

Written Response by the Welsh Government to the report of the Enterprise and Business Committee entitled Draft legislative proposals for EU structural funds 2014 - 2020

A. INTRODUCTION AND KEY ISSUES OF STRATEGIC IMPORTANCE

1. I welcome the opportunity to respond to the Enterprise and Business Committee's report on Draft legislative proposals for EU Structural Funds 2014-2020
2. Work is underway in considering, together with our internal and external stakeholders, the European Commission's draft proposals for the next round of European programmes. Strategic decisions will need to be made to help direct and shape the development of any new programmes post-2013. I will be discussing these issues with partners across Wales over the coming months with the aim of reaching a clear view on the direction of these programmes. Key issues for consideration include:
 - Identifying the **core priorities** for funding support under future EU programmes, including the need to make choices and to concentrate resources to maximise impact;
 - Improving the **sustainability** of investments, including through a greater emphasis on outputs, results and outcomes, and the greater use of innovative delivery mechanisms (such as Financial Engineering Instruments).
 - Identifying the best ways of contributing towards the goals of **smart, sustainable and inclusive growth**, including use of innovative financial investment instruments;
 - Considering the balance and scope for **integration** of the various EU funds in Wales whilst maximising the impact of these investments;
 - The extent of geographical and spatial targeting, including considering how the needs and opportunities of **urban and rural areas** can best be supported through the various EU funds and the scope for stronger integration of interventions; and
 - Reviewing **delivery approaches** with the aim of facilitating easier access to funds, while still ensuring high quality projects.
3. Once the broad direction for future EU programmes has been agreed, we will look to work with our partners on the detail of programmes. This will include consideration of the lessons learned from both the 2007–2013 and earlier programmes and the scope for simplifying and streamlining implementation arrangements and removing barriers to participation.

B. Detailed Responses to the report's recommendations are set out below:

1. The Committee recommends that:

Recommendation: We therefore congratulate the European Commission on its draft proposals and urge the Welsh Government to support and defend them from substantial amendment following negotiation at EU level – although subject to the issues we raise in paragraphs 8 to 25 below.

Response: Accept

The Welsh Government has welcomed the draft proposals several times, most recently in providing evidence to the Committee. They present a number of opportunities and challenges for Wales and have provided a good starting point for negotiations. Whilst looking to defend the substance of the regulations the Welsh Government will continue to press for greater simplification, integration and flexibility across all funds and programmes.

Financial Implications: None. Any additional costs will be drawn from existing programme budgets.

2. The Committee recommends that:

Recommendation: We urge the Welsh Government to formulate, in collaboration with the higher education and business sectors, an innovation strategy for Wales that identifies how the Welsh economy can be transformed through prioritising investment in skills, research and technological development, including renewable technologies, and how these investments can generate vibrant local supply chains to support them. We also recommend that the strategy should be peer reviewed and benchmarked against international best practice.

Response: Accept

The Welsh Government's drive to strengthen policy and integration of research, innovation and science capacity and excellence across Wales has led to the appointment of Chief Scientific Advisor for Wales and the launch this month of *Science for Wales*, the Welsh Government's strategic agenda for science.

An innovation strategy is already being planned to complement *Science for Wales* and the Welsh Government will encourage the involvement of higher education and business sectors in its development. An initial call for evidence is expected to be launched in April and a consultation document expected later this year.

The existence of a regional Smart Specialisation Strategy is a precondition for Structural Funds support in the area of research, technological development and innovation. The Welsh Government will ensure that the *Science for Wales* and the complementary Innovation Strategy will meet these conditions. Consideration will be given to peer review and bench marking of a Wales Innovation Strategy.

Financial Implications: None. Any additional costs will be drawn from existing programme budgets.

3. The Committee recommends that:

Recommendation: We recommend that the Welsh Government should align its priorities for the next round on EU Structural Funds with those in the EU's Horizon 2020 strategy to build greater capacity within higher education research and development priorities, and to attract research "stars" to Wales.

Response: Accept

The Welsh Government has recognised the need to align research and innovation activity in the 2014-2020 EU Structural Funds programmes more closely with Horizon 2020. Structural funds will be able to help address barriers to accessing Horizon 2020 and other competitive funds, in particular through building capacity and creating networks. The Welsh Government will also look to learn lessons from successful capacity building activities under the 2007-2013 programmes, such as the Low Carbon Research Institute (LCRI) which is now successfully accessing Framework 7 funding.

The major research priorities identified in Horizon 2020 broadly align to existing and emerging research priorities in Wales, and also reflect industrial sectors which are generating increased investment and job creation, and therefore where focused investment has the potential for economic benefit as well as more sustainable living. Structural Funds programmes would be expected to fully reflect Welsh Government policies in each priority area, but it would not be appropriate to commit to specific activities, such as research "stars", at this stage in the development process.

Financial Implications: None. Any additional costs will be drawn from existing programme budgets.

4. The Committee recommends that:

Recommendation: We further recommend that the Welsh Government should contribute to the negotiations on the Horizon 2020 proposals to help secure maximum benefits for Wales.

Response: Accept

The Welsh Government is fully engaging with the UK Government in support of its negotiations on the EU's Horizon 2020 proposals.

Financial Implications: None. Any additional costs will be drawn from existing programme budgets.

5. The Committee recommends that:

Recommendation: We urge the Welsh Government to defend the European Commission's proposed categorisation of regions; the availability of Structural Funds for the poorest regions, irrespective of Member States' Gross Domestic Product; the availability of transitional funding for regions growing out of Convergence funding; and sufficient budget to deliver the Europe 2020 priorities.

Response: Accept

The Welsh Government first set out this position when the former First Minister opened the debate at the Fourth Cohesion Forum in Brussels in 2007. The Welsh Government has worked hard within the UK and across Europe to ensure this message was regularly reiterated in the debate and is pleased to see it fully reflected in the draft regulations. The Welsh Government will continue to work with MEPs and other allies to defend these priorities; however, we recognise there is still a fight to win in terms of securing equivalent levels of funding, per capita, to support those categories of regions.

Financial Implications: No direct costs as staff involved in negotiations are funded through existing programme budgets. Changes to the 2014-2020 EU budget and categories of regions may affect future funding available through the structural funds in Wales and resource requirements within the Welsh Government to manage those programmes.

6. The Committee recommends that:

Recommendation: We recommend that the Welsh Government should develop, in consultation with its partners, a specific Welsh chapter to the UK's Partnership Contract with the European Commission that sets out the priorities and needs of Wales.

Response: Accept

The Welsh Government's evidence to the inquiry set out the view that the Partnership Contract would need to reflect the realities of devolution, and respect the Devolved Administrations' differences in policy and approach to delivering Europe 2020.

The Welsh Government understands that, barring significant changes to the regulations, both the European Commission and the UK Government recognise the need for such demarcation within the UK Partnership Contract. It is fully expected that each of the Devolved Administrations and England will have separate chapters or sections within the Partnership Contract.

Wales does not exist in isolation, however, and the Welsh Government is committed to working constructively with the UK Government and the other Devolved Administrations so that the Partnership Contract is more than just four separate contracts, but offers a coherent and joined-up description of how we can collectively deliver the shared goals set out in Europe 2020.

Financial Implications: None. Any additional costs will be drawn from existing programme budgets.

7. The Committee recommends that:

Recommendation: We recommend that the Welsh Government should seek clarification on whether macro-economic conditionalities will apply to the UK, and if they do, should seek to change the proposals to remove the potential future threat that Wales could lose funding as a result of failure at UK level to comply with those macroeconomic conditionalities.

Response: Accept

The Welsh Government has been opposing macro-economic conditionalities since they were first proposed by the European Commission. We were disappointed to see them set out in the structural funds regulations, but note that they are driven by wider discussions on Economic Governance following the economic crisis and problems in the Euro-area. The Welsh Government is not clear how macro-economic conditions would improve performance of regional programmes, and note that there is a risk that they could penalise those regions and Member States that need structural funds the most. We are working with the UK government in opposition of the proposed macro-economic conditions, who are confident the UK will be exempt in any case.

Should it appear at any stage that macro-economic conditions will apply to the UK, the Welsh Government will seek immediate

discussions with the UK Government to mitigate any potential effect of any such conditions on Wales.

Financial Implications: None. Any additional costs will be drawn from existing programme budgets.

8. The Committee recommends that:

Recommendation: We recommend that the Welsh Government should seek clarification on the Commission's expectations for a performance framework that would enable project sponsors and managing authorities to measure and evaluate outcomes as opposed to outputs. We also support the call from the Welsh higher education sector that the performance framework should include indicators that can measure impacts and outcomes such as research capacity and innovation.

Response: Accept

The Welsh Government continues to be a strong advocate of a robust performance framework. The Welsh performance framework already includes indicators that measure results for each project. Projects are also required to undertake an evaluation which will look to identify and capture outcomes and impact. The Welsh Government will be looking to further strengthen monitoring and evaluation for 2014-2020, with an emphasis on measuring results, outcomes and impact. This will include a review of indicators across all priority areas, including for research capacity and innovation.

Financial Implications: None. Any additional costs will be drawn from existing programme budgets.

9. The Committee recommends that:

Recommendation: We recommend that the Welsh Government should seek clarification on the potential impact of the proposed performance reserve mechanism.

Response: Accept

The Welsh Government has opposed proposals for the re-introduction of a performance reserve since the proposal was first suggested; noting in particular the broadly accepted failure of a similar mechanism during 2000-2006. The regulations do not offer any reassurance that this reserve would not encourage programmes that lack ambition and innovation and that prioritise easy wins over tackling difficult problems.

The impact on financial management and planning is clear, as five percent of the entire funding allocation would be withheld until at least

2019. The short time remaining for spending that five percent is likely to lead to a focus on spending it rather than on delivering outcomes.

The Welsh Government will continue to work with the UK Government and MEPs to make the case for the removal of proposals for the compulsory inclusion of a performance reserve, while at the same time championing a strengthened performance framework that places an emphasis on delivering outcomes and results. Should the reserve remain, we will be seeking reassurances and amendments to mitigate the negative impacts a reserve mechanism can create.

Financial Implications: None. Any additional costs will be drawn from existing programme budgets.

10. The Committee recommends that:

Recommendation: We recommend that the Welsh Government should carry out a thorough impact assessment of the European Commission's proposals for thematic concentration thresholds to see how these would affect spending levels in Wales.

Response: Accept in principle

The Welsh Government is supportive of the principle of thematic concentration, but feels this should be a concentration of each region's choosing rather than a pre-determined list. The Welsh Government's approach to negotiations is to seek maximum flexibility in programming choices to allow the driver for the 2014-2020 programmes to be our distinctive Welsh policies and Programme for Government. It should also be noted that negotiations are ongoing and proposals may alter significantly from the original drafts.

An initial analysis of the regulations indicates that they would allow a broadly similar policy focus to current programmes. If the proposed thematic concentration were applied to current programmes only the ERDF Convergence programme would be materially affected, requiring a greater degree of thematic concentration. As the regulations stand, this could potentially mean a narrower range of activities being supported, with funds being re-allocated to a combination of Research and innovation, SME competitiveness and / or Low-Carbon investments in renewable energy and energy efficiency.

The Welsh Government will continue to assess the likely impact of all Commission proposals as negotiations progress and we get more certainty on the likely budgetary allocations and the direction of travel on the elements of thematic concentration.

Financial Implications: None. Any additional costs will be drawn from existing programme budgets.

11. The Committee recommends that:

Recommendation: We recommend that the Welsh Government should seek clarification on how integration would work in terms of the application of different intervention rates between the different funds for actions supported.

Response: Accept

The Welsh Government notes the Commission's emphasis on better integration of the Structural Funds (ESF, ERDF, Cohesion Fund) with the rural (EAFRD) and fisheries (EMFF) funds through a Common Strategic Framework. The Welsh Government strongly supports any measures that will enable greater integration of the funds. The Common Strategic Framework, if done well, could be an important instrument to facilitate opportunities across funds and help to simplify access to that funding. The Welsh Government has already created a new European Programmes Directorate which will look to capitalise on the opportunities that greater integration presents.

The Welsh Government is working closely with the UK Government and MEPs to try and improve integration across the various regulations, aiming to increase commonality and simplify processes. Intervention rates are one of a number of areas where there remain significant differences. The Welsh Government is seeking clarification on how integration in this and other areas will work in practice and making suggestions for improvement where we can (for example through the integration of the Commission's audit processes).

Financial Implications: None. Any additional costs will be drawn from existing programme budgets.

12. The Committee recommends that:

Recommendation: We recommend that the Welsh Government should negotiate for maximum flexibility in terms of the definition of "urban areas" and for managing authorities, rather than Member States, to direct how and where the five per cent of funding for sustainable urban development will be spent.

Response: Accept

The European Commission has indicated there are no restrictions set out in the regulations for definitions of "urban areas" or cities for sustainable urban development. We also understand that it will be for the Member State to decide on a preferred approach to meeting the

five percent minimum allocation for sustainable urban development in cities.

The Welsh Government fully expects to contribute to the five percent target and to work with the UK Government and other Devolved Administrations to meet that target collectively.

Our first priority will be to ensure that Wales can determine how it intends to meet its share of the UK target, and that funding to do so comes from our own allocation (rather than a centralised or top-sliced UK pot). Given the very different approaches to urban development across the UK, and most importantly the devolved nature of the policy objectives, we do not consider it viable to adopt a centralised UK-wide approach.

Secondly, we will need to have discussions with the UK Government to try and come to an agreement for any definitions that could apply in a UK context. Should a UK definition not prove negotiable we will seek to include specific definitions for Wales in the Partnership Contract.

Financial Implications: None. Any additional costs will be drawn from existing programme budgets.

13. The Committee recommends that:

Recommendation: We recommend that the Welsh Government should seek to maximise the potential and flexibility of Structural Funding to benefit capital infrastructure projects in Wales.

Response: Accept

The Welsh Government has been pressing for flexibility across the regulations to allow a broad range of investments, in capital infrastructure, including investments in 'smart' sustainable infrastructure (e.g. R&D facilities, learning infrastructure, energy and sustainable transport)..

Financial Implications: None. Any additional costs will be drawn from existing programme budgets.

14. The Committee recommends that:

Recommendation: In order that Welsh concerns and needs are addressed during the coming months of negotiations, we recommend that the Welsh Government should continue to be involved in key discussions at the UK level.

Response: Accept

The Welsh Government continues to work closely with the UK Government, including at a Ministerial level through the Joint Ministerial Council on Europe, to pursue Welsh interests. The Welsh Government is committed to working constructively with the UK Government in agreeing negotiating positions and priorities.

Financial Implications: None. Any additional costs will be drawn from existing programme budgets.

15. The Committee recommends that:

Recommendation: We also endorse the actions of the Deputy Minister for Agriculture, Fisheries, Food and European Programmes in ensuring that Wales's voice is represented in the European Parliament and at the General Affairs European Council.

Response: Accept

The Welsh Government welcomes the Enterprise and Business Committee's acknowledgement of the efforts of the Deputy Minister for Agriculture, Fisheries, Food and European Programmes in ensuring that Wales's voice is represented in Europe.

Financial Implications: None. Any additional costs will be drawn from existing programme budgets.

16. The Committee recommends that:

Recommendation: Further, we fully support a team Wales approach to discussions and negotiations at UK and EU levels that fully engages the higher education, private and voluntary sectors.

Response: Accept

The Welsh Government is fully committed to engaging with its external stakeholders - including those in the higher education, private and the Third Sector - in the development of post-2013 European programmes.

Financial Implications: None. Any additional costs will be drawn from existing programme budgets.

17. The Committee recommends that:

Recommendation: We recommend that the Welsh Government should, in partnership with the UK Government, investigate funding for

electrification of the Swansea to Cardiff rail line through the Connecting Europe Facility.

Response: Accept in Principle

The Welsh Government is making the case to the UK Government for electrification of the Swansea to Cardiff rail line, to complement the planned electrification of the rail link from London to Cardiff. Investment in rail infrastructure is non-devolved and remains the responsibility of the UK Government.

The Connecting Europe Facility (CEF) is a proposal by the European Commission to replace the existing funding programmes for Trans European Networks. A new regulation on the Trans European Transport Network is proposed, which would differentiate a core network from the existing – comprehensive - network. CEF funding would predominantly be focussed on the core network. Under current Commission proposals the core rail network would end in Cardiff. The Welsh Government is continuing to press the case for Milford Haven to be recognised as a core port, which would strengthen the case for extending the core rail network.,

Support from the Connecting Europe Facility will be explored as a financing option for a range of infrastructure priorities. It should be noted that this funding route falls outside the scope of Structural Funds, is centrally administered by the European Commission and allocated on a competitive and limited basis through strict and relatively narrow criteria. Any bids for investment will need to be prioritised against those criteria.

Financial Implications: None. Work considering the potential to access the Connecting Europe Facility is ongoing and will be met through existing programme budgets.