the Enterprise Support areas of 2007-1013 Programmes evidenced some degree of added value, at a minimum, demonstrating increased volume or scope as a result of EU funding. Operations added value by embedding approaches to equality and diversity in service delivery and by influencing the use of financial instruments across the UK. The evaluation found evidence of meaningful approaches taken to target start-up support, including measures to proactively engage with under-represented groups and those that have been made redundant.

## SUSTAINABLE GROWTH

26. It is worth noting at the outset that the powers available to the Welsh Government within this policy area are constrained by current constitutional arrangements. Whilst climate change policy and non-regulatory energy efficiency policy are devolved to Wales; energy policy and energy efficiency by regulation and prohibition are not (and therefore remain the responsibility of the UK Government). Achieving the EU 20/20/20 targets will therefore require joint-working between both Governments.
27. The UK chapter highlights the UK-wide response to the opportunities for green growth in energy and efforts across the UK to support the development of the sector. There are significant overlaps in responsibility for energy and infrastructure between bodies within the UK. With respect to renewable energy, the planning consent for offshore energy operations up to 1 Megawatt (MW) in capacity are the responsibility of the Welsh Government; those between 1 and 100 MW are the responsibility of the Marine Management Organisation; and those above 100 MW are the responsibility of the UK Planning Inspectorate. Planning consent for onshore wind operations between 0 and 50 MW are the responsibility of the relevant Welsh Local Authority. Planning consent for operations of 50 MW and above are the responsibility of the UK Planning Inspectorate.
28. This limits the scope of investments which the Welsh Government would directly control to the likes of micro generation. However there is regular co-operation between the Welsh and UK Governments around larger scale operations across Wales.
29. The UK has statutory obligations for biodiversity as a member of the European Union and under domestic legislation and has signed up to biodiversity and ecosystem targets internationally and at an EU level. Responsibility is largely devolved to a country level. The Welsh Government and its new natural resource management body – Natural Resources Wales (NRW) - are moving to an ecosystem services approach to environmental regulation and management. This will mean considering and regulating the environment and its health as a whole, rather than dealing with individual aspects separately.
30. Figure 72 illustrates that total GHG emissions for Wales have reduced between the base Year and 2011 by 20.6%, exceeding the Europe 2020 target for the **reduction of Greenhouse Gas Emissions.** Both the UK Government and Welsh Government also have more ambitious targets that will require significant additional efforts to reduce

[308] Thematic Evaluation of Enterprise Support, ERS, 2012

emissions. In 2009[309] Wales was reporting emissions 23.5% lower than 1990 levels (better than the Europe 2020 target), however, the fall to a 15% reduction in 2010 demonstrates the importance of maintaining efforts, particularly when faced with increased resource demand through colder winters and likely increased economic activity. There is a bigger effect in Wales predominantly due to the relatively high proportion of heavy industry. For example, energy intensive industries (such as steel production, power generation and refineries) account for the largest share of carbon dioxide (CO2) emissions in Wales, however much of the emissions generated by these activities relate to production that is exported from Wales (this is particularly the case for emissions from electricity generation where Wales is a net exporter of electricity). The Transport Sector is responsible for approximately a tenth (13%) of total emissions in Wales and these emissions are dominated by road transport (92% of all transport emissions in 2011, with 57% of transport emissions from cars alone). Emissions in the Transport Sector have only declined by 4% between 1990 and 2011 despite continued improvements in the efficiency of transport vehicles, as a result of increased transport demand and increased affordability of cars over this period[310].

*Reductio*

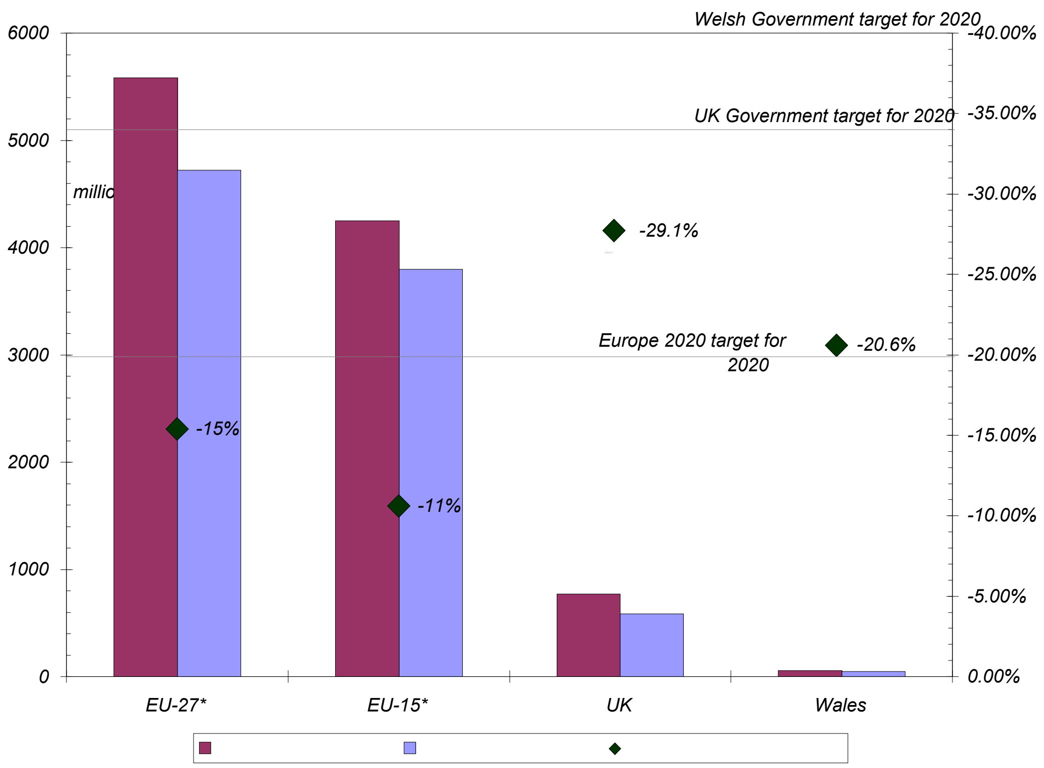


**Figure 70: Greenhouse Gas Emissions in $CO_2$ Equivalent**
*Source: European Environment Agency*

31. Agriculture, land use and the wider food chain produce about 1/5th of Wales GHG emissions, with agriculture a prominent feature of the Welsh economy. Unlike all other sectors, carbon dioxide (CO2) is not the dominant GHG emitted as a result of agricultural activity. The main gases involved are methane (CH4) and nitrous oxide

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[309] Climate change strategy for Wales, First Annual Progress Report, Welsh Government (March 2012)
[310] Greenhouse Gas Inventories for England, Scotland, Wales and Northern Ireland 1990-2011. National Atmospheric Emissions Inventory.

(N2O), which are respectively 21 and 310 times more powerful in "global warming potential" terms than CO2. Without a concerted effort across of the rural economy and infrastructure, overall targets will not be achieved.

32. Significant progress on the use of renewables in Wales has been made over the past 10 years. The installed capacity of sites generating electricity from renewable sources has almost doubled from 429 MW in 2003 to 857 MW in 2011. The percentage of electricity generated from renewable sources in Wales has also risen by 5.0 percentage points since 2004 and is set to increase further as new large renewable operations come online. Private sector investment has been facilitated by a variety of public sector incentives which take into account the environmental benefits, and the state of development and market readiness of generating technologies. Wales also has significant untapped natural resources (e.g. wind, wave, tidal and hydro), which could be harnessed for the production of renewable energy as well as energy grid infrastructure assets close to key sources of renewable energy. The improvements in Wales still need to be built upon however, as illustrated by Figure 73, which shows Wales still lagging behind other parts of the UK in terms of the proportion of generated energy coming from renewable sources, but still outperforming England.

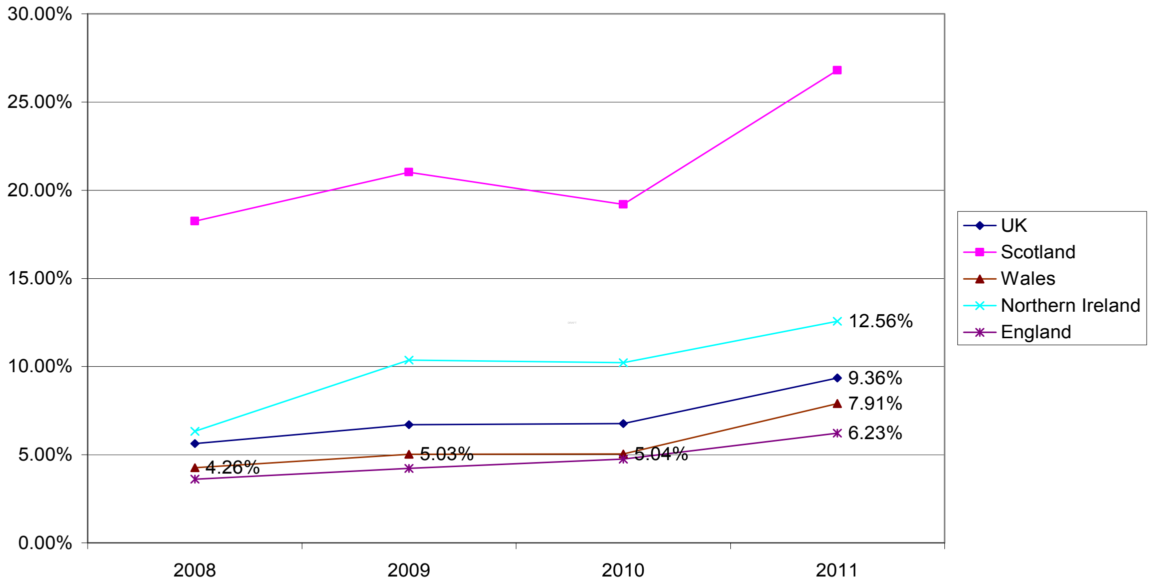


**Figure 71: Proportion of electricity generated from renewable sources**
*Source: The Department of Energy & Climate Change*

33. **Energy Efficiency** is difficult to measure but some progress is being made. Energy consumption in Wales is nearly 30% higher (per capita) than the average across Great Britain[311]. The largest proportion of that consumption is by industry[312] (which also includes petroleum in the agricultural industry for machinery), followed by domestic consumption and then transport. This higher energy consumption reflects the industrial mix across Wales,[313] with a larger proportion of more energy intensive businesses such as manufacturing. The Welsh industrial mix, coupled with increasing energy costs is a barrier to the competitiveness of Welsh business.

34. Figure 74 below illustrates that within Wales total final energy consumption is falling within the industrial and commercial sectors (as well as in the domestic sector). The fall within the industrial and commercial sectors may be a consequence of the fact that the

[311] Sub-national total final energy consumption statistics, DECC, 20 December 2012
[312] 49% of final energy consumption by sector in 2010 compared to 37% for the UK
[313] Wales has a relatively high amount of heavy industry compared to the UK average.

level of private sector output is substantially below the level produced before the 2008 recession. Therefore final energy consumption in this sector may well rise again in future as economic conditions improve.

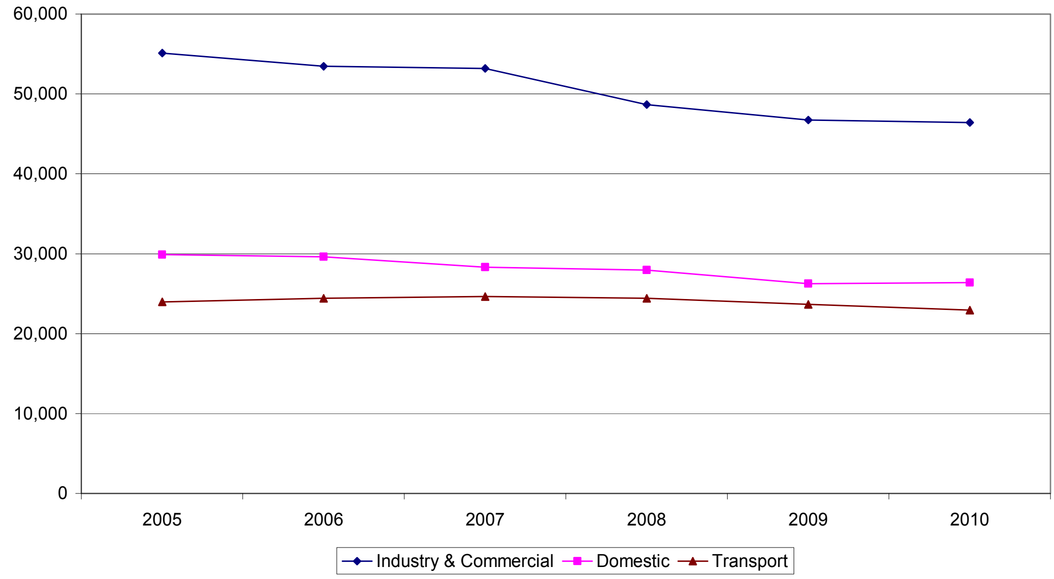


**Figure 72: Total final energy consumption by consuming sector (GWh)**
*Source: The Department of Energy & Climate Change*

35. Although domestic energy consumption is falling Wales' housing stock still has relatively poor energy efficiency, especially in rural areas where homes are traditionally constructed, in comparison with the rest of Europe. On top of this around 26% of households face issues of fuel poverty. This is reflected in the Commissions Position Paper which states that ESI funds should "promote energy efficiency, particularly in buildings."

36. Concerted efforts need to be maintained to address energy efficiency challenges, to support the EU20/20/20 energy targets, and take advantage of efficiency opportunities in each of the consuming sectors whilst at the same time seeking to ensure the principle of sustainable development is addressed. For example it is estimated that 332,000 (26.2%) of households in Wales were still in fuel poverty in 2010[314], and a focus of intervention on domestic resources in this area may be appropriate.

37. In 2012-13 Wales experienced disruptive snow, near drought conditions, storms and summer and winter floods. These adverse conditions have affected business, especially those based in rural areas, transport networks (e.g. road and rail), homes and lives (again particularly for people living in rural Wales). As a result of previous emissions, the Welsh Government is already locked into a changing climate which means these types of events are likely to happen more often. Harsh winter weather impacts on the Welsh fisheries sector, as winter storms and rough seas prevent fishers with small scale costal vessels (the most prominent vessels in Wales) from fishing. It can also impact on aquaculture in coastal waters where storm actions can affect stocks.

38. **Climate change** is an overarching issue in agriculture, land use and the wider rural economy that cuts across all aspects of policy development in these areas. Many of the actions to address both GHG abatement and the impact of changing weather patterns

[314] Fuel poverty evidence plan (Welsh Government) 2012

will be embedded in the measures being developed by the RDP. Land-based measures, including but not restricted to farm-based measures, will target GHG reductions and Carbon retention, and will link to actions under the Water Framework and Habitats Directives.

39. The focus on farm and community scale renewables is a vital component of the RDP to tackle climate change and also improve the long term economic viability of agriculture and rural communities. In terms of climate change, the Agriculture and Land Use sector accounts for 21% of emissions covered by the Welsh Government's 3% annual emission reduction target and is the only sector in Wales that has had a slight increase in emissions for the latest reporting data. This highlights the need for focused action to ensure that the emissions from agriculture decrease. In addition, the wealth of renewable sources of energy in rural Wales provides an important economic opportunity. Supporting the ability to harness renewable energy opportunities will therefore not only act for climate change mitigation and a reduction in the footprint of agriculture but will also have multiple economic, social and environmental benefits. For example in increasing resource efficiency, reducing pollution and improving long term economic resilience of farm businesses and rural communities. Enabling renewable energy installations at a farm and community scale through the Rural Development Programme will complement the support to larger scale renewables elsewhere in developing the energy mix needed to deliver on Welsh Government and EU 2020 targets as well as improving energy security and resilience.

40. Climate change poses a threat to the stability of European fisheries with changes to species distributions, impacting on relative stability. Fleets will need to expend increasing amounts of fossil fuels to catch stocks which are moving their distribution further north, increasing the amount of GHG produced and the profitability of the sector.

41. For Wales one of the key areas to be addressed in GHG abatement and reduction of emissions is protecting and restoring the Welsh soil stock. Welsh soils hold a significant stock of carbon and successfully protecting this stock is a Welsh Government soil policy priority. The best available evidence suggests that the total Welsh soil carbon stock (top 15cm) has remained stable in recent decades. This in part, can be attributed to the predominance of grassland within the agricultural sector. Welsh Government has placed soil carbon protection as a core objective within our RDP. These measures also contribute towards addressing water quality and water quantity issues in Wales. In particular restoration of upland peats can improve water quality, reduce peak flows in high rainfall events and act as a sink for carbon emissions. The multiplicity of the function of peat has made this a high priority for Welsh policies.

42. The provision of food and fibre is another essential ecosystem services delivered by soil. Agriculture is the primary land use in Wales and as such has a significant influence on a range of soil properties and function. A healthy soil is fully acknowledged as essential for a sustainable agricultural sector, both economically and environmentally; however it is also fully acknowledged that inappropriate agricultural practices can result in soil degradation. Steps are being taken through regulatory instruments and legislation to improve the management and value placed on soil in situ. Wales wishes to use European funding to support best practice and develop technology tools to assist land managers to make the most informed decisions for soil, water and crop production.

43. As a platform for development soil provides a fundamental primary ecosystem service. The Welsh Government through its sustainable development principles operates the Best and Most Versatile (BMV) soil policy. The BMV policy aims to better inform infrastructural development so as to avoid loss of our most valuable agricultural soils. It is operated through a process of knowledge transfer at the onset of the planning process.

44. The National Ecosystem Assessment states that '**Biodiversity** contributes to economic and social prosperity in Wales by underpinning valuable ecosystem services. The

annual value of wildlife-based activity to the Welsh economy was estimated as £1.9

million in 2007 (2.9% of Wales's national output and 3% of employment). These figures do not provide an assessment of the value of biodiversity in terms of its wider provision of ecosystem services to Welsh society. There have been significant changes to biodiversity in Wales over the past 70 years, with some species thriving or recovering from earlier losses, while others have contracted in numbers. Key seabird species have increased during the past 30 years, numbers of wild plants, butterflies of specialist habitats and farmland birds have declined. Honey bees showed a 23% decline in Wales between 1985 and 2005. In common with other countries in Europe, Wales failed to

meet its international biodiversity targets in 2010. Fifty-four per cent of Biodiversity

Action Plan species were assessed as being in 'unfavourable condition' in 2008, but with considerable variation between species groups. For example, 80% of marine mammals and birds were in favourable or recovering condition, while 80% of amphibians, butterflies and fish were recorded as being in unfavourable condition. In 2005, 59% of Biodiversity Action Plan habitats in Wales were in declining condition. Priority habitats classed as stable or improving increased from 30% in 2002 to 36% in 2008.

45. **Sustainable urban development** requires a number of different conditions to be in place in order to support sustainable employment and productivity growth in key centres. In areas where there are significant clusters of businesses, improvements in public transport act as part of a virtuous circle by widening the labour market, thereby making the area more attractive for businesses and increasing demand for public transport. There is evidence of public transport constraints in Wales[315], which could usefully be addressed as part of integrated packages of investment in key urban centres, thereby supporting sustainable urban development. The impacts are not only the increase in employment and productivity in the centre, but there are also significant benefits across the connected region as the additional employees come from a wider catchment area and take home more wages to their areas of residence, in turn supporting more local labour markets and service sectors.

46. Recent research[316] in Wales concluded that rail services can sustain communities by connecting them to larger urban areas. Rural and peripheral communities with access to good local services that provide realistic commuting options to large employment centres can experience growth in population as a result of rail investment – or it can prevent depopulation from areas that have seen significant declines in local economic activities, by allowing them to survive as commuting centres – as seen in the Valleys. The research also concludes that relatively modest investments in rail improvements (such as linking services together to provide new direct journey opportunities), compared with major High Speed Rail infrastructure costs etc., can have beneficial impacts on the local economy. Case study catchment areas also saw a reduced decline in employment growth compared to the base line.

[315] For example the November 2013 report on the Cardiff Capital City Region Metro. Available at: http://wales.gov.uk/topics/transport/integrated/metro/?lang=en

[316] Regional and Local Economic Impacts of Rail Investments, Mott MacDonald for Welsh Government, 2012

47. While public transport improvements can be part of the virtuous circle of business and productivity growth in an urban centre of critical mass (and improvements can only enable growth, not create it), the same is not necessarily true in peripheral areas, or in areas where the other factors necessary for sustainable growth and jobs are not in place.

48. Investments in transport connectivity will affect choices of location for businesses and urban developments, often demonstrating displacement. This, however, can be a desirable outcome in peripheral areas where the lack of a key agglomeration can be a barrier to growth; to encourage businesses into those more peripheral areas and to support indigenous businesses to remain as they grow. A focus on improving connectivity to an emerging employment centre can help stimulate future investment as part of the process to build critical mass.

49. Analysis of productivity differentials within Wales[317] points to the sharp differences between South East Wales (and the M4 Corridor in particular) on the one hand and West Wales in particular. The same is true comparing North East Wales and adjacent areas of England with Central and North West Wales. These would seem to reflect to a significant extent the sharp differences in accessibility between these sub-regions.

50. Peripherality has major impacts in one form or another on levels of productivity across Wales, and in West Wales in particular[318]. It is no coincidence that most of the Less Developed regions in the EU15 are located on the periphery of the EU or away from the centres of economic activity[319]. This persistent structural weakness of those economies is clearly a feature of their geography and relative lack of connectivity, not necessarily a reflection on the available support for businesses or skills. Investments in skills, innovation, SMEs, and social inclusion will help address short term problems; and those investments, where successful, can lead to increased mobility and productivity. Unless those investments are complemented by investments in improved connectivity that increased mobility will mean that businesses and people will simply move to more central areas to seek greater markets and wages, leaving the peripheral region in the same position as before the investment in skills and businesses.

51. It is clear any sustainable transport investments, be they addressing capacity issues in urban areas or improving connectivity in peripheral areas, need to be a part of an integrated suite of investments. This is particularly important for the use of ERDF, given the limited available funding and the relative cost of transport improvements. Similarly it is important if seeking to address structural weaknesses and regional disparities that as many of the benefits of investments in mobile assets (e.g. people and businesses) are retained within the programme area. There are a number of good examples from previous programme periods that lessons are being learned from to inform the selection of future schemes. For example the ERDF-funded Neath Port Talbot Distributor[320] is part of an integrated set of actions leading to significant private sector investment in the area. The Swansea Quadrant Bus Station (a RegioStars 2014 finalist) is also an example of how seeking to address capacity issues in an urban centre can support sustainable urban development. Subjecting programme transport investments to

[317] Productivity in Wales: the impacts of peripherality on spatial patterns of productivity, University of the West of England (2010)
[318] Productivity in Wales: Analysis of the impacts of peripherality on spatial patterns of productivity- Report to the Economic research advisory panel, Welsh Assembly Government
[319] Commission staff working paper impact assessment - Part II: Annexes Accompanying the document. Proposal for a Regulation of the European Parliament and of the Council
[320] http://www.harbourwayproject.com/first-minister-officially-opens-multi-million-pound-road-to-regeneration-in-port-talbot

rigorous ex-ante Socio-Economic Assessments[321] ensures that the potential future social and economic benefit of the developments are maximised in addition to the usual benefits of time saving, capacity and safety etc.

52. Key to increasing the labour market and encouraging urban mobility is encouraging **sustainable transport**. Improved connectivity boosts the labour market by allowing skilled people to access work and can be a catalyst for further investments in places. Wales faces challenges and opportunities relative to the UK in terms of some deprivation measures, employment growth, lack of accessibility and profile as a destination for business and tourism. Wales has significant opportunities for infrastructure-led growth (both built and green) given a number of areas of outstanding natural beauty, extensive coastline, lower business costs and a better quality of life.
53. The **ageing infrastructure of the UK** and the challenges it creates are highlighted in both the 2013 Country Specific Recommendations and the UK National Reform Programme and particularly felt in Wales. The NRP notes that "infrastructure is the backbone of the UK Economy and fundamental to growth and prosperity." However the CSRs raise "a challenge to renew and upgrade its energy and transport infrastructure." Wales feels the effects of peripherality and suffers from a history of under investment, meaning the infrastructure backbone – and in particular that of the transport networks – are not as developed so not as able to support growth and prosperity, and the issues raised in the CSR, in particular relating to transport networks, are exacerbated in Wales.
54. Connectivity issues in the West of Wales can act as a barrier to development by preventing urban mobility and inward investment. This creates a vicious circle where, because of the lack of business growth, investment becomes a lower priority for Government in those areas.
55. The benefits of agglomeration effects can be seen in areas with large well connected urban centres across other parts of the UK. However in Wales the lack of a large city and a high level of remoteness from large conurbations combine to create challenges which are influential in explaining Wales' relative lack of productivity[322]. These challenges are exacerbated by a lack of sustainable mobility to, and across, urban areas. More needs be done to support connectivity and urban mobility as a means of supporting agglomeration economies in Wales' key urban centres.
56. On top of the difficulties caused by under investment, the topology and geographical features of Wales often serve as a barrier to efficient and effective sustainable transport systems.
57. Under the Common Fisheries Policy (CFP) Welsh Ministers as part of the UK are signed up to progressively reduce the wasteful practice of discards from fisheries in line with the agreed timetable established in the CFP. Wales faces a challenge due to the nature of the fishing industry in Wales. While the majority of catch is landed in Milford Haven, Holyhead and Fishguard there are many smaller harbours and ports distributed around remote rural areas where fish is landed into which will provide a challenge for facilities to handle unwanted catches. The Welsh fishing and aquaculture industries often operate within or near to areas of environmental importance, such as Special Areas of Conservation, Special Protection Areas or Sites of Special Scientific Interest. Intervention is needed to support the fisheries and aquaculture sectors in operating in a more sustainable way to assist the Welsh Government in achieving its vision of 'clean, healthy, safe, productive and biologically diverse seas'.

[321] For example Pont Briwet Redevelopment Project Socio-Economic Impact Assessment, Ove Arup & Partners Ltd (2009)
[322] University of West of England, Understanding productivity variations between Wales and the rest of the UK, Report to the Economic Research Advisory Panel, Welsh Assembly Government, 2007

**Summary of needs and growth potentials justifying selection of key Thematic Objectives**

| Needs | Growth Potential | Thematic Objective |
|---|---|---|
| • Need for major private investment in renewable energy technology and low carbon energy sources<br>• Greater resource efficiency required in industry, including agriculture, to reduce CO2 emissions<br>• Investments in the energy grid are required to open access for renewable operations<br>• Poor energy efficiency of Welsh housing stock and issues of fuel poverty | • Extensive natural resources as sources of renewable energy, existing capability and grid capacity compared to other parts of the UK<br>• Existing expertise and growing supply chains in environmental goods and services sector (including in energy efficiency)<br>• Research expertise and capability, including through the Low Carbon Research Institute<br>• The landscape of Wales (land and sea) holds great potential for renewable energy production including wind and marine. This is bolstered by potential of small scale production of several types of renewable energy in communities and on farms | (4) supporting the shift towards a low-carbon economy in all sectors (ERDF, EAFRD) |
| • Reduction in GHG emissions in all sectors, but including agriculture and the wider food chain; improved carbon capture | • Advisory and technical services are likely to grow in this area as businesses pursue cost efficiencies with benefits for GHG emissions<br>• Promotion of sustainable forestry management and woodland creation.<br>• Promotion of use and installation of agricultural technologies to improve efficiency and reduce GHG emissions (targeting the dairy sector). | (5) Climate Change (EAFRD) |
| • To address Eco-system and Biodiversity degradation<br>• Fisheries exploited at Maximum Sustainable Yield<br>• Discard free fisheries | • Environmentally sustainable land management practices which will support ecosystem and bio-diversity<br>• Leveraging private sector initiatives to improve land and water management practices<br>• The inclusion of bio-diversity in urban redevelopment where possible<br>• Increasing use of sustainable fishing and aquaculture practices including the use of more selective fishing gear | (6) Environment / resource efficiency (EAFRD, EMFF) |

| Needs | Growth Potential | Thematic Objective |
|---|---|---|
| • Ageing infrastructure coupled with issues of peripherality exacerbates transport connectivity problems in Wales<br>• Urban areas suffer from a lack of agglomeration effects<br>• Areas of deprivation need better access to areas of employment and growth centres<br>• Better local public transport arrangements in rural areas | • Areas of outstanding natural beauty and strong cultural and tourism, despite some issues relating to infrastructure and connectivity<br>• Development of City Regions to maximise potential benefits of those regions as agglomeration economies<br>• Major planned TEN-T connectivity investments (e.g. M4 and rail electrification)<br>• Operations that tie in with major ERDF works to join rural communities to large transport interchanges or the TEN-T network<br>• Local community transport initiatives | (7) promoting sustainable transport and removing bottlenecks in key network infrastructures (ERDF, EAFRD) |

**Experience of 2007-2013 and relevant evaluations**

58. Evidence from evaluations of operations highlights a number of benefits from ERDF and RDP operations in this area in the 2007-2013 Programmes

59. An evaluation of the Arbed operation which funds domestic energy performance operations in deprived communities in Wales concluded that it succeeded in implementing large-scale energy improvements in a variety of housing types and locations.[323] It harnessed the co-operation of a number of housing associations and local councils to provide a range of energy efficiency measures to help people perceived as ‘in need’ or at risk of fuel poverty. Householders supported by the operation reported increases in the efficiency of their energy use.

60. The Green Compass operation evaluation[324] concluded that the intervention made strong progress in promoting and gaining waste disposal businesses’ participation, which has most likely led to improvements in the amount of waste sent to landfill and associated greenhouse gas emissions in Wales. Similarly, in an evaluation of the ASTUTE operation participant businesses reported that the operation worked with them to implement improvements that minimised waste and reduced resources.[325]

61. An evaluation of the GEMS operation concluded that since the start of the operation the overall demand for traditional environmental goods and services has remained buoyant despite the recession.[326] There has been substantial growth in the environmental goods and services market as investment in technologies has supported implementation of large scale offshore wind and tidal operations which require the expertise of graduates and SMEs in the marine science sector - the target groups for this operation.

62. In addition to this evidence from operation evaluations a Programme level evaluation found that the environmental sector was perceived by stakeholders as offering new

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[323] Evaluation of Arbed Phase One, Eco Centre Wales, 2012
[324] Evaluation of PAS 402:2009 / Green Compass Scheme, AECOM Ltd, 2013
[325] The ASTUTE operation works with the aerospace, automotive and high-technology manufacturing industries in the Convergence region to adopt more advanced technologies and grow whilst at the same time, improving their sustainability by lowering their environmental impact.
[326] Mid Term Evaluation of the Growth in Environmental Marine Sciences (GEMS) operation, Blue Sky Consulting, 2011

market and growth opportunities.[327] This helped to place the Environmental Sustainability Cross Cutting Theme higher on the agenda.

# INCLUSIVE GROWTH

63. As highlighted previously within this chapter, the GVA gap per head between Wales and the UK is broadly attributable to lower productivity and a lower employment rate. The skills mix of the economy is one of the key influencing factors on productivity. Equipping citizens of Wales with the right skills to hold down good quality jobs is vital to reinvigorating the Welsh Economy and to achieve our aspiration of delivering sustainable jobs and growth. Getting people into a position where they can hold down a sustainable, good quality job is the best way to address poverty and social exclusion and will greatly enhance their quality of life. Of course, investments in human capital to improve employability must also be complemented with measures supporting the private sector to create and sustain appropriate employment opportunities. These complementary investments in human capital and in the business environment need to be directly linked with each other to ensure that new jobs are not just taken by in-commuters to an area, that business growth does not just result in those businesses needing to move out of the area, and to ensure that increased employability does not simply result in out-migration. There are therefore significant opportunities for regional coordination and an integrated approach to sustainable urban development across Wales, in particular through dedicated ERDF expenditure supporting businesses in specific areas being coordinated with ESF investments in improving employability and skills. It is through coordinated, integrated and focused action (including in specific territorial areas) with Government, in all its forms, and both the private and third sectors, that Inclusive Growth investments across Wales will deliver both economic and social outcomes and help to shape the achievement of the EU2020 targets.

## POVERTY AND SOCIAL EXCLUSION

64. In Wales poverty is defined as ‘A long-term state of not having sufficient resources to afford food, reasonable living conditions or amenities or to participate in activities (such as access to attractive neighbourhoods and open spaces) that are taken for granted by others in society’. **Social Exclusion** or the ability to participate is strongly linked therefore to issues of Poverty.

65. Poverty and the consequences of poverty remain a challenge for Wales, particularly in the current economic environment. Poverty has a negative correlation with educational attainment and skills. Overall poverty has fallen in Wales over the last decade. Relative income poverty (where a household is living on 60% or less of the UK median income) remains slightly higher in Wales at 22% (for working age adults) than the UK at 21%. Persistent poverty, defined as being in relative poverty for three of the last four years, is also higher in Wales (11%) when compared to England and Scotland (10%). Around 200,000 children now live in households in relative income poverty[328], 80,000 live in workless households[329].

66. The UK chapter highlights the increasing rates of **in-work poverty**. In April 2013, average workplace-based gross weekly earnings of full-time employees in Wales stood

[327] Evaluation of the Effectiveness of Programme Implementation, Old Bell 3, 2013
[328] Family Resource Survey: Households Below Average Income
[329] Labour Force Survey - April-June 2013

at £539.00, 86.9% of the UK average[330] suggesting these issues might be further exacerbated in Wales.

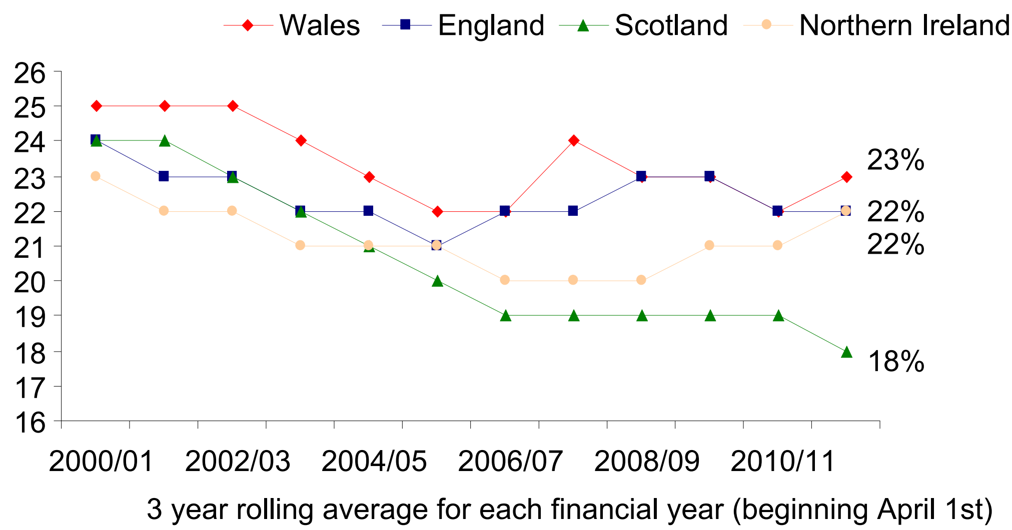


**Figure 73: % of People Living in Relative Income Poverty (defined as 60% of the median UK income after housing costs)**

*Source: Family Resources Survey*

67. In the UK, of those households in poverty, 72% were classed as workless with one or more unemployed. Worklessness therefore has a strong correlation with poverty. Whilst figures do not exist for Wales, it is reasonable to assume that a similar pattern holds true. Wales has a higher percentage of workless households and children living in workless households than the UK average.

68. There is a growing body of evidence to suggest that the experience of living in a workless family for a child is associated with lower educational attainment and a reduced aspiration to gain employment[331]. Furthermore, parental circumstances, including poverty, greatly affect the well-being of children and their employment and income outcomes[332]. The role of the **childcare workforce** and quality of the early years and childcare provision also plays a substantial role in supporting child development. Tackling the issue of workless households, unemployment and economic inactivity has therefore become a key policy priority for the Welsh Government as well as that of the UK Government. This is clearly aligned with the EU Commission's country specific recommendation for the UK in 2012 to further integrate people from jobless households into the labour market. The Welsh Government *Tackling Poverty Action Plan* places supporting access to sustainable employment at the centre of a cross governmental approach to tackle, prevent and mitigate the impacts of poverty[333].

[330] Source: Annual Survey of Hours and Earnings, ONS, NS
[331] Ermisch, J, Fransesconi, M & Pevalin, D (2001) 'Outcomes for Children of Poverty', DWP Research Report No. 158, Page, D (2000) 'Communities in the Balance: The reality of social exclusion on housing estates', Joseph Rowntree Foundation.
[332] Allen, G. (2011): 'Early Intervention: the next steps' An Independent Report to Her Majesty's Government.
[333] Further details at: http://wales.gov.uk/topics/socialjustice/tacklingpoverty/?lang=en http://wales.gov.uk/topics/socialjustice/tacklingpoverty/?lang=en

## EMPLOYMENT

69. **Employment rates** in Wales compare well to the EU average, similar to the position laid out in the UK chapter. However there will still be challenges in achieving the Europe 2020 target of a 75% employment rate. The employment rate in Wales declined sharply in 2009 and 2010. By 2012, the rate of employment had returned to its pre recession level, however it remains below the UK average. In spite of this, the gap between Wales and the UK has reduced over the last four years. The Socio Economic analysis shows that women, ethnic minorities and disabled workers are under-represented in employment in Wales with employment rates for each group lower in Wales than the UK. These groups have higher inactivity rates also when compared to the UK. Their participation will have to increase if the Europe 2020 target is to be achieved.

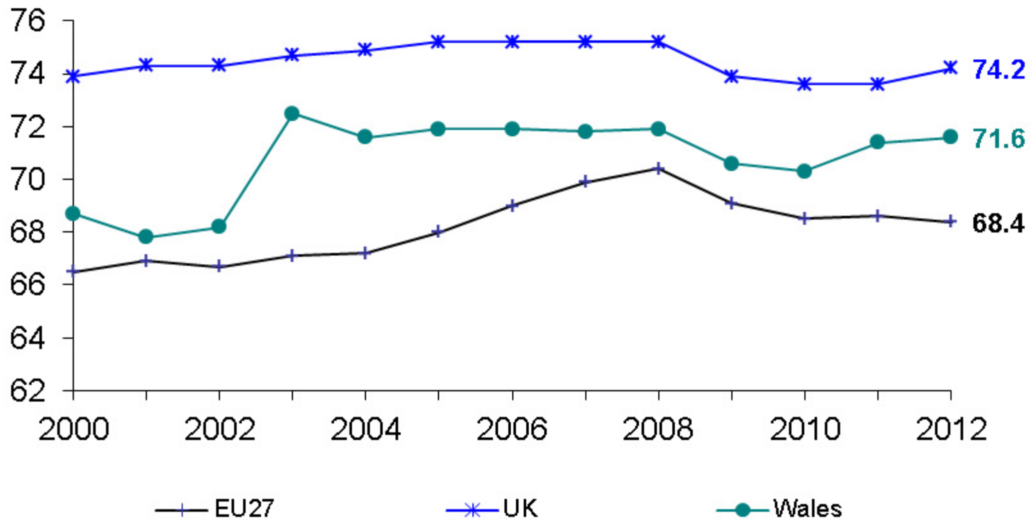


**Figure 74: Employment Rates (Aged 20-64 years)**
*Source ONS, Eurostat*

70. The unemployment rate in Wales was 7.4 per cent of the economically active population during August to October 2013, down from 7.9 per cent a year earlier.[334] The gap to the UK, has closed over the year with the UK rate the same as that for Wales in the latest quarter. For the year ending September 2013 the Annual Population Survey estimates that 40,200 people in Wales were long-term unemployed (12 months or more), down 6.1 per cent over the year. This represented 33.9 per cent of all those unemployed in the year, 1.7 percentage points lower than the figure for the previous year. The equivalent UK rate was 36 per cent, 2.8 percentage points higher than the previous year.

71. Economic inactivity in Wales, whilst remaining higher than the UK levels, has consistently decreased over the last 10 years to a rate of 23.5% in August to October 2013; this is broadly in line with UK trends. Although, over the period, the gap between Wales and the UK has been closing. The latest Welsh inactivity rate remains 1.3 percentage points higher than the UK average. In Wales in 2012 50% of those who were economically inactive were in workless households (52% in WWV and 47% in EW), this reduced to 17% for those who were unemployed (slightly higher in EW at 18%)[335].

[334] Welsh Government Statistical Bulletin SB 81/2013 August 2013.
[335] Annual Population Survey, ONS – excluding students and retired people.

72. **Youth unemployment**[336] rose sharply following the economic downturn to 25.2% in 2011 but has since shown signs of recovery, reducing to 24.2% in 2012. Despite this progress the proportion of 16-18 year olds who are Not in Education Employment or Training (NEET) in Wales has remained fairly constant at a rate of between 10-12% over the years 1996 to 2010. The *Youth Engagement and Progression Framework* [337] provides the foundation to identify and support those who need support including those who are NEET and those most at risk of becoming NEET in the future. Opportunities exist to align the ESI funding in this area to the Employment and progression framework to ensure funding is targeted at those who need it the most.

73. Employment policy and services are a non devolved competence in Wales and will be substantially affected by policy and provision at a UK level, which will include the impacts of on-going welfare reform. Investments in actions to support labour market mobility primarily focused around supporting those who are furthest from the labour market and those most at risk of poverty and deprivation, will not duplicate, but complement and add value to mainstream UK provision. Specific issues of individual eligibility to ensure additionally with UK mainstream provision will be addressed through the Welsh National Rules on Eligibility for the 2014-2020 Programmes. Actions will also look to mitigate any negative impacts in Wales of the UK Welfare reform programme specifically where linked to issues of poverty.

## EDUCATION

74. **The proportion of early school leavers** is considerably higher in Wales than the Europe 2020 target. In 2010 the proportion of early school leavers was 19.6% in Wales compared with the 14.9% in the UK and 14.1% in the EU27. The 2009 Programme for International Student Assessment (PISA) found that reading and mathematical ability among 15 year olds in Wales was significantly below the OECD average[338]. Ability in science was similar to the OECD average. It is clear that there are issues with educational achievement in Wales compared with competitor nations and regions.

75. There have been significant improvements however in the percentage of pupils who have achieved level 2 in the core subjects of English or Welsh, Mathematics and Science at age 15. In 2010/11 48.7% had level 2 attainment a 12.2% point increase over the last decade[339]. The Welsh Government has set a target to increase the level 2 **attainment** at 15 to 65% by 2015.

## SKILLS

76. In Wales 41% of 30-34 year olds have completed a tertiary or equivalent education; on this front Wales is above the EU average and exceeds the EU2020 target of 40% for the same cohort. However further opportunities exist to address regional disparities within Wales and close the gap with the UK at 47.1%.

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[336] Unemployment amongst 15-24 year olds.
[337] Further details at: http://wales.gov.uk/topics/educationandskills/skillsandtraining/youthengagement/?lang=en
[338] Bradshaw, J., Ager, R., Burge, B. and Wheater, R. (2010). PISA 2009: Achievement of 15-Year-Olds in Wales. Slough: NFER
[339] Office for National Statistics, Annual Population Survey

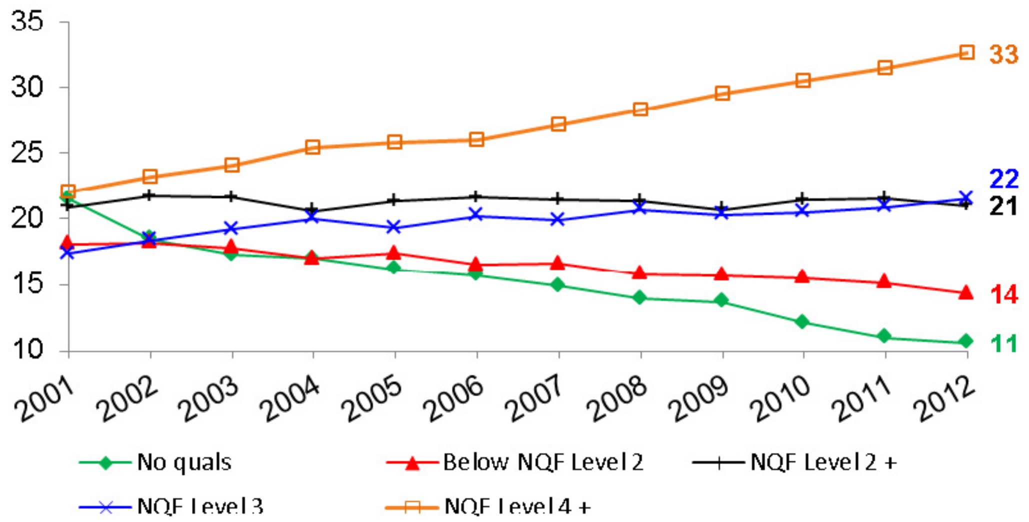



**Figure 75: Qualification Levels of Working Age Adults in Wales**
*Source Welsh Government, ONS*

77. The skills levels of working age adults in Wales have improved over the last decade, led primarily by those with qualifications at NQF level 4 and above. Qualification levels however remain on average lower than the UK, although significant regional variations exist. The UK chapter outlines the issues of supply and demand in terms of workforce skills and skilled workers prevalent across the UK. This skills miss-match is further emphasised in Wales as the skills profile of working age adults shows that 25% still have below level 2 qualifications[340], (slightly higher than in the UK). This also emphasises the on-going need for basic skills support in Wales.

78. Investing in skills continues to be a key driver in the development of a modern knowledge-based economy and in helping economies to respond and adapt to economic changes such as the recent economic recession and on-going challenging economic environment. The socio economic analysis shows that a high proportion of new jobs in Wales are in **higher skilled** occupations and that there are declines in the traditional low skilled industries. According to UKCES[341] (UK Commission for Employment and Skills), the fastest growing occupational groups require skills at NQF Levels 3, 4 and above; the fastest declining occupations cluster around NQF Level 2 and below.

79. Investment in education and skills, including digital skills, will ensure Welsh workers are able to access the opportunities which exist in the development of a high skilled economy. Investments can bring additional benefits to the individual. Higher levels of qualification are associated with higher levels of employment, and higher wages. Skills development for participants can facilitate career progression, improve income levels and help address in-work poverty.

80. Summary of needs and growth potentials justifying selection of key Thematic Objectives

| Needs | Growth Potential | Thematic Objective |
|---|---|---|

[340] Stats Wales
[341] Quoted in the Wales Employment & Skills Board Report, “Skills for Jobs”, July 2011

| Needs | Growth Potential | Thematic Objective |
|---|---|---|
| • Need to address the relatively high incidence of NEET and youth unemployment<br>• High levels of Youth Unemployment adding to challenges in Wales in seeking to achieve the Europe 2020 target of 75% employment<br>• Lower labour mobility in longer-term unemployed and lower skilled, compounded by greater barriers | • Youth unemployment has been reducing more recently<br>• Employment rates have recovered post recession<br>• Employment rate gap to the UK has been reducing over the last few years<br>• Opportunity in territorial areas through greater regional coordination to link investments supporting employment growth and transport (ERDF) more directly with investments to improve employability and to tackle poverty and social exclusion (ESF) | (8) promoting sustainable and quality employment and supporting labour mobility (ESF, ERDF) |
| • Significant issues of poverty and associated social exclusion including not having sufficient resources to afford food, reasonable living conditions or amenities or to participate in activities taken for granted by others in society.<br>• Barriers in linking employment needs to areas of economic growth, e.g. connectivity.<br>• Relatively high unemployment and economic inactivity with significant numbers of workless households.<br>• Child Poverty is relatively high in Wales and needs to be reduced.<br>• Issues noted above exacerbated in some rural areas. | • Significant cross governmental focus on tackling poverty and social exclusion;<br>• Tackling Poverty Action Plan commits to offering opportunities to adults in workless households to find sustainable training or employment;<br>• Secure, long term (sustainable) employment seen as the main route out of poverty;<br>• Employment helps to prevent the impact of poverty on health and well being and prevents future generations of children living in poverty. People in work find it easier to get other, better jobs, greater skills, higher income, better housing and a more fulfilled life;<br>• Opportunities to enhance linkages with growth areas to link employment supply and demand<br>• Improving free access to green spaces and forests to improve health with low cost to participants. | (9) promoting social inclusion, combating poverty and any discrimination; (ESF, EAFRD) |

| Needs | Growth Potential | Thematic Objective |
|---|---|---|
| • 25% of working age adults have below NQF level 2 qualifications;<br>• A decline in traditional low skilled industries - the fastest declining occupations cluster around NQF Level 2;<br>• The existing workforce needs to be up-skilled to respond to economic opportunities from a knowledge based economy;<br>• High levels of Early School Leavers and low levels of attainment amongst young people. | • The fastest growing occupational groups require skills at NQF Levels 3, 4 and above;<br>• Investing in skills will support the development of modern knowledge based economy;<br>• Investing in skills can help address in-work poverty;<br>• Opportunity to support skills attainment to level 3 or above to help support progression and address in-work poverty<br>• Support for rural specific skills training. | (10) Investing in education, training and vocational training for skills and lifelong learning (ESF, EAFRD) |

**Experience of 2007-2013 and relevant evaluations**

81. The 2011 ESF Leavers Survey[342] found that the majority of participants who took part in ESF operations developed essential skills in organization, communication, team working skills and problem solving skills. Almost three quarters of respondents gained a qualification as a result of their participation in ESF training. As in earlier surveys, participants were more likely to report positive outcomes, and attribute these outcomes to their participation in an ESF operation, if they have gained qualifications through ESF (particularly qualifications at a higher level than previously held). For priorities aimed at the unemployed and economically inactive, within 12 months of finishing their training, almost half of previously unemployed respondents and 30% of previously economically inactive respondents were in employment. Furthermore, comparisons with the wider population suggest that unemployed participants were about 20% more likely to find a job than unemployed individuals who have not attended ESF training.

82. For priorities aimed at those in work, the majority of respondents to the 2011 ESF Leavers Survey reported improvements in job satisfaction, future pay and promotion prospects and opportunities for training, following their participation in an ESF operation, although only a minority indicated that this could be directly attributed to their participation in an ESF operation. Moreover, approximately 1 in 5 respondents who were employed in a different job from that held prior to their participation in an ESF operation report that their ESF operation was vital to them gaining their current employment.

83. An example of business benefits of ESF can be found in the Interim Evaluation of the Enhancing Leadership and Management operation. [343] The majority of surveyed businesses in this evaluation reported that the learning from ELMS activities was being applied by participants. Furthermore, the majority of participant learners said that they had improved their leadership and / or strategic management skills. Individual respondents also generally reported positive results in terms of job specific skills. Assisted businesses reported that the most significant impact of the training on

[342] 2011 ESF Leavers Survey, Cardiff University et al, 2013
[343] *Interim Evaluation of ELMS* operation, Old Bell 3, 2013

individual participants was in relation to staff morale, followed by promotion and increased responsibilities. There was less evidence to suggest that this led to increased wage levels and assisted companies did not make a particularly strong link between ELMS training and either improved profitability or reduced losses. The most positive impacts at a business level were in relation to improved productivity and efficiency and overall prospects going forward.

84. The Evaluation of the Young People's Priority in the 2007-2013 Programmes found that ESF enabled many operations to try innovative approaches; extend / develop existing provision; and influence mainstream provision to be more responsive to the needs of certain young people who have previously been overlooked.[344] The partnerships established through the portfolio of operations were seen to be important to working with the age groups supported as many young people had multiple needs, or fell into gaps in existing services as they made transitions between schools, colleges, and adult services.

## 1.2 A SUMMARY OF THE EX-ANTE EVALUATIONS OF THE PROGRAMMES OR KEY FINDINGS OF THE EX-ANTE EVALUATIONS OF THE PARTNERSHIP AGREEMENT WHERE UNDERTAKEN BY THE MEMBER STATE AT ITS OWN INITIATIVE

1. Ex-ante evaluations for the 2014-20 ESF and ERDF Programmes for West Wales and the Valleys and East Wales have been completed while the Rural Development Plan for Wales is ongoing and on course for completion in May 2014.
2. The ex-ante evaluations were undertaken on an interactive and iterative basis with the evaluators making judgements and recommendations on various draft programming documents over the past 18 months with a number of these recommendations being incorporated into the programme documents.
3. The evaluators concluded that the programmes and the selection of thematic objectives are consistent with the main development needs of Wales and are:

- based on a very sound and thorough socio-economic analysis and uses the evidence base appropriately;
- 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;
- 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;
- using appropriate indicators and has adopted a logical approach to the setting of targets;
- using appropriate monitoring and evaluation processes, which are in place;
- generally based on a justifiable allocation of budgetary resources;
- based on sound partnership working and build on previous strengths in terms of programme management but are set in the context of efforts to improve implementation processes which have been perceived as problematic in the past; and are,

[344] Evaluation of ESF Convergence Priority 1, GHK Consulting, 2012

- based on appropriate involvement of, and consultation with, individuals and bodies with expertise within the Horizontal Themes and have particular strengths in their approach to equal opportunities.

4. In endorsing the programmes the evaluators have drawn attention to a small number of areas where they believe there is case for further reflection but note that they respect the counter arguments put forward and that such remaining differences of view are legitimate.
5. The Evaluators also reviewed and commented on the Welsh Chapter of the UK Partnership Agreement and have commented that the strategy set out in the Welsh programmes is consistent with the analysis and proposals for the ESI funds set in both the UK and Welsh Chapters and that all the interventions envisaged are consistent with the proposals for the use of ESI funds across the UK.

## 1.3 Selected thematic objectives, and for each of the selected thematic objectives a summary of the main results expected for each of the ESI Funds and the Youth Employment Initiative (YEI)

| Thematic Objective | Desired Results |
|---|---|
| (1) strengthening research, technological development and innovation | • Increase in capacity and capability of Research institutions to attract competitive and private investment in RTD&I (ERDF)<br>• Increase innovation in businesses (ERDF, EAFRD)<br>• Increase commercialisation of RD&I (ERDF, EAFRD) |
| (2) enhancing access to, and use and quality of, information and communication technologies | • Completion of ICT and mobile networks. (ERDF)<br>• Greater exploitation of ICT and digital economy (ERDF, EAFRD) |
| (3) enhancing the competitiveness of small and medium-sized enterprises, the agricultural sector and the fisheries and aquaculture sector | • Increase number of SMEs (ERDF)<br>• Increase productivity growth across SMEs (may mean reductions in employment in some cases) (ERDF, EAFRD)<br>• Increase size of businesses (whilst maintaining competitiveness through productivity growth) by addressing barriers to growth at key stages (ERDF, EAFRD)<br>• More high growth businesses (ERDF)<br>• Increase profitability in farm businesses through broader adoption of leading practice (EAFRD)<br>• Increase value added in fisheries and aquaculture products (EMFF)<br>• Increased innovation in fisheries and aquaculture (EMFF) |
| (4) supporting the shift towards a low-carbon economy in all sectors | • Increasing use of renewable energy (amount and proportion) (EAFRD)<br>• Contribute to development of marine energy sector (ERDF & EMMF)<br>• Improve energy efficiency in housing, whilst helping tackle fuel poverty and develop supply chains<br>• Increase R&I capability and exploitation of that capability for low-Carbon technologies, processes and services (EAFRD, ERDF) |

| Thematic Objective | Desired Results |
|---|---|
| (5) Climate Change | • Land-based measures to reduce GHG and improve Carbon retention (EAFRD)<br>• Improved resilience of farm businesses to the extreme effects of climate change (EAFRD) |
| (6) Environment / resource efficiency | • Land-based actions with a particular focus on environmentally sustainable land management (EAFRD)<br>• Promotion of sustainable forestry (EAFRD)<br>• Improved Natura 2000 participation, biodiversity and water quality (EAFRD, EMFF)<br>• Discard free fisheries and transition to Maximum Sustainable Yield (EMFF) |
| (7) promoting sustainable transport and removing bottlenecks in key network infrastructures | • Improved connectivity through fewer bottlenecks in transport networks (ERDF)<br>• Greater urban mobility through greater use of sustainable transport and improvements in use to access employment opportunities (ERDF)<br>• Improving access to strategic sites for jobs and growth (ERDF)<br>• Improving rural transport gaps (EAFRD) |
| (8) promoting sustainable and quality employment and supporting labour mobility | • Increase youth employment and employability of young people (ESF)<br>• Reduce Gender pay gap (ESF)<br>• Increased number of females at senior management (ESF)<br>• Reduction of those who are Not in Employment, Education or Training 16-24 (ESF)<br>• Increased employment in selected territorial areas associated with investment identified and delivered using the principles of sustainable urban development set out in the regulations (ERDF) – see also section 3 |
| (9) promoting social inclusion, combating poverty and any discrimination | • Reducing unemployment amongst those at risk of poverty and discrimination (ESF)<br>• Increase Social inclusion through sustainable employment (ESF, EAFRD)<br>• Reduction in barriers to full time working (ESF) |
| (10) Investing in education, training and vocational training for skills and lifelong learning | • Increase the skills levels of the employed workforce, supporting progression to intermediate level skills and above (ESF, EAFRD))<br>• Increase in higher level skills with a focus on Research and Innovation (ESF)<br>• Increased attainment levels amongst 11-16 year olds (ESF)<br>• Reduction of young people at risk of NEET (ESF)<br>• Increased quality of the early years and childcare workforce (ESF)<br>• Increase Leadership and management skills, organisational flexibility and workforce diversity (ESF) |

## 1.4 THE INDICATIVE ALLOCATION OF SUPPORT BY THE UNION BY THEMATIC OBJECTIVE AT NATIONAL LEVEL FOR EACH OF THE ESI FUNDS, AS WELL AS THE TOTAL INDICATIVE AMOUNT OF

## SUPPORT FORESEEN FOR CLIMATE CHANGE OBJECTIVES (BASED ON 2014 PRICES) NEEDS TO INCLUDE THE PERFORMACE

**1.4.1 Table: The indicative allocation of support by the Union by thematic objective at national level for each of the ESI Funds (EUR) (total Union support, including the performance reserve).**[345]

| | ERDF €m | ESF €m | EAFRD €m [346] | EMFF €m [347] | TOTAL €m |
|---|---|---|---|---|---|
| Strengthening research, technological development and innovation | 325 | 0 | 17 | TBC | 342 |
| Enhancing access to and exploitation of ICT | 67 | 0 | 5 | TBC | 72 |
| Enhancing the competitiveness of SMEs, the agricultural sector and the fisheries and aquaculture sector | 224 | 0 | 201 | TBC | 425 |
| Supporting the shift towards a low-carbon economy in all sectors | 279 | 0 | 25 | TBC | 304 |
| Climate change | 0 | 0 | 67 | TBC | 67 |
| Preserving and protecting the Environment and promoting resource efficiency | 0 | 0 | 294 | TBC | 294 |
| Promoting sustainable transport and removing bottlenecks in key network infrastructures | 314 | 0 | 5 | TBC | 319 |
| Promoting sustainable and quality Employment and Labour mobility | 167 | 205 | 0 | TBC | 373 |

[345] All allocations set out in this table have been subject to rounding so may not total up.
[346] EAFRD allocations in this table include voluntary modulation.
[347] EMFF is an UK wide programme. The details of the thematic objective breakdown for EMFF is solely set out in the UK chapter.

| | ERDF €m | ESF €m | EAFRD €m [346] | EMFF €m [347] | TOTAL €m |
|---|---|---|---|---|---|
| Promoting social inclusion, combating poverty and any discrimination | 0 | 225 | 10 | TBC | 235 |
| Investing in education, training, vocational training for skills and lifelong learning | 0 | 554 | 8 | TBC | 562 |
| Enhancing institutional capacity of public authorities and stakeholders and an efficient public administration. | 0 | 0 | 0 | TBC | 0 |
| Technical Assistance | 28 | 20 | 19 | TBC | 67 |
| **TOTAL** | 1,406 | 1,005 | 651 | TBC | 3,063 |

1. The Wales Rural Development Programme will be providing at least the mandatory minimum 5% contribution to LEADER. Wales will meet the minimum 30% spend requirements regarding climate change mitigation and adaption as well as environmental issues through a combination of the Glastir interventions under the agri-environment-climate, organic and forestry measures and the climate and environment related investment support.

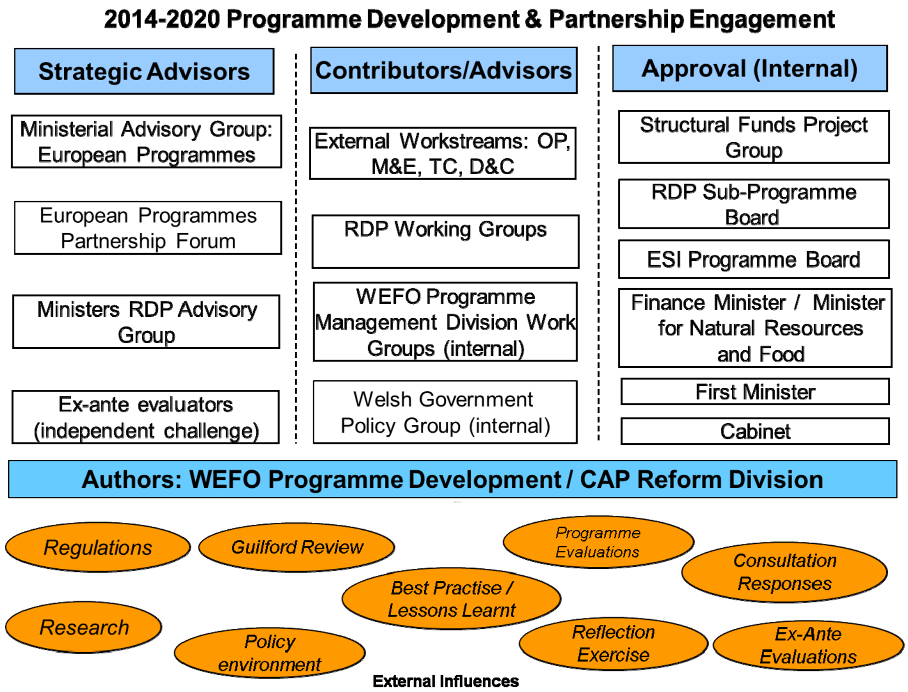
## 1.5 The Application of Horizontal Principles and Policy Objectives for the Implementation of the ESI Funds

### 1.5.1 Arrangements for the Partnership Principle including an Indicative List of the Partners Referred to in Article 5 CPR and a Summary of the Actions Taken to Involve Them in Accordance with Article 5 CPR and of Their Role in the Preparation of the Partnership Agreement and the Progress Report Referred to in Article 52 CPR

1. In accordance with Article 5 of the CPR, the 2014-20 Programmes have been developed through extensive engagement with external partners and stakeholders. This has involved a number of Advisory Groups and expert workstreams/ working groups, reflecting a full range of stakeholder interests from the public, private and third sectors, together with appropriate gender and geographical balance and with equality and environmental interests represented.
2. Members of all these groups have advised on the development of the new programmes and have consulted and communicated with their constituencies, thus broadening

discussion and sharing information. The interests of disadvantaged groups, including those with disabilities, are represented on the European Programmes Partnership Forum - the key external stakeholder group for the development of the new programmes - by the Wales Commissioner, Equality and Human Rights Commission.

3. These groups have worked alongside a number of internal Welsh Government groups to provide a comprehensive development framework consisting of strategic advisory groups, programme contributors and advisors and those, including Ministers, responsible for approving Programme documentation for submission to the Commission. This structure is reflected in the diagram below. The external groups and partnership arrangements (including public consultation) are outlined below with membership details included at Annex A.




4. **Ministerial Advisory Group on European Programmes** – a small task-and-finish group established to generate ideas and advise Ministers directly on a number of key strategic issues. Members were carefully selected as experts in their field, with the ability and insight to offer the necessary strategic thinking across all programme and policy areas. The group consisted of external experts and senior officials from the Welsh Government.

5. **European Programmes Partnership Forum** – the key mechanism for external stakeholder engagement on European funding developments post 2013. The forum had a direct input into the development of the Programmes and the Partnership Agreement. The membership was drawn partially from the Structural Funds All-Wales Programme Monitoring Committee (PMC) supplemented with additional partners to ensure that the Forum reflected all the ESI funds and the interests of all relevant stakeholder groups in Wales. Representation includes:

- local government;
- higher and further education;
- public, private and voluntary sectors;
- rural and environmental interests; and
- trade unions.

6. Specific expert **workstream groups** were established to consider the technical and operational detail of the 2014-20 Programmes and to assist in preparing programming documents, processes and procedures reflecting Ministerial strategic decisions.
7. The Minister's **Rural Development Plan Advisory Group** - an advisory partnership involving experienced external partners to provide a small and reactive forum for debate. Membership was drawn from key sectors across rural Wales. The Group's key tasks were to identify appropriate policy priorities and to advise on targeting resources to maximise sustainable economic impact in line with goals of Europe 2020 and Welsh Government policies and priorities. They were also directly consulted over the development of the Partnership Agreement.
8. The Advisory Group has been supported by four Working Groups to cover the six priority areas for the RDP 2014-20:

- Group 1: Competitiveness of Agriculture, Food Chain and SMEs
- Group 2: Agri-Environment, Climate and Forestry
- Group 3: Social Inclusion, Poverty Reduction and Economic Development
- Group 4: Knowledge Transfer and Innovation[348]

9. These Working Groups initially contained Welsh Government Officials with specialist knowledge in the sector or funding. They were then broadened to include external stakeholders. The Working Groups fed their findings into the RDP Advisory Group.
10. A **Reflection Exercise**[349] undertaken in winter 2011-12 provided stakeholders with an early opportunity to comment on the strategic direction and future investment priorities for the 2014-20 Structural Fund Programmes. Partners and stakeholders were supportive of the principles underpinning the Commission's legislative proposals and the need to align the new Programmes with Welsh Government policy objectives to maximise impact.
11. **Stakeholder "conversations"** on both Pillar 1 and Pillar II were also conducted specifically on CAP reform, starting with a "*Conversation on the way forward for Wales"* which ran from 19th Dec 2011- 31st March 2012 and the "*Strengths/ Weaknesses/ Opportunities/ Threats analysis for Rural Wales"* (4th Oct – 24th Nov 2012).
12. A full public consultation - 'Wales and the EU: Partnership for Jobs and Growth' and "Rural Development Plan 2014 – 2020: Next Steps" - was launched in January 2013 to seek views from partners on the Welsh Governments proposals for Structural Funds and the RDP, and four joint consultation events were held across Wales to reflect the opportunities for closer integration and harmonisation of these Programmes. The consultation ran until 23 April 2013 with over 200 responses received across the sectors. Feedback was extremely positive with support for the proposed investment proposals leading to only relatively minor adjustments to the Structural Fund Programmes.

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[348] The KT & I Working Group for the Wales RDP comprised two tiers of stakeholder engagement encompassing One-to-one semi-structured interviews with 26 key stakeholders involved in the provision and management of knowledge transfer and innovation in the rural economy, both within Wales and also further afield in the UK and Ireland, and A stakeholder consultation event and facilitated workshop to gather feedback from a wider array of over 150 invited stakeholders involved in the provision, management and partaking of knowledge transfer and innovation activities in Rural Wales. The stakeholder event was conducted as a means to consult a wider body of stakeholders than would have otherwise been possible with one-to-one interviews alone.

[349] Full report available here http://wales.gov.uk/docs/wefo/publications/120515reflectionsexerciseen.pdf

13. These included:

- Reframing of “helping people into work” West Wales and the Valleys ESF priority to become “Tackling Poverty though Sustainable Employment” with a greater focus on issues of poverty and deprivation;
- The inclusion of a new East Wales priority on addressing poverty and social exclusion through focused employability support to those furthest from the labour market; and
- The inclusion of an East Wales infrastructure priority.

14. Three further external stakeholder engagement events were held on the RDP during June and July 2013 to consider responses to the consultation exercise and to discuss prioritisation of proposed interventions. The feedback received from the events and from the independent analysis of the “RDP Next Steps” document was supportive of the key policy areas and the interventions proposed. These together with the earlier stakeholder “conversations”, other written evidence and separate consultations on Glastir helped frame the final proposals which were then subject to two further consultation events in March 2014 as a final opportunity for stakeholders to provide their input on the development of the new programme.

### 1.5.2 PROMOTION OF EQUALITY BETWEEN MEN AND WOMEN, NON-DISCRIMINATION AND ACCESSIBILITY (WITH REFERENCE TO ARTICLE 7 OF CPR)

1. The integration of equal opportunities, gender mainstreaming and the Welsh Language (which the Welsh Government also includes in the Equal Opportunities CCT) is important not only for legal reasons, but also because overcoming inequalities between men and women in the labour market contributes to the overall effectiveness of the activity delivered by the ESI Funds. Also, tackling the barriers often multiple, which many individuals experience in accessing and retaining employment are critical if the benefits of the ESI Funds are to be spread equitably across the people and communities within the region. This means equal opportunities (including Welsh Language) and gender mainstreaming will be important factors when designing Programmes and selecting operations. This will be supported though several actions including:

- Equal opportunities and gender mainstreaming targets will be set at the level of activities to be supported by the Programmes, providing an important driver to encourage operations to address the Programmes equality objectives;
- Equal opportunities and gender mainstreaming assessment at all stages of development of operations;
- On-going specialist advice will be made available to operations by Welsh Government and through arrangements being developed for the implementation of operations. A key objective will be to provide the specialist input at an early stage in the process to maximise take-up of the opportunities to promote gender mainstreaming and equal opportunities;
- A Programme of awareness raising and training will be provided to Welsh Government staff and beneficiaries on how to integrate gender mainstreaming and equal opportunities objectives;
- Activity level guidance will be prepared together with best practice case study examples that will provide specific information on how beneficiaries can address the gender mainstreaming and equal opportunities within their operation plans;
- Regular monitoring of progress, allowing for early intervention if necessary - Specialist CCT Advisers will attend inception and quarterly review meetings, where

they will review CCT activity and support beneficiaries to meet their CCT commitments. This will also include the monitoring of CCT indicators and targets, including forecasts to ensure operations are on track to meet commitments. Beneficiaries will be required to submit quarterly progress reports, detailing activity which is contributing to the CCTs;

- Update reports will be provided to a range of stakeholders on a regular basis. These will include an annual report on each of the CCTs presented to the PMC for scrutiny regarding progress; Annual Implementation Reports will contain sections detailing the CCT integration and progress. There is also a requirement to report annually as part of the Welsh Governments Strategic Equality Action Plan; Sustainable Development Plan; Tackling Poverty Action Plan; and Welsh Language Plan;
- Update reports to PMC and other stakeholders; and
- Welsh Government will encourage key gender mainstreaming, equality and social inclusion organisations to be involved in an attempt to establish an effective network of specialist support.

2. The Welsh Government has a legal duty to carry out an Equality Impact Assessment where the implementation of a plan or Programme is likely to have a significant impact on people with protected characteristics identified under the 2010 Equality Act.

## 1.5.3 Sustainable development (with reference to Article 8 of CPR)

1. Sustainable Development will be promoted across all Welsh ESI funded operations in the forthcoming funding round. Alongside the Welsh Government's core organising principle of sustainability it has a legal duty to carry out a Strategic Environmental Assessment (SEA) where the implementation of a plan or Programme is likely to have a significant effect on the environment.
2. The Welsh Government has a wider definition of sustainable development to that of the European Commission. The Programme of Government sets out the Welsh account of sustainable development, namely "an emphasis on social, economic and environmental well-being for people and communities; embodying our values of fairness and social justice." The Welsh programmes will contribute to the achievement of environmental sustainability goals as follows:

- Encouraging sustainable transport solutions in the delivery of activity within operations such as through linking unemployed and economically inactive individuals with work and in supporting access to skills and training;
- Investing in skills to develop competencies and knowledge in for example, environmental management, energy production, energy efficiency and waste management, and skills to support the development of the low carbon, energy and environment sector;
- Promoting research and innovation in the Grand Challenge area of low carbon, energy and environment;
- Developing the low carbon, energy and environment sector through business advice and support and business finance under the SME Competitiveness Priority;
- Promoting resource efficiency, including energy efficiency, through interventions under the SME Competitiveness Priority;
- Increasing the potential to generate renewable energy through support for R&I, and enabling infrastructure investments in the Marine Energy industry in Wales;
- Assist in the setting up of small scale and community renewable energy projects;
- Investments to improve the energy efficiency of Welsh Homes;

- Promoting low carbon energy schemes for urban and rural areas; and
- Support for low carbon transport initiatives.

3. The European Commission definition alongside that of the Welsh Government's wider vision of sustainable development will be combined to fully contribute to the integration of the sustainable development cross cutting theme.
4. Inclusion of sustainable development as a cross-cutting theme will help to ensure that the ESI funds deliver the maximum possible long term benefits to the economic, social and environmental wellbeing of Wales.
5. Protecting the environment and ensuring it is preserved for future generations is a commitment by the Welsh Government to ensure issues such as fly tipping, littering and graffiti are regulated and the necessary enforcement is issued. The 'Polluter pays' principle is a guiding standard of the UK Sustainable development Strategy and as such forms part of the Welsh Government's organising principle of sustainability. The 'Polluter pays' principle is enacted to make the party responsible for producing pollution accountable for paying for the damage to the natural environment. The basic principle underlies the UK system of Environmental law. To be in receipt of ESI Funds, operations must comply with environmental law and therefore uphold the 'Polluter pays principle.' Welsh Government will work with Beneficiaries to ensure that all operations are legally compliant.
6. Specifically protecting biodiversity and ecosystems, the Welsh Government has adopted the ecosystem approach to be applied to all planning developments, land use change and land use industries. To achieve this holistic approach a combined environmental body has been established in Natural Resources Wales, providing environmental assessments and controls to all types of land use change and development. This seeks to recognise the value of the ecosystem services provided by the environment and protect and enhance this in all developments. In addition, the Natural Environment Rural Community (NERC) Act sets all public bodies a duty to take appropriate regard to biodiversity in all of their activities, including approvals for development. The Welsh Government is committed to this approach through the proposed Environment Bill.
7. The Welsh Government plans to ensure that Wales leads the way in sustainable waste management through the overarching strategy document "Towards Zero Waste". The waste strategy outlines that the prevention of waste is the most preferred option, followed by minimisation, re-use, recycling, energy recovery and finally disposal. The strategy sets the social, economic and environment outcomes aimed at ensuring that sustainable resource efficiency contributes towards a sustainable Wales. All beneficiaries who are in receipt of ESI funds where an element of waste management is required will ensure that the principles of "Towards Zero Waste" are taken into consideration.
8. In terms of climate change mitigation and adaptation specialist training and advice will be directed at specific issues with beneficiaries. The Welsh Government is committed to tackling both the causes and consequences of climate change and has set a target to reduce emissions by 3% per year in areas controlled by the Welsh Government. The Welsh Government is committed to developing a robust method to monitor and evaluate the performance of climate change adaptation and its achievements are set out in the Adaptation Delivery Plan. Measuring changes in Wales' resilience to, and mitigation for, future climate change is complex and has a number of different aspects. Training and education Programmes in ESI funds will raise awareness of the causes and effects of climate change, how greenhouse gas emissions can be reduced and how to adapt to the consequences of climate change. Using EARFD funds the Welsh Government will seek to increase forestry cover in Wales and restore and protect carbon rich soils to contribute to the climate change agenda.

9. In terms of disaster resilience, risk preventions and management, the Welsh Government promotes whole system thinking, taking account of risks, especially to the economic, social and environmental wellbeing of communities. In ESI funded Programmes specific issues with beneficiaries will be discussed and appropriate advice will be provided. When providing advice, appropriate national climate change adaptation and mitigation strategies will be taken into account.
10. As with the Equal Opportunities Cross Cutting Theme, Sustainable Development will be supported though similar actions which will include, targets set at the level of activity to address the Programmes sustainable development objectives; operation assessment and on-going specialist advice; training and awareness raising around the sustainability agenda along with activity level guidance. In addition, there will be regular monitoring of progress with reports to key stakeholders including the PMC.

### 1.5.4 Horizontal policy objectives

#### Tackling Poverty and Social Exclusion Horizontal policy objective

1. As with Equal Opportunities and Sustainable Development, the Welsh Government believes that tackling poverty and social inclusion should be, a fundamental principle of everything it does. It believes that, as well as the specific vertical actions set out in the two ESF Programmes, there are actions that can be done to tackle poverty right across the ESI funds. As a result, a Tackling Poverty and Social Inclusion Cross Cutting Theme will be introduced for the 2014-20 funding round providing a tool for integration which will maximise the impact of the ESI funds on poverty and align Wales' EU Programmes with the Welsh Government's Tackling Poverty Action Plan.
2. Key Tackling Poverty Objectives for the ESI Programmes in Wales:
    - Focus on the creation of jobs and growth providing employment opportunities for those who are out of work;
    - Tackling barriers to employment such as poor skills, lack of childcare or limited transport options helping more people to access employment opportunities; and
    - Focusing on growth, particularly in key knowledge-based sectors – aligned with skills development interventions, enabling those experiencing in-work poverty to access more highly-skilled, better paid jobs.

3. To ensure it is mainstreamed across operations as a Cross Cutting Theme the Welsh Government will establish targets to assess the integration of tackling poverty objectives within operation proposals, and provide training for beneficiaries. In line with the other cross cutting themes regular monitoring reports will be provided to key stakeholders including the PMC.

# 2 ARRANGEMENTS TO ENSURE EFFECTIVE IMPLEMENTATION - ARTICLE 15 (1) (B) CPR

## 2.1 The arrangements, in line with the institutional framework of the Member States, that ensures coordination between the ESI Funds and other Union and national funding instruments and with the EIB

1. In order to produce a transformational effect in relation to jobs and growth the Welsh Government will look to maximise the impact of all European Funding streams. Wales

will be pursuing a more concentrated and integrated approach in the 2014-20 round of Programmes which will help to foster cooperation and coordination between funds.

2. There are close linkages across the programmes especially in the areas of Research and Innovation and higher level skills, where delivery of ESF investments linked to skills has the potential to support the supply of individuals to research institutions supported through ERDF. It is envisaged that Horizon 2020 and other research programmes will also complement R&D investments for the next round of programmes. Wales has signalled its intent to maximise the synergies between ESIF and Horizon 2020 by creating a new Horizon 2020 Unit in the Managing Authority, WEFO. The Unit's objectives include promoting opportunities to build capacity and develop support for accessing Horizon 2020 and other competitive research & innovation funding through targeted ESIF investments. This is also reflected in the specific objectives of the ERDF programmes. Any investments in research infrastructure in Wales will need to add value to existing provision in the UK and Europe. Where joint development of that infrastructure and/or access to existing infrastructure is the most appropriate route, this will be encouraged.
3. The Wales European Innovation Partnership (EIP) will rely mainly on already established mechanisms, and thereby avoid creating new structures, but will strengthen the efficiency of existing ones for Rural Development Policy and for the EU Research and Innovation Framework. It will also allow Wales greater access to research funding aimed at addressing Rural Development Regulation Priorities, Horizon 2020 societal challenges of sustainable agriculture, and also Welsh Government Programme for Government objectives.
4. The RDP will support the establishment of co-operative Operational Groups (OGs) under the EIP, which will be able to access funding through the Horizon 2020 research programme in partnership with actors from at least three members or associated states (i.e. minimum of 3 OG's). There will be a clear incentive therefore for Welsh Government to encourage domestic OGs to form links with similar OGs in other member states in order to bid for Horizon 2020 funding. Horizon 2020 will fund research operations aimed at enhancing the knowledge base, including on-farm experiments; provide support for practice-oriented formats such as multi-actor operations, support for innovation brokers, innovation centres and thematic networks; and Interlink knowledge generation and sharing experience through dissemination activities and thematic networks.
5. In order for the EIP to provide maximum benefit to Wales over the course of the next RDP period, there will be a requirement to work closely with WEFO's Horizon 2020 Unit. This will provide Welsh stakeholders with integrated and targeted advice and support about accessing the most appropriate R&D and innovation funding from the EU, and ensure that the needs of the key Welsh agricultural, land-based, agri-food and forestry sectors are given sufficient prominence in developing and disseminating cutting edge research.
6. There is also potential for complementarity with EAFRD to promote innovation and the knowledge base in Rural Areas, particularly with regard to Low Carbon, energy, agriculture, forestry and the wider environment. LEADER Local Action Groups funded via EAFRD will stimulate innovation and successful LEADER pilots may lead to applications to the ESI funds for support. ERDF investments in marine energy will complement activity under the EMFF, contributing to the delivery of blue growth, with further links to the European Territorial programmes also envisaged in this area.
7. The Welsh Government is aiming to align work-related skills interventions in the ESF with business needs identified through the ERDF and the EAFRD, which enable SMEs to increase their productivity and competitiveness. Skills will play an important role in underpinning much of the economic growth and development aspirations within the wider Structural Funding programmes. The EAFRD will complement the ESF by

focusing on sector-specific interventions, while the ESF addresses generic business needs. Additionally EAFRD can support rural people to access training and employment opportunities via, e.g. community transport initiatives linking to the TEN-T routes.

8. Infrastructure investments will be expected to link with all ERDF activities as it can help drive a broad package of investments. Clear links to the ESF programmes are essential to take advantage of opportunities for human capital investments, particularly local employment opportunities. Larger investments should also link with the small-scale investment opportunities under EAFRD, to maximise regeneration outcomes. Strategic links with the Connecting Europe Facility will also be explored.
9. Access to the Digital Economy (ICT) is one of the Welsh Government's priorities for investment. Exploitation of ICT plays a vital role in the internationalisation of businesses and as a way to improve resource efficiency. The ERDF programmes will seek to improve the exploitation of ICT and improve access to the digital economy, with EAFRD utilised to fund information actions to improve supply-chains, adopt new technologies, increase efficiencies and help overcome rural isolation.
10. To ensure complementarity from the outset the Welsh Government has developed its Programmes in parallel. To ensure this joined up approach continues throughout the duration of the Programmes a single Programme Management Committee (PMC), with responsibility for all domestic ESI funds, has been established in Wales. This will promote high levels of co-operation and integration and provide for more consistent fund management processes thus reducing duplication and maximising the impact of ESI funds.
11. Separate Programme Monitoring Committees will be responsible for the European Territorial Co-operation (ETC) Programmes in which Wales will engage, including the Ireland/Wales Programme Monitoring Committee, 2014-2020. Robust structures will be put in place to ensure close co-ordination and complementarity of activities between the regional and ETC Programmes.
12. As part of our approach to help integrate and maximise opportunities for the ESI funds and make it easier for organisations to apply for and find out more about the EU funds in Wales, Welsh Government website facilities are being developed so that effective sign posting across the EU funds takes place, and where potential beneficiaries will be directed to specific thematic or funding teams for detailed support and advice.
13. The Welsh Government is actively exploring the Programmes directly managed by the European Commission, with a view to further exploiting opportunities and benefits and increasing their profile within Wales. The creation of the Horizon 2020 unit within the WEFO will help identify and maximise opportunities and ensure a coordinated approach for accessing Horizon 2020 funding and other funding sources i.e. Connecting Europe and Life+. The Unit has launched the SCoRE Cymru scheme to support the travel and bid writing costs incurred in building partnerships and accessing directly managed research and innovation funds such as Horizon 2020.
14. The Welsh Government is also investigating opportunities to integrate LIFE funding with the green infrastructure element in the ERDF and the developing proposals for the RDP. It will be working with partners through our Biodiversity Strategy Board to identify operations that can be taken forward coherently with these and other opportunities that may emerge.
15. A suite of guidance documents, including an Economic Prioritisation Framework (EPF), will be used to drive synergy between ESI Funds and Welsh Government economic development strategy by identifying thematic and regional opportunities on which to focus investment, proposed Welsh Government and other key stakeholder strategic interventions and complementary interventions on a regional and national basis. This will greatly assist beneficiaries in proposing appropriate operations in support of the Programmes and will aid selection and delivery across the suite of ESI funds.

16. The European Investment Bank (EIB) has already invested a loan of £75m to Finance Wales to deliver the existing JEREMIE fund, as well as providing a significant contribution to the Swansea Bay Science and Innovation Campus which has also received ERDF funding. The Welsh Government continues to engage with key private sector co-financers, including the EIB, to discuss future investment proposals in Wales that will contribute to the delivery of the 2014-20 round of Structural Funds and the Wales Infrastructure Investment Plan.

## 2.2 THE INFORMATION REQUIRED FOR EX ANTE VERIFICATION OF COMPLIANCE WITH THE RULES ON ADDITIONALITY (BASED ON ARTICLE 95 AND ANNEX X CPR)

1. Not applicable - see corresponding section in UK Chapter.

## 2.3 A SUMMARY OF THE ASSESSMENT OF THE FULFILMENT OF APPLICABLE EX ANTE CONDITIONALITIES IN ACCORDANCE WITH ARTICLE 19 AND ANNEX XI AT NATIONAL LEVEL AND OF THE ACTIONS TO BE TAKEN, THE RESPONSIBLE BODIES, AND THE TIMETABLE FOR THEIR IMPLEMENTATION, WHERE EX ANTE CONDITIONALITIES ARE NOT FULFILLED

1. Not applicable - see corresponding section in UK Chapter.

## 2.4 THE METHODOLOGY AND MECHANISM TO ENSURE CONSISTENCY IN THE FUNCTIONING OF THE PERFORMANCE FRAMEWORK IN ACCORDANCE WITH ARTICLE 21 OF THE CPR

1. Not applicable - see corresponding section in UK Chapter.

## 2.5 AN ASSESSMENT OF WHETHER THERE IS A NEED TO REINFORCE THE ADMINISTRATIVE CAPACITY OF THE AUTHORITIES INVOLVED IN THE MANAGEMENT AND CONTROL OF THE PROGRAMMES AND, WHERE APPROPRIATE, OF THE BENEFICIARIES, AS WELL AS, WHERE NECESSARY, A SUMMARY OF THE ACTIONS TO BE TAKEN FOR THIS PURPOSE.

**Management and Control**

1. The Welsh Government has considerable experience of administrating European programmes and is highly regarded by the European Commission in its management of European funds.
2. The Welsh European Funding Office (WEFO) which comprises the managing and Certifying Authority for structural funds has a staff complement of circa 190. This has maintained broadly the same since the 2000-06 Objective 1 programme when WEFO supported a programme of some 3000 operations to a position in the 2007-13

programmes where it moved to a significantly smaller number of more strategic collaborative operations. Despite significant efficiency savings in certain areas as a result of the introduction of a new web-based computer system (PPIMS), it has been important to retain staff to manage and support the often lengthy supply chains and multi partner approach associated with large strategic service delivery operations. WEFO has also deployed resources to support the concept of Development Officers (DOs) to provide a single point of contact for beneficiaries throughout the application, development and post approval stages and has strengthened financial appraisal capacity and compliance controls in both the managing and certifying authorities.

3. A similar situation exists for the Managing Authority and Paying Agency, who will be leading on the EAFRD. Their capacity has been tested in previous EAFRD programme periods and there will be continuity of staffing, with the exception of natural wastage, so they will retain corporate knowledge, capability and experience. To achieve harmonisation control systems will be aligned with WEFO processes, whilst ensuring that all CAP Paying Agency specific requirements are identified and addressed appropriately.
4. In 2012 the Welsh Government commissioned an independent review[350] to look at the 2000-06 and 2007-13 Structural Funds Programmes to identify lessons learned and recommend improvements. The report's primary finding was to continue to move to a simplified, more strategic delivery model with fewer operations and a clearer framework of economic prioritisation.
5. Plans are at an advanced stage to develop a business model that will support the integration of colleagues working on Structural and Rural funds but the level of resources available across Welsh Government already allocated to this activity does not suggest the need to strengthen capacity.
6. Technical Assistance is an essential resource for supporting the administrative capacity within the Welsh Government and partner organisations in the effective delivery of the European Programmes. Technical Assistance will continue to be utilised to reinforce the administrative capacity of authorities involved in the management and control of the programmes specifically in 6 key investment areas including:
    - Management;
    - Partnership and Networking;
    - Monitoring;
    - Research and Evaluation;
    - Information and Publicity; and
    - Audit and Control.

**Beneficiaries**

7. The Welsh Government has no evidence to suggest a major lack of administrative capacity amongst beneficiaries. This is supported by day to day contact by managing authority and paying agency staff, customer evaluations and feedback from the training events. However some areas which would benefit from strengthening have been identified, plans to address this are explained below.
8. As a key part of Technical Assistance funded activity beneficiaries will be supported through the provision of detailed guidance and training which is constantly updated as a result of feedback and lessons learnt. Under the 2014-20 Programmes beneficiaries will receive clear advice and support around management of EU funded operations and in particular financial and auditing requirements, monitoring and evaluation and integration

[350] Full review: http://wefo.wales.gov.u/programmes/post2013/guildford/guilfordreport/?lang=en

of cross cutting themes. The Development Officer function part funded through Technical Assistance will be a key tool in providing the front line support required by beneficiaries in the successful delivery of operations.

**Training**

9. Following consultation with present and potential beneficiaries, and taking into account lessons learned from the current round of funding, the Welsh Government has designed a series of training tools and workshops for the 2014-2020 programmes.
10. Workshops are already scheduled to ensure that potential beneficiaries are ready to begin the application process for the 2014-2020 programmes. Initial areas to be covered include the proposed application and appraisal processes, eligibility rules and conditions, finance and audit requirements and programme and operation management. Subsequent workshops will pick up on more of the specific detail from the Regulations and enable beneficiaries to administer and manage operations in accordance with outlined requirements.
11. In preparation for the 2014-2020 programmes, a rolling timetable of workshops and training sessions are also being rolled out to Welsh Government staff covering key areas relating to the proposed application and appraisal processes, eligibility rules and conditions, financial appraisals, cross cutting themes and research, monitoring and evaluation.

## 2.6 A SUMMARY OF THE ACTIONS PLANNED IN THE PROGRAMMES, INCLUDING AN INDICATIVE TIMETABLE, TO ACHIEVE A REDUCTION IN THE ADMINISTRATIVE BURDEN FOR BENEFICIARIES

1. A customer insight survey[351] was undertaken by WEFO in 2009 which sought the views of beneficiaries on administrative procedures and processes involved in applying for and managing EU operations. There was general support for efficiencies resulting from many of the web based improvements introduced for the 2017-13 funding round together with support for the concept of the Development Officer. Some concerns were raised over the bureaucracy involved in applying for funding (decisions could be made earlier involving less form filling) and over the accessibility and technical language in some of the guidance.
2. Significant progress has been made in reducing the administrative burden for beneficiaries under the 2007-13 Programmes. This has involved the implementation of new working procedures surrounding PPIMS IT system involving the harmonisation of processes across structural funds and enabling beneficiaries to input operation data directly via a web based portal. These common processes have resulted in, the improved exchange of documentation together with efficiency gains and quicker processes and payments to beneficiaries. The current round of Programmes has also seen the establishment of the Development Officer model. This has involved a single officer as a primary point of contact for beneficiaries throughout the application, development and post approval stages.

[351] Further details at: http://wefo.wales.gov.uk/publications/publications/monitoringevaluation/programmeevaluations/customerinsightsurvey2009/?lang=en

3. The Welsh Government is building upon previous developments and addressing feedback from beneficiaries for all ESI funds for the 2014-20 Programmes by maximising integration and harmonisation across funds wherever possible in order to assist and further reduce the burden on those delivering operations. This will include a streamlined application and assessment process involving a series of gateways and decision points over the eligibility of operations together with further enhancements to PPIMS. In order to make it easier for organisations to apply for and find out more about the EU funds in Wales, Welsh Government website facilities are also being developed so that effective sign posting across the EU funds takes place, and where potential beneficiaries will be directed to specific thematic or funding teams for detailed support and advice. The redesigned website, including a new approved operations database, will be launched in early 2014.
4. Harmonised ESI national eligibility rules and supporting guidance will be in place for all organisations in Wales receiving funds from ERDF, ESF and the EAFRD, other than where eligibility rules have been determined by fund-specific EU legislation. This will represent a significant simplification for beneficiaries in Wales and builds on the common eligibility provisions in the Common Provisions Regulation for matters such as durability, revenue generation, and simplified cost options. The harmonised eligibility rules will be agreed, published and easily accessible via Welsh Government websites in early 2014 ready for the start of the programmes.
5. In addition Wales intends to encourage the take-up of simplified cost re-imbursement options (lump sums, flat-rates, unit costs) by making all legislative options available to potential applicants, issuing detailed guidance, and running training workshops with representatives from key sectors to understand and address the barriers to take-up. It is expected that flat-rate costs in relation to reimbursement of indirect costs will be of particular interest to Welsh beneficiaries.
6. The extent of the shift towards a more results-based reimbursement system (lump sums, unit costs) will depend on the provisions of the Legislative Package and Implementing Regulations, the suitability of the EC standard rates, and the implementation guidance from the Commission. The overarching principle when considering options for simplification will be adopting mechanisms which are best suited to the Welsh context and to maintaining the successful and compliant delivery of structural funds Programmes in Wales.
7. Welsh operations will also benefit from a reduction in administration by Welsh Government implementing shorter document retention periods and protecting Structural Fund operations against duplication of audit activity from both the Audit Authority and European Commission in the same year.

# NORTHERN IRELAND CHAPTER

## INTRODUCTION

1. This chapter sets out the view of the Northern Ireland Authorities that the Common Strategic Framework funds must focus on furthering the objectives and targets of Europe 2020 within the priorities for economic, social and regional development established by the Northern Ireland Executive.
2. Since the signing of the 1998 Belfast Agreement, Northern Ireland has been an economy that has emerged from three decades of conflict and political instability which has had an adverse effect on economic performance and social cohesion. This process has been recognised by the European Commission in funding successive programmes to support Peace and Reconciliation.
3. Also, Northern Ireland is in a unique geographical position in the UK, having the only land border with a fellow Member State (Ireland) which establishes the importance of cross border co-operation in terms of economic development, exporting and services.

## 1 ARRANGEMENTS TO ENSURE ALIGNMENT WITH THE UNION STRATEGY OF SMART, SUSTAINABLE AND INCLUSIVE GROWTH AS WELL AS THE FUND SPECIFIC MISSIONS PURSUANT TO THEIR TREATY-BASED OBJECTIVES, INCLUDING ECONOMIC, SOCIAL AND TERRITORIAL COHESION (ARTICLE 15(1) (A) CPR).

### 1.1 AN ANALYSIS OF DISPARITIES, DEVELOPMENT NEEDS, AND GROWTH POTENTIALS WITH REFERENCE TO THE THEMATIC OBJECTIVES AND THE TERRITORIAL CHALLENGES AND TAKING ACCOUNT OF THE NATIONAL REFORM PROGRAMME, WHERE APPROPRIATE, AND RELEVANT COUNTRY-SPECIFIC RECOMMENDATIONS ADOPTED IN ACCORDANCE WITH ARTICLE 121(2) OF THE TREATY ON THE FUNCTIONING OF THE EUROPEAN UNION AND RELEVANT COUNCIL RECOMMENDATIONS ADOPTED IN ACCORDANCE WITH ARTICLE 148(4) OF THE TREATY ON THE FUNCTIONING OF THE EUROPEAN UNION.

**Macro-economic context for Northern Ireland**

1. Northern Ireland continues to face a range of structural challenges that hamper the region’s economic performance. These issues are long standing and have been widely

documented – most recently in the Northern Ireland Executive's Economic Strategy (NIES) 'Priorities for Sustainable Growth and Prosperity[352]' which summarises that:

- Northern Ireland living standards have persistently lagged behind Great Britain, with the main factors being lower levels of employment and productivity;
- growth in output and jobs has tended to be in relatively low value added areas, which has resulted in average wages remaining significantly below the UK;
- there is an over reliance on the public sector as a driver of economic growth in Northern Ireland. This also contributes to a very large fiscal deficit[353];
- the economy has historically been under-represented in higher value added sectors such as finance and business services;
- a large proportion of the population is registered as economically inactive, with social exclusion levels well above other parts of the UK;
- almost half of the working age population in receipt of incapacity benefit have been diagnosed with mental and behavioural disorders; and
- a significant number of households have experienced intergenerational poverty or joblessness and are far removed from job readiness and the labour market.

## SMART GROWTH

### RESEARCH, DEVELOPMENT AND INNOVATION.

2. Northern Ireland living standards have persistently lagged behind GB, with one of the main factors being lower levels of productivity. The Northern Ireland Economic Strategy (NIES) 2030 recognises that innovation is a key driver of productivity. The NIES therefore prioritises Innovation, R&D and creativity as a key 'rebalancing' themes for the Northern Ireland economy. The NIES further states that Northern Ireland suffers from low levels of innovation, patents and absorptive capacity, in both SMEs and in large firms.
3. Large firms account for only 0.1% (135) of the Northern Ireland business base; however they provide 24% of private sector employment. Northern Ireland is also dependent on a relatively small number of large companies for a significant proportion of R&D expenditure. The ten biggest spending companies accounted for 63% of total R&D spend in Northern Ireland in 2012.
4. The soon to be published Evaluation of Grant for R&D (InvestNI's primary tool for supporting R&D) has found that the majority of Invest NI R&D grants were awarded to SMEs. During the period January 2009 to June 2013 some 800 R&D projects were supported, of which 28% (222 projects) were awarded to large firms. Despite SMEs receiving the majority of awards the total value of grant made to SMEs amounted to £30.8m compared to £72.8m awarded to large companies. This is to be expected as larger companies are more likely to undertake larger R&D projects.
5. The rationale for large firm R&D intervention is to increase knowledge spillovers derived from these firms which either indirectly or in collaboration with SMEs lead to higher levels of productivity.
6. Northern Ireland firms have the lowest level of innovation activity amongst the UK regions[354]. In 2012, there were 495 companies in Northern Ireland who were believed to

[352] Further details at: http://www.northernireland.gov.uk/ni-economic-strategy-revised-130312.pdf
[353] Further details at: http://www.dfpni.gov.uk/northern-ireland-net-fiscal-balance-report
[354] Further details at: http://www.detini.gov.uk/innovation_strategy.pdf

be performing R&D. There is therefore a need to increase the proportion of innovation-active enterprises in Northern Ireland.

7. Northern Ireland expenditure on R&D in 2011 was 1.7% of GDP[355]. This was not far below the UK average (1.77%). However UK levels of R&D expenditure lag significantly behind international comparators. This also demonstrates that average European performance is not on a par with world leading nations in this regard and there is a need for further investment in order to meet the Europe 2020 target of 3% of the EU GDP (public and private) invested in R&D.

8. In 2012 the total level of Business expenditure in research and development (BERD) in Northern Ireland was £461.3m, Higher Education expenditure (HERD) was £147.3m and Government expenditure (GOVERD) was £15.5m. Northern Ireland in-house expenditure on R&D is comparable to the other UK regions. As a proportion of GVA Northern Ireland sits at 1.4% compared to a total UK figure of 1.3%.

9. The Smart Specialisation Framework for Northern Ireland is aimed at a number of key sectors / sub sectors that demonstrate greatest potential to deliver business growth and sustainable economic return, namely through:

   - Addressing global challenges and exploiting global opportunities in which Northern Ireland businesses can compete;
   - Developing expertise and building on existing key research strengths that lead to commercialisation; and
   - Focusing on enabling technologies that develop competitive advantage for Northern Ireland businesses.

10. The following sectors / sub sectors have been prioritised for support in R&D in light of the Strategic Policy Framework for Smart Specialisation for Northern Ireland:

    - Advanced Engineering;
    - Electrical & Electronics;
    - Agri-Food Technology;
    - Connected Health & Stratified Medicine; and
    - Computer Software & Services.

11. There is a strong local research base supporting agriculture and food processing in Northern Ireland. This is enhanced by significant industry engagement and an established technology exchange infrastructure. There is evidence that more work is needed on industry engagement and increasing awareness of ongoing research, but there is a very good base upon which to build. Continued research and more work to encourage awareness, knowledge transfer and the adoption of new technology can be a driver for change which can improve competitiveness and productivity.

## Access to Information Technology

12. Connectivity is an essential requirement to support the economic, social and industrial development of rural areas. Telecommunications is viewed as a basic necessity to

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http://www.detini.gov.uk/dt1_13_0159953 and https://www.gov.uk/government/collections/community-innovation-survey

[355] GDP is not available for NI therefore the figure relates to R&D expenditure as a percentage of GVA (Source: ONS Region and Country Profiles – Economy) http://www.ons.gov.uk/ons/rel/regional-trends/region-and-country-profiles/economy--june-2013/regional-profiles---economy--june-2013.xls (Worksheet 11)

support the development of innovation, social inclusion and global competitiveness. Northern Ireland has made a major investment in telecommunications in recent years. Mobile broadband coverage is of growing importance given the increased use of smart phones and 3G enabled tablets for business. While 2G mobile coverage in Northern Ireland is comparable with the rest of the UK (88% of premises) coverage of 3G is less extensive.

13. The UK chapter sets out the role that ICT exploitation has in improving SME Competitiveness. Improvements are being achieved in Northern Ireland's ICT infrastructure with the percentage of households in Northern Ireland receiving less than 2Megabits per second (Mbit/s) falling from 23% in 2011 to 15% in 2012. Much of this improvement is likely to be as a result of the increasing availability of Super Fast Broadband Services (SFBB) and a subsequent reduction in the number of lines with sub 2Mbit/s performance. This figure, however, is still above the UK average of 10% and could be caused by the very low population density in some areas of Northern Ireland and the need for some of the longest line lengths in the UK.

| | Percentage of connections receiving less than 2Mbit/s | |
|---|---|---|
| | 2011 | 2012 |
| England | 14% | 10% |
| Scotland | 13% | 10% |
| Northern Ireland | 23% | 15% |
| Wales | 19% | 15% |
| **Total UK** | **14%** | **10%** |

**Figure 76: Percentage of households receiving less than 2Mbit/s**
*Source: Ofcom/ Operators*

14. Only 13% of Northern Ireland's rural premises have signal from all 3G operators compared to the UK average of 23%. Feedback from stakeholder engagement indicates that access to rural broadband services remains an issue. If the rural economy is to make a full contribution to growth in Northern Ireland, there is a need for intervention to place access to rural high-speed broadband on a par with coverage throughout Northern Ireland.

## SME Competitiveness

15. In common with many regions of the UK and Ireland there is evidence[356] in Northern Ireland of continuing and in some cases increasing market failure in the provision of risk capital in the £50k to £2m deal size range. There is a recognised need for a complete funding continuum from seed to development capital to be available to stimulate the growth of technology based, high growth potential SMEs. Such SMEs will deliver increases in productivity, employment and competitiveness. This market failure comprises Capital Market failure, Information Asymmetries, Positive Externalities, Co-ordination Failures and Market Power. The need for government intervention in the

[356] Further details at: http://www.eagni.com/fs/doc/publications/eag-review-of-access-to-finance-for-ni-businesses-final-report.PDF

provision of finance and capability support for seed, early stage and developing businesses is supported in a wide range of UK research studies, primarily from Nesta and from the British Private Equity & Venture Capital Association (BVCA).

16. The establishment of debt and equity funds in Northern Ireland to support potential high growth businesses fits well with a range of EU, UK and Northern Ireland strategies, aims and objectives including the European Commission's expressed policy in favour of promoting venture capital as a means of helping small businesses finance research, develop new products or access new markets. An ex ante assessment of financial instruments is ongoing. The results of this work will shape the final format of financial instruments in the 2014 – 2020 ERDF Programme.

17. It is important to highlight that SMEs in Northern Ireland are much more important in terms of their employment contribution than in all other parts of the UK. However, Northern Ireland SMEs have been much more severely impacted by the economic downturn, with employment falling by 10% during the period 2010-2013, whilst UK SME, in contrast, experienced a 6% growth in employment over the same period. The establishment of appropriate debt and equity funds is essential, however, in addition to access to finance initiatives, other supports need to be provided to SMEs to support growth. For example, there is a need to support improvements in business efficiency, better integration of the supply and distribution chains, and product development. Helping more businesses to start-up in the first place is also a key priority as NI has the lowest business birth rate of all UK regions.

18. There is a need to continue to secure filming in Northern Ireland with the resulting economic benefit and opportunities for Northern Ireland companies in the sector to grow the local crew and supplier base, enhance the skills of those involved in productions, and accelerate the development of a dynamic and sustainable creative media, film and television production sector in Northern Ireland.

19. Agriculture plays a more important role in the economy of Northern Ireland (1.1% of GVA) compared to the UK (0.7%). Agriculture and food account for 4% of Northern Ireland total GVA and 6% of employment. The economy of Northern Ireland can be characterised as a small business economy (89% of businesses with 10 employees of less) and many of these small businesses are located in rural areas. Despite the growth in many agricultural sectors there was a 50% decline in total income from farming in 2012. Contributing factors include rising input costs. Capital investment has declined due to a reduction in working capital.

20. The Programme for Government has identified and prioritised the agri-food industry, recognising its potential to grow and to create jobs and prosperity. There is a need to invest in farm infrastructure, better integrate the supply chain, increase sales in existing markets and to target new markets overseas and to add more value to products to achieve premium prices.

**Summary of needs and growth potentials justifying selection of key Thematic Objectives**

| Needs | Growth Potential | Thematic Objective |
|---|---|---|
| • To increase innovation levels, increase patent numbers and absorptive capacity in both SMEs and large firms in NI.<br>• To increase R&D&I levels in Northern Ireland's existing large firms.<br>• To support business to undertake R&D for the first time.<br>• To increase the number of innovation-active businesses in Northern Ireland.<br>• For further investment to meet the Europe 2020 target for R&D investment.<br>• To provide structures for the two-way flow of innovative ideas between the agriculture and food processing industry and local researchers. | • Potential for increased investment in R&D by existing firms.<br>• Potential for investment in R&D in firms who are new to R&D.<br>• Potential for an overall increase in NI BERD.<br>• Existing links between Agricultural Colleges and local universities.<br>• Strong local agricultural research base. | (1) strengthening research, technological development and innovation |
| • For intervention to complete access to rural high-speed broadband | • Existing plans to deliver fast broadband, super fast broadband and 3G availability. | (2) enhancing access to, and use and quality of, information and communication technologies |
| • To tackle Market Failure in funding SME Growth.<br>• To create jobs.<br>• For investment to improve performance and competitiveness of the agri-food industry. | • High-growth potential SME can deliver increases in productivity employment and competitiveness.<br>• Potential to further stimulate employment growth in Northern Ireland SMEs.<br>• Northern Ireland Agri-food industry has potential for accelerating exports and stimulating entrepreneurship and innovation. | (3) enhancing the competitiveness of small and medium-sized enterprises, the agricultural sector (EAFRD) and the fisheries and aquaculture sector (EMFF) |

**Experience of 2007-2013 and relevant evaluations**

21. Based on experience of the 2007-2013 programme, it is proposed that resources will be concentrated on fewer more targeted activities. In addition it is proposed that activities in the 2014-2020 period maximise the use of private sector match and deliver greater benefit from ERDF interventions.
22. Proposals for the new programme include Invest NI schemes aimed at addressing specific EU priorities in a manner where simplification can be maximised, for example, the potential use of unit costs in Grant for R&D.
23. Innovation needs for the agri-food industry should be a two-way partnership between researchers and those directly involved in the industry. This will help to ensure there is a faster transfer of innovation from research to ‘practical’ framing and also for the industry to express their needs to the scientists. Sharing of information through a network of innovation groups across Europe will help to prevent duplication of effort and accelerate the implementation of innovative solutions. Lessons learnt from research projects highlights the importance of funding individuals who have the key skills to identify and facilitate key projects and groups.
24. Funding for rural broadband through the Rural Development Programme is limited and therefore needs to be targeted at those areas of greatest need and maximum output. Rural development funding will have maximum impact if used in conjunction with other funds or projects.
25. A range of capital investment interventions have been used in previous rural development programmes to support SME’s in the agricultural and food sectors. The range of support available and entry requirements for the various schemes have been in some cases disjointed and confusing for the beneficiary. Future support will be simplified through the harmonisation of rules and entry and eligibility requirements for the beneficiary. This will also improve the links between the support schemes and a better assessment of the overall impact of the intervention. Where possible, the use of simplified costs will be considered to reduce the administrative burden on beneficiaries and to reduce the risk of procurement error.

# SUSTAINABLE GROWTH

## SUPPORTING THE SHIFT TOWARDS A LOW-CARBON ECONOMY IN ALL SECTORS.

26. Rising costs are a dominant feature of the current economic environment for farmers and rural businesses. There is evidence of increasing awareness of energy costs from attendance at renewable energy events. The Consumer Council in Northern Ireland reported that the cost of heating oil has risen over 90% over the three years to 2012 and electricity prices up by 18.6% by October 2011. It is also estimated that Northern Ireland imports at least 95% of its energy. Rising energy costs means there is a need to improve business efficiency and therefore competitiveness.
27. At a European level, the State of Renewable Energies in Europe report[357] noted that the share of energy from renewable sources in gross final energy consumption (i.e. electricity, heat, transport) was 13.4% at EU level in 2011. At a UK level this figure was 3.8%, whilst in Ireland the figure was 6.2%.

[357] The State of Renewable Energies in Europe 2012 edition (http://www.energies-renouvelables.org/observ-er/stat_baro/barobilan/barobilan12.pdf - accessed 5 Sept 2013)

28. The **Strategic Energy Framework**[358] endorsed by the Northern Ireland Executive commits Northern Ireland to an ambitious target of 40% of electricity consumption and 10% for heat by 2020 to be generated from renewable sources.

29. Northern Ireland's performance in generating electricity from renewable energy sources is now above the UK average however its performance still lags behind that of the rest of Europe. Studies have shown that Northern Ireland is regarded as having one of the greatest wind energy resources in Europe. Specifically there is growing commercial renewable generation potential (mainly wind) in the North and North West of Northern Ireland.

30. To achieve the 40% target, private sector investment in large scale renewable generation of between 1600MW to 1800MW from both on and offshore projects will be required. A recent consultation[359] [360] undertaken by the System Operator for Northern Ireland (SONI) in 2011 suggests that wind generation could be constrained by as much as 13% by 2016 in the absence of appropriate investment in the network. Similar conclusions were drawn in the All-Island Grid Study 2008[361].

31. There is therefore a need for significant investment to ensure Grid capacity to promote the production and distribution of energy from renewable energy sources.

## PROMOTING CLIMATE CHANGE ADAPTATION, RISK PREVENTION AND MANAGEMENT

32. On 30 January 2014 the Minister for the Environment laid before the Northern Ireland Assembly the Northern Ireland Climate Change Adaptation Programme (NICCAP)[362] as required by the UK Climate Change Act 2008, setting out his department's vision to build '*A resilient Northern Ireland which will take timely and well-informed decisions that are responsive to the key risks and opportunities presented by climate change'.*

33. NICCAP was developed in response to the *Climate Change Risk Assessment for Northern Ireland*[363], which was published in 2012. That document considered the climate change risks which Northern Ireland shared with the UK as well as the particular features contributing to climate change risk in Northern Ireland and identified the most significant threats for Northern Ireland from climate change:

    - Reduced river flows and water quality during the summer;
    - Reduced water availability during the summer, particularly for domestic use;
    - Increased erosion affecting biodiversity and ecosystem services;
    - Increased flooding and coastal erosion affecting people, properties (including built heritage) and infrastructure;

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[358] Further details at: http://www.detini.gov.uk/strategic_energy_framework__sef_2010_-3.pdf
[359] Further details at: http://www.soni.ltd.uk/media/documents/Archive/Generator%20Connection%20Process%20Consultation%20Paper%20-%20October%202011.pdf
[360] Further details at: http://www.soni.ltd.uk/media/documents/Operations/Connection/Appendix%20F%20-%20Generator%20Connection%20Process%20Consultation%20Paper%20-%20October%202011.pdf
[361] Further details at: http://www.detini.gov.uk/grid_study_overview.pdf
[362] Further details at: http://www.doeni.gov.uk/index/protect_the_environment/climate_change/climate_change_adaptation_programme.htm
[363] Further details at: http://www.doeni.gov.uk/climate_change_risk_assessment_ni_2012.pdf

- Increased coastal squeeze and coastal evolution affecting beaches, intertidal areas, grazing marshes, etc.;
- Increased risk of wildfires resulting in biodiversity loss; and
- A decline in native species and changes in migration patterns, coupled with increased pests, diseases, non-native and invasive non-native species, in particular in the freshwater and marine environments.

34. Potential opportunities that have been identified include:

- Increased grass yields, allowing grazing season's for livestock to be extended; and
- Changes in crop yields, including wheat and potatoes.

35. NICCAP sets out the strategic direction and objectives in preparing for the impacts of climate change. It also establishes a range of adaptation actions and activities for the next five years (2014-2019) across four primary areas for action: (1) Flooding (2) Water (3) Natural Environment and (4) Agriculture and Forestry. It establishes five objectives and three adaptation principles.

36. The five objectives set out are:

    - Fulfil the statutory duties;
    - Work in partnership across Government and with relevant stakeholders to strengthen and develop policies, strategies and actions;
    - Raise awareness of the likely effects of climate change and the need for adaptation action;
    - Promote and support the enhancement of scientific evidence; and
    - Engage with other administrations.

37. The three principles on which the programme focuses are:

    - Integrating adaptation into relevant key policy areas;
    - Developing the evidence base; and
    - Communication and cooperation.

## ENVIRONMENT AND RESOURCE EFFICIENCY

38. Evidence indicates that critical loads for nitrogen deposition (much of which is due to ammonia) are exceeded in a large proportion of protected habitats in Northern Ireland.

39. Many of Northern Ireland's watercourses have been physically altered by drainage schemes, water abstraction, impoundment to create reservoirs, navigation, fisheries management and fish farming. The lowering of water levels in the largest lakes has had an adverse impact on the biodiversity of such sites. Eutrophication is the increasing enrichment of natural waters with plant nutrients, typically nitrogen or phosphorous, is a problem in Northern Ireland's waters. These nutrients are largely derived from agriculture.

40. The 2011-2015 Programme for Government (PfG) contains a target to reduce greenhouse gas emissions by 35% below 1990 levels by 2025. Northern Ireland's economic dependence on agriculture and the dominance of the ruminant livestock sector mean that a proportionally high amount of Northern Ireland's emissions come from the agri-food sector. Improving efficiency in food production has been identified as the key means by which Northern Ireland agriculture can lower its carbon footprint. Implementing efficiencies on-farm will have beneficial impacts in respect of both carbon emissions and also farm incomes, thus benefitting the economy as a whole. Government, the agri-food industry and the environmental sector have established a strategic partnership to address the issue of GHG emissions within farming and are

currently implementing their agreed Action Plan, "Efficient Farming Cuts Greenhouse Gases." The partnership has identified a significant number of important on-farm efficiency measures which they wish to see more widely adopted throughout Northern Ireland's farms. These include enhanced nutrient management, improvements in livestock management, investment in on-farm technologies to enable enhanced production efficiency and greater energy savings, as well as appropriate use of renewable energy on-farm. The partnership has also identified the importance of quantifying and enhancing the agriculture sector's unique ability to store carbon in its farming systems. Woodland is an effective means of sequestering carbon; however, Northern Ireland is one of the least wooded areas in Europe with only 8% of the land area under tree cover compared to 13% of the UK as a whole. Protecting and increasing the carbon stored in forests, soils, grassland, hedges, peatlands and other agricultural systems is of vital importance to the agri-food sector's efforts to reduce its carbon footprint.

41. Economic forces have driven the intensification of agriculture which has led to a net loss of habitats and a decline in biodiversity and landscape character. The Agri-food and Biosciences Institute (AFBI) monitoring of species and habitats on farmland under agri-environment agreement has shown that plant and invertebrate species of sampled habitats under agreement has been maintained. The schemes have also been successful in maintaining the condition of semi-grasslands.

42. The flagship initiative 'Resource Efficient Europe'[364] aims to create a framework for policies to support the shift towards a resource-efficient and low-carbon economy, comprising Integrated Guidelines for Member States to decouple economic growth from resource use, turning environmental challenges into growth opportunities and making efficient use of their natural resources. Specific targets in relation to the environment are set out in the EU environmental *acquis* and in a number of related directives.

43. **LIFE** is the only EU financial instrument specifically targeting the environment and can be used to create synergies across all EU Funds, increasing the effectiveness and impact of the EU intervention. LIFE is an ideal instrument to show to regional and national authorities the benefits of investing in the environment sector and incentivising them to develop strategic frameworks for spending.

44. The European Commission has asked all Member States to produce a **Prioritised Action Framework (PAF)** of measures having regard to available resources of funding under relative Community instruments. This has been done for Northern Ireland and was delivered in January 2013. The Commission has asked that LIFE funding should be used to produce substantial Integrated Projects.

45. In addition to LIFE, there appear to be opportunities to develop integrated projects using a broad range of EU funding streams. These opportunities are still to be discussed between Northern Ireland Environment Agency and Programming Authorities.

46. Northern Ireland comprises a wide range of habitats such as woodland, bog and grasslands which are important for biodiversity and ecosystem services. Northern Ireland hosts 52 habitat types of Annex I and 19 species on Annex II under the Habitats Directive. Including species in Annex IV and V of the Directive there are 46 species of community interest (SCIs) in Northern Ireland and its territorial waters. Northern Ireland also has 22 priority habitat types but no priority species.

[364] COM(2011) 21, Communication from the Commission to the European Parliament, the Council, the Economic and Social Committee and the Committee of Regions, 'A resource-efficient Europe — Flagship initiative under the Europe 2020 Strategy'.

47. Economic forces have driven the intensification of agriculture this is reflected in the average farm size in Northern Ireland which has increased from 28 ha in 1995 to 41 ha in 2012, while the number of farm businesses has fallen from 33,000 in 1995 to 24,000 in 2012. This has led to a net loss of habitats, and a decline in biodiversity and landscape character. Nevertheless these effects can be halted and reversed through appropriately targeted Government interventions. Support for agri-environment schemes for environmentally-sensitive land management and woodland creation are crucial in delivering Government's commitments in relation to biodiversity, sustainability, and woodland creation.

48. Future land management practices through the agri-environment programme and support for the creation and management of woodland will aim to help to sustain and enhance biodiversity, improve water and soil quality. The UK Government is committed to addressing both the causes and consequences of climate change. The 2008 Climate Change Act[365] has been extended to Northern Ireland. Agri-environment and forestry actions supported through the Rural Development Programme will help to mitigate against climate change by reducing greenhouse gas emissions and encouraging farming practices that lead to carbon sequestration. In Northern Ireland, the area of state forestry has remained relatively constant since 1995 at around 61,500 ha. However, the area of privately owned forest has increased by 42% over the same time period to 43,700 ha. Despite this increase Northern Ireland is one of the least wooded areas in Europe.

49. There is therefore a need to support agricultural production methods which are compatible with the protection and improvement of the environment, protect and improve the quality of rivers and lakes, contribute to climate change mitigation and adaptation, and encourage and support the creation of small woodland and forestry. Farmers will benefit from financial support for undertaking environmentally sensitive land management practices and there will be a range of schemes to support the creation and sustainability of woodland.

## PROMOTING SUSTAINABLE TRANSPORT AND REMOVING BOTTLENECKS IN KEY NETWORK INFRASTRUCTURES

50. The development of transport in terms of infrastructure and services is central to the delivery of the Executive's policy in Northern Ireland. Transport projects are identified as being key economic rebalancing measures with *'enhancement of regional connectivity and the promotion of more efficient and sustainable transport'* identified as a key opportunity for the region.

51. At a macroeconomic level Northern Ireland spends less, in both gross and percentage terms, on transportation than every other region of the UK[366]. The historic underinvestment in transportation in Northern Ireland is evidenced in reduced levels of mobility and is linked to a level of output, employment and income which is poor in comparison with other similar regions.

52. At a microeconomic level households in Northern Ireland have the highest rates of expenditure in terms of operating personal transport (at 8.8%), and the second highest levels of expenditure on transport services (at 2.3%) across all regions of the UK.[367]

[365] Further details at: http://www.legislation.gov.uk/ukpga/2008/27/contents
[366] Further details at: https://www.gov.uk/government/publications/public-expenditure-statistical-analyses-2013
[367] Further details at: http://www.ons.gov.uk/ons/dcp171766_297746.pdf

53. In the context of 2014-2020 European Programmes, investment in transport remains a priority; particularly because of its strong capacity to deliver a range of social and economic benefits in both urban and rural localities. This is set against a requirement to address the legacy impacts of past underinvestment. Historically, many strategic transport projects have been successfully delivered through cross-border cooperation. This co-operation has resulted in tangible improvements in terms of mobility and accessibility; however more needs to be done to address some of the more intractable problems around rural mobility and balancing sub regional economic growth.

54. Investment in the sustainability and connectivity of transport infrastructure in Northern Ireland will assist in redressing the balance of historic underinvestment in transport and improve the economic competitiveness of the region.

**Summary of needs and growth potentials justifying selection of key Thematic Objectives**

| **Needs** | **Growth Potential** | **Thematic Objective** |
|---|---|---|
| • For investment to upgrade electricity grid to harness energy from renewable sources. | • Potential for high proportion of electricity energy needs to be met from renewable sources. | (4) supporting the shift towards a low-carbon economy in all sectors |
| • To reduce greenhouse gas emissions caused by production methods and nutrient pollution. | • Sustainability will enable the agricultural sector to compete and grow. | (5) Climate Change |
| • To tackle threats to biodiversity, land and water quality. | • Land management practices can sustain and enhance biodiversity, improve quality of water, air and soil, enhance the landscape and increase woodland creation. | (6) Environment / resource efficiency |
| • To upgrade transport infrastructure to tackle problem of peripherality and assist in rebalancing the economy. | • Increased rural mobility to assist social and economic activity.<br>• Balanced sub-regional growth | (7) promoting sustainable transport and removing bottlenecks in key network infrastructures |

**Experience of 2007-2013 and relevant evaluations**

55. Experience of project Kelvin[368] in the 2007-2013 programmes has demonstrated the benefit of concentrating resources on a single infrastructure project to deliver maximum results. In the 2014-2020 programme, it is proposed that ERDF resources under Thematic Objective 4 will be concentrated on one large scale initiative aimed at supporting the shift towards a low-carbon economy by facilitating the use of more renewable energy sources in the generation of electricity.

56. Lessons learnt from the implementation of agri-environment and forestry measures under previous rural development funding shows that more impact can be achieved

[368] Further details at: http://www.tibusconnect.com/connect/project-kelvin/

through the design of agri-environment schemes in tandem with other land based schemes, such as forestry, which have similar biodiversity objectives. Training and communication of scheme requirements to beneficiaries is a high priority to maximise the environmental benefit and reduce the risk of non-compliance. Maximising the use of IT systems in scheme delivery and management and ensuring systems mirror EU reporting requirements will provide further simplification.

## INCLUSIVE GROWTH

### EMPLOYMENT

57. Northern Ireland has been severely impacted by the global economic downturn with concerns that recovery has been lagging behind the rest of the UK.
58. Ongoing structural challenges continue to hamper economic performance – living standards still lag behind those of the UK overall, we have:

- lower levels of employment and productivity:
- lower average wage levels:
- an over reliance on the public sector:
- a significant number of households experiencing intergenerational poverty or joblessness, and
- those in these positions are often far removed from job readiness and the labour market.

59. Although overall unemployment levels are on a par with the rest of the UK and are in fact well below the European average, Northern Ireland has a much larger share of people who are in the position of long term unemployment (12 months or more).
60. Economic inactivity is also a feature of the local economy – with a larger proportion of women in this position. People who have been unemployed for some time and those who are economically inactive often experience significant barriers to re-entering the labour market and require additional help to do so.
61. Northern Ireland is also experiencing youth unemployment at a level higher than in the general population and the number of graduates unemployed after 6 months has also increased. The number of young people who are not in education, employment or training (NEET) remains a significant issue – these young people tend to have few or no qualifications and no aspirations, often facing specific barriers to re-engagement in education, training or employment.
62. There is a need for targeted intervention to support disadvantaged groups, in particular people with disabilities and health conditions, lone parents, ex-offenders, older workers, women, and people with low or no qualifications, among long-term unemployed and economically inactive people by helping them to attain and sustain employment.
63. The support provided will assist the groups above and provide opportunities for attaining qualifications and climbing the skills ladder. There will also be opportunities to enhance capacity within the sectors providing such assistance.
64. There will be an increased emphasis on improving the employability of young people, in particular those not in education, employment or training (NEET) to reflect priorities at regional, national and European level. This will build on the work already supported in this area during the second half of the current programme.
65. These activities will address the twin objectives of increasing employability and social inclusion.

66. In addition, the EAFRD through the Rural Development Programme will assist new and existing rural businesses to become sustainable and to grow by means of a development scheme which would be designed to follow on from other government programmes specifically tailored for rural enterprise. There will also be investment support available under the Rural Business Investment Scheme and the Rural Tourism Scheme.

## PROMOTING SOCIAL INCLUSION, COMBATING POVERTY AND ANY DISCRIMINATION.

67. Poverty remains a feature of life for a variety of groups – in 2010/11 355,000 people were found to be living in relative poverty while 232,000 were living in absolute poverty. The largest group of people categorised as being in working age adult poverty were found to be in workless households.
68. There are particular barriers to inclusion applying to the rural population. Irrespective of income, social status or geographical location, individuals are entitled to access and receive 'basic' services. Many Northern Ireland rural areas are characterised by low density populations and dispersed living which often disadvantages rural dwellers in terms of access to services. In light of recent government austerity measures, public and third sector service providers are increasing centralising services to higher density population areas so they are spatially closer to the customer. For those living in rural locations accessing services and activities can be both time consuming and expensive compared to urban areas. This can affect areas of service provision such as education and health care provision, post offices, benefits offices and employment services.
69. The Programme for Government 2011-2015 pledges action in relation to active inclusion through the following commitment – "To deliver a range of measures to tackle poverty and social exclusion through the Delivering Social Change delivery framework."
70. **Delivering Social Change**[369] (DSC) is a comprehensive new delivery framework which aims to deliver the following two outcomes:
    - a sustained reduction in poverty and associated issues, across all ages; and
    - an improvement in children and young people's health, wellbeing and life opportunities thereby breaking the long-term cycle of multi-generational problems.
71. The Northern Ireland Authorities are also working together to address these issues collectively through a range of mainstream funding initiatives, which the ESI Funds will complement.
72. The EAFRD intervention in this area will build upon the previous interventions on tackling rural poverty and social and economic isolation programmes. Priority areas for intervention are around;
    - Access Poverty - Focus on access to statutory services such as advice on welfare benefits, health and social care, public transport, advice and support and education and training;
    - Financial Poverty - Focus on measures that ensure vulnerable rural dwellers can maximise their income, help address fuel poverty, maximise benefit uptakes and focus on addressing the additional costs people face by living in rural areas; and
    - Social Isolation - Focus on measures that identify and address different types of isolation experienced by different vulnerable groups.

[369] Further details at: http://www.ofmdfmni.gov.uk/index/equality/delivering-social-change.htm

73. The ESF's contribution to this objective is clearly articulated in the key aim for a Northern Ireland ESF programme, which is to improve access to skills and employment in order to improve Northern Ireland's economic productivity and create a more inclusive society.

74. In terms of creating this more inclusive society the Northern Ireland Authorities recognise the contribution which can be made by ensuring that integrated pathways are available which combine various forms of employability measures and access to services more generally. It is this strong link between employability and social inclusion on which the Department wishes to focus.

75. The new ESF programme will contribute to the achievement of thematic objective 9, through existing strategies and also through a particular focus on the most marginalised – people with a disability and those young people not in education employment or training from the most disadvantaged areas. Through objective 8, the unemployed, long-term unemployed and economically inactive will be targeted and again there will be a focus on support for young people not in employment education or training. The Northern Ireland Authorities believe that the most effective way of addressing poverty and social exclusion is to target resources on these areas.

## INVESTING IN EDUCATION, TRAINING AND VOCATIONAL TRAINING FOR SKILLS AND LIFELONG LEARNING.

76. Northern Ireland's share of people of working age with no qualifications is almost twice the UK average and the highest of all UK regions. The increasing demand for higher level skills suggested by skills forecasting will place additional demands on this area of activity.

77. The importance of skills is clearly recognised in the Programme for Government which states: "Our vision for the Northern Ireland economy is based on a sustainable and growing private sector, with a highly skilled and flexible workforce operating in productive and innovative firms that are competitive in global markets".

78. This message is reinforced in the Northern Ireland Economic Strategy (NIES), which has as one of its key themes – Improving Employability and the Level, Relevance and Use of Skills. Many of the actions to be taken forward under that theme are focused on improving the economic productivity of Northern Ireland companies and increasing the number of such companies trading in global markets.

79. A priority area for Northern Ireland is ICT/Digital Skills. An ICT Skills Working Group was convened by the Minister for Employment and Learning in January 2012 and brings together business leaders, employer representatives, representatives from local colleges and universities and government officials to consider how the current and future skills needs of the sector can be addressed. The Group, which is Chaired by the Minister for Employment and Learning, produced an ICT Skills Action Plan, published in June 2012, setting out the skills challenges facing the sector and a number of short, medium and long term actions required to address those challenges.

80. One of the actions set out in the ICT Skills Action Plan, taken forward by the Department for Employment and Learning, is the development of the Public/Private ICT Apprenticeship Scheme. The Department, along with the Department of Finance and Personnel and local private sector ICT employers, developed a model to recruit and train individuals for the ICT sector. The pilot scheme launched in August 2012 and saw 32 apprentices recruited. A second iteration of the scheme launched in August 2013 and has led to 44 apprentices being recruited into the sector.

81. Interventions under this thematic objective will contribute to the strategic goals of the Northern Ireland Skills Strategy[370] - to increase the proportion of people in employment skilled at NVQ levels 2, 3 and 4-8 respectively. Furthermore, following the review of Apprenticeship and youth training which is currently underway in Northern Ireland, a new model of apprenticeships will emerge that will contribute directly to this strategic goal and will meet the skills needs of the economy in a way that is complementary with the ERDF programme.

82. There is a particular focus on responding to the skills needs of priority economic sectors including support for higher level skills in line with the Northern Ireland Economic Strategy the Northern Ireland Skills Strategy and the EU Skills Panorama[371] (as part of the Agenda for New Skills and Jobs).

83. The Social Survey of Farmers and Farm Families (2001-2002)[372] indicated that 87% of farmers and business partners had no formal agricultural qualifications. In 2008 the Educational Attainment of Farm Operators in Northern Ireland[373] survey carried out by AFBI indicated that 78% of those surveyed had no formal agricultural qualification. Just over three quarters of those with a qualification in the 2008 survey were at certificate level (NVQ Level 1) or above. Although the two surveys are not entirely comparable, it is apparent that an improvement in the relevant qualification status of farmers and farm families has taken place in the 6 year period from 2002 to 2008. However it remained a conclusion of the 2008 report that farm operators of working age in Northern Ireland, in general, have lower levels of educational attainment compared to males in the wider population. Furthermore farm operators with off farm employment also have lower average hourly wages compared with non farming males.

84. Therefore, higher levels of educational attainment can result in higher wage premiums for those involved in on-farm and off-farm employment. Consequently, educational provision as well as the targeting and provision of appropriate skills training are crucially important.

85. Knowledge transfer and innovation will be a cross-cutting priority of the Rural Development Programme and there will be elements of training and knowledge transfer across all of the priorities which will be supported by the EAFRD. This will include Discussion Groups and Innovation and Technology Demonstration Schemes for farmers, a Farm Family Key Skills Scheme and Farm Exchange Visits. Business development support will also be available for SMEs and there will be an increased level of training associated with Agri-environment and Forestry schemes. Support for the European Innovation Partnership for agricultural productivity and sustainability will be an important mechanism to bring together farmers, researchers, advisors, businesses or other actors such as environmental groups and other NGOs to advance innovation in the agricultural sector.

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[370] Further details at: http://www.delni.gov.uk/skills_strategy_2006.pdf
[371] Further details at: http://euskillspanorama.ec.europa.eu/
[372] Further details at: http://www.dardni.gov.uk/farmers-and-farm-famiies-in-northern-ireland-social-survey
[373] Further details at: http://www.dardni.gov.uk/index/publications/pubs-dard-learning-and-education/educational-attainment-of-farm-operators.htm

**Summary of needs and growth potentials justifying selection of key Thematic Objectives**

| Needs | Growth Potential | Thematic Objective |
|---|---|---|
| • For targeted intervention to support disadvantaged groups, in particular lone parents, ex-offenders, older workers, women, young people not in employment, education or training and people with low or no qualifications, among long-term unemployed and economically inactive people by helping them to attain and sustain employment. | • Number of related Executive key strategies in place already.<br>• Increased employability can contribute directly to social inclusion. | (8) promoting sustainable and quality employment and supporting labour mobility; |
| • To tackle high levels of poverty, and social isolation in Northern Ireland.<br>• To intervene to tackle specific lack of access to services in rural areas of low-population. | • Delivering Social Change framework already in place.<br>• Improved quality of life and growth through diversification of rural economic activity. | (9) promoting social inclusion, combating poverty and any discrimination; |
| • To tackle high numbers of people without qualifications.<br>• Businesses engage in relatively little job-related training compared with other UK regions. | • Multiple strategies already in place.<br>• Increased skills can drive a growing private sector.<br>• An adaptable and skilled workforce will be placed to maximise economic opportunities. | (10) investing in education, training and vocational training for skills and lifelong learning |

**Experience of 2007-2013 and relevant evaluations**

86. The mid-term evaluation report[374] and the Northern Ireland & Europe in Partnership Reflection Exercise[375] both recognised the need to retain a strong focus on continuing ESF interventions on employment and skills.

87. As a result of the mid-term evaluations, and work carried out by Programme Monitoring Committees, in terms of possible improvements it was felt there was potential to re-focus the effort to target NEETs in light of the increasing number of NEETs in Northern Ireland and the difficulties in achieving the Northern Ireland ESF target for NEETs. It was felt that a more strategic approach to targeting this group may be of benefit.

88. Support mechanisms are needed to help manage participant expectations and assist those completing programme led apprenticeship to identify suitable training as employment opportunities including opportunities outside of Northern Ireland and that it is important to establish links between training suppliers and the Careers Services NI and/or private recruitment agencies.

[374] Further details at: http://www.delni.gov.uk/esf-mid-term-evaluation.pdf
[375] Further details at: http://www.dfpni.gov.uk/reflection_exercise_document_april_2012.pdf

89. Knowledge transfer actions in previous rural development programmes have not always been linked to the high level objectives and proposed outcomes of the programme. All knowledge transfer actions will have clear outcomes and impacts and will be linked to the overall rural development policy objectives for the region. Tailoring the learning style to the correct audience is vital to ensure maximum impact from the intervention. In farming peer learning and business benchmarking has been shown to increase business performance in the lowest performers within a group. Where possible, the use of simplified costs will be considered to reduce the administrative burden on beneficiaries.

## 1.2 A SUMMARY OF THE EX-ANTE EVALUATIONS OF THE PROGRAMMES OR KEY FINDINGS OF THE EX-ANTE EVALUATIONS OF THE PARTNERSHIP AGREEMENT WHERE UNDERTAKEN BY THE MEMBER STATE AS ITS OWN INITIATIVE.

1. Ex-ante evaluations of the ERDF and ESF Investment for Growth and Jobs Programmes and the Rural Development Programme are currently being undertaken. The ex-ante evaluations are being conducted on an interactive, iterative and independent basis throughout the development of the Programmes. To date the Ex-ante Evaluators have made observations in relation to the Thematic Objectives selected, the Socio Economic analysis, the consultation process, the intervention logic and the development of the Operational Programmes.
2. Strategic Environmental Assessments of the ERDF Investment for Growth and Jobs and the Rural Development Programme have also been undertaken, and both were put out to public consultation. Screening of the ESF Investment for Growth and Jobs Programme concluded that, as there would be no significant effect on the environment, a SEA is not required.
3. An Equality Impact Assessment (EIA) of the Rural Development Programme has been undertaken and consultation has concluded. Initial screening of the ESF Investment for Growth and Jobs Programme determined that a full EIA is not necessary and under the ERDF Programme the proposed activities will be individually subject to EIA were appropriate.

## 1.3 SELECTED THEMATIC OBJECTIVES, AND FOR EACH OF THE SELECTED THEMATIC OBJECTIVES A SUMMARY OF THE MAIN RESULTS EXPECTED FOR EACH OF THE ESI FUNDS.

| Thematic Objective | Main results |
|---|---|
| (1) strengthening research, technological development and innovation | • Increased NI BERD as a % of GVA (ERDF). |
| (2) enhancing access to, and use and quality of, information and communication technologies | • Extended reach and quality of rural broadband services measured by population with high-speed access (EAFRD).<br>• Increased use of broadband-enabled ICT by rural businesses (EAFRD). |

| Thematic Objective | Main results |
|---|---|
| (3) enhancing the competitiveness of small and medium-sized enterprises, the agricultural sector (for the EAFRD) and the fisheries and aquaculture sector (for the EMFF) | • Increased availability of financial support to the private sector. (measured by survey) – *note ex ante assessment of FIs still ongoing so baseline and result to be confirmed* (ERDF).<br>• Increase employment in Northern Ireland's SMEs (ERDF).<br>• To support farm business development groups in key sectors to benchmark their businesses against other similar businesses (EAFRD).<br>• Investment in farm infrastructure, buildings and machinery which improves the competitiveness, efficiency and sustainability of agriculture (EAFRD).<br>• Investment in processing businesses to improve competitiveness and integrated the food supply chain (EAFRD).<br>• Investment in rural SME's to undertake farm diversification, rural tourism and non-agricultural activities (EAFRD). |
| (4) supporting the shift towards a low-carbon economy in all sectors | • 40% of NI electricity consumption and 10% of heat by 2020 to be generated from renewable sources (ERDF). |
| (5) Climate Change | • Reduce methane and nitrous oxide GHG emissions associated with agriculture and enhance carbon sequestration (EAFRD). |
| (6) environment / resource efficiency | • Implement agri-environment, woodland and forestry schemes to enhance and improve biodiversity, soil and water quality (EAFRD). |
| (8) promoting sustainable and quality employment and supporting labour mobility; | • Increase youth employment and employability of young people though training and attainment of skills and qualifications (ESF).<br>• Increase opportunities for disadvantaged groups with the greatest difficulties in accessing the labour market (ESF). |
| (9) promoting social inclusion, combating poverty and any discrimination; | • Improved social inclusion through increasing employability and reducing economic inactivity (ESF).<br>• Reducing rural poverty and social isolation through community development and capacity building (EAFRD).<br>• Sustained reduction in poverty and associated issues across all ages (ESF).<br>• Improving children and young people's health, well being and life opportunities, thereby breaking the long term cycle of multi-generational problems (ESF).<br>• Improved social inclusion for targeted disadvantaged families, where at least one family member is NEET or at risk of falling into the NEET category (ESF). |

| Thematic Objective | Main results |
|---|---|
| (10) investing in education, training and vocational training for skills and lifelong learning | • Increase the proportion of people in employment skilled at levels 2, 3 and 4-8 (ESF).<br>• Support higher-level skills for priority economic sectors (ESF).<br>• Deliver training and support knowledge transfer in agriculture (EAFRD).<br>• Increased level of training for agri-environment and Forestry schemes (EAFRD). |

## 1.4 THE INDICATIVE ALLOCATION OF SUPPORT BY THE UNION BY THEMATIC OBJECTIVE AT NATIONAL LEVEL FOR EACH OF THE ESI FUNDS, AS WELL AS THE TOTAL INDICATIVE AMOUNT OF SUPPORT FOR CLIMATE CHANGE OBJECTIVES (TABLE)

**1.4.1 Table: The indicative allocation of support by the Union by thematic objective at national level for each of the ESI Funds (EUR) (total Union support, including the performance reserve).**[376]

| | **ERDF** €m | **ESF** €m | **EAFRD**** €m [377] | **EMFF** €m [378] | **TOTAL*** €m |
|---|---|---|---|---|---|
| Research & Innovation | 114 | 0 | 1 | TBC | 115 |
| Enhancing acess to and explotiation of ICT | 0 | 0 | 0.5 | TBC | 0.5 |
| Enhancing the competitiveness of SMEs, the agricultural sector and the fisheries and aquaculture sector | 125 | 0 | 68 | TBC | 194 |
| Supporting the shift towards a low-carbon economy in all sectors | 55 | 0 | 0 | TBC | 55 |
| Climate change | 0 | 0 | 2 | TBC | 2 |
| Environment and resource efficiency | 0 | 0 | 134 | TBC | 134 |
| Promoting sustainable | 0 | 0 | 0 | TBC | 0 |

[376] All allocations set out in this table have been subject to rounding so may not total up.
[377] EAFRD allocations in this table include voluntary modulation.
[378] EMFF is an UK wide programme. The details of the thematic objective breakdown for EMFF is solely set out in the UK chapter.

| | **ERDF** €m | **ESF** €m | **EAFRD**** €m [377] | **EMFF** €m [378] | **TOTAL*** €m |
|---|---|---|---|---|---|
| transport and removing bottlenecks in key network infrastructures | | | | | |
| Employment & Labour mobility | 0 | 58 | 0 | TBC | 58 |
| Promoting social inclusion and combating poverty | 0 | 89 | 47 | TBC | 136 |
| Education, skills and lifelong learning | 0 | 82 | 1 | TBC | 83 |
| Technical Assistance | 12 | 3 | 9 | TBC | 24 |
| **TOTAL** | 308 | 205 | 227 | TBC | 740 |

* Objectives totals cannot be finalised until EMFF allocations known.
** The indicative EAFRD allocations by thematic objective will be subject to change once the overall budget for the EAFRD Programme has been agreed.

1. The minimum requirements of 30% EAFRD spending on environment/climate-related measures will be met through a number of the programmes measures. Management of natural resources to improve biodiversity and to mitigate climate change will remain a high priority through the agri-environment programme. DARD proposes to provide financial support to farmers for environmentally-sensitive land management and woodland creation under a revised agri-environment programme. In addition to agri-environment and forestry additional spending on environment/climate-related measures will be achieved through support for the Areas of Natural Constraint scheme and enhanced environment and climate requirements for on-farm investments. DARD will aim to target support to achieve the greatest environmental benefit by ensuring that each agri-environment climate operation links the priorities of rural development policy to the relevant environmental need identified in the SWOT analysis.
2. Although the Leader approach will be entirely programmed under Thematic Objective 3 and 9 (EAFRD Priority 6 Social Inclusion, Poverty Reduction and Economic Development) it could potentially contribute to the proposed schemes and measures in Thematic Objectives 1, 2,3, 5, 6 and 10 (EAFRD Priorities 1-5). Some schemes will suit the Leader approach to delivery more than others and the new RDP will consider carefully the correct method of delivery for each scheme.

## 1.5 THE APPLICATION OF HORIZONTAL PRINCIPLES AND POLICY OBJECTIVES FOR THE IMPLEMENTATION OF THE ESI FUNDS

### 1.5.1 ARRANGEMENTS FOR THE PARTNERSHIP PRINCIPLE INCLUDING AN INDICATIVE LIST OF THE PARTNERS REFERRED TO IN ARTICLE 5 CPR AND A SUMMARY OF THE ACTIONS TAKEN TO INVOLVE THEM IN ACCORDANCE WITH ARTICLE 5 CPR AND OF THEIR ROLE IN THE PREPARATION OF THE PARTNERSHIP AGREEMENT AND THE PROGRESS REPORT REFERRED TO IN ARTICLE 52 CPR

1. The Operational Programmes and Northern Ireland's contribution to the UK Partnership Agreement are being developed in accordance with the principles of partnership.
2. Article 5 of the Common Provisions Regulation states that for the Partnership Agreement and each programme respectively, a Member State shall in accordance with national rules and practices organise a partnership with the following partners:
   - competent regional, local, urban and other public authorities;
   - economic and social partners; and
   - concerned bodies representing civil society, including environmental partners, non-governmental organisations, and bodies responsible for promoting equality and non-discrimination.
3. At consultation stage, a Consultative Partnership Group was established to help guide the preparation of the:
   - Northern Ireland contribution to the UK Partnership Agreement; and
   - ERDF and ESF operational programmes.
4. The decision was taken to invite organisations to nominate based on membership of the current Programme Monitoring Committee for Competitiveness and Employment 2007-2013 with representatives of local government, Environment Bodies, Equality Commission, Education, Higher Education, Voluntary and Community sector, Trades Unions, Business, the Agri-Rural sector and the Energy sector. This membership encompasses the partners listed in the regulations and covers sectors where representative nominating bodies are well-established. In addition representatives from the European Commission (DG REGIO, EMPLOY and AGRI) are invited to attend as observers as are representatives of the Northern Ireland MEPs. Members were nominated by representative organisations identified for the current Monitoring Committee and alternates/deputies are also nominated to ensure participation. (A list of current member organisations of the Consultative Partnership Group is attached at Annex 1).
5. As at March 2014, eight meetings of the CPG have been convened. At subsequent meetings the most recent drafts of the Northern Ireland inputs to the Partnership Agreement were tabled for comment and discussion. In addition presentations were received and discussed from the bodies preparing investment priorities for the ERDF, ESF, EAFRD funds and the ETC objective. Agreed minutes are published in DFP Future Funding web-pages at: http://www.dfpni.gov.uk/index/finance/european-

funding/content_-_european_funding-future-funding/consultative_partnership_group_on_eu_funding_2014-2020.htm

6. The outcome of Partnership Group discussions have been generally supportive of the choices and rationale put forward in the draft Partnership Agreement and Operational Programmes. Alternative ideas and formulation have been discussed and resolved by consensus, thus the partnership has added value by giving assurance to officials preparing these documents.
7. In addition, separate but coordinated partnership groups were formed to consider the development of the EAFRD Rural Development Programme and the European Territorial Co-operation Programmes. Representatives from the supplementary partnership groups participate in the main Consultative Partnership Group.
8. The establishment of one overarching Partnership Group, to oversee the development of all programmes was considered impractical for a number of reasons including: the need for the Territorial Cooperation Group to include representatives from 3 different regions; the large numbers of Agri-Rural Sector representatives required for the Rural Development Programme; and the different levels and depths of discussion required for each programme.
9. The core membership of each Partnership Group was consistent with the Consultative Partnership Group above. Membership of each partnership group was adjusted to include members with a specific interest in the particular Programme being developed.
10. The Partnership Groups considered various plans and documents as options for the future programmes were developed. They advised on the content of the emerging programmes and input to the Northern Ireland chapter of UK Partnership Agreement.
11. Partnership arrangements will continue as Programme activity is prepared, implemented, monitored and evaluated. These groups will be replaced by formal programme monitoring committees as the programmes move towards implementation.
12. Additional partnership through consultation has included a high-level informal consultation on priorities for European Funding organised in 2012[379] and public consultations on the priorities to be addressed in the Northern Ireland ESIF programmes between July and October 2013[380].

## 1.5.2 Promotion of Equality Between Men and Women, Non-Discrimination and Accessibility (with Reference to Article 7 of CPR)

1. The principle of equality is well imbedded in Northern Ireland law and policy. Legislation outlawing discrimination in grounds of sex and religious belief and political opinion in the areas of employment and training has been in place since 1976. These provisions have been extended on a number of occasions since and have been added to in terms of legislation outlawing discrimination on grounds of race and ethnic origin, disability, sexual orientation and age. The equality protections in Northern Ireland are more extensive than those in many European countries in that they not only require duty bearers (employers and service providers) to avoid discrimination but also require the

379 Further details at: http://www.dfpni.gov.uk/index/finance/european-funding/content_-_european_funding-future-funding/report_of_reflections_exercise.htm
380 Further details at: http://www.dfpni.gov.uk/index/finance/european-funding/content_-_european_funding-future-funding/consultation_on_operational_programmes.htm

positive promotion of equality (Section 75 of the Northern Ireland Act[381] and the Fair Employment and Treatment Order[382]).

2. Section 75 of the Northern Ireland Act 1998 requires public authorities to promote equality of opportunity:

   - between persons of different religious belief, political opinion, racial group, age, marital status or sexual orientation;
   - between men and women generally;
   - between persons with a disability and persons without; and
   - between persons with dependants and persons without.

3. This act establishes an Equality Commission for Northern Ireland. All Northern Ireland departments are required to publish their Equality policies and to report annually to the Equality Commission on their implementation. For those departments which act as programme authorities, this report includes a section on the implementation of the programme concerned.

4. Representatives from the Equality Commission are represented on the Consultative Partnership Group advising on the preparations for ESIF Programmes 2014-2020 and are expected to be represented on the Monitoring Committees for the programmes, which shall establish working groups to further horizontal principles in the implementation of the Operational Programme. It has not yet been decided whether there will be a single Working Group to cover Promotion of Equality, non-discrimination and accessibility across all programmes or liaison between discrete working groups to achieve the same result.

5. As part of the ex-ante Evaluation process, Operational Programmes undergo screening for Equality Impact Assessment and where appropriate, full assessment. The outcome of screening and assessment will be reported when completed in the section summarising ex-ante evaluations of the Operational Programme.

6. The Executive's commitment to improving community relations and continuing the journey towards a more united and shared society was further articulated in the *Together: Building a United Community* Strategy published on 22 May 2013.

7. Building a united community based on equality of opportunity, the desirability of good relations and the promotion of reconciliation is not only important for a society moving from conflict and division but is vital to shaping a modern, diverse and sustainable community which is equipped for the future.

8. To reinforce the importance of this Strategy, good relations principles will be mainstreamed into everything that government does in Northern Ireland and this process will be constantly monitored by a ministerial panel. The delivery of European Structural and Investment Funds 2014-2020 will contribute to *Together: Building a United Community* and be monitored for this purpose.

9. In the Programme for Government (PfG) 2011-2015, the Northern Ireland Executive has reaffirmed its commitment to ensuring that no section of the community is left behind; equality of opportunity, fairness, inclusion and the promotion of good relations are cornerstones of our PfG priorities.

10. In addition, promoting gender equality is one of the Government's priorities and the Gender Equality Strategy for Northern Ireland 2006-2016 provides a policy framework

[381] Further details at: http://www.legislation.gov.uk/ukpga/1998/47/section/75
[382] Further details at: http://www.equalityni.org/archive/word/finalArt55270203.doc

for our work to mainstream gender equality and tackle gender inequalities. More information on the Strategy can be found at the webpage[383].

11. The Equality Commission for Northern Ireland is an independent public body established under the Northern Ireland Act 1998. The Equality Commission aims to advance equality, promote equality of opportunity, encourage good relations and challenge discrimination through promotion, advice and enforcement.

12. The Commission's duties and functions are set out in the legislation for which we have responsibility.

13. All Northern Ireland employers with 11 or more employees, each working 16 or more hours per week in Northern Ireland must register with the Equality Commission and:

   - Monitor the community background composition of applicants and employees. (Monitoring questionnaire can be viewed at the link below[384]);
   - Conduct periodic reviews of the composition of the workforce and employment practices ("Article 55 Reviews"). (Guide to completing and Article 55 Review can be viewed at the link below[385]);
   - Have regard to the Fair Employment code of practice when conducting these reviews. (Fair Employment code of practice can be viewed at the link below[386]); and
   - Take affirmative action, where it is reasonable and appropriate to do so, and consider setting goals and timetables. (A sample affirmative action plan can be viewed at the link below[387]).

14. Employers with less than 11 employees seeking project support through structural funds will be required to have an equality policy and sign up to the equality conditions within their Letter of Offer.

15. Under the umbrella of the EU Programme Monitoring Committee, an Equality Working Group covering the 2007 – 2013 Peace, Interreg, Competitiveness and Employment Programmes was set up. The Equality Working Group recently commissioned its advisor, the Northern Ireland Statistics and Research Agency, to produce a paper on the current practices surrounding the embedding and monitoring of equality practices in the 2007-2013 Programmes. The aim of this exercise was to identify the advantages and disadvantages of the current procedures, and, through discussion with the group, identify lessons learned that could inform the next round of EU Programmes. Work has not as yet been finalised on this. If available it is intended to provide more detail on this work in our various operational programmes.

16. The Northern Ireland ESF Programme will adopt a dual approach to gender equality and promoting equal opportunities. The Programme may fund specific activities which target women and other disadvantaged groups and will integrate equal opportunities into every stage of the programme as a whole. Equality considerations will be integrated into:

   - the programme design and development (for example, through support with childcare for programme participants);
   - promotion of the programme;
   - the application/procurement process;

[383] Further details at: http://www.ofmdfmni.gov.uk/index/equality-and-strategy/equality-human-rights-social-change/gender-equality/gender-equality-strategy-2006-2016.htm
[384] Further details at: http://www.equalityni.org/archive/word/Model_Fair_Employment_Monitoring_Questionnaire.doc
[385] Further details at: http://www.equalityni.org/archive/word/finalArt55270203.doc
[386] Further details at: http://www.equalityni.org/archive/pdf/FECoPFINALwebversion@09.07.pdf
[387] Further details at: http://www.equalityni.org/archive/word/Draft affirmative action plan.doc

- monitoring; and
- evaluation.

17. The Northern Ireland ESF programme will operate within the framework of EU and regional legislation on non-discrimination, gender equality and equal opportunities. The programme will be compliant with and supportive of the Women's Charter (2010) and will contribute to a number of thematic priorities contained in the Strategy for Equality between Men and Women 2010-2015. This strategy builds on the experience of the Roadmap for Equality between Women and Men (2006). Of particular relevance in the new strategy is priority 1 – equal economic independence. Through the ESF programme, we will help and support more women to access the labour market, thereby addressing this important priority.
18. The Programme for Government (PfG) 2011-2015 sets out our intention to deliver a range of measures to tackle social exclusion through the Delivering Social Change Framework.
19. Our responsibilities to deliver the commitments in the United Nations Convention on the Rights of Persons with Disabilities have been acknowledged and we committed to measuring the impact of our efforts on longer term trends.
20. The Executive is committed to addressing and removing those obstacles and to ensuring that people with disabilities have equality of opportunity and equality of treatment that those without a disability enjoy.
21. The Executive's "A strategy to improve the lives of people with disabilities 2012-2015"[388] acknowledges that people with disabilities deserve to be treated equally alongside those without disabilities. This strategy acknowledges that women and children especially face particular challenges and have needs which have previously been overlooked.
22. The purpose of the strategy is to:
    - Set out a high level policy framework to give coherence and guidance to Northern Ireland Department's activities across general and disability specific areas of policy;
    - Drive improved performance of service delivery leading to improved outcomes for persons with a disability;
    - Increase the understanding and importance of the needs of persons with a disability and ensure these needs are recognised when policy is developed or when implementing initiatives which impact on disable people; and
    - Improve the opportunities for people with disabilities to contribute across all areas of society.

## 1.5.3 SUSTAINABLE DEVELOPMENT (WITH REFERENCE TO ARTICLE 8 OF CPR)

1. The Northern Ireland Sustainable Development Strategy[389] reinforces Northern Ireland's commitment to ensure that the principles of sustainability reach into all the activities of Government and that everyone's involved in achieving the objectives of the Sustainable Development Strategy.
2. Northern Ireland is committed to making the best use of our resources to support our priorities in these challenging times. It is more important than ever before that we think and act innovatively; sustainability cannot become a 'cost', it has to become a 'benefit'.

[388] Further details at: http://www.ofmdfmni.gov.uk/disability-strategy-2012-2015-revised-010313.doc
[389] Further details at: http://www.ofmdfmni.gov.uk/eisusdevstrategy.pdf

Superior sustainability performance can lead to real economic benefits for everyone and approaches which assess the full value of sustainability are needed for sustainability thinking to be successfully integrated into decision making. This is a core requirement of our approach to sustainability.

3. The six guiding priorities of the Northern Ireland Sustainable Development Strategy:

- Living within environment limits;
- Ensuring a strong, healthy and just society;
- Achieving a sustainable economy;
- Promoting good governance;
- Using sound science responsibly; and
- Promoting opportunity and innovation.
-

4. All the Operational Programmes contributing to the Northern Ireland European Structural and Investment Funds have been screened for the need for a full Strategic Environment Assessment and where appropriate a SEA has been procured. The findings of these SEA will be subject to public consultation and will be reported in the ex-ante assessment section of this document.

### 1.5.4 HORIZONTAL POLICY OBJECTIVES

1. The overarching horizontal policy objectives for the UK are set out at national level above and will be applied where appropriate to Northern Ireland.
2. Monitoring of Horizontal Objectives shall be the responsibility of the coordination group for ESIF which is proposed to oversee areas of common interest.

# 2 ARRANGEMENTS TO ENSURE EFFECTIVE IMPLEMENTATION - ARTICLE 15 (1) (B) CPR

## 2.1 THE ARRANGEMENTS, IN LINE WITH THE INSTITUTIONAL FRAMEWORK OF THE MEMBER STATES, THAT ENSURE CO-ORDINATION BETWEEN THE ESI FUNDS AND OTHER UNION AND NATIONAL FUNDING INSTRUMENTS AND WITH THE EIB.

1. The Department of Finance and Personnel (DFP) chairs an ESI funds coordination committee of officials representing Programme Authorities for all ESI Funds. This committee will have the responsibility to promote the strategic coordination and complementarity of ESI programmes within Northern Ireland and to harmonise the interface experienced by beneficiaries of all funds as far as possible.
2. To ensure complementarity from the outset the Committee has worked together to develop their individual programmes in parallel to ensure that the activities funded under the individual programmes in the 2014-2020 period complement the activities proposed under the other programmes. This integrated approach to the development of all Northern Ireland EU Programmes should help maximise the impact of the limited resources available, avoid duplication and allow greater concentration/specialisation within programmes. The participation of the Special EU Programmes Body will ensure complementarity with the INTERREG V and PEACE IV Programmes.

3. In addition to meet the principle of strategic coordination and simplification in the 2014-2020 programming round, there is interest in exploring the possibility of developing a coordinated approach involving local plans under:

   - The provisions of the Rural Development Programme;
   - PEACE IV local provision; and
   - Investment for Growth and Jobs

4. Such an approach would depend on the submission of robust plans from local government councils and may allow for delegation of project selection within agreed limits.
5. The Northern Ireland Executive's Reform of Local Government which includes transformation from 26 to 11 new Local Authorities by 2015 could provide a model for delivery which would enable multi-fund strategies to be developed at Local Authority led Community Planning partnership level. This would provide an overall framework from within which local development strategies could be developed and implemented. As a result, these plans will become part of a wider concept of how and what way an area wishes to develop, in a manner which meets the requirements of the Managing Authorities involved in line with favouring a 'bottom-up' approach and meeting local need.
6. Delivery mechanisms will build on skills and experience developed both within the Northern Ireland Government, its Local Authorities and other strategic agencies. They will be determined through better alignment and co-ordination of structures and communication associated with the funds. The potential for multi-fund strategies to be developed through Local Authority led Community Planning partnership level, specifically for the Councils' allocations are being developed. Local Authority Community led action plans provide an opportunity to develop strategies with potential to reference more than one fund.
7. Local Authority, community led partnership groups (e.g. LAGs/FLAGs, as part of macro Community Planning Partnerships) are also open to further discussion and development within each new council area.
8. The bottom-up approach meets both strategic local and national policies – a Community Plan led approach to delivery. National directly feeds into local delivery, and vice versa; community led planning supports and reinforces this. It is our aim to create the conditions whereby the funds can integrate and contribute more effectively to achieving growth in different environments and contexts across the two tiers of Northern Ireland government (regional and local) under the principle of subsidiarity.
9. The submission of robust plans from local government may allow for delegation of project selection within agreed limits by programme Managing Authorities. Governance, implementation and delivery procedures and indicative allocations however, for this element of the programme have yet to be determined. Programme Authorities will continue to engage in partnership with local government representatives over the coming months to consider arrangements for the local economic development strand of future programmes.
10. Governance, implementation and delivery procedures and indicative allocations for this element of the programme have yet to be determined. The Committee continues to engage in partnership with local government representatives over the coming months to consider arrangements for the local economic development strand of future programmes.

11. The committee will also be the forum for coordination of any strategic review of Northern Ireland content in the UK Partnership Agreement if required for reasons set out in the EU Regulations.
12. Responsibility for coordination of general EU Cohesion Policy Funding in Northern Ireland for instruments outside the European Structural and Investment Funds will be carried in part by the interdepartmental officials working group the EU Steering Group (Working Group) chaired by DFP. This enables the ESIF programmes within the Common Strategic Framework to coordinate support with other European programmes and networks.
13. In May 2007 the European Commission established a Task Force to support the peace process by bringing about a step change in economic performance. This was to be achieved by enhancing efforts to improve competitiveness and create sustainable employment. The Northern Ireland Executive committed itself to engage more effectively with the European Union and its policies, knowledge networks and funding programmes to help it achieve its Programme for Government priorities. The Commission Task Force for Northern Ireland continues to operate for this purpose.
14. In Northern Ireland an Inter-department Barroso Task Force Working Group is chaired by the Junior Ministers in the Office of the First Minister / deputy First Minister and from 2014/2015 will include three thematic working groups:
    - Economy (Promoting Economic Recovery and Growth);
    - Social (Addressing Societal Challenges); and
    - Environment (Protecting the Environment).
15. The Working Group drafts high-level European Priorities and targets for the Executive and produces an annual report on implementation. Links to the 2012-13 report and 2013-14 priorities document will be included here when they are published by the Executive. Priorities include participation in EU networks and key Europe 2020 initiatives. http://www.ofmdfmni.gov.uk/index/co-operation/about-the-european-policy-and-co-ordination-co-operation.htm
16. In relation to the Rural Development Programme, the support available under Pillar 2 (Rural Development) will be consistent with the support provided under Pillar 1 (Direct Payments). The areas where maximum synergies exist include Areas of Natural Constraint, Greening, Young Farmers and Small Farms. The effect of each option selected for Pillar 1 will be assessed on how it will complement the support proposed for Pillar 2.

## 2.2 THE INFORMATION REQUIRED FOR AN EX ANTE VERIFICATION OF COMPLIANCE WITH THE RULES ON ADDITIONALITY (BASED ON ARTICLE 95 AND ANNEX X CPR)

1. Not applicable - see corresponding section in UK Chapter.

## 2.3 A SUMMARY OF THE ASSESSMENT OF THE FULFILMENT OF APPLICABLE *EX ANTE* CONDITIONALITIES IN ACCORDANCE WITH ARTICLE 19 AND ANNEX XI AT NATIONAL LEVEL AND THE ACTIONS TO BE TAKEN, THE RESPONSIBLE BODIES, AND THE TIMETABLE FOR THEIR IMPLEMENTATION, WHERE *EX ANTE* CONDITIONALITIES ARE NOT FULFILLED.

1. Not applicable - see corresponding section in UK Chapter.

## 2.4 THE METHODOLOGY AND MECHANISM TO ENSURE CONSISTENCY IN THE FUNCTIONING OF THE PERFORMANCE FRAMEWORK IN ACCORDANCE WITH ARTICLE 21 OF THE CPR.

1. Not applicable- see corresponding section in UK Chapter

## 2.5 AN ASSESSMENT OF WHETHER THERE IS A NEED TO REINFORCE THE ADMINISTRATIVE CAPACITY OF THE AUTHORITIES INVOLVED IN THE MANAGEMENT AND CONTROL OF THE PROGRAMMES AND, WHERE APPROPRIATE, OF THE BENEFICIARIES, AS WELL AS, WHERE NECESSARY, A SUMMARY OF THE ACTIONS TO BE TAKEN FOR THIS PURPOSE.

1. At present it is intended that Programme Authorities (Managing Authorities, Certifying or Paying Authorities and Audit Authorities) will be based in Northern Ireland Departments already possessing the necessary expertise for the exercise of the functions set out in the Cohesion Policy Regulations.
2. At this stage no intermediate or delegated delivery agents have been appointed for any programme. Where this happens the appointment process will include an appraisal of the capacity of the candidate body to carry out the duties to be assigned. Where the Member State authority or the Programme Managing Authority determines that some initial support to improve the body’s capacity is required, appropriate measures will be funded from programme technical assistance. Supported measures may include staff and management training, temporary secondments of expert staff or provision of IT hardware or software.
3. CLLD will be delivered through appointed Local Action Groups within the proposed Rural Development Programme. The terms on which these groups are appointed will include arrangements for assuring and where necessary building the capacity to deliver the investments for which they will be responsible.
4. Whenever measures are implemented for capacity building as outlined above, post project evaluations will be made to appraise the success and value for money of the measures taken.

## 2.6 A SUMMARY OF THE ACTIONS PLANNED IN THE PROGRAMMES, INCLUDING AN INDICATIVE TIMETABLE, TO ACHIEVE A REDUCTION IN THE ADMINISTRATIVE BURDEN FOR BENEFICIARIES.

1. The objective of the Northern Ireland authorities is where possible and consistent with financial propriety, to reduce the administrative burden associated with applying for and receiving cohesion policy funding.
2. Previous experience suggests that sources of vexation are:

- Lengthy and complex application forms;
- Requirements to supply identical information on multiple occasions;
- Audit visits by multiple bodies to the same organisation;
- Complicated and sometimes inconsistent rules on the eligibility of items of expenditure for reimbursement; and
- Requirements for the retention of documentation long after completion of the project.

3. Department of Finance and Personnel will chair an ongoing European Structural & Investment Funds Liaison Group (ESIFLG) to ensure a synchronised approach to customer services and reduce the problems listed above. The group will have a challenge function to procedures and forms which will need justification for requiring information beyond standard templates. It should also support a one-stop shop for fielding European Funding enquiries and passing to an appropriate respondent.
4. An updated data exchange system should enable documents and other information to be lodged and verified just once and, subject to data protection rules, shared between multiple projects for the purpose of reducing unnecessary requests.
5. The ESIFLG may also oversee eligibility rules for expenditure to ensure concise and consistent application, together with encouragement for the adoption of simplified methodologies where appropriate.
6. It will also look at the audit and on-the-spot-check processes, to minimise multiple approaches and to tailor the number of checks required to the size of the beneficiary organisation and the supported project.
7. Managing Authorities will be encouraged by the ESIFLG to agree the rolling closure of expenditure years in order to limit the period for which audit trail documents are required to be maintained.
8. It must however be emphasised that succeeding in implementing these reductions in administrative burdens will depend on the harmonisation of regulations covering the ESI Funds and on proportionate implementation by European Commission and Programme authorities.
9. Work has commenced to review the significant administrative burden which impacts on beneficiaries, implementing bodies, audit authorities and managing authorities.
10. The recent changes to the audit trail retention period stipulated by the EC have the potential to reduce the administrative burden in terms of data protection and storage. There is also significant scope for the use of simplified costs or Joint Action Plans to streamline administration for beneficiaries. The grant activity that the Programme plans to support lends itself to application of unit cost methodologies similar to those already widely applied in ESF funded activities.

11. A full review of simplified cost options and delivery methods is being carried out to examine simplified delivery approaches offered by the EC such as the use of Joint Action Plans. It is anticipated that the outcome of this review will provide a strong evidence base on which to consider which simplified cost options are applicable and should therefore be included as part of the 2014-2020 ERDF Programme.
12. Revised EC requirements in terms of the audit trail document retention period will be implemented with the aim of reducing the burden at all levels of administration. The planned review of the potential delivery methods and simplified costs for grant type expenditure will be completed by April 2014, at which point we will work to integrate the findings into Programme delivery.

# GIBRALTAR CHAPTER

## INTRODUCTION

1. This chapter sets out how Structural Funds will support the attainment of the key aims of the Gibraltar Government's Programme whilst advancing progress towards the Europe 2020 targets.
2. The vision is that the Structural Funds Programmes together with the Government's Programmes, will help Gibraltar strengthen its entrepreneurial base and prosper from sustainable economic growth. Consistent with this vision, sustainable development and equality will continue to be cross-cutting principles for all EU Programmes and projects. The Gibraltar chapter of the UK Partnership Agreement looks at how Structural Funds could address Gibraltar's specificities in line with evidence, lessons learned from previous Funding Programmes and the views of partners and stakeholders. Its purpose is to focus future interventions to promote high quality, strategically aligned projects in achieving this vision. An appropriate delivery framework also needs to be generated, prioritised and developed so that implemented projects can offer the greatest return on future Structural Funds and domestic investments.
3. A key consideration is how progress will be measured against the goals set out in this strategic document.

## 1 ARRANGEMENTS TO ENSURE ALIGNMENT WITH THE UNION STRATEGY OF SMART, SUSTAINABLE & INCLUSIVE GROWTH & THE FUND SPECIFIC MISSIONS PURSUANT TO THEIR TREATY-BASED OBJECTIVES, INCLUDING ECONOMIC, SOCIAL & TERRITORIAL COHESION (ARTICLE 15(1) (A) CPR).

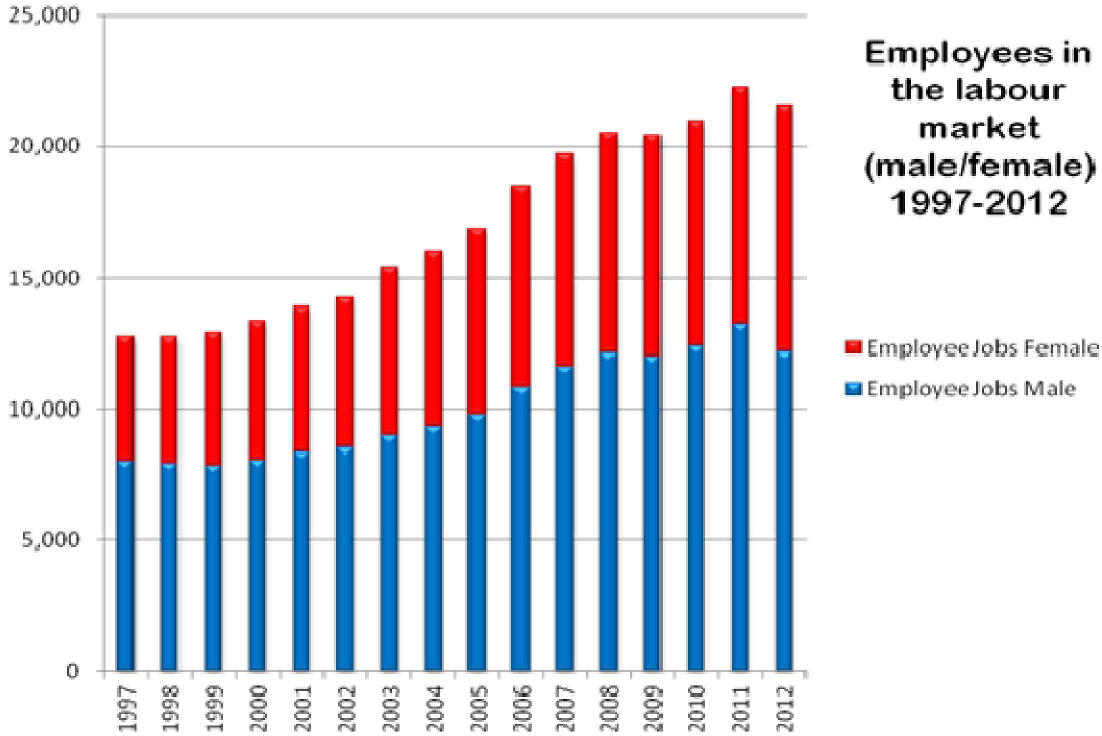
### 1.1 AN ANALYSIS OF DISPARITIES, DEVELOPMENT NEEDS, & GROWTH POTENTIALS WITH REFERENCE TO THE THEMATIC OBJECTIVES & THE TERRITORIAL CHALLENGES & TAKING ACCOUNT OF THE NATIONAL REFORM PROGRAMME, WHERE APPROPRIATE, & RELEVANT COUNTRY-SPECIFIC RECOMMENDATIONS ADOPTED IN ACCORDANCE WITH ARTICLE 121(2) OF THE TREATY ON THE FUNCTIONING OF THE EUROPEAN UNION & RELEVANT COUNCIL RECOMMENDATIONS ADOPTED IN ACCORDANCE WITH ARTICLE 148(4) OF THE TREATY ON THE FUNCTIONING OF THE EUROPEAN UNION.

**Macroeconomic Context**

1. In recent years, Gibraltar was fortunate not to have suffered the full effects resulting from the double-dip recession which hit the rest of Europe. Gibraltar's economy continued to grow albeit at a slower rate through this period. Fewer businesses were created or grew.

2. GDP per capita data for 2013 was £41,138 or €48,131[390]. This suggests that the competitiveness of the Programme Area remains slightly higher relative to the EU27 average between 2005 and 2011. Currently, R&D spending in Gibraltar is negligible (under 1%), way behind the EU27 average; however, Gibraltar does not have research institutions.

3. Labour market data, specifically the employment figures, suggest a continuous modest increase year on year. The employment rate in Gibraltar for 2012 is 70.62% - very close to the Europe 2020 employment target of 75%. What has to be taken into account is that 29.9% of these are what are classed as “frontier workers” i.e. an employee who is normally resident in Spain but is employed in Gibraltar. 56.49% of the workforce is male and 43.51% is female. Productivity of SMEs in Gibraltar is on the increase, 11.9% for 2013.



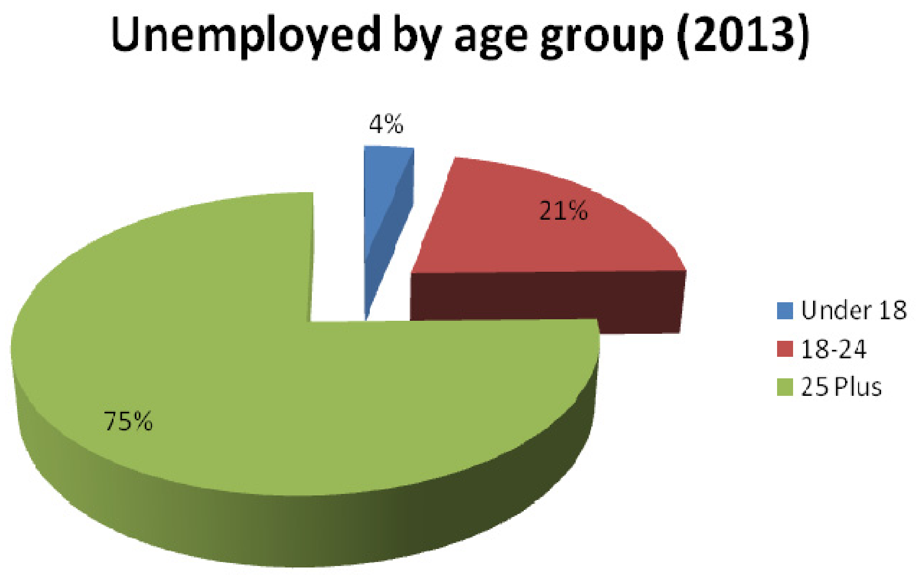

4. Youth in Gibraltar (15-19 year old) represent 6.55% of the total population (2012). 0.3% of this age group are in employment and 1.77% in education. Gibraltar has no universities and as a result 0.72% of the population are in the UK undertaking higher/tertiary education. There are 12 Government and 6 privately run nurseries/pre-schools, which adequately cover child care facilities of the jurisdiction.

5. In 2011, there were 327 receptions into prison in the following age groups:-

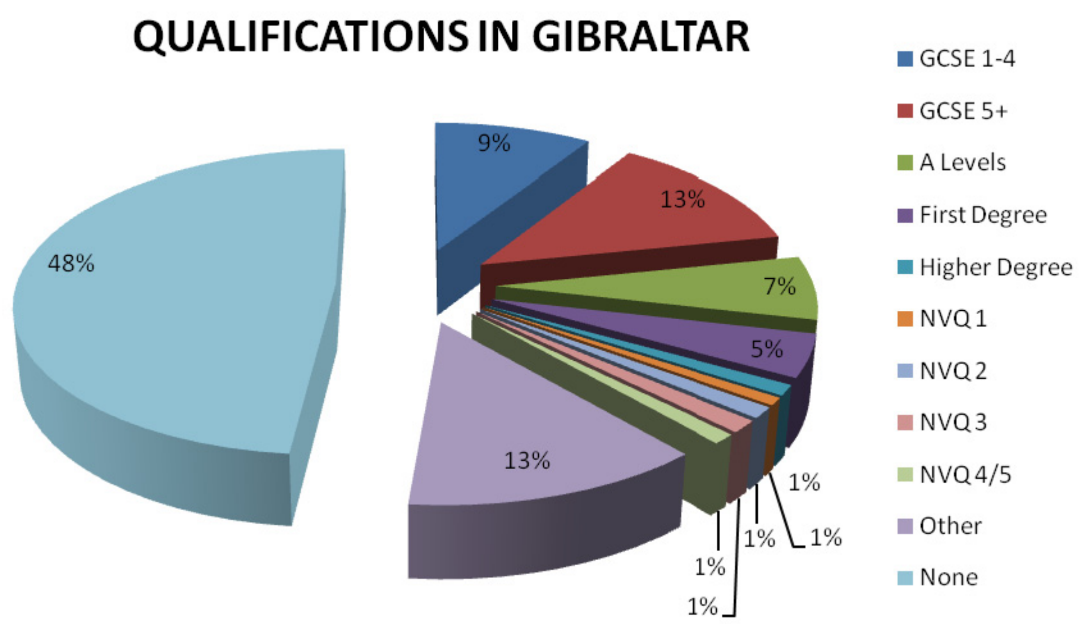
| Under 16 | 16 - 20 | 21 - 25 | 26 - 50 | 51+ |
|---|---|---|---|---|
| 4 | 39 | 56 | 209 | 19 |

6. Unemployment in Gibraltar fluctuates between 2 – 3%. There are no statistics available for people with disabilities. The unemployment figures show that 25% are aged between 16-24 (youth), making this a target group for ESF assistance.

[390] Exchange Rate €1.17/£1




7. In Gibraltar only 5.6% of the population have completed a tertiary or equivalent education. This is far below both the EU average and the EU 2020 target of 40%.




8. The skills levels in Gibraltar have improved over the last decade, led primarily by those attaining qualifications at NVQ level 3 and above. Investment in skills still continues to be a priority in the development of a modern knowledge-based economy and in helping

the local economy face the on-going challenges of recessions and political pressures that are thrust upon it.

## SMART GROWTH

### SME COMPETITIVENESS

9. Since the 1980's, Gibraltar has become primarily a private sector led economy. Its success is very much dependent on the competitiveness of the private sector, and in particular SMEs, to expand and create sustainable employment. SMEs need to be assisted to allow for this sustainable growth.
10. SMEs represent 62% of the GDP and 77% of total employment and therefore provide a critical contribution to the economy.
11. The success of the various sectors in which SMEs operate (Wholesale & Retail trades; Construction Industry; Financial Intermediation and Real Estate and Business Activities) is dependant to a great degree on external forces.
12. Developmental needs required by SMEs include-
    - **Access to finance** limited due to credit squeeze. Banks unwilling to lend and there is limited competition in the banking sector. Thus, the need arises to provide financial support to help create new and grow existing businesses;
    - **Diversification** in order to create new business opportunities locally or internationally; and
    - **ICT exploitation** in order to develop new areas via e-business and to interface with Government services (in particular e-procurement).
13. Growth opportunities will result from the exploitation of niche markets (e.g. tourism related, IT service providers); the creation of a hub for businesses that builds on the strategic geographic position of Gibraltar; and technological advances to enable business opportunities in new markets and products.

## SUSTAINABLE GROWTH

14. Gibraltar has to produce all its energy. Currently the main source of production is via a power station with diesel generators which were commissioned in 1982. This power station is archaic and a possible environmental hazard. The Government has recently invited tenders for a new 80MW gas fired power station which should cover future energy needs with a low carbon footprint. To reduce the reliance on a single source of energy, the Government is also encouraging other environmental friendly and energy efficient schemes including "green" tax incentives, as they aim to achieve a carbon neutral footprint for Gibraltar.
15. Developmental needs required for Sustainable Growth include:
    - **Low carbon economy:** reduce the reliance on fuel energy with a move to green and renewable energy sources; and
    - **Energy efficiency:** reduce the energy consumption by improving the insulation of the housing stock and incentivising SMEs to adopt energy efficient processes.
16. Growth opportunities will include business opportunities in the fields of green/renewable areas.

## INCLUSIVE GROWTH

17. Human capital is a key factor for regional growth performance. Higher performing regions have a highly educated workforce. Gibraltar suffers from a mismatch between business demand and skills on offer. This is mainly due to the "pool" of available workforce and the need to rapidly adapt to changes in the labour market. The Programmes therefore need to seek to strengthen closer links between education and the business sector and ensure that the right skills are available for people to access employment opportunities, particularly young people.
18. There is no significant poverty and/or social exclusion problems in Gibraltar. Social inclusion will be achieved by providing tailor-made training (and/or other measures) so as to facilitate access to employment.
19. Developmental needs under Inclusive Growth include:
    - **Skills match:** the skills required by the labour market, need to be made available, especially for those that do not have any skills. More "mature" workforce (over 50s) require up-skilling particularly in new technologies.
    - **Youth:** schemes required to combat youth unemployment.
20. Growth opportunities include: a higher skilled, motivated workforce with greater labour mobility and more young people able to access and maintain employment.

**Summary of needs and growth potentials, justifying the selection of key thematic objectives**

| NEEDS | GROWTH POTENTIAL | THEMATIC OBJECTIVE |
|---|---|---|
| - Support required to foster & enhance SME activity & creation in order to become more competitive in both local & international markets.<br><br>- Assistance required to diversify & exploit niche markets which will create jobs & growth in the economy, so as to improve the range and quality of new business start-ups.<br><br>- Support required to assist SMEs to exploit ICT related opportunities.<br><br>- Assistance with the development of projects that will act as catalysts for SME creation/expansion. | - Exploitation of niche markets.<br><br>- SME expansion in the local & export markets. | (3) Enhancing the competitiveness of SMEs, the agricultural sector (for the EAFRD) and the fisheries and aquaculture sector (for EMFF). |

| NEEDS | GROWTH POTENTIAL | THEMATIC OBJECTIVE |
|---|---|---|
| - Support required for the sustainable development of a low carbon economy & the delivery of climate change objectives.<br><br>- Assistance needed for the introduction of energy efficiency & renewable energy schemes with their hitherto "untapped" opportunities & benefits. | - Business opportunities in the green economy | (4) Supporting the shift towards a low-carbon economy in all sectors. |
| - Support required to ensure that the appropriate skills are available in the local labour market.<br><br>- Assistance needed for the upskilling of the workforce.<br><br>- Support required to combat youth unemployment & other negative aspects which particularly affect this group. | - A more qualified labour force.<br><br>- Improved employment opportunities in particular for the youth. | (8) Promoting sustainable and quality employment and supporting labour mobility.<br><br>(10) Investing in education, training and vocational training for skills and lifelong learning. |

**EXPERIENCE OF 2007-2013**

21. The current funding round has shown the importance of continuing to engage the Private Sector in the Programmes. Current involvement has translated into higher business rates and growth and a 2.48% employment increase. Private Sector match in the current Programmes represents 49.23% of the overall financing. Maintaining this commitment will be critical in the new period.
22. With respect to the ESF Programme, it has been established that the schemes that were carried out proved the most successful manner in which to upskill the workforce and in which to obtain employment. Having persons on work placements ensured that the appropriate experience was gained to secure the employment, without causing a liability to the employer. In the current Programmes, 76% of the participants gained employment and 93% gained a qualification or basic skill, which has increased their employability. Government will therefore continue to be the lead promoter in ESF projects.
23. The number of persons relying on social assistance was reduced by 11% during the period June 2012 – October 2013, primarily as a result of having participated in the ESF Programme, this included a drop of 14% in the long-term unemployed (10 years & over).

## 1.2 A SUMMARY OF THE EX-ANTE EVALUATIONS OF THE PROGRAMMES OR KEY FINDINGS OF THE EX-ANTE EVALUATIONS OF THE PARTNERSHIP AGREEMENT WHERE UNDERTAKEN BY THE MEMBER STATE AT ITS OWN INITIATIVE

1. In accordance with Article 55 of the Common Provisions Regulations, an ex-ante evaluation for the 2014-2020 ERDF and ESF Structural Funds Programmes for Gibraltar was undertaken. Hereunder are the main conclusions:

   - The continuity provided by the EU Programmes Secretariat in preparing and then managing previous EU-supported Programmes has ensured that the preparation of the OPs for 2014-2010 is realistic, deliverable and in strict accordance with the Commission's requirements.
   - There is a high degree of synergy between the Gibraltar Government's spending objectives and those of the Commission's 2020 strategy.
   - In order for SMEs to maximise the opportunities offered by the OPs, the Gibraltar Government needs to invest in catalyst projects, e.g. in IT in respect of ERDF.
   - There was a need to:
   - simplify the OPs;
   - target intended spending more effectively in order for the Programmes to create more of an impact; and
   - make a number of presentational changes in the OPs to make them more coherent.

2. Changes to these ends have been incorporated in the OPs following discussions between the entity carrying out the ex-ante evaluation and the EU Programmes Secretariat, adding value to the OPs.

## 1.3 SELECTED THEMATIC OBJECTIVES, & FOR EACH SELECTED THEMATIC OBJECTIVE A SUMMARY OF MAIN RESULTS EXPECTED FOR EACH OF THE ESI FUNDS

1. As a result of the intervention logic that was carried out it has been agreed that both the ERDF and ESF Programmes will be carried out under 2(two) thematic objectives each. This is in order to achieve maximum concentration of the allocations to ensure the greatest impact.

| **Thematic Objective** | **Main Results Expected** |
|---|---|
| (3) Enhancing the competitiveness of SMEs, the agricultural sector (for the EAFRD) & the fisheries & aquaculture sector (for the EMFF). | • Increased number of SMEs adopting new products and processes (ERDF). |
| (4) Supporting the shift towards a low-carbon economy in | • Increase the share of renewable energy as a % of total energy production (ERDF).<br>• Reduce the energy requirements in SMEs (ERDF).<br>• Reduction of energy requirements in existing housing or public |

| | |
|---|---|
| all sectors. | buildings (ERDF). |
| (8) Promoting employment & supporting labour mobility.<br><br>(10) Investing in education, skills & lifelong learning. | • Increased number of training schemes for the youth and those requiring improved skills to be undertaken (ESF).<br>• Increased number of courses undertaken (ESF).<br>• Increased number of inactive persons engaged in job searching (ESF).<br>• Increased numbers in education/ training schemes (ESF).<br>• Increased number of persons gaining a qualification (ESF).<br>• Increased number of persons in employment, including self employment (ESF). |

## 1.4 THE INDICATIVE ALLOCATION OF THE UNION BY THEMATIC OBJECTIVE AT NATIONAL LEVEL FOR EACH AMOUNT OF THE ESI FUNDS, AS WELL AS THE TOTAL INDICATIVE AMOUNT OF SUPPORT FORESEEN FOR CLIMATE CHANGE OBJECTIVES

**1.4.1 Table: The indicative allocation of support by the Union by thematic objective at national level for each of the ESI Funds (EUR) (total Union support, including the performance reserve).**[391]

| | **ERDF** (€) | **ESF** (€) | **TOTAL** (€) |
|---|---|---|---|
| 1. Strengthening research, technological development & innovation | 0 | 0 | 0 |
| 2. Enhancing access to, & use & quality of, information & communication technologies | 0 | 0 | 0 |
| 3. Enhancing the competitiveness of SMEs, the agriculture sector (for the EAFRD) & the fisheries & aquaculture sector (for the EMFF) | 4,309,200 | 0 | 4,309,200 |
| 4. Supporting the shift towards a low-carbon economy in all sectors | 1,147,314 | 0 | 1,147,314 |
| 5. Promoting climate change adaptation, risk prevention & management | 0 | 0 | 0 |
| 6. Protecting the environment & promoting resource efficiency. | 0 | 0 | 0 |

[391] All allocations set out in this table have been subject to rounding so may not total up.

| | ERDF (€) | ESF (€) | TOTAL (€) |
|---|---|---|---|
| 7. Promoting sustainable transport & removing bottlenecks in key network infrastructures | 0 | 0 | 0 |
| 8. Promoting employment & supporting labour mobility | 0 | 2,324,071 | 2,324,071 |
| 9. Promoting social inclusion & combating poverty | 0 | 0 | 0 |
| 10. Investing in education, skills & lifelong learning | 0 | 2,324,070 | 2,324,070 |
| 11. Enhancing institutional capacity & an efficient public administration | 0 | 0 | 0 |
| TECHNICAL ASSISTANCE | 226,800 | 193,200 | 420,000 |
| **TOTAL** | 5,683,314 | 4,841,341 | 10,524,655 |

1. Total indicative amount of EU support for climate change objectives is €1,147,314.

## 1.5 The application of Horizontal Principles & policy objectives for the implementation of the ESI Funds

### 1.5.1 Arrangements for the partnership principle including an indicative list of the partners referred to in Article 5 CPR and a summary of the actions taken to involve them in accordance with Article 5 CPR and of their role in the preparation of the Partnership Agreement and the progress report referred to in Article 52 CPR

1. The PA has been developed following engagements between all relevant partners, stakeholders, in accordance with Article 5 of the CPR.
2. Those who were consulted included:- Gibraltar Chamber of Commerce; Gibraltar Federation of Small Businesses; Government Training Officer; Town Planner; Department of Education; Environmental Agency; Ministry for Health and Environment; Ministry of Enterprise, Training, Employment, Health & Safety; Gibraltar Tourist Board; Gibraltar Care Agency; Ministry for Equality & Social Services; Ministry for Traffic and Technical Services and the Gibraltar Ornithological & Natural History Society.
3. Due to the Programme size and allocation no public consultation was conducted, albeit the consultation carried out with stakeholders was made public by the GFSB and is available on their website www.gfsb.gi.

## 1.5.2 PROMOTION OF EQUALITY BETWEEN MEN AND WOMEN, NON-DISCRIMINATION AND ACCESSIBILITY (WITH REFERENCE TO ARTICLE 7 CPR)

1. These principles, which are enshrined within the Gibraltar Constitution 2006, will be supported in the preparation, implementation, monitoring and evaluation of the Programme.
2. The Gibraltar labour market subscribes to the adage of "equal pay for equal work". There is no discrimination in remunerations. The Managing Authority will work to ensure that the current labour market balance is maintained and/or that the female participation is increased.
3. The Managing Authority shall take the appropriate steps required to prevent any discrimination based on sex, racial or ethnic origin, religion or belief, disability, age or sexual orientation during the various stages of implementation of the Programme and, in particular, access to funding.
4. Equal Opportunities and gender mainstreaming targets will be set at Programme level. The Managing Authority will ensure that at project stage, all applicable projects contribute to minimum gender equality thresholds and that they demonstrate how they will contribute to achieving the Programme's targets.
5. The Managing Authority in close collaboration with the Gibraltar Chamber of Commerce and the Gibraltar Federation of Small Businesses, organise annual events to promote the availability and accessibility of Structural Funds. In addition to this EU Funding newsletters are published on a quarterly basis and have a wide distribution. A dedicated website www.eufunding.gi is available. The EU Programmes Secretariat also operates an "open door" policy.
6. The Managing Authority is housed in a user friendly building with easy access for disabled applicants. The Managing Authority encourages potential applicants to engage with them prior to submission of applications in order to ensure that those with special needs are assisted when applying for funding.

## 1.5.3 SUSTAINABLE DEVELOPMENT (WITH REFERENCE TO ARTICLE 8 CPR)

1. Sustainable Development will be promoted across all of Gibraltar's EU co-funded projects. It will be the legal obligation of a project sponsor to carry out an Environmental Impact Assessment (EIA) where the implementation of a project is likely to have significant impact on the environment.
2. Article 192(1) of the Treaty setting out "the polluter-pays" principle applies across the territory of Gibraltar. EU directive 2008/98/EC has been transposed into the Gibraltar Public Health Act. Air and water quality is monitored by the Department of the Environment. All infractions are investigated and the party responsible for producing the pollution is made to pay for the damage done to the natural environment.
3. All EU directives regarding the environment and its protection have been transposed into the Laws of Gibraltar. All arrangements required under Article 8 of the CPR are in place.

### 1.5.4 HORIZONTAL POLICY OBJECTIVES

1. Not applicable to Gibraltar

# 2 ARRANGEMENTS TO ENSURE EFFECTIVE IMPLEMENTATION - ARTICLE 15 (1) (B) CPR

## 2.1 THE ARRANGEMENTS, IN LINE WITH THE INSTITUTIONAL FRAMEWORK OF THE MEMBER STATES, THAT ENSURE COORDINATION BETWEEN THE ESI FUNDS & OTHER UNION & NATIONAL FUNDING INSTRUMENTS & WITH THE EIB

1. The EU Programmes Secretariat (EUPS) is organised to deal will all EU Funds allocated to Gibraltar and the Gibraltar Government co-financing. This means that all expertise on EU Funds is concentrated in a “one-stop” shop for beneficiaries. This ensures that there is greater synergy between Programmes and reduces the risk of duplication by beneficiaries. This system helps to streamline the application and appraisal processes and reduce bureaucracy locally.
2. In Gibraltar processes and procedures are aligned and developed together by a single body, the EU Programmes Secretariat. Membership of appraisal groups, recommending bodies and Monitoring Committees are made up of the same representative groups and stakeholders thereby harmonising all procedures. Synergy between Programmes is therefore simpler to achieve.
3. For the 2014-2020 Programmes, the progress and success to date will be consolidated and further investments in human capital and the economic environment will be carried out. The investment in people will go hand-in-hand with ensuring that the right higher value-added jobs are being created, or brought to, Gibraltar. All projects will be required to demonstrate that they are coordinated and integrated with wider investment and not that they operate in isolation without consideration for both the supply and demand chain, and that they fit into the local, thematic and spatial policy landscape.
4. Gibraltar will also be actively seeking to participate in other EU Programmes e.g. ERASMUS, EU Culture Programme and Youth in Action. As with the ETC Programmes in which Gibraltar participates, the EUPS will ensure that systems are in place to ensure coordination and synergy between ESI Funds and these funding instruments.

## 2.2 THE INFORMATION REQUIRED FOR EX-ANTE VERIFICATION OF COMPLIANCE WITH THE RULES ON ADDITIONALITY (BASED ON ARTICLE 95 AND ANNEX X CPR)

1. Not applicable - see corresponding section in UK Chapter.

## 2.3 A SUMMARY OF THE ASSESSMENT OF THE FULFILMENT OF APPLICABLE EX-ANTE CONDITIONALITIES IN ACCORDANCE WITH ARTICLE 19 AND ANNEX XI AT NATIONAL LEVEL & OF THE ACTIONS TO BE TAKEN, THE RESPONSIBLE BODIES, & THE TIMETABLE FOR THEIR IMPLEMENTATION, WHERE EX-ANTE CONDITIONALITIES ARE NOT FULFILLED

1. Not applicable - see corresponding section in UK Chapter.

## 2.4 THE METHODOLOGY & MECHANISM TO ENSURE CONSISTENCY IN THE FUNCTIONING OF THE PERFORMANCE FRAMEWORK IN ACCORDANCE WITH ARTICLE 21 OF THE CPR

1. Gibraltar will contribute to the processes of establishing and monitoring the Performance Framework as described in the UK chapter. All ESI funds will be monitored and evaluated by the EUPS. This will ensure that a consistent approach is undertaken. Indicators will be defined and guidance produced at Programme and Priority level in order to simplify matters. Advice, support and guidance will be set out before Programmes commence operations, and will be readily available to project and scheme managers.
2. Targets will be developed taking into account proposed activity and any benchmark data available. All UK administrations will meet regularly to discuss their approach and share best practice.

## 2.5 AN ASSESSMENT OF WHETHER THERE IS A NEED TO REINFORCE THE ADMINISTRATIVE CAPACITY OF THE AUTHORITIES INVOLVED IN THE MANAGEMENT & CONTROL OF THE PROGRAMMES &, WHERE APPROPRIATE, OF THE BENEFICIARIES, AS WELL AS, WHERE NECESSARY, A SUMMARY OF THE ACTIONS TO BE TAKEN FOR THIS PURPOSE

1. Gibraltar benefits from a considerable body of expertise in the management of EU Programmes and needs to continue building on these strengths. There is a need for those involved in the delivery of EU Funds, both internally (EUPS) and within its wider partnerships to adapt to new methodologies if future Programmes are to be implemented even more effectively. This is an issue which requires further consideration as the new implementation arrangements develop.

## 2.6 A SUMMARY OF THE ACTIONS PLANNED IN THE PROGRAMMES, INCLUDING AN INDICATIVE TIMETABLE, TO ACHIEVE A REDUCTION IN THE ADMINISTRATIVE BURDEN FOR BENEFICIARIES

1. A revision of the application process will be undertaken to enhance and stream-line it even further. It is hoped that the current practice which can take up to 4 weeks from receipt of application to the signing of the Grant Offer Letter and commencement of project, will be narrowed down.
2. The possibility of having more areas of Structural Funding being IT based e.g. applications, claims, etc. will also be looked into.

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