HM Government

UNITED KINGDOM PARTNERSHIP AGREEMENT

Part 1 (Sections 1 and 2)

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Investing in jobs and skills

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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 billion
European Social Fund (ESF) (including YEI)	
European Agricultural Fund for Rural Development (EAFRD)	€5.2 billion[2]
European Maritime and Fisheries Fund (EMFF)	€243 million

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 relationships 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 the process began with the Scotland Act 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] After transfers from Pillar one ("Voluntary Modulation")
[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 self-governing and 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 2014 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 2014. Therefore, 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 goals, 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 rate, R&D expenditure levels, early school leavers and those engaging in tertiary education as part of the Europe 2020 process.

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[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-2014

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) TFEU AND RELEVANT COUNCIL RECOMMENDATIONS ADOPTED IN ACCORDANCE WITH ARTICLE 148(4) TFEU (ARTICLE 15 (1) (A) (I) CPR)

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).

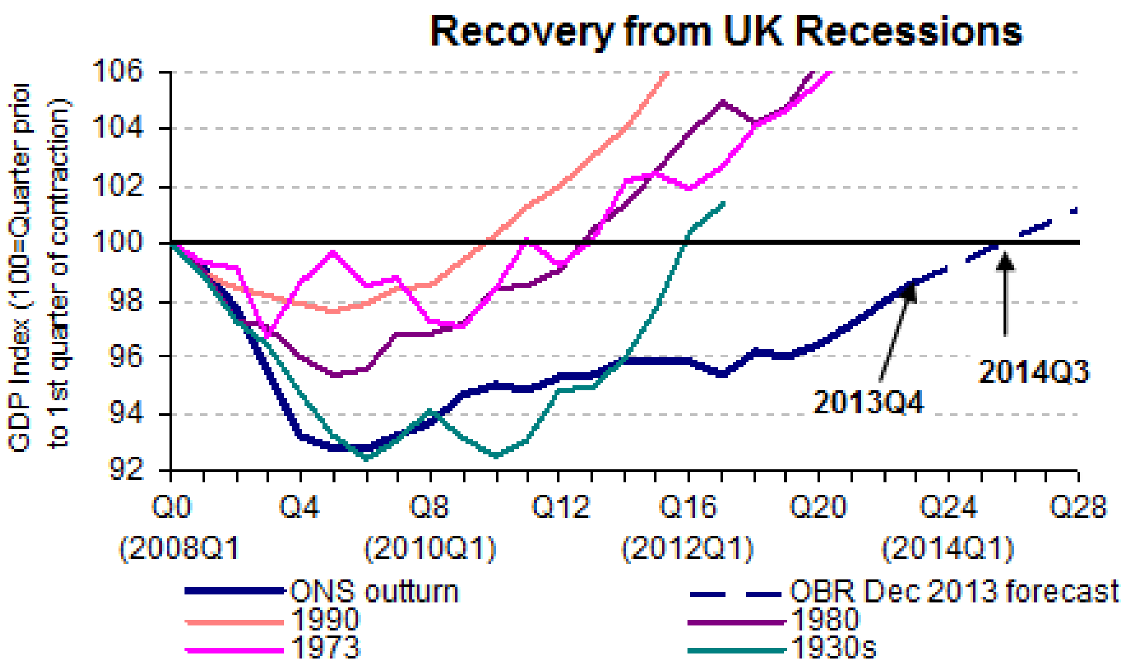

Figure 2: Impact on GDP level through 4 recessions
Source: Office for National Statistics and Bank of England

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

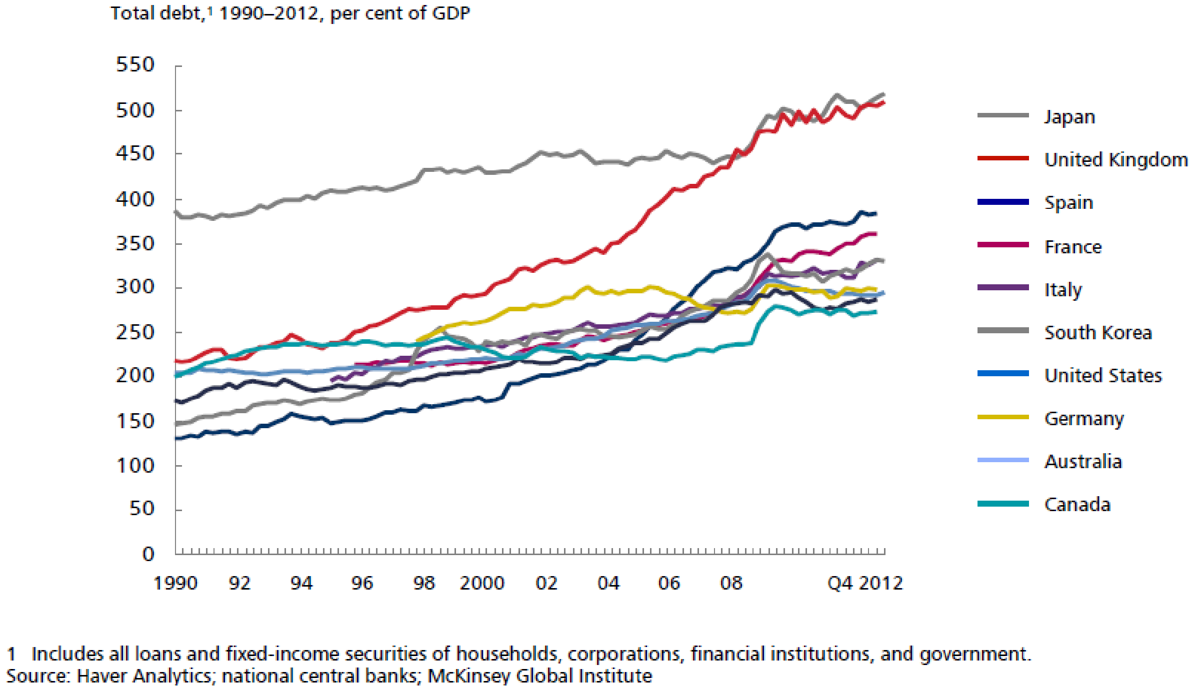

Figure 3: International comparisons of debt
Source: Haver Analytics; national central banks; Mckinsey Global Institute

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 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

[6] Further details at: http://budgetresponsibility.org.uk/economic-fiscal-outlook-march-2014/

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).

<table>
<tr><th colspan="2" rowspan="2"></th><th colspan="2">Outturn</th><th colspan="5">Forecast</th></tr>
<tr><th>2011</th><th>2012</th><th>2013</th><th>2014</th><th>2015</th><th>2016</th><th>2017</th></tr>
<tr><td colspan="2">GDP Growth (OECD Nov 2013)</td><td>-</td><td>-</td><td>1.4</td><td>2.4</td><td>2.5</td><td>-</td><td>-</td></tr>
<tr><td colspan="2">GDP Growth (IMF Jan 2014)</td><td>-</td><td>-</td><td>1.7</td><td>2.4</td><td>2.2</td><td>-</td><td>-</td></tr>
<tr><td rowspan="3">Office for Budget Responsibility</td><td>GDP growth</td><td>1.1</td><td>0.3</td><td>1.8</td><td>2.8</td><td>2.3</td><td>2.6</td><td>2.6</td></tr>
<tr><td>CPI inflation</td><td>4.5</td><td>2.8</td><td>2.6</td><td>1.9</td><td>2.0</td><td>2.0</td><td>2.0</td></tr>
<tr><td>Employment (millions)</td><td>29.2</td><td>29.5</td><td>29.9</td><td>30.4</td><td>30.6</td><td>30.9</td><td>31.2</td></tr>
</table>

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 developedNUTS2 areas and 11 transition NUTS2 areas. The growth rates within NUTS2 areas also vary significantly, with higher growth rates in major conurbations and much slower growth in other parts.[7]
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).

[7] Further details at: http://epp.eurostat.ec.europa.eu/cache/ITY_PUBLIC/1-21032013-AP/EN/1-21032013-AP-EN.PDF

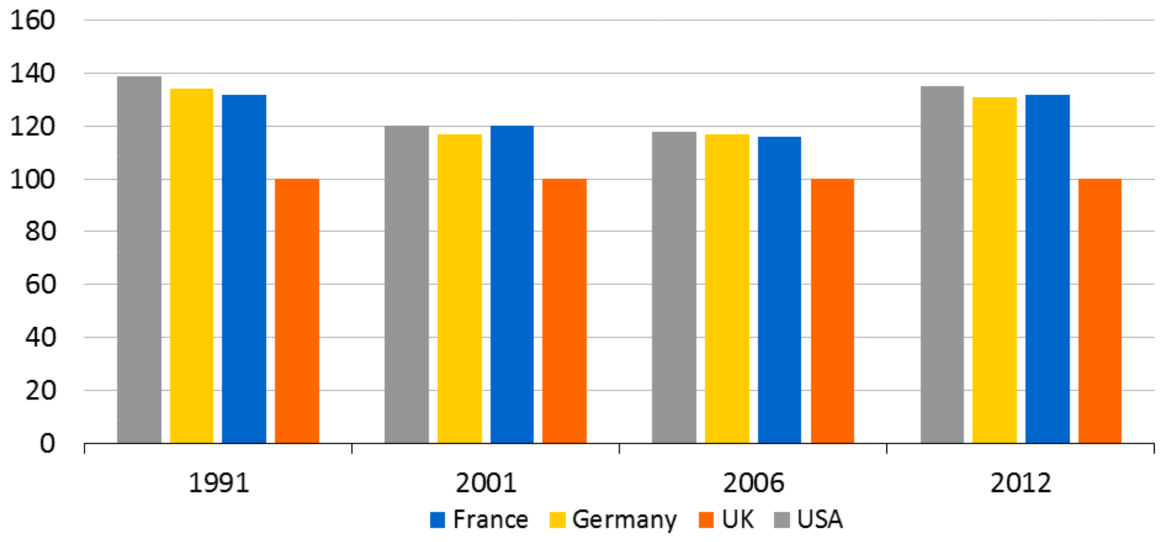

Figure 5: International comparison of GDP per hour worked, UK indexed to 100
Source: http://www.ons.gov.uk/ons/publications/re-reference-tables.html?edition=tcm%3A77-327520

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 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).

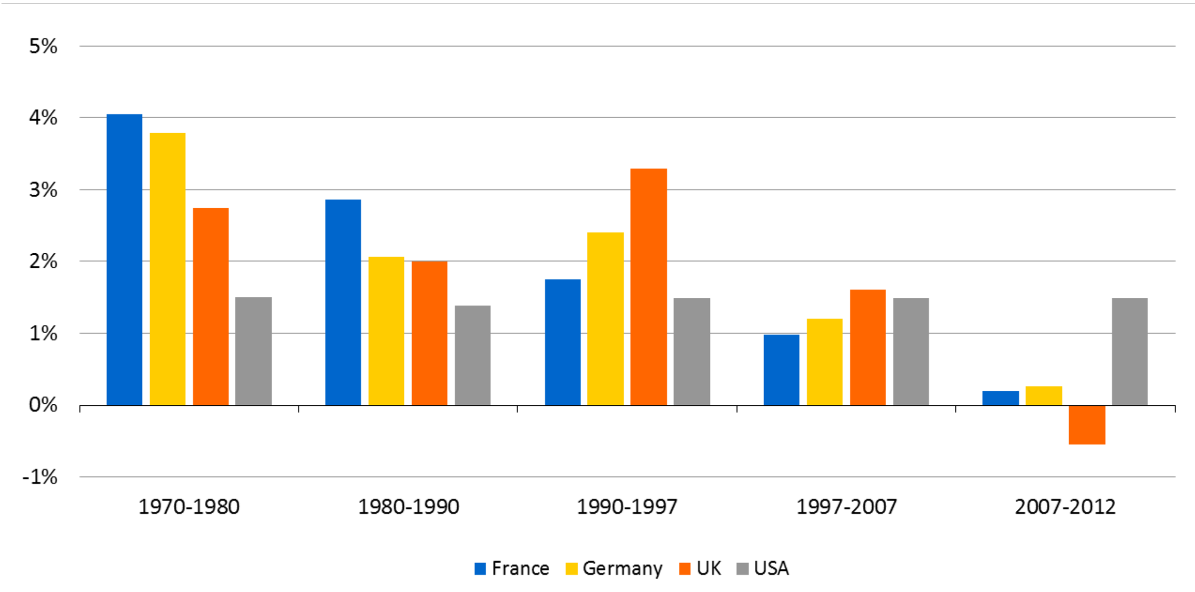

Figure 6: Average annual labour productivity growth (output per hour worked)
Source: Organisation for Economic Co-operation and Development: Labour productivity growth data

12. UK productivity growth has been particularly weak since the financial crisis. UK GDP is still 1.4% below the pre-crisis peak, although 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).

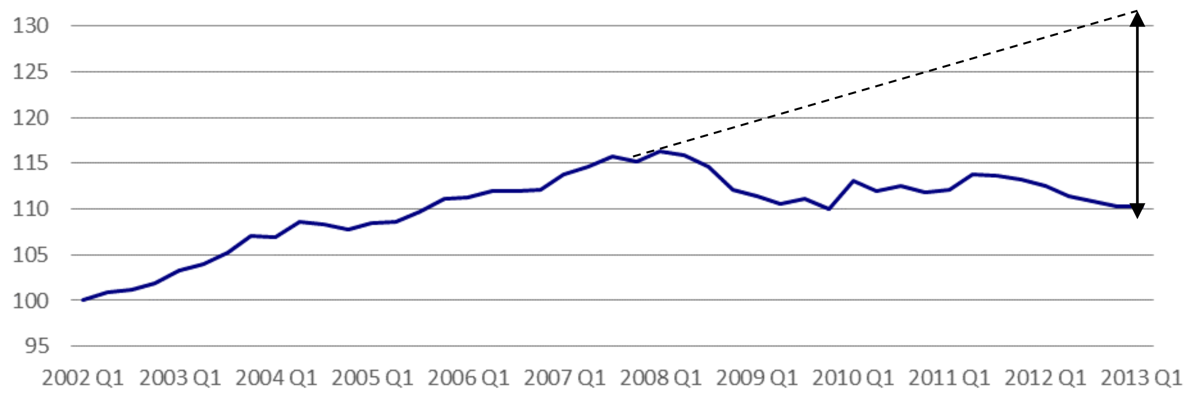

Figure 7: UK output per hour worked, Q1 2002=100
Source: http://www.ons.gov.uk/ons/rel/lms/labour-market-statistics/march-2014/dataset--labour-market-statistics.html

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).

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

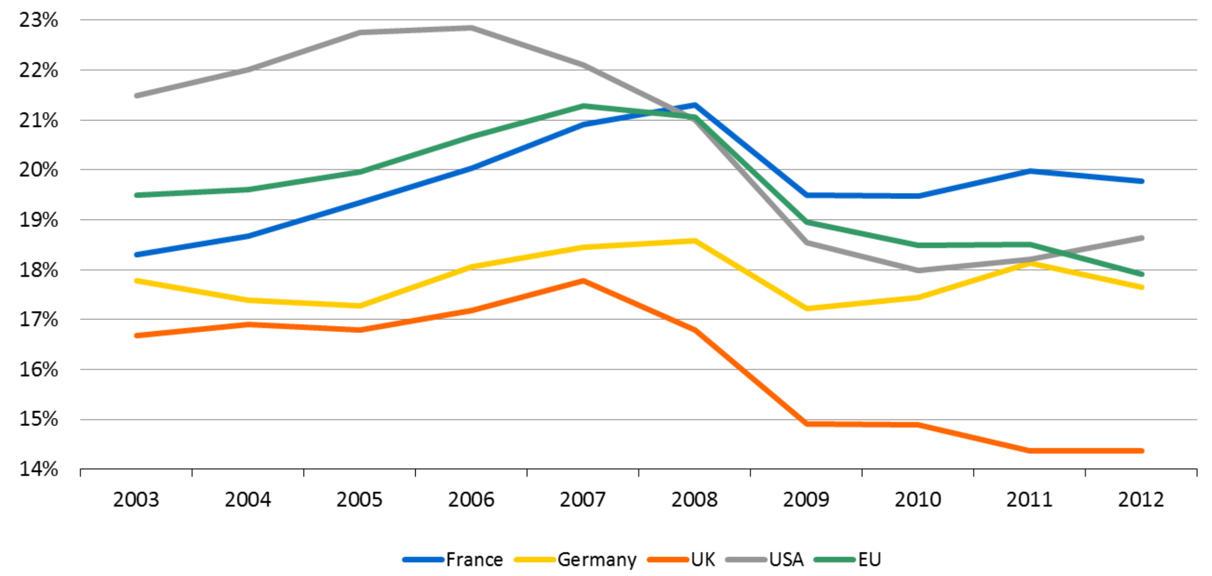

Figure 8: International comparison of investment as a % of GDP
Source: Organisation for Economic Co-operation and Development: Annual National Accounts

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 except for enterprises at the smaller end of the spectrum. The OBR forecast business investment to grow by around 8% year on year over the forecast.

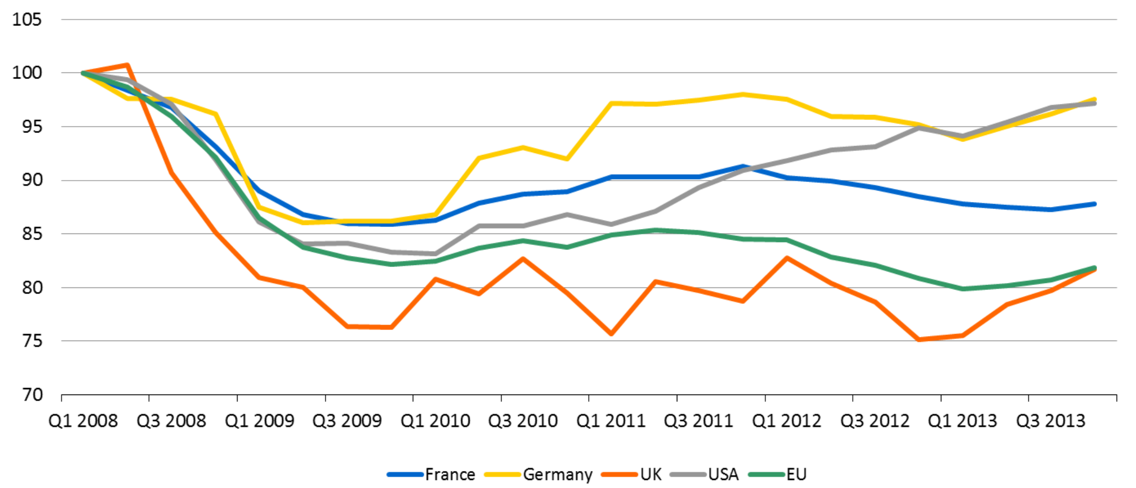

Figure 9: Real Investment (Index Q1 2008 = 100)
Source: Organisation for Economic Co-operation and Development: Quarterly National Accounts

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.

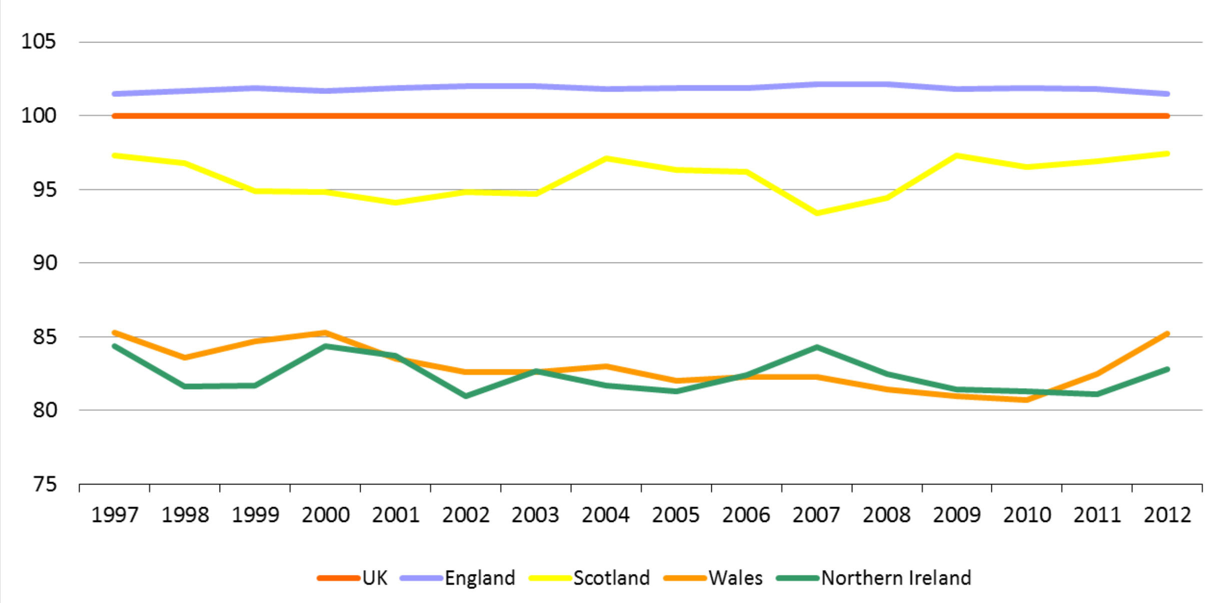

Figure 10: Nominal GVA per hour worked 1997 to 2012 (UK indexed to 100).
Source: **http://www.ons.gov.uk/ons/rel/productivity/labour-productivity/q3-2013/tsdq313.html**

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; a high-level description of the types of investments planned to deliver the objectives for the ESI Funds in the policy area; and
- Where appropriate, consideration of needs and opportunities driven by territorial considerations, including the particular characteristics of rural and coastal areas, and the needs and opportunities arising from these.

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% based on 2011 data	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

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

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[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)
[12] Allas. T (2014) BEIS 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)

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.

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 (€21.5 billion)[13] in R&D in 2012[14]. This compares with £5 billion (€6.4 billion) in 1985 and £11.5 billion in 2000. Taking into account inflation, business investment has increased from an estimated £10.8 billion (€13.6 billion) in 1985 to the £17.1 billion (€21.5 billion) in 2012.

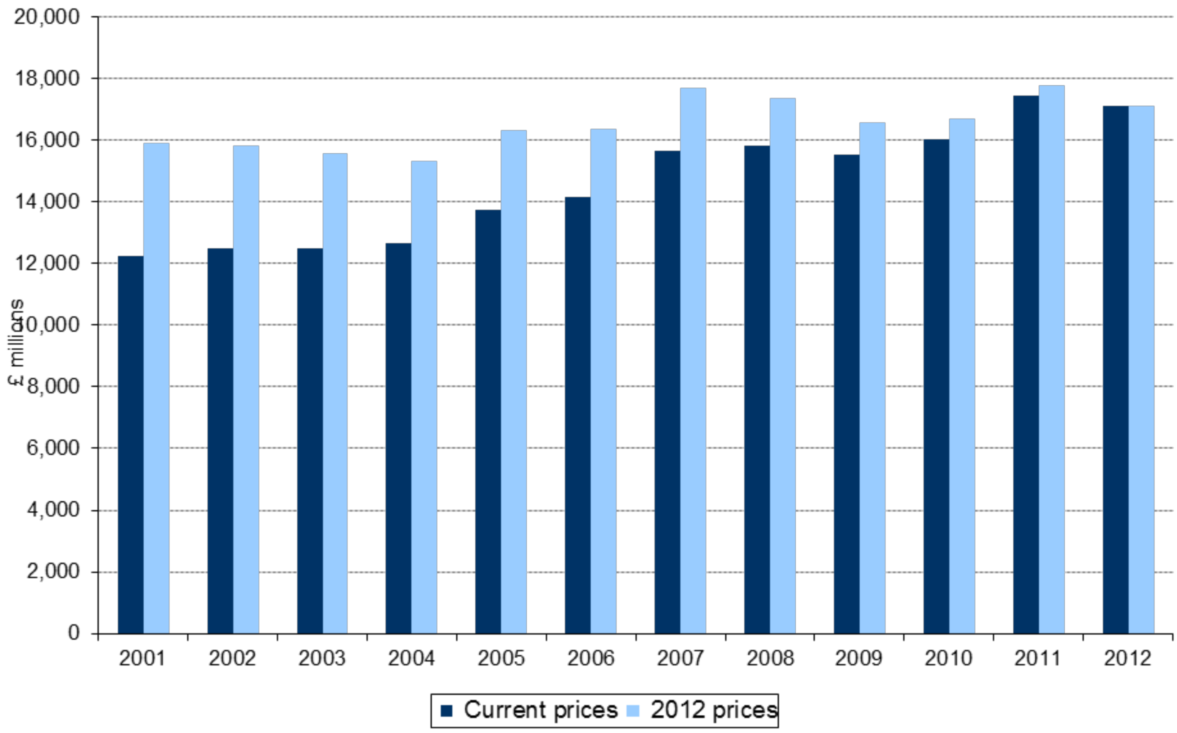

Figure 13: Expenditure on R&D Performed in UK Businesses 2001-2012
Source: Office for National Statistics

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%).

[13] Exchange rate £1 - €1.2573
[14] Further details at: http://www.ons.gov.uk/ons/rel/rdit1/bus-ent-res-and-dev/2012/index.html

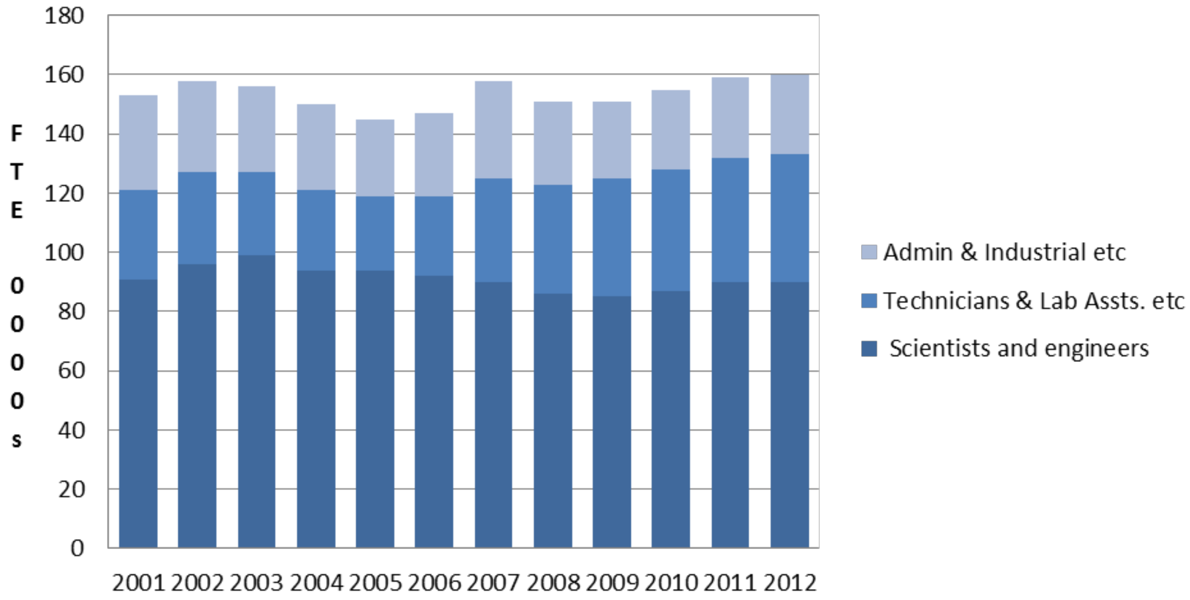

Figure 14: Employment on R&D Performed in UK Businesses 2001-2012
Source: Office for National Statistics

33. The total number of companies supported by R & D Tax Credits has risen from 1,780 in 2000/01[15] to 11,920 in 2011/12[16]. Estimates are that claims are made for around two-thirds of all spending by businesses on R&D.

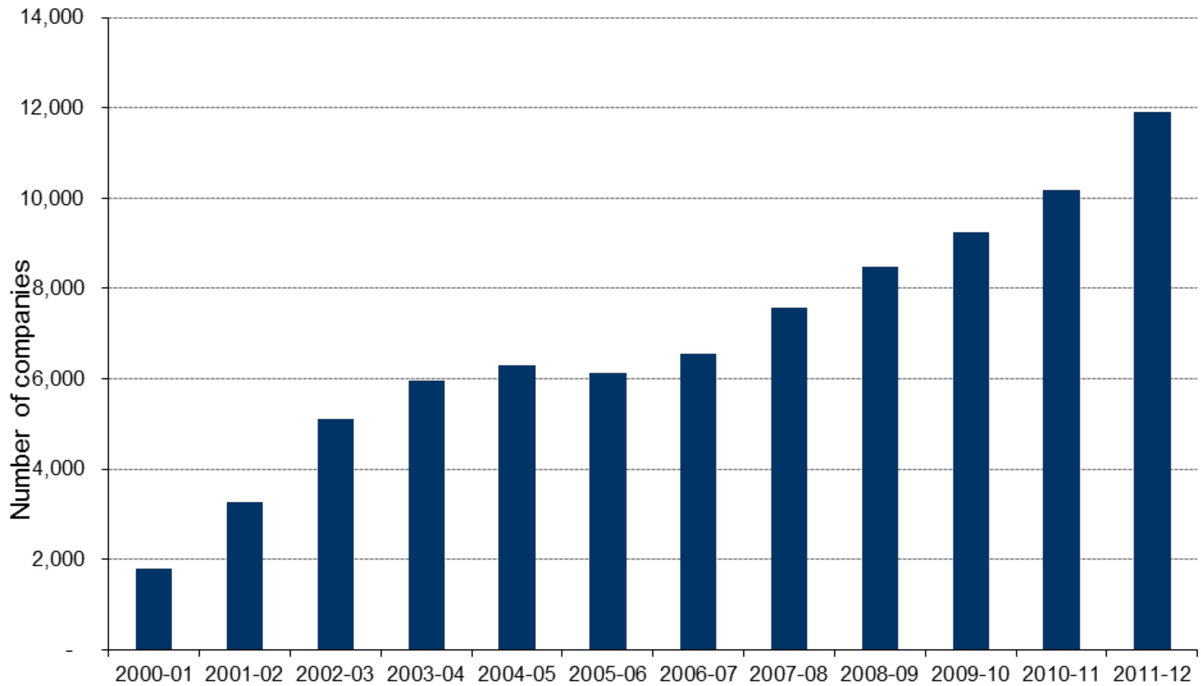

Figure 15: Claims for the R&D tax credit by financial year 2001-2012
Source: ***http://www.hmrc.gov.uk/statistics/research-tc.htm#2***

[15] The large company scheme started in 2002/03.
[16] 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 ('FP7'). The most recent update[17] 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.

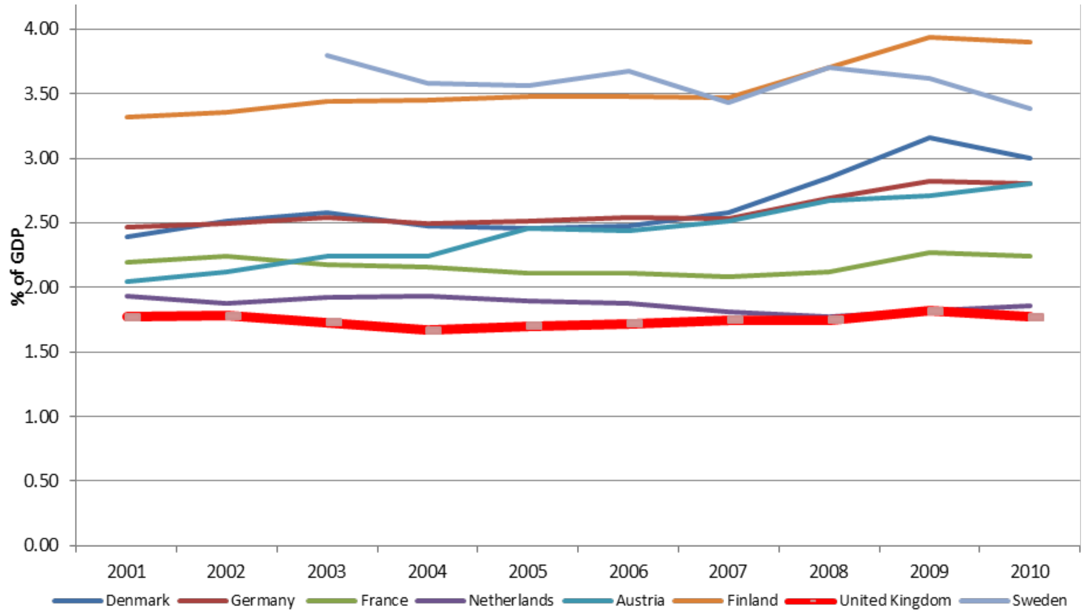

Figure 16: Gross Expenditure on R&D (GERD)
Source: Eurostat. Rd_e_gerdreg

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 £250 billion (€314 billion) (2.8% of GDP) on R&D per annum. China increased its R&D by 28% in 2009 and 15% in 2010, to roughly £125 billion (€157 billion) (1.8% of GDP), and South Korea doubled its expenditure between 2003 and 2011 to around £35 billion (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 sectoral composition of the economy.

[17] eCORDA database, released 1 November 2013

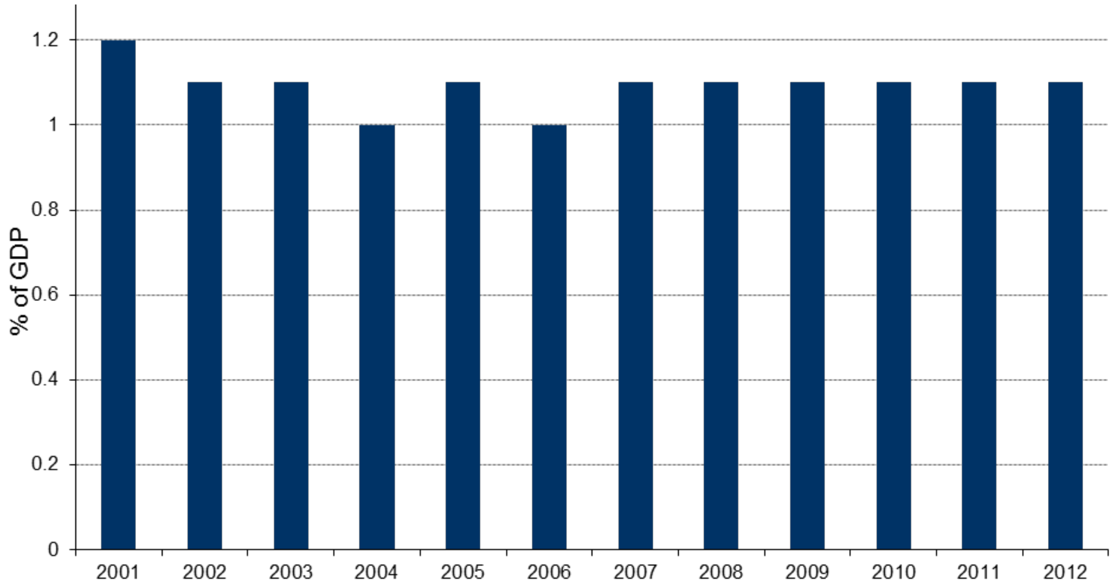

Figure 17: Expenditure on R&D performed in UK businesses (BERD) 2001-2012
Source: Office for National Statistics

38. Investment by businesses in R&D is dominated by a relatively small number of sectors. Pharmaceutical, computer programming, motor vehicles and parts and aerospace sectors account for more than 50% of all investment by businesses[18]. **This suggests that efforts are needed to widen investment in innovation by business across more sectors.**

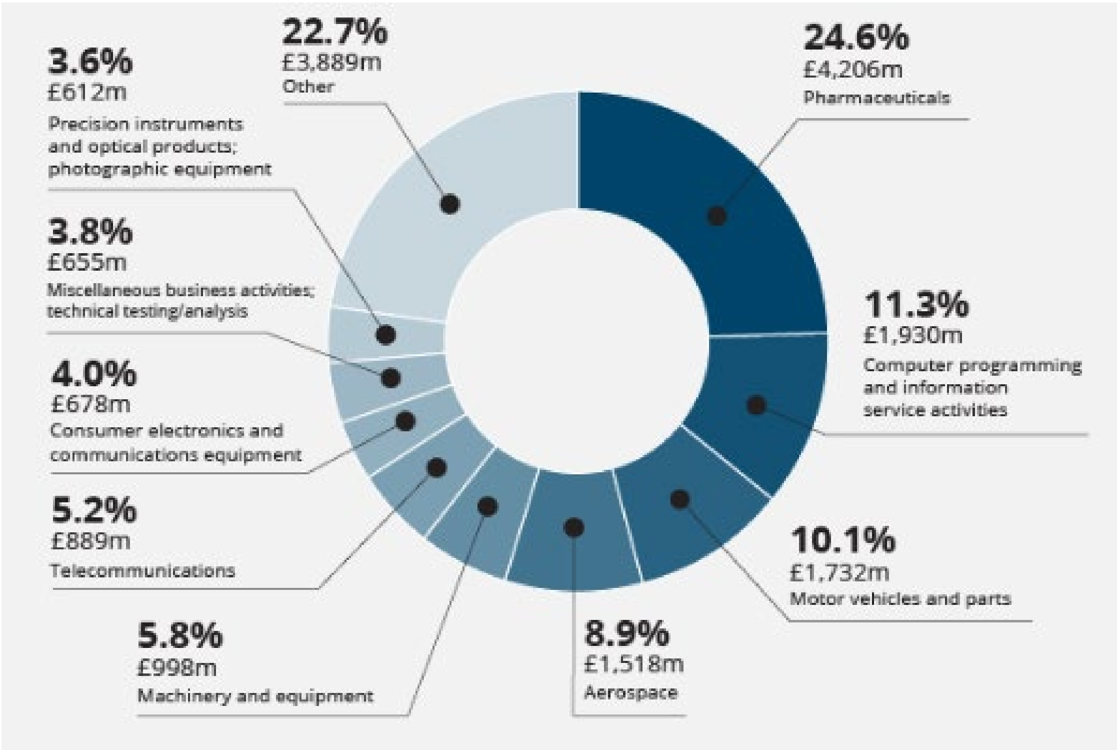

Figure 18: Business R&D expenditure in the UK by product group
Source: Office for National Statistics

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

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. It may be that ESIFs can make a contribution towards partially redressing these variations, including by promoting research and development opportunities driven by geographical considerations such as ‘blue growth’ activities in coastal areas.

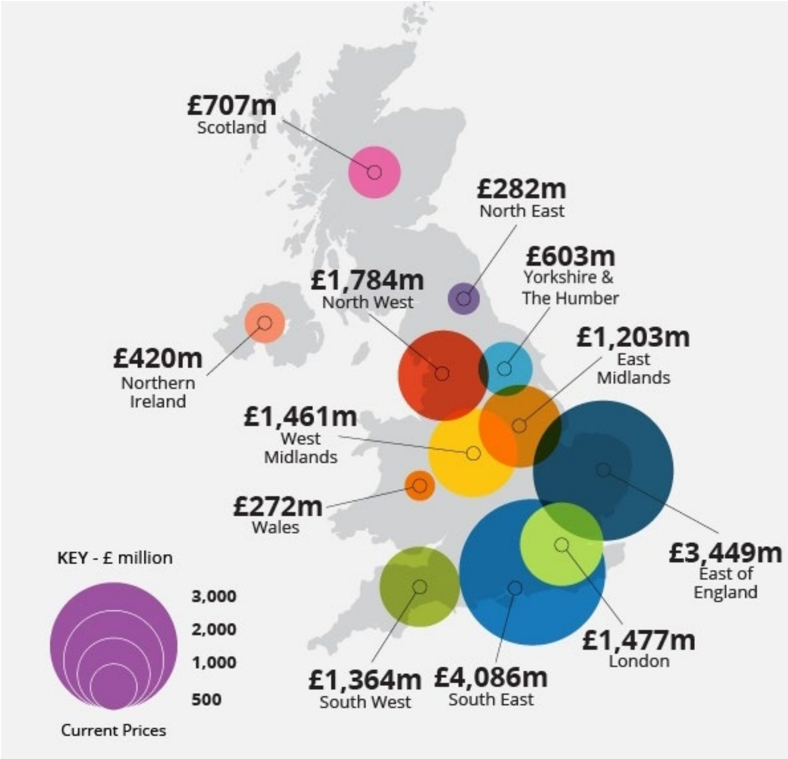

Figure 19: Expenditure by UK Businesses on Research & development, 2012
Source: Office for National Statistics

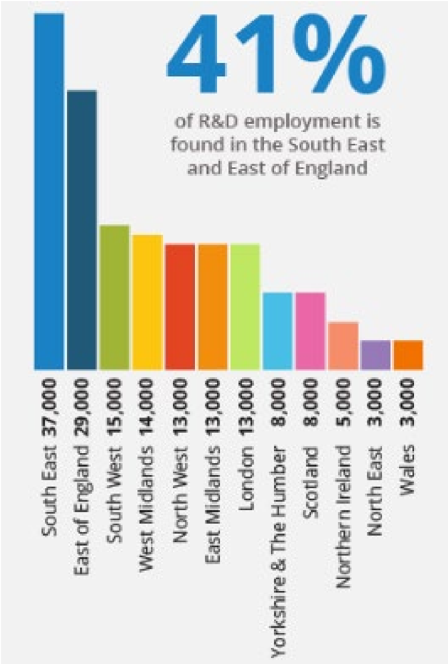

Figure 20: Business Research & Development Employment
Source: Office for National Statistics

40. The international comparative analysis produced by the Department for Business, Innovation & Skills in January 2014[19] 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. 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 work 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.

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[19] Allas. T (2014) BEIS 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)

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. • Strengthen our ability to accelerate the commercialisation of emerging technologies, and to capture the value chains linked to these. • Do more to encourage the development of technician-level skills and higher- level skills to support this innovation work. • 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. • However, large companies may sometimes enter markets by acquisition rather than innovation, meaning that the burden of innovation may fall on smaller players; for example in 'blue growth' industries.	• UK innovation system has many strengths: • UK research base is among the best in the world, producing high-quality output with unmatched efficiency; • Ranks second in the world for university-industry collaboration; and • Strong at drawing in FDI to fund research. • Strong national framework in place; the Industrial Strategy, eight great technologies, catapult centres and nation-specific strategies (see below). • The use of Smart Specialisation at both national and local levels to identify a limited number of priorities for investment.

Domestic interventions

45. The national Innovation & Research Strategy for Growth (2011)[20] was supported by an authoritative economics paper[21]. 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 national asset. The UK's knowledge base is the most productive in the G8, with a depth and breadth of expertise across 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, as well as opportunities presented by its geographical advantages. 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.

[20] Further details at: http://www.official-documents.gov.uk/document/cm82/8239/8239.pdf
[21] Further details at: http://www.BEIS.gov.uk/assets/biscore/innovation/docs/e/11-1386-economics-innovation-and-research-strategy-for-growth.pdf

48. The Strategy emphasises 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[22] sets out a long-term, whole of Government approach to how we support business in order to give confidence now for investment and growth. The Industrial Strategy recognises that Government can neither leave industry to its own devices nor tell it how to operate, but instead it must work in partnership with business to identify the challenges to, and opportunities for, growth across the UK economy and set medium and long-term goals. This strategic partnership working between Government and business to identify key priorities is an essential component of the UK's approach to Smart Specialisation. The results of this work have informed the overall strategy for use of the ESI Funds across the UK, in particular in England, as well as the key priorities for investment under the innovation thematic objective.

51. The Industrial Strategy has five core themes of activity:[23] access to finance, skills, public procurement, sectors and enabling technologies. Within the sectors theme, Government has determined that support for a limited number of sectors and technologies and the broader research which underpins their development are key to economic growth. Government used comprehensive analysis to determine in which sectors actions by Government can add the most value. The Government then worked closely with industry and other partners to prepare eleven sector strategies: Life Sciences[24], Aerospace[25], Nuclear[26], Oil & Gas[27], Information Economy[28], Construction[29], Automotive[30],

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22 Further details at: https://www.gov.uk/government/policies/using-industrial-strategy-to-help-the-uk-economy-and-business-compete-and-grow

23 Further details at: https://www.gov.uk/government/speeches/industrial-strategy-cable-outlines-vision-for-future-of-british-industry

24 Further details at: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/32457/11-1429-strategy-for-uk-life-sciences.pdf

25 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

26 Further details at: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/168047/bis-13-630-long-term-nuclear-energy-strategy.pdf

27 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

28 Further details at: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/206944/13-901-information-economy-strategy.pdf

Professional Business Services[31], Offshore Wind[32], Education[33] and Agricultural Technologies[34].

52. The Government is committed to maintaining levels of public investment in research and innovation despite severe financial pressures. Previous National Reform Programmes[35] 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 (€5.8 billion) a year. The UK Government is very conscious that an essential component within these collaborative efforts is the cohort of innovative SMEs that will be essential to translate intellectual property gains into market ready products and services. Public sector grants are only a partial answer to supporting this cohort; private sector equity investment and lending is also vital.

53. Since then, Government has invested an additional £1.5 billion (€1.9 billion) to encourage further collaboration between research and business. During 2012 this included: £300 million (€377 billion) for universities to secure co-investment in research partnerships with business and charities (UK Research Partnership Investment Fund); £120 million (€151 billion) for space; and a further £600 million (€754 million) announced in the 2012 Autumn Statement[36] for science and innovation capital investment related to the 8 Great Technologies (part of the enabling technologies theme of the Industrial Strategy).

54. The Government announced at Budget 2013[37] an expansion of the Small Business Research Initiative (SBRI). £100 million (€126 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.

55. In the Spending Round 2013[38], the Government committed to maintain resource funding for science in cash terms at £4.6 billion (€5.8 billion) in 2015-16. The Government extended the Research Partnership Investment Fund (RPIF) to 2016-17, making available £160 million (€201 million) per year of match funding to leverage private funding for scientific infrastructure. The Government is also providing long-term sector

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[29] Further details at: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/210099/bis-13-955-construction-2025-industrial-strategy.pdf

[30] 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

[31] 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

[32] Further details at: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/243987/bis-13-1092-offshore-wind-industrial-strategy.pdf

[33] 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

[34] Further details at: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/227259/9643-BIS-UK_Agri_Tech_Strategy_Accessible.pdf

[35] Further details at: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/197157/national_reform_programme_2013.pdf

[36] Further details at: https://www.gov.uk/government/topical-events/autumn-statement-2012

[37] Further details at: https://www.gov.uk/government/publications/budget-2013-documents

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

support through a £1.6 billion (€2 billion) industry-matched fund as part of the Industrial Strategy.

56. The Government has increased capital spending on science by £1.4 billion (€1.8 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.**

57. 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. Such investments will be targeted, draw funding from financial instruments where appropriate, and take account of both the European Court of Auditors report on incubators[39] and relevant Smart Specialisation strategies.

Priorities for investment

58. 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 and interventions planned by the newly created British Business Bank.

59. For EAFRD specifically there is a need to take forward investments the European Innovation Platform which targets the translation of existing agricultural research into practice. Investments under this Fund will also promote innovation through its support for competiveness and productivity of businesses within the farming and forestry sectors, combining knowledge transfer, advice and capital investment to bring new entrants to the sector, raise skill levels, embed risk management practice and promote uptake of cutting edge technology. Beyond these key sectors, EAFRD will also provide capital investments for the introduction of new and innovative technologies and processes within wider rural businesses, including rural agri-food manufacturing businesses that provide a market for primary produce, strengthening local supply chains.

60. 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

[39] Further details at: http://www.eca.europa.eu/en/Pages/search.aspx?k=incubators

(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

61. 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:

- 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[40]

- Address structural bottlenecks related to infrastructure, skills mismatches and access to finance for SMEs to boost growth in the export of both goods and services.

Devolution settlements

62. 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.
63. 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.
64. This thematic objective has not been selected in Northern Ireland or Gibraltar.

Current UK Performance

65. Both provision and exploitation of ICT is key to increasing SME competitiveness and productivity growth, to enabling research and innovation, and to promoting social inclusion and participation and there is significant potential for an increase in superfast broadband coverage and usage to make a contribution to growth in the UK. Our long term economic plan is about delivering jobs and growth across all parts of the UK, and exploitation of ICT is integral to that which why it continues to be a priority for the UK Government.
66. As an infrastructure investment, broadband networks produce spill-over 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 more informed

[40] Further details at:
http://register.consilium.europa.eu/doc/srv?l=EN&f=ST%2010807%202014%20INIT

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 can help them reduce operating costs and focus on improving their core strengths.

67. The European Commission indicates that half of European productivity growth over the last 15 years has been driven by ICT[41]. 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[42]. Lack of awareness of these advantages and how to exploit them together, in some areas, 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.

68. These conclusions have been reinforced by the findings set out in a recent FSB report[43]. The report sets out how small firms and entrepreneurs are increasingly aware that access to high-quality broadband provision is a commercial necessity and that in many respects it represents the 'fourth utility'. The report includes references to a recent FSB survey[44] which found that:

- Ninety four per cent of small business owners consider a reliable internet connection critical to the success of their business, while 60 per cent expect to increase their online presence in the next year.
- As many as 14 per cent of small businesses consider lack of reliable and fast broadband connectivity to be their main barrier to growth.
- Two thirds (65%) of small businesses access broadband through a wired connection. However, only 12 per cent have a fibre-optic connection, while 35 per cent have a mobile connection.[45] Worryingly, approximately 45,000 small businesses (1% of Britain's 4.5 million small businesses) still have to rely on a dial-up connection.[46]
- Only 15 per cent of small firms say they are very satisfied with their broadband provision, while a quarter say they are fairly or very dissatisfied.
- In a separate survey, 40 per cent of small businesses said improved digital infrastructure in their area would encourage them to invest in new technology.[47]

69. There are also significant social benefits. Faster broadband safeguards employment in areas which would otherwise be at an unfair disadvantage, from productivity-enhancing time-savings for teleworkers, and from increased participation in the labour force (for example carers and disabled people). It also increases connectivity in remote communities, and enhances access to services which are increasingly digital, such as banking, tele-health and government services.

70. Ofcom 2013 data showed that 73% of UK premises had access to superfast broadband[48]. However, 3% did not have access to standard broadband, illustrating the significant discrepancy in broadband access even in a Member State with high levels of coverage. Programmes currently in delivery will extend superfast coverage to approximately 90% of premises.

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41 Europe's Digital Competitiveness Report, European Commission, 2010
42 Internet Matters - McKinsey May 2011
43 http://www.fsb.org.uk/News.aspx?loc=pressroom&rec=8677
44 FSB The Voice of Small Business survey panel, Infrastructure Survey, April 2013
45 FSB 'Voice of Small Business' survey panel, Member Survey, March 2014.
46 FSB 'Voice of Small Business' survey panel, Member Survey, March 2014.
47 Further details at: http://www.fsb.org.uk/frontpage/assets/fsb-intellect-april13.pdf
48 Ofcom Communications Infrastructure Report – October 2013, figures 9 and 12 http://stakeholders.ofcom.org.uk/market-data-research/other/telecoms-research/broadband-speeds/infrastructure-report-2013/

71. There are therefore around 2.8 million premises that require further public sector investment to gain access to superfast broadband. Approximately half of these are in the least dense decile of premises and the remaining half are spread across the other nine deciles of density. The remaining challenge is therefore not solely in rural areas. In order for us to compete in an increasingly global economy we need to do all we can to ensure the UK and its citizens are in the strongest position possible.

72. 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. • Gaps in superfast broadband coverage, including but not only 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

73. The UK Government is committed to delivering the best superfast broadband network in Europe by 2015[49]. 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[50] by 2017.

74. The private sector can be, and in the UK is, 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 on-going operating costs. Where this is not the case, private sector investment will not go ahead.

75. In the UK overall, the commercial roll-out of superfast broadband has largely been completed. Virgin Media cover approximately 45% of premises with its cable network and BT now cover approximately two-thirds of premises with its fibre network. Taken together, this resulted in coverage of 73% of premises at the end of 2013. BT has announced further investment to increase coverage in cities and other providers have announced plans to invest in fibre networks in a small number of city locations. Virgin Media has announced plans to make small increases to its network. There are also very small niche providers such as Gigaclear which is investing in networks in projects in Oxfordshire, Kent and Rutland / Peterborough and a small number of community projects such as B4RN in north Lancashire.

76. However, most of the remaining premises in the UK will not get coverage without public intervention. The economic benefits of further investment in superfast broadband are clear, with a return from current programmes of up to 20 to 1 by 2024.[51] Major projects have been successfully undertaken with ERDF funding in Cornwall and Northern Ireland. There has been therefore the opportunity learn from these earlier programmes and we are confident that future spending will be channelled in an effective and targeted fashion.

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[49] Further details at: http://www.culture.gov.uk/what_we_do/telecommunications_and_online/7763.aspx

[50] 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.

[51] SQW – UK Broadband Impact Study – November 2013 https://www.gov.uk/government/publications/uk-broadband-impact-study--2

77. In addition, the Government is addressing the market failure in broadband infrastructure delivery through its current Superfast Broadband Programme. Using national and local funding and also drawing on 2007-13 European funding programmes, over £1.2 billion (€1.5 billion) is currently being invested to provide superfast broadband to 90% of the UK through 44 local projects. The total public funding is broken down by nation as follows:

- England £720 million(€905 million);
- Scotland £241 million (€303 million);
- Wales £203 million (€255 million)); and
- Northern Ireland £19 million (€24 million).

78. Government has committed to provide a further £250 million (€314 million) to ensure 95% of UK homes and businesses have access to superfast broadband by 2017. This funding will need to be matched by funding from other sources including local and European funding, and in this context, ESI Funds can add value to the scale and pace of investment, and give visibility to digital investment as a priority for both Europe and the UK. In this way, ERDF will help to support regional roll-outs in areas where commercial roll-out will not extend; and EAFRD will focus on the very hardest to reach communities.
79. A further £10 million (€12.6 million) has been allocated by the UK government for market test projects to explore delivery options for the final 5% of premises. These projects are just getting under way. Based on the learning from these projects, and other market developments by operators such as BT and the mobile network operators, the UK government expects to extend coverage beyond the current 95% level, and has an aim of getting as near to 100% as possible. This is likely to require significant levels of investment, given the costs involved. A combination of national, local and European funding is likely to be required as well as further private sector investment. Each of these sources on their own can make a contribution to an extent, but taken together they can make significant overall impact. Each funding source can help unlock the others, complementing one another.
80. The UK government does not currently have specific targets for delivery of ultrafast broadband (speeds of more than 100Mbps), other than the Digital Agenda for Europe target that half of all premises should have access to these speeds by 2020. However, the pace of market change means that ultrafast may well become a policy priority before 2020. If so, it is likely that the same principles to intervention would be adopted as for delivery of superfast broadband, with public funding only being used to tackle areas of market failure, using the minimum funding necessary and in line with EU State aid requirements.
81. Each nation will set out in its operational programmes the specific areas and projects that ESI Funds will target; or the criteria the administration will use to identify them, for example how the administration will identify projects which add significant economic and social benefits.
82. The Government's programme, with which ESI Funds would be matched, 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.
83. Through this approach, the private sector is still expected to invest to the same extent that it would in commercially viable areas, but with the public sector making up the funding gap where the costs exceed expected revenues. Projects also have mechanisms to avoid over-compensation if take-up exceeds agreed levels, with excess revenues being recycled into further roll-out. Other investment models can also be

employed, such as those described in the European Commission's Guide to Broadband Investment[52] provided there is no over compensation to the private sector.

84. The UK recognises that superfast broadband will only have value if it is taken up. Take-up is increasing rapidly: 25% of the UK's premises have taken up superfast broadband. On BT's network, the number of customers doubled in the year to May 2014, and 14% of premises passed (have access) have now taken up superfast connections. The earliest projects to be funded by Broadband Delivery UK (BDUK) in the Department for Culture, Media and Sport (DCMS) now have take-up above 20%, although delivery is still under way and many premises have only had access for a matter of months.

85. The rapid pace of change in superfast broadband take-up reflects the competitive nature of the retail broadband market in the UK, which Ofcom has assessed as being the most competitive in the UK (measured according to market share of the incumbent). There is limited evidence of market failure regarding take-up.

86. However, in addition, each local broadband project funded by the Government through Broadband Delivery UK (BDUK), and virtually all projects which have had ERDF funding, have included actions to drive demand. BDUK supports local demand stimulation activity by building national partnerships that bring additional capacity to local campaigns and by supporting local projects to collaborate and share best practice on what works. As part of this, BDUK has established a workshop programme and peer support network to provide local broadband projects with regular opportunities to collaborate with their peers and share best practice on the measures they have in place to effectively stimulate demand for faster broadband. Within superfast broadband projects there are also local demand stimulation strategies which aim to target the most pertinent issues in each area.

87. The actions to support demand by local broadband projects include a strong focus on encouraging the take-up and exploitation of ICT by small businesses. Broadband projects teams are working in partnership with business networks such as the Federation of Small Business and Chambers of Commerce and other specialist stakeholders such as the National Farmers Union and Destination Management Organisations to promote tailored messages to specific business sectors of the business benefits of adopting faster broadband. The business networks are promoting these messages through their communication channels to small businesses.

88. The UK's long term success will also be underpinned by a highly skilled digital workforce, and a framework for cyber security and privacy necessary to support growth, innovation and excellence. For example, 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 Government is also working with industry to assess skills shortages, improve the image of the discipline, and improve how data analytics is currently taught in universities. Some nations are planning to use ESF to support skills in particular digital growth sectors such as data management and mining and analytics, in line with Smart Specialisation Strategies.

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[52] Guide to Broadband Investment: http://ec.europa.eu/regional_policy/sources/docgener/presenta/broadband2011/broadband2011_en.pdf

Objectives for ESI Funds

> Based on the challenges, opportunities and domestic interventions described above, the focus for the ESI Funds in the UK is **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.**

89. Specifically the ESI Funds should:

- Improve ICT infrastructure, where to do so would address a clear market failure and 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 adopting digitally-driven business models including trading online and teleworking; and using digital technology to increase productivity.

90. The first of these will be clearly targeted by each nation to focus on areas where ESI Funds are genuinely required to add pace and scale to investments, or to make the viable at all; and where the social and economic benefits are clear and quantifiable.

91. The second of these priorities is supported either under SME competitiveness or under this thematic objective, depending on the specific needs and choices in each nation of the UK.

Priorities for investment

92. ESI funds will be used to match fund Government investment to extend fast, super and ultrafast 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

93. The EU2020 priorities include a push to: support entrepreneurship[53], encourage exports and get access to finance to return normal lending to the economy.

Relevant Country Specific Recommendations[54]

- Address structural bottlenecks related to infrastructure, skills mismatches and access to finance for SMEs to boost growth in the export of both goods and services.
- Continue efforts to improve the availability of bank and non-bank financing to SMEs. Ensure the effective functioning of the Business Bank and support an increased presence of challenger banks.

[53] Further details at: http://ec.europa.eu/enterprise/policies/sme/entrepreneurship-2020/index_en.htm
[54] Further details at: http://register.consilium.europa.eu/doc/srv?l=EN&f=ST%2010807%202014%20INIT

Devolution settlements

94. 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

95. UK SMEs are an important potential contributor to growth. 99.9% of the UK's 4.9 million businesses are small or medium-sized (less than 250 employees), of which around 75% have no employees[55]. Together, they are responsible for almost half of the £980 billion (€1,232 billion) private sector output (2011) and 59%, 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. SME foreign investors created more than 100,000 jobs in 2012.

96. 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% of the growth in the UK[56] . 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.

97. SME GVA per employee is on average 8.7% less than employees from larger firms[57] 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.

98. High growth businesses[58] 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 (4.05)[59].

99. 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.

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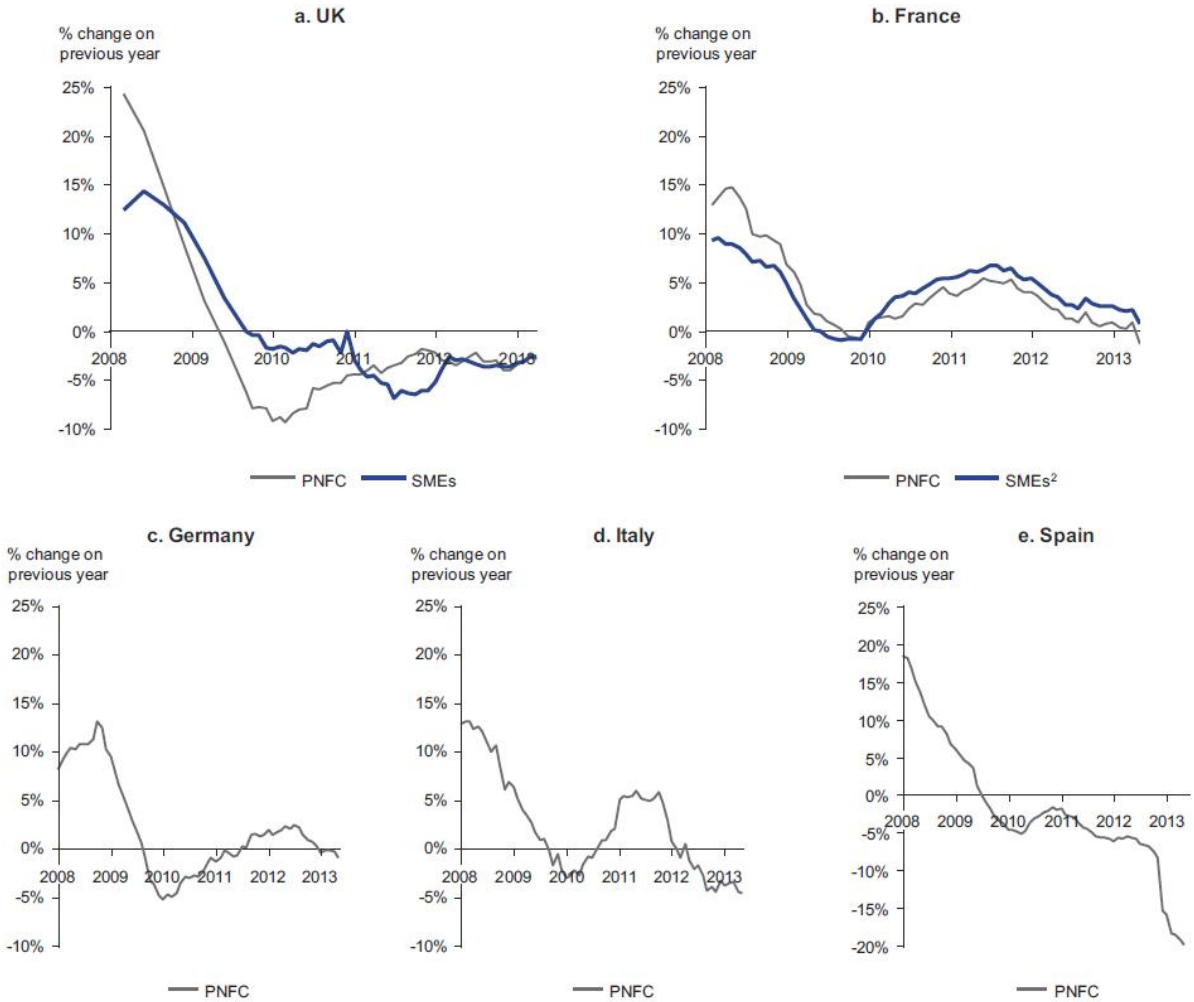
[55] Further details at: https://www.gov.uk/government/publications/business-population-estimates-for-the-uk-and-regions-2012
[56] Further details at: http://www.ons.gov.uk/ons/dcp171778_329129.pdf
[57] Special analysis of http://www.ons.gov.uk/ons/rel/abs/annual-business-survey/2011-revised-results/abs-2011---revised-results-statistical-bulletin--june-2013-.html
[58] 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.
[59] ONS data for 2011



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[60]

Source: Ares & Co analysis. Data - BoE, BdF, Deutsche Bundesbank

The total stock of SME lending has fallen by around £32 billion (€40 billion) (16%) since April 2011[61]. 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[62], 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

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

[61] Bank of England: *Bankstats* table A8.1. Available at: http://www.bankofengland.co.uk/statistics/Pages/bankstats/current/default.aspx

[62] 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 BEIS by NIESR that updated Fraser's work: Department for Business, Innovation and Skills, 'Evaluating Changes in Bank Lending to UK SMEs Over 2001-12 – On-going Tight Credit?', April 2013, www.gov.uk/government/publications/bank-lending-to-uk-small-and-medium-sized-enterprises-2001-to-2012-evaluating-changes

lending to SMEs increased by around 10% in the year to November 2013[63], and that firms surveyed reported increased intentions to borrow. Repayments remained higher than gross lending so the stock of lending continued to fall, but there are encouraging trends that net lending is also on the increase. There are, however, indicators which suggest that access to bank finance, overall, continues to be a problem for some lenders and there is no room for complacency.

- Late payment: Larger private companies, central government and local government have not in the main honoured their undertakings to pay SMEs on time. Information collected by BACS shows that UK SMEs are owed the major part of £30 billion (€38 billion) in late payments in 2014. This is absorbing a major part of their working capital, which in turn limits their ability and confidence to invest in people or infrastructure.
- 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 (€314k) to £5 million (€6.28 million) 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 which is itself reducing net supply.
- 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. 35.6% of young high growth EU SMEs (Gazelles) were refused loan finance from a bank compared to 20% of total EU SMEs between 2007 and 2010[64]. Similar pattern can be seen in the UK for 2011 where 18% of high-growth firms consider funding, whether short-term cash flow (13%) or longer-term finance (5%), to be the most important barrier to growth that they face. 16% of potential high-growth firms highlight similar issues, compared to just 13% of other firms.[65]
- 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 proportion of SMEs export. The latest ONS Annual Business Survey[66] 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[67]. This is on par with other large EU economies such as France and Germany[68]. 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[69] and

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63 Trends in Lending, January 2014
64 Further details at: http://epp.eurostat.ec.europa.eu/portal/page/portal/european_business/data/database
65 Further details at: http://www.nesta.org.uk/publications/barriers-growth
66 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
67 Further details at: http://ec.europa.eu/enterprise/policies/sme/market-access/files/internationalisation_of_european_smes_final_en.pdf
68 BEIS Economics Paper no 17 – UK Trade performance across markets and sectors Feb 2012
69 Mion, G. & Novy D. (2013). Gaining further understanding of the factors which influence export engagement among UK SMEs. UKTI Research report.

12% of non-exporting establishments with 10 or more employees could export successfully[70].

- 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.

100. In addition, when a business begins to take off the necessary leap to commercial lease, investment in equipment and services may be beyond its resources. The availability of affordable space, shared facilities and coaching and advice services can help bridge that gap for start-ups and growing businesses[71]. However, out of date industrial premises or low grade office accommodation, due to rents not providing a commercial return on the investment costs of development, mean that in some areas these services may not be available.

101. 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[72] 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.

102. 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. There is growth potential in encouraging the leading performers to increase innovation, and to enable those closer to the average to improve their performance through knowledge exchange and improvement of skills. 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.

103. 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.

[70] Harris, R. and Moffat, J. (2013) Investigation into trends in export participation among UK firms.
[71] Growing your business – A report on growing micro businesses. Lord Young May 213.
[72] Further details at: http://www.ncl.ac.uk/guru/documents/govsgrowthreview1.pdf

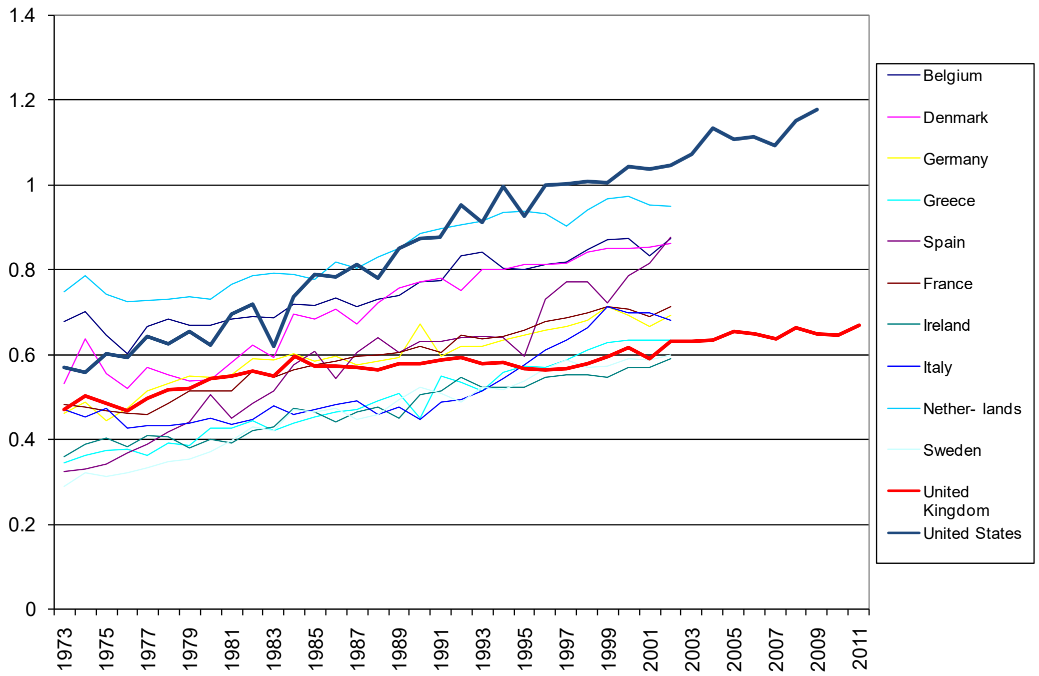


Figure 22: Total factor productivity in agriculture for selected countries relative to the United States 1996 level (indexed).

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

104. 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.

105. There is an opportunity to foster the 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.

106. The fisheries sector still faces significant challenges in achieving economic profitability and social and environmental sustainability. The implementation of the reformed Common Fisheries Policy presents a challenging step change in the way European fisheries will need to be managed before they can deliver at maximum sustainable yield and full economic potential. For the fishing (catching) sector the ESI Funds (particularly EMFF) can support growth opportunities for the commercial fisheries sector, particularly for the inshore and small-scale fleets.

107. Overall the aquaculture sector, across the EU, and within the UK has the potential to do more to meet the growing demand for seafood. It has been a challenge for some parts of this sector to remain viable in challenging economic conditions, with issues over high production cost and the 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.

108. 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. • Potential entrepreneurs are reluctant to start new businesses. • SMEs not fully exploiting new markets particularly those in other countries. • SMEs not meeting productivity potential in particular sectors, e.g. manufacturing • SMEs in rural and coastal areas face barriers to growth due to remoteness from their proximity to skilled staff, inadequate infrastructure & business space and, for the land based sector, an ageing workforce.	• Increase access to loan and equity finance to SMEs on favourable terms. Supportive regulatory environment. • Competitive advantage in advanced manufacturing, financial sector and professional services. • Rural economy has a strong potential to contribute to UK growth. • Significant economic potential in the aquaculture sector.

Domestic interventions

109. 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.

110. 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.

111. 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 and support entrepreneurism**

112. 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.

Priorities for investment

113. Across the UK ESI Funds will be used to address barriers to growth such as: accessing finance, business advice, supply chain development and sectoral support (including for agriculture, fisheries and aquaculture).

114. 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.

115. Social enterprises will be able to access the full range of support available for SMEs through the ESI funds.

116. 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 [73]	UK[74]	England	Wales	Scotland	NI	Gib
Reducing Green House Gas (GHG) emissions by 20% compared to 1990 levels[75]	15%	26.5%[76] based on 2012 carbon budget 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)[77]	N/A
Increasing the share of renewables in final energy consumption to 20%	14% based on 2012 data for EU28 [78]	5.2% based on 2013 data [79]	No data available	No data available	36.3% electricity/ 3.8% heat based on 2011 data	14.3% based on 2011/12 data (DOE)[80]	N/A

[73] Unless specified 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
[74] UK Carbon Budgets require the UK to reduce emissions by 35% by 2022 https://www.gov.uk/government/policies/reducing-the-uk-s-greenhouse-gas-emissions-by-80-by-2050/supporting-pages/carbon-budgets
[75] Further details at: http://uk-air.defra.gov.uk/reports/cat07/1306070907_DA_GHGI_report_2011_Issue1.pdf
[76] Further details at: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/277021/20140204_2012_UK_Greenhouse_Gas_Emissions_Final_Figures.pdf
[77] Further details at: http://www.doeni.gov.uk/ghg-inventory-statistical-bulletin-2011.pdf
[78] Further details at: http://epp.eurostat.ec.europa.eu/cache/ITY_PUBLIC/8-10032014-AP/EN/8-10032014-AP-EN.PDF
[79] Further details at: https://www.gov.uk/government/publications/energy-trends-june-2014-special-feature-articles-renewable-energy-in-2013
[80] Further details at: http://www.doeni.gov.uk/ni-environmental-statistics-report-2013-appendix.xls (Table 2.9)

EU 2020 Target	EU27 [73]	UK[74]	England	Wales	Scotland	NI	Gib
20% increase in energy efficiency equalling 368 Mtoe	N/A	The UK's current projection for 2020 shows that the figure will be 20% lower than the 2007 projection for 2020[81].	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

- None

Devolution Settlements

117. 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.

118. There is also joint working across the UK in the area of transport planning with significant responsibilities devolved, although the UK retains responsibility for the rail network, transport safety and regulation in Scotland and Wales, while the Northern Ireland Executive has wider powers.

Current UK Performance

119. 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 (including through energy efficiency measures) and renewable energy production[82]. Details of these measures have already been set out to the European Commission in the UK National Energy Efficiency Action Plan[83] and National Renewable Energy Action Plan for the United Kingdom[84], and in the UK National Reform Programme 2014.[85]

120. In the case of GHG emissions the UK is on-track to meets it's 2020 target and is pursuing the ambitious target it has set for itself in the Climate Change Act of a 34% reduction on 1990 levels by 2020. Despite the good progress on overall emission

[81] Further details at: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/266187/2901415_EnergyEfficiencyStrategy_acc.pdf
[82] Further details at: https://www.gov.uk/government/policies/increasing-the-use-of-low-carbon-technologies#actions
[83] Further details at: http://ec.europa.eu/energy/efficiency/eed/doc/neep/2014_neeap_united-kingdom_en.pdf
[84] Further details at: http://ec.europa.eu/energy/renewables/action_plan_en.htm
[85] Further details at: http://ec.europa.eu/europe2020/pdf/csr2014/nrp2014_uk_en.pdf

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.

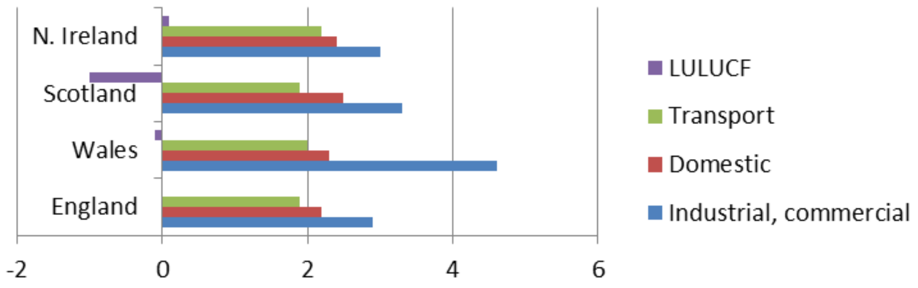


Figure 24: Carbon emission per capita by UK Nation (LULUCF stands for Land Use, Land Use Change, and Forestry)
Source: 2012 Local Authority CO2 emissions estimates: Statistical summary, *Table 1 on page 11*

121. 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[86].

122. Improving the UK's energy efficiency is a key objective for the Government. It is fundamental to decarbonising the UK, maintaining secure energy supplies, and increasing the productivity of businesses. As set out in the Energy Efficiency Strategy[87] responses to the Energy Efficiency Call for Evidence highlighted the significant energy efficiency potential in the UK economy and detailed analysis confirms that there is significant cost effective potential. The Energy Efficiency Marginal Abatement Cost Curve (EE-MACC), figure 25, estimates the energy savings through implementing energy efficiency measures. It is based on detailed modelling of ambitious scenarios for the potential for investment in energy efficiency from different sectors of the economy, based on current evidence. The more cost-effective a measure, the closer it is to the left-hand side of the chart.

[86] Further details at: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/224130/uk_energy_in_brief_2013.PDF
[87] Further details at: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/65603/6928-the--energy-efficiency-strategy-statistical-strat.pdf

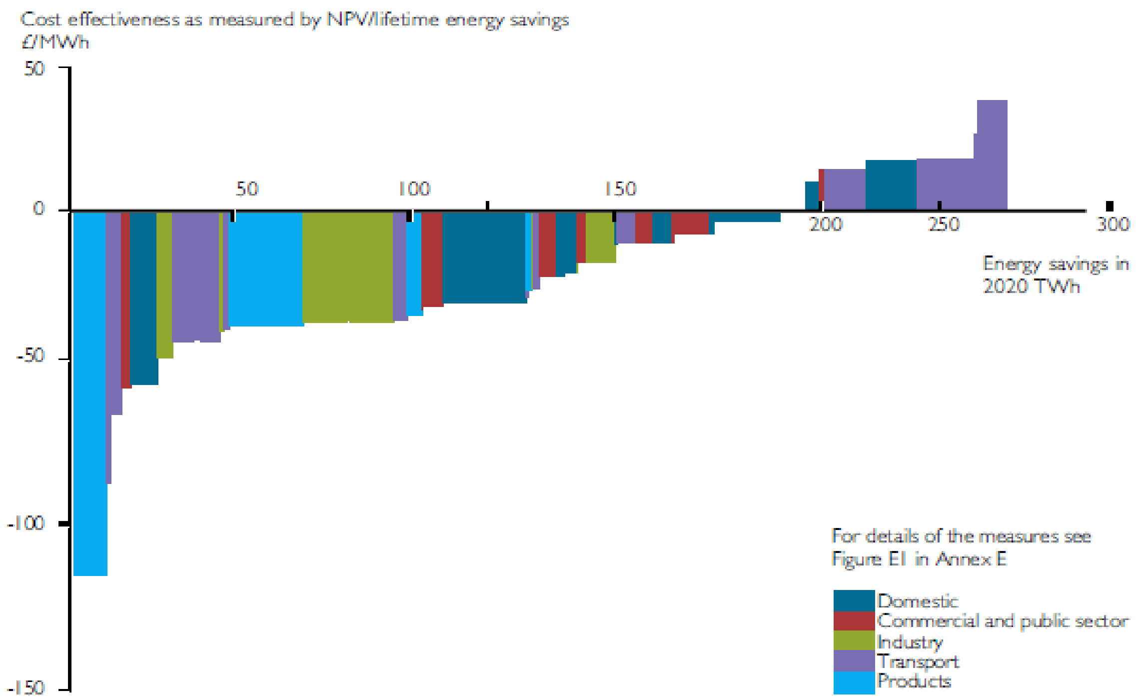


Figure 25: 2020 Energy Efficiency Marginal Abatement Cost Curve
Source: Energy Efficiency Strategy: The Energy Efficiency Opportunity in the UK, DECC

123. Domestic and transport emissions have seen much lower reductions with domestic emissions only reducing by around 3% since 1990[88]; annual figures for domestic emissions are particularly sensitive to fluctuations in temperature. Transport emissions have reduced by 2% since 1990 with savings primarily being achieved since 2007 (prior to that the sector was seeing general increases)[89]; it appears the savings created through more efficient vehicles and increase in the use of rail travel is offset by significant increases in overall transport demand. This suggests challenges remain in both the domestic and transport sectors given expected continued increase in demand, particularly in urban areas where growth in demand (and opportunities for efficiency savings) is greatest.

124. The Government estimates that through socially cost-effective investment in energy efficiency we could be saving 196TWh in 2020. Were all this potential to be realised, final energy consumption in 2020 could be 11% lower than the business as usual baseline.[90] There is a need to improve energy efficiency of companies, buildings and transport through innovation and adoption of low carbon technologies.

125. In 2013, the UK produced 5.2% of all **energy from renewable sources** and the contribution of all renewables to UK electricity generation increased by 30%; 53.7 TWh

[16] Further details at: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/224130/uk_energy_in_brief_2013.PDF
[89] Further details at: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/295968/20140327_2013_UK_Greenhouse_Gas_Emissions_Provisional_Figures.pdf
[90] Further details at: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/65602/6927-energy-efficiency-strategy--the-energy-efficiency.pdf

compared to 41.2 TWh in 2012[91]. In the first quarter of 2014 renewables contributed 19.4% to electricity generation, compared to 12.4% in the first quarter of 2013[92].

126. 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%[93] (compared to the EU27 average of about 14%).

127. 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 (LULUCF) sector whilst currently a net GHG sink is predicted to become a net emitter. The report 'Combating Climate Change - a role for UK forests'[94] 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.

128. The UK fisheries sector is largely reliant on fossil fuels. The Department for Energy and Climate Change has estimated that the price of oil will increase from $115 a barrel in 2012 to $123.50 in 2020.

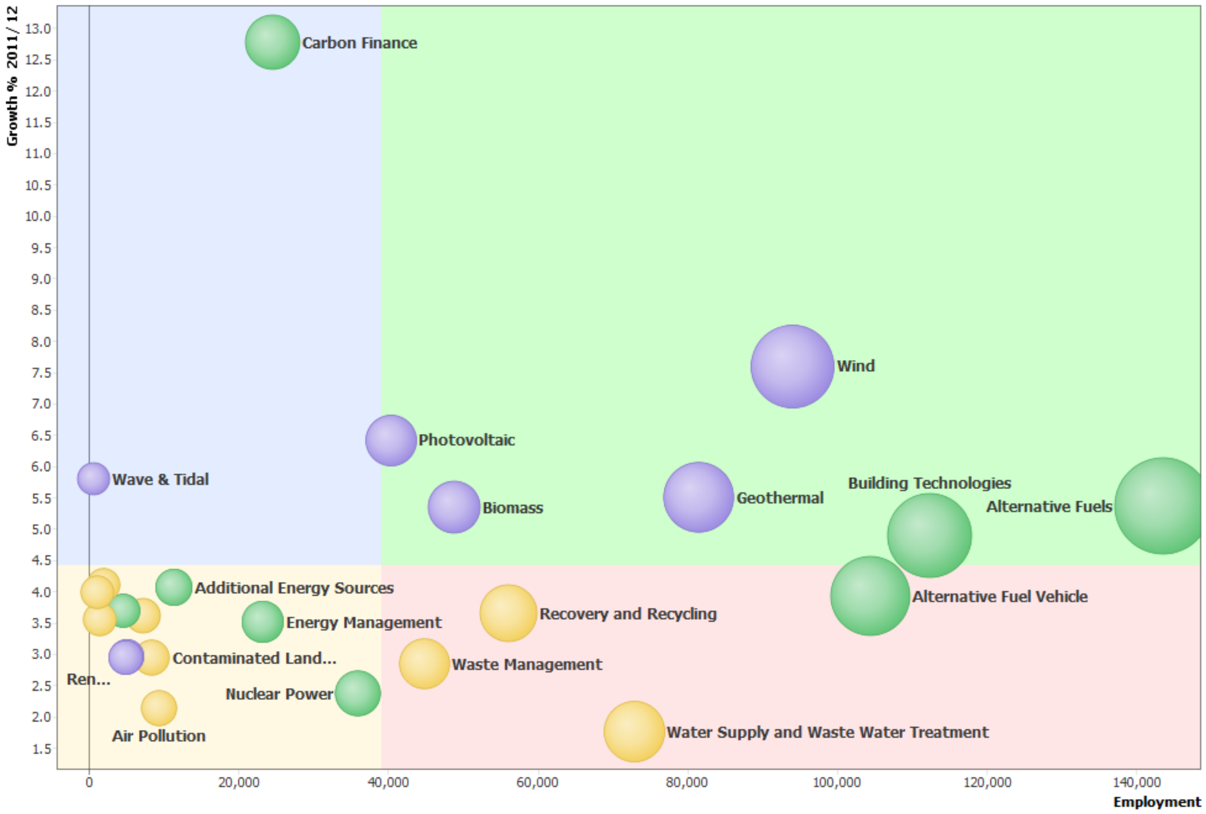
129. In addition to the environmental benefits arising from moving towards a low carbon economy there are significant economic benefits. The Low Carbon Environmental Goods and Services sector is large – the global market was worth £3.4 trillion (€4.3 trillion) in 2011/12 and has shown an annual increase from 2010/11 of 3.8% compared with increases in previous years of 3.7% and 1.75%. The UK LCEGS sector's share of the market in 2011/12 was £128bn (€161bn) and employed nearly 1 million people in 51,229 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[95].

130. For the purposes of the statistics above, as is set out in the BIS report, the LCEGS sector has been defined using 24 sub sectors. These are sub-divided into three broad categories as set out in the table below:

Environmental	**Renewable Energy**	**Low Carbon**
• Air Pollution • Contaminated Land • Environmental Consultancy • Environmental Monitoring • Marine Pollution Control • Noise & Vibration Control • Recovery and Recycling • Waste Management • Water Supply and Waste Water Treatment	• Biomass • Geothermal • Hydro • Photovoltaic • Wave & Tidal • Wind • Renewable Consulting	• Additional Energy Sources • Alternative Fuel/ Vehicle • Alternative Fuels • Building Technologies • Carbon Capture & Storage • Carbon Finance • Nuclear Power • Energy Management

[91] Energy Trends, June 2014, table 6.1, at: https://www.gov.uk/government/publications/energy-trends-section-6-renewables
[92] Energy Trends, June 2014, table 6.1, at: https://www.gov.uk/government/publications/energy-trends-section-6-renewables
[93] EUROSTAT 2010, quoted in The Future of Heating, DECC March 2013
[94] Further details at: http://www.tsoshop.co.uk/gempdf/Climate_Change_Main_Report.pdf
[95] Further details at: https://www.gov.uk/government/publications/low-carbon-and-environmental-goods-and-services-2011-to-2012

131. In figure 26 a Bubble Chart is used to display - Employment (horizontal axis), Current Year Sales Growth rate (vertical axis) and the size of each sub sector bubble to represent the value of sales. In a Bubble Chart the ideal positioning for a sub sector is top, right and large. Figure 26 confirms that the LCEGS sector is dominated by three low carbon sub sectors- alternative fuels, alternative fuel vehicle and building technologies - and two renewable energy sub sectors - wind and geothermal. Many of the environmental sub-sectors fall into the bottom left quadrant which represents (comparatively) lower growth/lower employment.



Key: Green = Low Carbon: Blue = Renewables and Yellow = Environmental

Figure 26: UK LCEGS Sector Summary
Source: Low carbon and environmental goods and services: 2011 to 2012, BIS

132. The BIS report sets out by UK nation how Within this context the main UK challenges in relation to supporting a shift to the low carbon economy are:

Challenges	Opportunities
• Still a significant way to go to meet renewable energy production and energy efficiency targets. • Significant variation in carbon emissions, particularly from industrial and commercial sources. • Persistent challenges in the transport and residential sectors for efficiencies and reduction of emissions, in particular given continued growth in demand in both rural and urban areas. • Land Use, Land use Change and Forestry	• National policies are already in place to support the achievement of Europe 2020 targets in relation to GHG emissions reduction and renewable energy production. • Urban areas offer economies of scale and particular opportunities for sustainable transport and residential energy efficiency. • Significant economic opportunities in the Low Carbon Environmental Goods and Services sector. • The geography of the UK is well suited to

Challenges	Opportunities
(ULUCF) sector whilst currently a net GHG sink is predicted to become a net emitter.	the development and exploitation of renewable energy.

Domestic interventions

133. Government has targets for 2020 in each of the three main areas relevant to moving to a low carbon economy:[96]

- 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.

134. 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[97]:

- 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.

135. 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.

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

137. 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 (a domestic fund), which was oversubscribed by a factor of at least 10[98].

138. The Government has recognised the vital role urban areas, and particular cities, play in supporting long term sustainable growth. The transfer of powers to the Devolved Administrations allows for differentiated and integrated approaches in each Nation of the UK. Within England the transfer of powers to English cities and Local Enterprise Partnerships allows for more integrated, differential and sustainable development for

[96] Further details at: http://www.hm-treasury.gov.uk/d/national_reform_programme_2012.PDF
[97] Further details at:
https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/47621/1358-the-carbon-plan.pdf
[98] 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.

each functional economic area. For example, Transport for London illustrates how integrated transport planning based on sustainable urban mobility can support modal shift and meet growing demand in a sustainable way.

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, support low carbon transport solutions particularly in urban areas, encourage technological innovation, promote energy efficiency, and encourage demand for low carbon goods and services.**

139. 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);
- develop and promote sustainable and low carbon transport solutions, in particular where part of an integrated plan to encourage a modal shift and as part of the promotion of low carbon strategies
- contribute to improving domestic and non-domestic low carbon technologies and energy efficiency (e.g. public infrastructure and housing);
- in relation to energy efficiency, low carbon 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; 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

140. The UK Government is keen to encourage synergies between the relevant thematic areas, ensuring that low carbon objectives are achieved in relation to innovation and for SMEs. 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 sources;
- support whole place low carbon solutions such as smart cities and sustainable mobility solutions;
- 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 measures to encourage energy efficiency including improve energy efficiency in enterprises including industrial processes, designing out waste, recovery of ‘waste’ heat energy and CHP.

141. These actions will support and also be complemented by measures highlighted in other thematic objectives, including those relating to transport, ICT, R&D, SME competitiveness and climate change. Particularly with regard to energy technology

development and innovation, including actions related to energy efficiency, they will take account of, complement and help to support the successful implementation of the EU's Strategic Energy Technology (SET) Plan. EMFF investment, e.g. in equipment or on-board measures to reduce emissions, will be available to help the fisheries and aquaculture sectors become more energy efficient.

PROMOTING CLIMATE CHANGE ADAPTATION, RISK PREVENTION AND MANAGEMENT

Europe 2020

142. None.

Relevant Country Specific Recommendations

- None.

Devolution Settlements

143. 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.

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

Current UK Performance

145. 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.[99] The figure below shows that the UK has the third largest cost from floods in the EU.

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

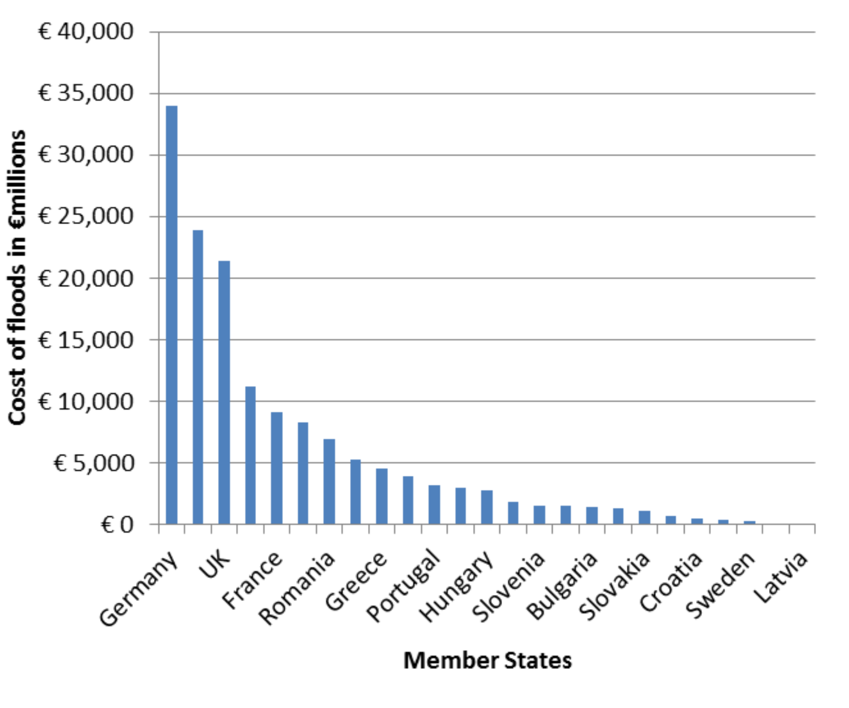


Figure 27: Total extrapolated costs per Member State, from largest to smallest costs
Source: Study on Economic and Social Benefits of Environmental Protection and Resource Efficiency Related to the European Semester (ENV.D.2/ETU/2013/0048r)" RPA Feb 2014

146. The flooding which affected the country in 2007 was estimated to have cost the economy £3.2 billion (€4 billion). The 2012 summer flood cost businesses losses of around £155 million (€195 million), including £55 million (€69 million) in property damage and £15 million (€19 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 £600 million (€754 million).

147. Government recently commissioned research (Frontier Economics study[100]) 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).

148. In 2012, the UK published its first National Climate Change Risk Assessment[101], 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

[100] Yet to be published.
[101] Further details at: https://www.gov.uk/government/publications/uk-climate-change-risk-assessment-government-report

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 (€1.6 billion). In addition, the average annual cost to businesses of disruption due to flooding is projected to rise to between £26 million (€33 million) and £72 million (€91 million) by the 2050s, rising further to between £34 million (€43 million) and £96 million(€121 million) by the 2080s (current figure: £20 million) (€25 million);

- 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; and
- 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.

149. 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 including for rural economies and the agricultural sector.	• The protection of 'vulnerable' areas can make them economically viable.

Domestic intervention

150. The National Adaptation Programme[102] 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.

151. 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.

152. 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

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

such as increased risks of flooding, droughts, heat waves, forest fires and extreme weather events.

153. The requirements of the Flood Risk Regulations 2009 (which transpose the EU Floods Directive) are consistent and complimentary with current practice in England (and Wales) for managing flood risk. Where possible the requirements will be met using or adapting existing information including flood risk maps and management plans. The regulations impose new fixed timescales for delivering and reviewing aspects of flood risk management and the effect of these is being considered in the first six year cycle of delivery up to December 2015.

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: **where market failure can clearly be demonstrated, investment in infrastructure to help manage floods including in the rural economy through the agriculture sector.**

154. Specifically the ESI Funds should:

- contribute to the delivery of climate change policies and priorities for sustainable land use and management, including through managing flooding and coastal erosion risks, where activity would complement national action, address demonstrated market failure and contribute to growth.

Priorities for investment

155. 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.

156. 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. In addition, investments under other thematic objectives may also contribute to climate change adaptation particularly through the development of the market in climate change adaptation goods and services.

PRESERVING AND PROTECTING THE ENVIRONMENT AND PROMOTING RESOURCE EFFICIENCY

Europe 2020

157. None.

Relevant Country Specific Recommendations

- None.

Devolution Settlements

158. 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.

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

Current UK Performance

160. 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. An ever increasing demand for the Earth's finite resources and the pressures associated with human activity puts the natural environment at high risk of degradation. A key policy response to protecting the most seriously threatened habitats and species across Europe is the Habitats Directive (which complements the Birds Directive) which established the Natura 2000 network: this includes Special Protection Areas (SPAs) for birds and Special Areas of Conservation (SACs) designated for other priority species and habitats, which are managed with special legal protection.

161. The UK Prioritised Action Framework (PAF)[103] for Natura 2000 serves as a strategic planning tool to help deliver the European Union's Biodiversity Strategy to 2020, which has the headline target of "Halting the loss of biodiversity and the degradation of ecosystem services in the EU by 2020, and restoring them in so far as feasible, while stepping up the EU contribution to averting global biodiversity loss".

162. The PAF recognises that over the last 60 years in the UK areas of semi-natural habitats have been lost and populations of many species of plants and animals have declined. It reports that for habitats and species together two thirds have unfavourable status, with nearly half (46%) being in unfavourable-bad status and 16% in favourable status. If improving and deteriorating trends are considered, then nearly a third of unfavourable assessments (32%) are improving, with just over a fifth deteriorating. The UK PAF concludes that the overall picture shows a great deal needs to be done to improve the conservation status of the majority of habitats. (The UK Article 17 EU Habitats Directive Report 2013[104] shows that since the PAF was developed there has been little change in the overall number of features achieving favourable conservation status since the previous report in 2007.)

163. The UK's National Ecosystem Assessment (NEA) highlights the on-going challenge to maintain our sites of conservation importance and the need to establish bigger and better managed wildlife habitats. It also stresses the importance of improving the connections between them to develop coherent and resilient ecological networks, which also underpin the provision of a wide range of societal benefits (ecosystem services). The NEA also states that UK urban areas are poor at providing environmental services and many of these are declining. They provide a very limited set of provisioning ecosystem services and tend to be ineffective in delivering regulating services. The exception to this is green infrastructure which refers to the network of high quality green and blue spaces and other environmental features, designed and managed as a multi-functional resource to deliver a range of environmental and quality of life benefits in local areas).

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[103] Further details at: http://www.naturalengland.org.uk/Images/paf-uk_tcm6-37256.pdf
[104] Further details at: http://jncc.defra.gov.uk/page-6389

164. In the UK there has been environmental degradation on farmland: agricultural expansion and intensification has impacted on the ability of the natural environment to support wildlife and deliver a wide range of goods and services such as clean water, nutrient cycling, landscape character and flood regulation, as clearly documented in the National Ecosystem Assessment. Some environmental trends are improving. For example, greenhouse gas emissions from agriculture are reducing. However, others such as phosphate and nitrate levels in rivers remain problematic and populations of pollinating insects are in decline. The PAF highlights a general increase in breeding bird populations between 2009 and 2010, with the exception of Farmland species; which generally fell to their lowest levels in 2010 and are now overall at less than half the size they were in 1970.

165. Levels of nitrogen particles falling onto important biodiversity sites[105] is a concern: despite levels decreasing they remain high. The 2010 ceiling limits for ammonia may be exceeded[106]: agriculture is the main source of emissions of ammonia (which can deposit nitrogen onto soils and plants and may damage plant communities). Also ammonium nitrate forms a key part of secondary urban particulate matter (PM2.5). 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[107.] The use of solid biomass for heating in small combustion units (domestic and commercial) is a potentially increasing challenge to targets[108].

166. Whilst recent evidence has suggested that average soil organic matter content has not declined across all land uses in England and Wales[109] soil quality status and soil erosion are major challenges locally. 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.

167. The quality of inland water is also important for the resilience of priority sites and species, and the coherent and resilient ecological networks that help connect them. Much of the work in managing and protecting UK rivers, lakes, coastal waters and other water-bodies is governed by the Water Framework Directive (WFD). An integral part of the WFD is the Nitrates Directive which sets rules for nutrient management in Nitrate Vulnerable Zones (NVZs): the Nitrates Directive is intended to reduce water pollution caused by nitrates from agricultural sources: similarly the Sustainable Use of Pesticides Directive requires more targeted use of pesticides.

168. Only 37 % of surface water bodies in the UK currently have a good ecological status (the target for 2015 is 43%). Climate change and a growing population provide significant challenges to the supply and quality of water which needs to be recognised as finite resource. 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[110].

169. This is particularly important in the context of the Marine Strategy Framework Directive (MSFD) and the achievement of good environmental status by 2020: this will

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105 This process is known as deposition.
106 The UK currently meets the 2010 National Emission Ceilings Directives for all pollutants
107 Specific standards are EURO 4/IV and 5/V
108 Specific targets are PM2.5 and PAH
109 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
110 Environment Agency and Ofwat: The case for change – reforming water abstraction management in England

be partially dependant on proper implementation of legislation governing upstream water bodies and water treatment.

170. The UK must also retain a focus on marine biodiversity, and ensure that actions undertaken with ESIF support comply with the requirements of e.g. Natura 2000, MSFD, and Maritime Spatial Planning Directives. The UK published in December 2012 the UK's Marine Strategy Part One[111] which includes an assessment of the state of UK marine waters, definitions of Good Environmental Status and targets and indicators to measure progress towards GES. Significant progress has been achieved on some issues, particularly in controlling point sources of pollution and inputs of nutrients. However, it is recognised that there are existing gaps in our knowledge, for example on underwater noise and marine litter, and that more action is needed to reduce pressures on seafloor habitats and fish populations, while allowing marine industries to thrive and develop. EU Maritime Spatial Planning recognises the competition for maritime space – such as for energy generation and aquaculture – and the need for efficient management of different activities. The Government's Marine Strategy Part One: UK Initial Assessment and Good Environmental Status[112] highlights the pressures on the UK seas including on the biological characteristics.

171. 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. Eliminating the wasteful practice of discards to the agreed timetable poses a significant challenge. The implementation of the reformed Common Fisheries Policy will require a 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 nearby 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.

172. Overall the aquaculture sector, across the EU, and within the UK has the potential to play a greater part in meeting the growing demand for seafood. 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.

173. The UK's Department for Environment Food and Rural Affairs (Defra), with the devolved administrations, is currently in the process of producing the Multiannual National Plan (MaNP) for aquaculture. This document will respond to key challenges set by the Commission which face member states wishing to encourage the sustainable development of aquaculture. The MaNP will set out the priorities for the aquaculture sector of each devolved administration, including England, and outline how achievement of these will be supported. The Government is keen to support industry-led growth of the sector, and the measures chosen reflect this. The MaNP will be submitted at the same time as the EMFF Operational Programme.

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[111] Further details at: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/69632/pb13860-marine-strategy-part1-20121220.pdf.

[112] Further details at: https://www.gov.uk/government/publications/marine-strategy-part-one-uk-initial-assessment-and-good-environmental-status

174. The UK National Ecosystem Assessment[113] (NEA) and other recent valuation exercises provide an indication of the benefits provided by our natural environment and the value that this creates for people and businesses, further supporting the case for multi-objective land management interventions. For example:

- Coastal wetlands provide £1.5 billion (€1.9 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[114] (€12.6 billion).
- Farming relies, for example, on nutrient cycling in soils, and the pollination services provided by insects, which 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[115].

175. Businesses rely on a steady supply of materials, including a wide range of different substances which can be used more than once, some of which are renewable. Information to help monitor this impact on resources as a whole is generally not readily available at the national level, let alone sub-nationally. Re-use activities are carried out by a range of organisations in the economy and further work is required to identify appropriate indicators. However the Waste Resources Action Programme estimates[116] that around 600 million tonnes of products and materials enter the UK economy each year only 115 million tonnes of this gets recycled and, by pursuing opportunities for re-use, the UK could reduce its reliance on raw materials, including rare earths, by as much as 20% by 2020.

176. There is significant scope to support businesses in the management of materials and reducing waste which are key to delivering the benefits of a sustainable and growing economy. Optimising the use of resources through reducing, reusing and recycling more generally improves business performance in terms of resilience, profitability and/ or competitiveness. Businesses could save up to £23 billion (€29 billion) per year by implementing resource efficiency measures.[117]

177. The main UK challenges and opportunities in relation to environmental protection and resource efficiency are therefore focused on:

- enhancing the condition and resilience of sites that are important for nature conservation;
- securing environmental and nature conservation goals where there are equally compelling societal and economic challenges. Green Infrastructure and other multi objective delivery mechanisms will be used to optimise environmental, societal and economic benefits;
- supporting businesses to increase their resource efficiency and reduce waste thus reducing the pressures on the environment.

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[113] UK National Ecosystem Assessment (2011). The UK National Ecosystem Assessment: Synthesis of the Key Findings. UNEP-WCMC, Cambridge.
[114] 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.
[115] 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.
[116] Further details at: http://www.wrap.org.uk/content/facts-and-figures
[117] Further details at: https://www.gov.uk/government/news/research-shows-companies-can-save-money-by-helping-the-environment

Challenges	Opportunities
• On-going challenge to maintain and enhance our sites of conservation importance and reverse habitat loss and degradation; create coherent ecological networks. • Challenges regarding nitrogen depositing air pollutants; water supply and quality and; soil quality. • Further work needed to address the over exploitation of certain fish stocks including diversification in the fish sector, and further development of the shellfish sector.	• Effective targeting of agri-environment schemes that help land managers realise multiple benefits for the natural environment. • Supporting multi-objective green space (green-infrastructure) that delivers a range of environmental benefits to air, water, biodiversity, and soil quality – as well as wider associated socio-economic benefits • Significant economic opportunities to reduce environmental impact and business cost via actions to improve business resource efficiency • Significant economic potential in the aquaculture sector.

Domestic interventions

178. The UK General Implementation Report (Annex A of the 2013 UK Article 17 EU Habitats Directive Report) sets out how the UK has undertaken a large amount of work to implement the Habitats Directive, reporting 651 sites as designated and totalling 80,066 sq km. It states that the conservation status of the habitats listed in the Habitats Directive of the SAC network, and the wider countryside, has improved through better management. Conservation measures have already led to a significant improvement since the Habitats Directive came into force in 1994 and will lead to a further improvement over the next 10-15 years. The headline figures in the 2013 Article 17 report show only a relatively small overall improvement in the favourable conservation status of species and habitats but these headline figures mask some of the real progress and achievements that have been made (the EU-level system of assessing conservation status sets high standards).

179. Each UK nation has contributed through either: identifying new Nature Improvement Areas to establish a set of coherent and resilient ecological networks; Species Action Framework; large scale habitat restoration works and identifying new offshore sites. The Total marine Natura 2000 area is over 73,890km^2; the total terrestrial Natura 2000 area is over 20,890km^2.

180. Also included in the UK's protected areas programme is the identification, protection and conservation of National Nature Reserves, Sites of Special Scientific Interest (Areas of Special Scientific Interest in Northern Ireland) and other protected wildlife areas.

181. Agri-environment schemes have been a key tool in targeting interventions to reverse biodiversity declines and help protect and restore Natura 2000 sites, and other important sites to favourable or recovering condition. 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. Without intervention there is a risk that our natural environment including biodiversity and our protected areas deteriorate as a result of increased competition for land use and the environmental public goods associated with organic and more extensive farming will be undersupplied.

182. The UK has also implemented a wide variety of initiatives aimed at building consensus and connecting the Natura 2000 site series with economic activity, so that for example the value of nature conservation, and impacts on it, are integrated in

commercial operations. At a local scale Green Infrastructure is an important tool for providing ecological, economic and social benefits through natural solutions. Green Infrastructure can play an important role in protecting, conserving and enhancing the EU's natural capital, as stated in the Commission's recent proposal for an Environmental Action Programme to 2020.

183. As noted earlier, most environmental functions are devolved. While all parts of the UK recognise the importance of improving our natural environment to underpin economic prosperity, health and wellbeing, policies on how to achieve this vary across the administrations. For example, all UK nations are signed up to the objectives in the EU biodiversity strategy. Each country has its own domestic biodiversity strategy that directly reads across to the EU strategy. Action taken to deliver the domestic outcomes in these strategies will also make a contribution to the biodiversity outcomes established at the European level.

184. The subsequent chapters highlight the key challenges and proposed actions in the respective administrative areas, but key themes include the need to: protect important sites; increase the amount of, and links between, priority habitats; improve air quality in urban areas and from farming; improve both water and soil quality; increase forestry and fisheries management; and promote resource efficiency. In line with the EU Forestry Strategy, the UK is committed to sustainable forest management as demonstrated in the UK Forestry Standard. This standard encompasses the multifunctional role of forests in providing multiple goods and services in a sustainable way.

185. Implementation of the Marine Strategy Framework Directive is supported by a number of existing UK measures that seek to improve the state of the marine environment, as well as ensuring sustainable development. For example, the UK Marine and Coastal Access Act (2009), the Marine (Scotland) Act 2010 and the Marine Act (Northern Ireland) 2013, as well as implementation of the reformed Common Fisheries Policy. Meeting Good Environmental Status is also supported by implementation of other EU legislation, such as the Water Framework Directive and the Birds and Habitats Directives, which are contributing to improving the state of the UK's marine and coastal environment.

186. Marine planning systems are being developed within, and funded by, each Administration. These systems and the resulting marine plans will comply with the requirements of the Maritime Spatial Planning Directive. All domestic marine plans must be in conformity with the Marine Policy Statement[118] (jointly adopted by all UK Administrations in 2011) to ensure consistency at the UK level with regard to policy considerations in the marine planning process. Marine Plans are given effect by their statutory status and delivered through the decisions made under them[119] and will contribute to the effective management of marine activities and more sustainable use of our marine natural resources. Marine planning in the UK will contribute towards the achievement of Good Environmental Status in our seas, as part of its overall objective of promoting sustainable development, particularly clarifying marine objectives, priorities for the future, and direct decision-makers and users towards more consistent, evidence based decision making and more sustainable use of marine resources.

187. Decisions made in Marine Plans will provide consistent and evidence based decision making offering greater certainty about Government policy intentions. Scotland and Wales aim to have their National Marine Plans in place in 2015 and Northern Ireland in 2016. The Marine Management Organisation has committed to completing a series of 11 Marine Plans which will cover the entire English marine area by 2021.

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[118] Further details at: https://www.gov.uk/government/publications/uk-marine-policy-statement

[119] Section 58(2) of the Marine and Coastal Access Act 2009.

188. 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 is to **contribute towards environmental protection and resource efficiency should be to: enhance the condition, extent and resilience of sites that are important for nature conservation and the provision of ecosystem services – optimising the societal and economic benefits that these can provide (via green infrastructure), and supporting businesses to improve their resource efficiency and reduce waste thus reducing the pressures on the environment.**

189. Specifically the ESI Funds should:

- contribute to the delivery of environmental and climate change policies and priorities for sustainable land and marine use and management including through targeting action to enhance, protect and reduce the pressures on the Natura 2000 network and the wider natural environment (including on resources such as water and air), and meeting domestic[120] and EU ambitions to halt the loss of biodiversity and enhance the provision of ecosystem services;
- provide ecological, economic and social benefits through investing in cost effective, and sustainable green infrastructure solutions that protect and enhance nature and natural processes;
- support 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; and
- support a significant and increasingly important maritime sector by identifying opportunities to support sustainable fisheries, develop a prosperous industry, improve fish stocks and deliver a healthy marine environment that supports the delivery of key EU policy initiatives such as Natura 2000, MSFD and IMP.

Priorities for investment

190. Across the UK ESI Funds will be used address the market failure that threatens the decline of the UK's priority habitats and species, and ecosystem services. EAFRD support to agri-environment will be a key tool and the UK will build on and enhance existing environmental schemes, whilst ERDF will be invested in the preparation and creation of multi-functional Green Infrastructure including through site clearance, soil desealing, decontamination and land remediation. A combination of national funding, with an additional element of EMFF funding will be available to encourage actions to maintain and restore the natural diversity of the marine ecosystem. This will allow the UK to implement a number of key Union policy instruments e.g. achievement of Good Environmental Status under MSFD. Many actions planned to facilitate adaptation to the CFP (e.g. more selective gear) will also have a positive impact on marine biodiversity. In the UK, EMFF funding will also be used to conduct cross-cutting evidence work

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

contributing to the production of Marine Plans (including implementation of the Maritime Spatial Planning Directive).

191. Funds will also be used to increase and protect local natural capital, including biodiversity, which underpin sustainable economic growth.

192. 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.

193. ESI Funds will also be used to support a significant and sustainable fisheries sector. Priorities vary across the UK, but there will be a significant focus on meeting the requirements of the new landing obligation throughout the supply chain, as well as support to investments in aquaculture, processing and marketing, particularly those that will encourage growth in those sectors and encourage innovation and diversification. We will also provide support to encourage the sustainable development of the wider marine environment, particularly safeguarding the stocks and resources available to future generations of fishermen, by encouraging partnerships between the catching sector, marine environmental organisations and scientists.

PROMOTING SUSTAINABLE TRANSPORT AND REMOVING BOTTLENECKS IN KEY NETWORK INFRASTRUCTURES

Europe 2020

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

Relevant Country Specific Recommendations[121]

- Address structural bottlenecks related to infrastructure, skills mismatches and access to finance for SMEs to boost growth in the export of both goods and services.
- Follow up on the National Infrastructure Plan by increasing the predictability of the planning processes as well as providing clarity on funding commitments.

Devolution settlements

195. 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.

196. This thematic objective has not been selected in Gibraltar, Scotland or Northern Ireland. It should be noted that complementary investments will take place under Thematic Objective 4 where investments in low carbon transport or sustainable urban mobility are planned.

[121] Further details at:
http://register.consilium.europa.eu/doc/srv?l=EN&f=ST%2010807%202014%20INIT

Current UK Performance

197. *Investing in Britain's Future*[122] sets out the key infrastructure 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. 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[123].

198. 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 (€24 billion) every year, creating delays and uncertainty for commuters and businesses alike. Without the proper investment this pattern will only get worse as future traffic levels are estimated to be anywhere between 22 to 71 per cent higher by 2040. Of particular note is that Highways Agency models suggest that there will be critical congestion points in parts of the Cornwall and Isles of Scilly Strategic road network by 2026 if no action is taken to improve it.

199. In relation to the rail network, privatisation in the early 1990s proved to be a turning point in the UK, enabling over £20 billion (€25 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 28. 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.

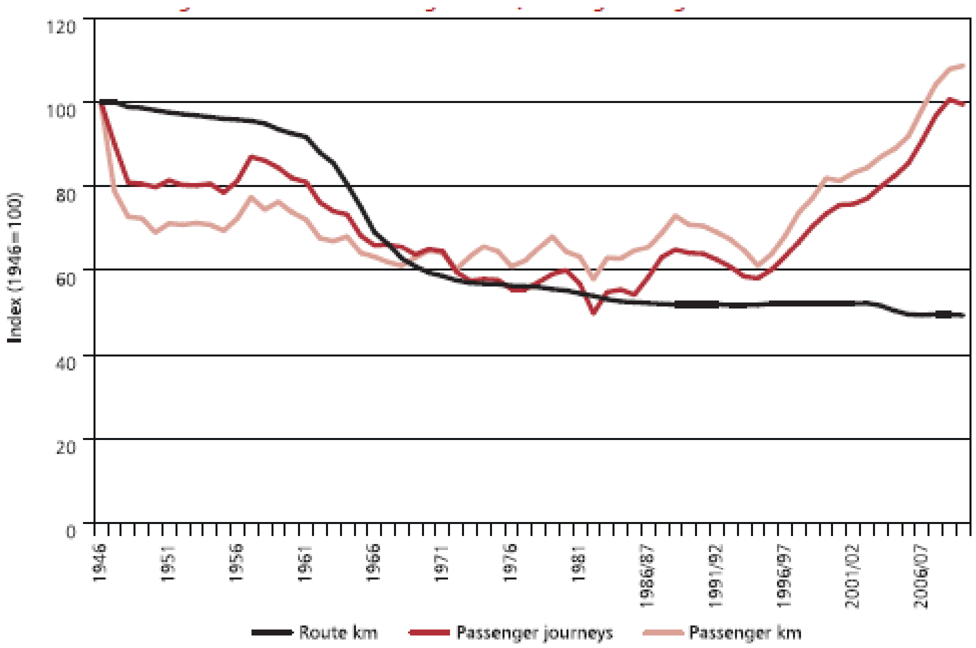

Figure 28: Changes in rail network length and passenger usage since 1946
Source: The McNulty Rail Value for Money Study

200. 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

[122] Further details at: https://www.gov.uk/government/publications/investing-in-britains-future
[123] Global Competitiveness Report 2012-13, World Economic Forum

for the next five years alone[124]. 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 at capacity.

201. The UK has a diverse landscape when it comes to physical connectivity. Some areas, predominantly the major urban centres, are supported by transport networks that make them easily accessible but others, particularly peripheral areas, are less so.

202. The OECD found that among regions with below average GDP per head, transport infrastructure played a key role in driving growth[125] 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, particularly those with the right skills, to labour markets particularly in remote rural areas, thereby reducing commuting times and emissions.

203. Peripheral areas and areas not serviced by well-functioning public transport systems generally have a reliance on private vehicles to enable people to access employment and services. The public transport systems available there are mainly buses. Both private vehicles and buses require a well-functioning road network to operate effectively to connect people with jobs.

204. 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 national centres of economic activity. The persistent structural weakness of those economies is clearly a relative lack of connectivity.

205. The issue of peripherality is not just constrained to improving connectivity to urban centres and city agglomerations. In the UK's Less Developed regions, there are particular challenges associated with travel within the region. Bottlenecks and key pinch-points which impact upon capacity in the road, rail and port infrastructure act as a constraint to growth and serve to increase disparities within the region itself.

206. There are specific and localised areas where EU funding will help to address market failures linked to accessibility, congestion and carbon emissions through projects that would not otherwise proceed. These multi-modal investments within less developed regions can address development needs in order to improve economic viability, increase mobility and better link employment sites / opportunities to residential locations as well as stimulate an increase of businesses locations.

207. Within this context the main UK challenges to improving sustainable transport and network infrastructures are:

Challenges	Opportunities
• Historic underinvestment in networks leaves lagging comparable regions and parts of the UK with poor connectivity, especially away from major cities particularly in Less Developed regions. • Increasing use of all forms of transport- especially road - leading to congestion, delays and emissions. • Transport barriers to accessing employment opportunities & skill pools (particularly in peripheral and less well	• Transport as a key enabler for economic growth particularly in peripheral areas and rural economies. • Investment in low carbon and environmentally friendly transport systems which can enhance regional or local mobility

[124] Office of Rail Regulation calculation, *Periodic Review 2013*.
[125] Further details at: http://www.oecd.org/gov/regional-policy/howregionsgrowtrendsandanalysis.htm

Challenges	Opportunities
connected areas) • Capacity constraints for both passengers and freight	

Domestic interventions

208. The UK Government has recognised transport as a key enabler for economic growth and that, conversely, if not addressed it can act as a significant constraint to growth. As demand pressures increase the Government is committed to taking decisive action to continue to improve the capacity and quality of its networks. As detailed in the National Infrastructure Plan (NIP)[126] the UK has developed a programme for extensive and sophisticated infrastructure and has committed to investing over £100 billion (€126 billion) of capital in specific projects in the next parliament.

209. This UK-wide infrastructure planning is complemented in England and 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 (€53.6 billion) (in 2011 prices) for construction costs and £7.5 billion (€9.4 billion) for rolling stock;
- support for Network Rail to invest over £9 billion (€11 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 (€15 billion) with nearly £6 billion (€7.5 billion) to help local authorities repair the local road network and £6 billion (€7.5 billion) for maintenance of the strategic road network which will enable the Highways Agency to resurface 80% of the network by 2020-21.

210. Planning and investment decisions on regional and local transport infrastructure are made at the local level.

211. 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. Alongside this investment programme the

[126] Further details at: https://www.gov.uk/government/collections/national-infrastructure-plan

ESI Funds can help address regional disparities by targeting specific regional and local bottlenecks in the UK's more peripheral and less developed regions. These ESI Funds investment will also add value to the actions set out in the National Reform Programme further helping to address the UK's Country Specific Recommendations.

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 in less developed regions where peripherality or poor connectivity clearly contribute to market failure.**

212. Specifically the ESI Funds should:

- Improve the reliability of travel times on sections of the core and comprehensive TEN-T network in peripheral and less connected areas, where doing so addresses identified local bottlenecks in the network;
- Improve access to the core TEN-T network and invest directly in the comprehensive TEN-T network, where doing so addresses identified local bottlenecks and enhances regional mobility; and
- Investment in low carbon and environmentally friendly public transport systems, which enhance regional or local mobility and also improve connectivity by adding value to the direct investments in the core and comprehensive TEN-T network.

Priorities for investment

213. ESI funds will be used to support transport investments under Thematic Objective 7 only in less developed areas.

214. Low carbon transport and sustainable Urban Mobility will be supported in all areas under Thematic Objective 4. This will include public transport and urban mobility schemes as part of low carbon strategies.

215. A series of pre-conditions will need to be met to ensure the right focus on transport investments and these will be set out in the individual Operational Programmes concerned.

216. The Specific Objectives and Results in the Operational Programmes will focus investments in areas where a demonstrable impact can be measured.

217. In less developed regions, the focus of ERDF will include delivering improvements in the functioning of the TEN-T network. Any such investment will be part of the integrated transport plan for the area concerned and will add value to the other investments planned across the ESI funds as part of a wider plan for economic development across the region. This reflects evidence from previous ERDF programmes which suggests transport infrastructure and sustainable transport should be part of an integrated suite of investments given the limited available funding and the relative cost of transport.

INCLUSIVE GROWTH

PROMOTING SUSTAINABLE AND QUALITY EMPLOYMENT AND SUPPORTING LABOUR MOBILITY

Europe 2020

EU 2020 Target	EU27[127]	UK[128]	England	Wales	Scotland	NI	Gib
75% 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[129]	73.32% based on 2012 Q4 data2012	72% based on 2012 data (EuroStat)[130]	74.26%[131]

Figure 29: EU2020 comparison table for targets relating to the Employment Thematic Objective

Relevant Country Specific Recommendations[132]

- Maintain commitment to the Youth Contract, especially by improving skills that meet employer needs. Ensure employer engagement by placing emphasis on addressing skills mismatches through more advanced and higher level skills provision and furthering apprenticeship offers. Reduce the number of young people with low basic skills.

Devolution Settlements

218. 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.

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[127] 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
[128] Further details at: http://ec.europa.eu/europe2020/pdf/nd/nrp2013_uk_en.pdf
[129] Further details at: http://appsso.eurostat.ec.europa.eu/nui/show.do?dataset=lfst_r_lfe2emprt&lang=en]
[130] Further details at: http://epp.eurostat.ec.europa.eu/tgm/table.do?tab=table&init=1&language=en&pcode=tgs00102&plugin=1
[131] Statistics Office; H.M. Government of Gibraltar; 2013
[132] Further details at: http://register.consilium.europa.eu/doc/srv?l=EN&f=ST%2010807%202014%20INIT

Current UK Performance

219. Analysis from the OECD suggests human capital is one of the key factors in driving growth across regions[133]. 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.

220. Employment at a UK level is holding up and is performing comparatively well in relation to previous recessions (see figure 30) and also in comparison to the EU average of 64.1%.

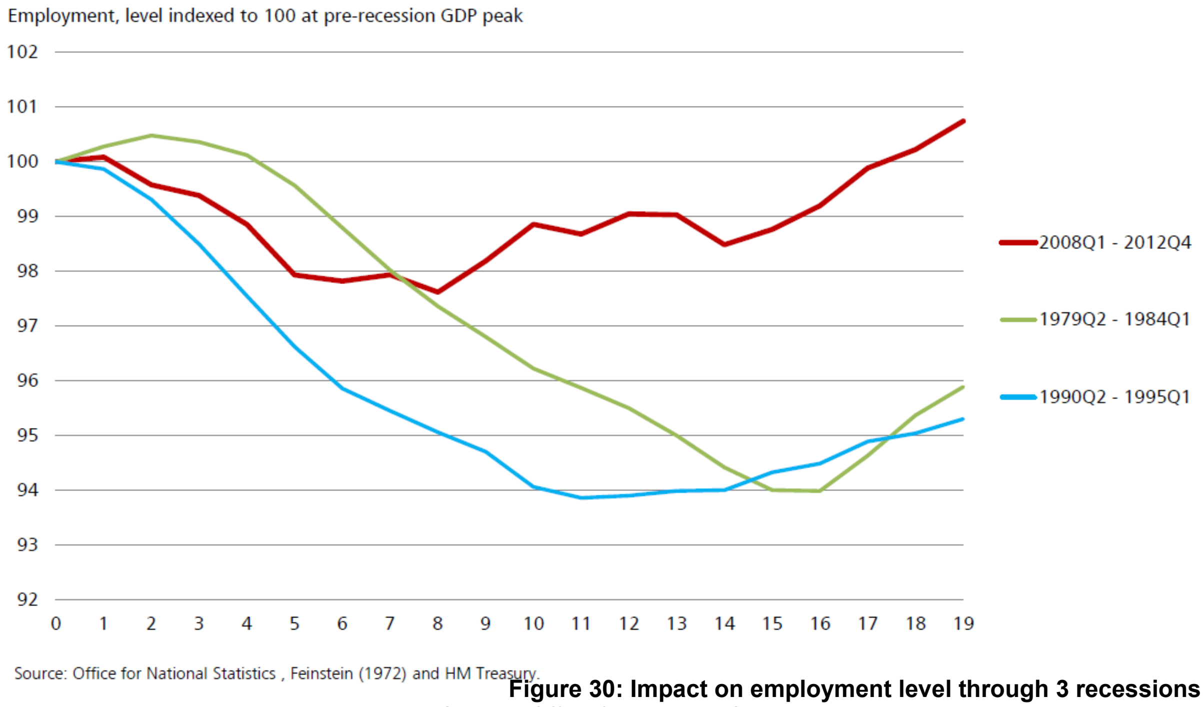

Figure 30: Impact on employment level through 3 recessions
Source: Office for National Statistics, Feinstein (1972) and HM Treasury

221. Growth in private sector employment has outstripped falls in the public sector. Over the last year, the public sector shrank by 16,000, whereas the private sector grew by 795,000. In the same period, the regions that saw the largest growth in private sector employment were London (up 144,000), Yorkshire & the Humber (up 75,000) and Scotland (up 60,000)[134]. The Commission forecasts expect the UK rate will increase to 74.9% by 2014.[135]

222. 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 (61.9% for 20 to 24 year olds).[136] Despite some progress in recent years, a significant minority of young people do not have the skills and qualifications they need to

[133] Further details at: http://www.oecd.org/gov/regional-policy/howregionsgrowtrendsandanalysis.htm
[134] Data relates to Q2 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*.
[135] Further details at: http://ec.europa.eu/europe2020/pdf/themes/18_employment_target.pdf
[136] Annual Population Survey, April 2013 – March 2014

compete successfully in the labour market. The unemployment rate of low-skilled 15-25 year olds is 37.2%, well above the EU average.[137] Disabled people and some ethnic minority groups also have significantly lower employment rates.

223. The employment rate for men aged 16-64 is 76.6% and for women is 66.6%.[138] 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.

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

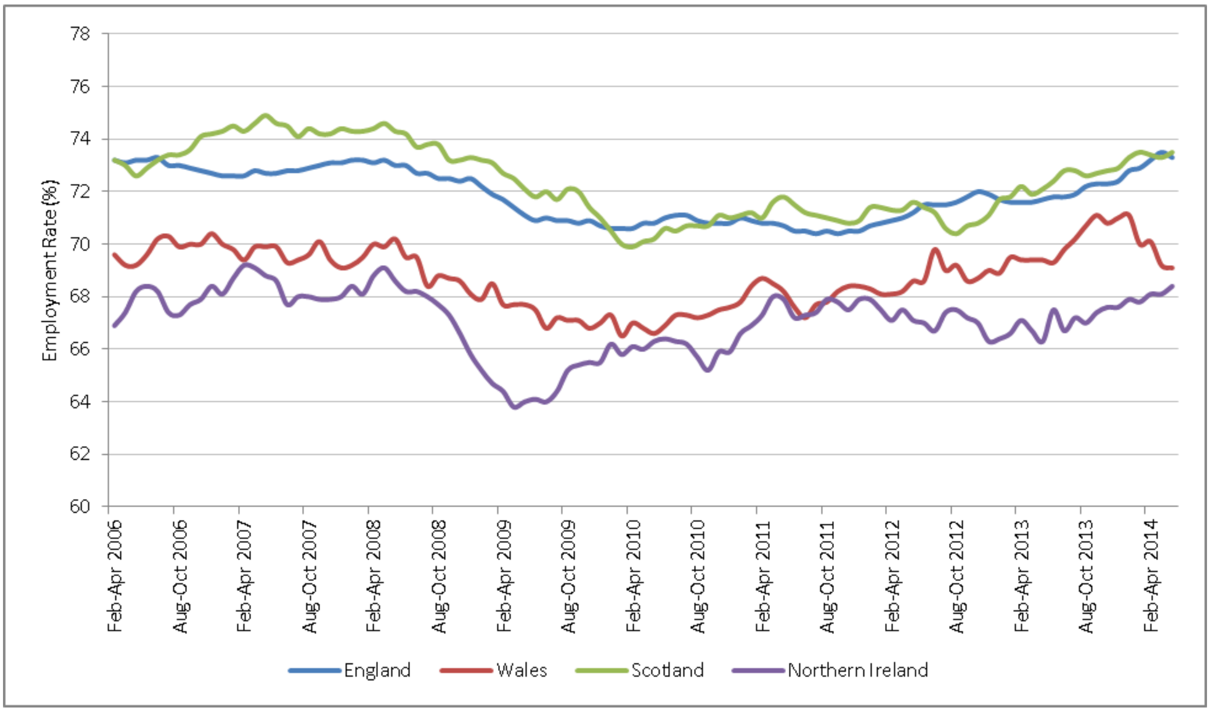

Figure 31: Employment rates (16-64) in the 4 countries of the UK, 2013Feb-Apr 2006 – Apr-Jun 2014

225. The unemployment rate is expected to remain broadly flat through 2014. It stood at 6.4% in April-June 2014 lower than the EU average of 10.2%. However, youth unemployment within the UK is much higher, at 18.2% for Q1 2014 and is highest in former industrial areas. The UK youth unemployment rate tends to be lower than the EU 28 at 23.3% but higher than key international competitors (see figure 32). In 2012, EU youth unemployment was 23.5% compared with 20.5% in the UK. The rate has been steadily increasing since 2007, when it stood at 14.3% but has slowed and fallen slightly in the last year. However, youth unemployment continues to show signs of improvement with the number of young people on JSA down 35% over the past year.

[137] Further details at: http://register.consilium.europa.eu/doc/srv?l=EN&f=ST%2010660%202013%20REV%201

[138] Annual Population Survey, April 2013-March 2014, employment rate for those aged 16-64.

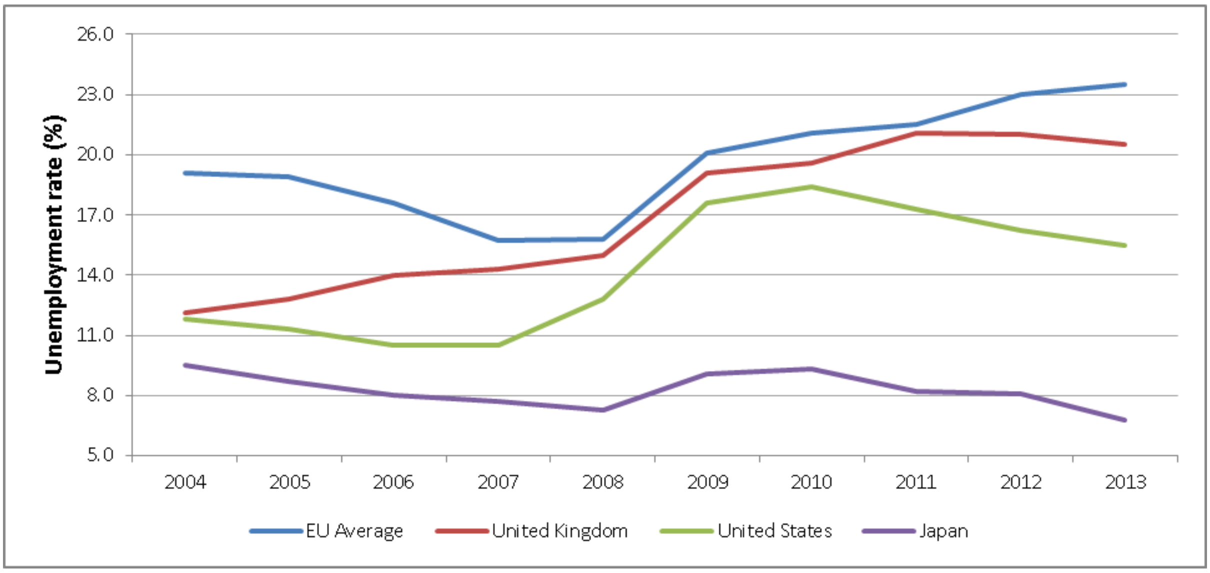

Figure 32: International Comparison of the unemployment rate for under 25 year olds - 2004-13
Source: Eurostat

226. There are also regional variations in the unemployment rate. Figure 33 shows how unemployment rates have changed over the seven years from Q2 2007 to Q2 2012. This shows that over the 7 years there have been significant fluctuations between the UK nations, however, by mid-2014 these rates were all dropping and converging at a similar level.

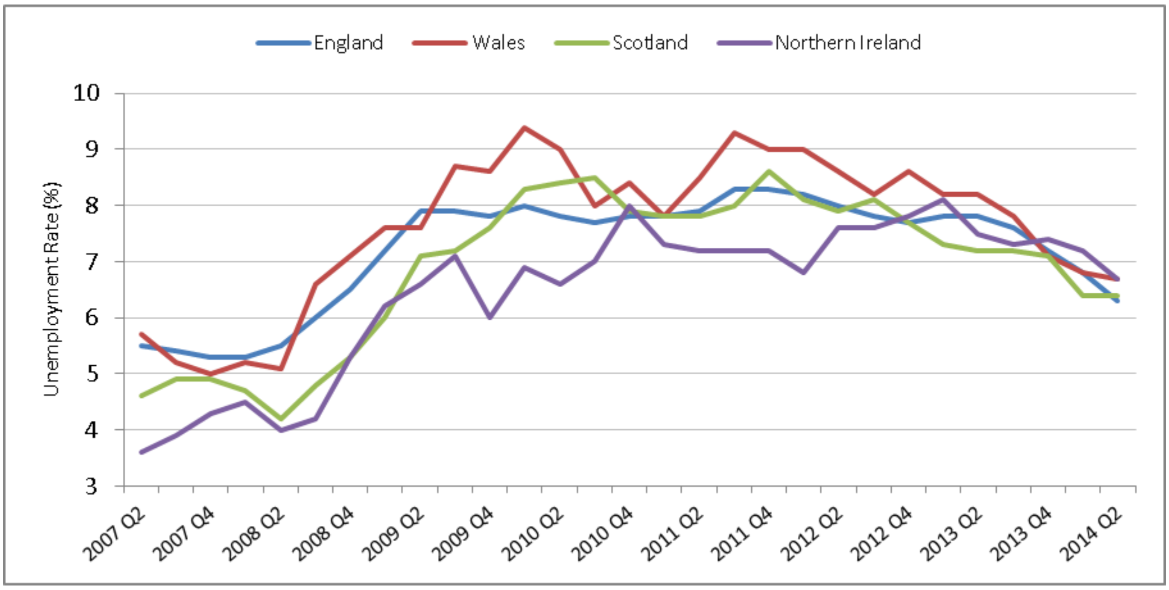

Figure 33: Changes in unemployment rates[139], Q2 2007-Q2 2014
Source: Office for National Statistics

227. 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 34). While the numbers of people who are inactive due to looking after the family and home increased (up 35,000) over the past year, inactivity due to long-term sickness,

[139] Covers those aged 16 and over as a % proportion of economically active.

retirement or study is falling and offsetting this. In total inactivity has fallen by 130,000 over the past year[140].

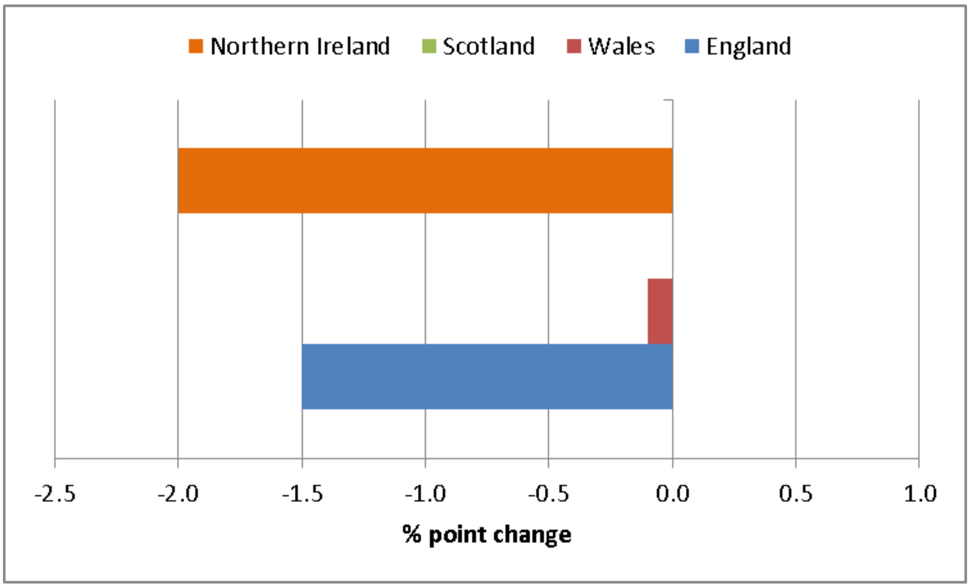

Figure 34: Change in economic inactivity rates, Q2 2007-Q2 2014
Source: Office for National Statistics

228. 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.

229. Long-term unemployment is also an issue. Defined as those unemployed for more than 12 months it is currently 738,000, more than a third of the total number of unemployed people[141]. Having seen a large increase in past years, long-term unemployment is now falling, down 171,000 on the year.

230. Within this context the main UK challenges and opportunities in relation to the labour market are:

Challenges	**Opportunities**
• Unemployment has yet to fall substantially. • Unemployment and inactivity is highest in inner city areas, some former industrial areas and some coastal towns • Unemployment and inactivity is highest amongst certain population groups e.g. those with low/no qualifications and disabled. • Youth unemployment still high. • Long-term unemployment is also an issue.	• Human capital and skills are the most important factors in driving growth across regions. • Employment within the UK as a whole is performing comparatively well in relation to previous recessions and in comparison to other EU member states. • Economic inactivity decreasing. • Progression into and in work will be supported by the introduction of Universal Credit and economic growth.

[140] Further details at: http://www.ons.gov.uk/ons/rel/lms/labour-market-statistics/august-2014/statistical-bulletin.html
[141] *ibid*

Challenges	Opportunities
• A significant minority of young people do not have the skills and qualifications they need to compete successfully in the labour market • Unemployed and inactive people often lack basic and vocational skills for growth sectors.	

Domestic interventions

231. 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.

232. 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; and
- 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.

233. 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.

234. 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.

235. 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[142]. Instead the Government prefers the flexibility to provide individualised support, in line with local circumstances focusing resources on those who need it most.

236. The challenges facing the fishing sector (e.g. CFP reform, ageing crews) mean that employment and training initiatives supporting coastal communities will be needed. These will be directed both at those in the fishing industry and communities more generally. They will aid with adaptation to CFP reform, increasing the long-term sustainability of the fleet and diversification into other profitable areas.

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.**

237. 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[143]. Specific target groups should be responsive to local challenges but will include disabled people, ethnic minorities and older people, unemployed and inactive women and women in work with caring responsibilities;
- 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

238. Across the UK ESI Funds will be used to help people into employment and 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.

239. 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

[142] Off-flow rates calculated as a proportion of inflows using claimant flows data available from www.nomisweb.co.uk
[143] More detail on the challenges surrounding social exclusion and poverty are set out in the following section on Social Exclusion.

focused on raising skills to increase employability will align with the Education, Skills and Lifelong Learning theme.

240. 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.

241. The employment rate gap between men and women is close to a record low and has narrowed over time. Rising female employment has been driving this trend. During the recession male employment suffered more than female employment and at this time the employment rate gap narrowed to a low of 9.2%. Sustained growth in female employment since then has meant that the gap has not significantly widened since and for full-time employees has been fairly constant since 2011 at around 10%. The current gap is 9.9% for the UK with a near record female employment rate of 68%[144].

242. Improving women's participation requires legislative or structural action such as more flexible working, and changes to practices within individual businesses. The ESF will not be used directly to support these actions – which are more appropriately and better delivered by government and the business community. However the ESF will help women who are unemployed or inactive to move back to work and may be used to support additional actions at local level that align with or complement those set out in 'Women and the Economy'. For example, this could include encouraging women to access science, technology, engineering and mathematics courses, or re-skilling and re-training older female workers.

243. ESI Funds programmes in the UK will promote gender equality in order to contribute to our efforts to reduce the gender employment gap. This gap will also be addressed by using domestic initiatives, including:

- 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.

244. The EMFF will align with other ESIF programmes, and be made available to fund employment and training on niche employment and training opportunities for those in the fishing industry and coastal communities more generally that might otherwise be excluded from support.

[144] ONS, *Labour Market Statistics September 2014*

PROMOTING SOCIAL INCLUSION, COMBATING POVERTY AND ANY DISCRIMINATION

Europe 2020

EU 2020 Target	EU27[145]	UK[146]	England	Wales	Scotland	NI	Gib
20 million less people across the EU should be at risk of poverty or social exclusion	24.8% based on 2012 data	24.1% based on 2012 data	15% in poverty only based on 2010/11-2012/13 three year average[147]	19% in poverty only based on 2010/11-2012/13 three year average[148]	19% in poverty only based on 2010/11-2012/13 three year average[149]	20% in poverty only based on 2010/11-2012/13 three year average[150]	N/A[151]

Figure 35: EU2020 comparison table for targets relating to social inclusion

Relevant Country Specific Recommendations[152]

- Continue efforts to reduce child poverty in low-income households, by ensuring that the Universal Credit and other welfare reforms deliver adequate benefits with clear work incentives and support services. Improve the availability of affordable quality childcare.

Devolution Settlements

245. 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.

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

Current UK Performance

247. In 2012, 24.1% 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 15.1 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

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145 The EU 27 data is sourced from the Eurostat database: http://appsso.eurostat.ec.europa.eu/nui/show.do?dataset=ilc_peps01&lang=en
146 Further details at: http://ec.europa.eu/europe2020/pdf/nd/nrp2013_uk_en.pdf
147 Data not available at sub-UK level – comparable data used from HBAI: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/325422/hbai-2012-2013-supporting-excel-files.zip (chapter_3ts_region_hbai14 3.17ts)
148 *ibid*
149 *ibid*
150 *ibid*
151 Gibraltar has no poverty issues.
152 Further details at: http://register.consilium.europa.eu/doc/srv?l=EN&f=ST%2010807%202014%20INIT

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 very low work intensity.[153]

248. 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 until 2011. Although the rate has increased slightly from 22.7% in 2007 to 24.1% in 2012 it should be noted that due to a change in data source the estimates are not directly comparable. [154]

249. 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[155]. Excluding student households, there are 224,000 households where nobody has ever worked[156]. 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.[157]

250. 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 seven 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.[158] The challenge across the UK will vary from area to area.

251. In-work poverty has also been on the increase over the last decade. The proportion of poor children living in working families was at 63% in 2012/13, up from 48% in 2001/02. This reflects the estimated 1.5 million poor children in working families compared to 0.9 million in workless households in 2012/13. The number of poor working-age adults in working families increased by 300,000 in 2011/12, compared to 2005/06.[159]

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

Challenges	**Opportunities**
• In 2012, 24.1% of the UK population were considered to be at risk of poverty or social exclusion and this proportion has remained broadly unchanged since 2007. • In-work poverty has also been on the increase over the last decade.	• Government has put in place welfare reforms and domestically funded initiatives to which ESI Funds can add value to.

[153] 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
[154] Eurostat database
[155] Further details at: http://www.ons.gov.uk/ons/rel/lmac/working-and-workless-households/2013/stb-working-and-workless-households-2013.html
[156] *ibid*
[157] Further details at: http://www.nao.org.uk/publications/0607/helping_the_workless_into_work.aspx
[158] Further details at: https://www.gov.uk/government/publications/social-justice-transforming-lives
[159] Further details at: https://www.gov.uk/government/organisations/department-for-work-pensions/series/households-below-average-income-hbai--2

Challenges	Opportunities
• The number of households in the UK where no-one works stands at around 3.5 million in which about 950,000 children are present • Challenges of exclusion vary over time and between localities. • Strong links between child poverty and social exclusion.	

Domestic interventions

253. 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.

254. 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.

255. 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.**

256. 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, parents with caring responsibilities in families experiencing, or at risk of, child poverty 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;
- tackle in work poverty; and
- support childcare where this is a barrier to participation.

Priorities for investment

257. 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.

258. 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).

259. 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[160]	UK[161]	England	Wales	Scotland	NI	Gib
The share of early leavers from education and training should be under 10%[162]	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[163]	13% based on 2012 data	14.3% based on 2012 data (Euro Stat)[164]	N/A[165]
At least 40% of 30-34–year-olds completing third level education[166]	35.8%based on 2012 data	48.1% based on 2012 data	50.9% based on 2012 data[167]	41.0% based on 2012 data[168]	54.1% based on 2012 data	38.4% based on 2012 data (Euro Stat)[169]	32.4%[170]

Figure 36: EU2020 comparison table for targets relating to education and training

[160] 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
[161] Further details at: http://ec.europa.eu/europe2020/pdf/nd/nrp2013_uk_en.pdf
[162] 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.
[163] Further details at: http://appsso.eurostat.ec.europa.eu/nui/show.do?dataset=edat_lfse_16&lang=en
[164] Further details at: http://epp.eurostat.ec.europa.eu/tgm/table.do?tab=table&init=1&language=en&pcode=tgs00106&plugin=1
[165] Gibraltar currently updating methodology used to obtain this data.
[166] 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.
[167] Labour Force Survey Q4 2012
[168] Further details at: http://appsso.eurostat.ec.europa.eu/nui/show.do?dataset=edat_lfse_12&lang=en
[169] Further details at: http://epp.eurostat.ec.europa.eu/tgm/table.do?tab=table&init=1&language=en&pcode=tgs00105&plugin=1
[170] Statistics Office; H.M. Government of Gibraltar; 2013

Relevant Country Specific Recommendations[171]

- Maintain commitment to the Youth Contract, especially by improving skills that meet employer needs. Ensure employer engagement by placing emphasis on addressing skills mismatches through more advanced and higher level skills provision and furthering apprenticeship offers. Reduce the number of young people with low basic skills.
- Address structural bottlenecks related to infrastructure, skills mismatches and access to finance for SMEs to boost growth in the export of both goods and services.

Devolution Settlements

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

Current UK Performance

261. 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 37).

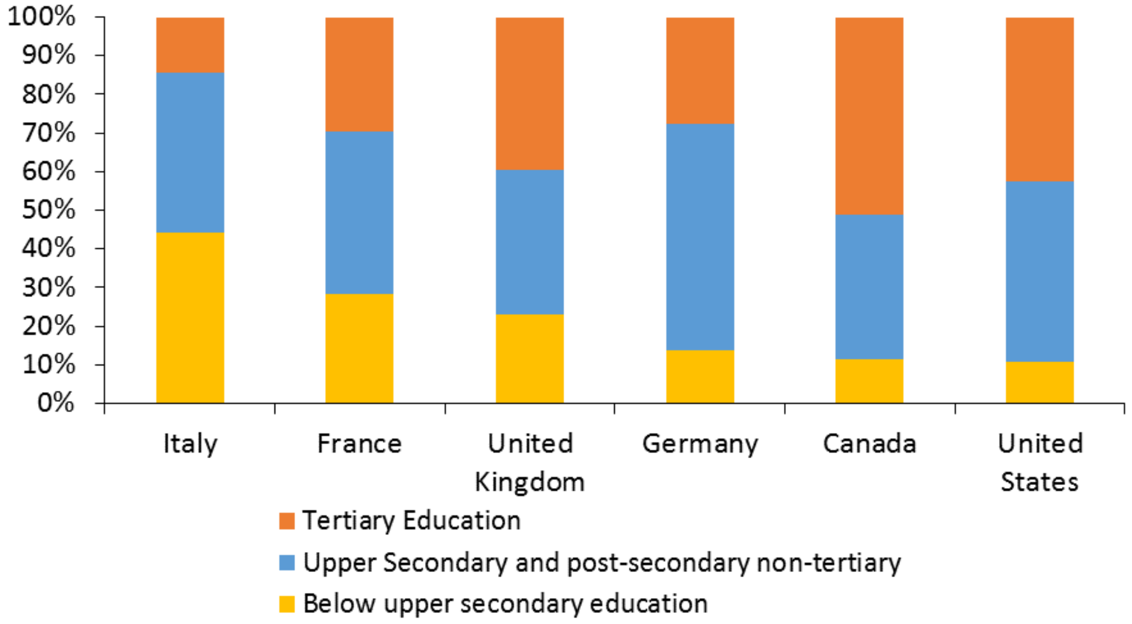

Figure 37: Educational Attainment (25-64)
Source: Organisation for Economic Co-operation and Development

262. Skill levels also vary across the UK. Figure 38 shows the proportion of 16-64 year olds in 2013 that had no qualifications in each of the UK's nations. Compared to the UK

[171] Further details at: http://register.consilium.europa.eu/doc/srv?l=EN&f=ST%2010807%202014%20INIT

average of 9.5%, Northern Ireland had the highest proportion of the population with no qualifications (7.7 percentage points above the UK average); whereas England was slightly below the UK average at 9.1%.

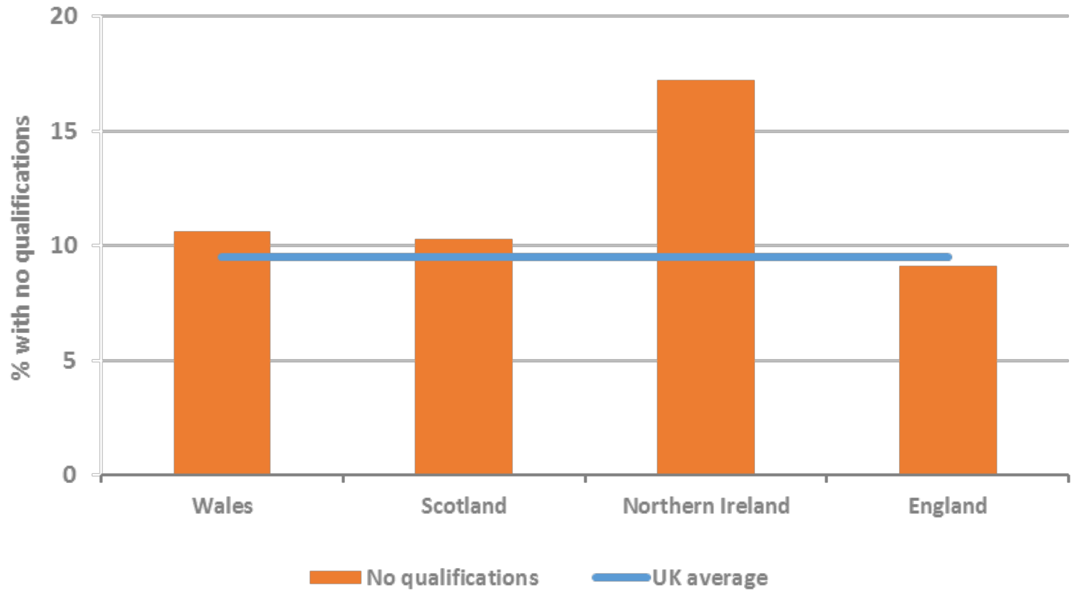

Figure 38: Proportion of 16-64 year olds with no qualifications, 2013
Source: NOMIS, Office for National Statistics

263. Figure 39 shows the percentage of 16 to 64 year olds with NVQ equivalents[172] level 1, level 2, level 3 and level 4 and above qualifications in 2011. Northern Ireland had the lowest proportion of skills overall at 78.4%. Northern Ireland has the highest level of NVQ2 level skills at 21.8%. Wales performs strongest in intermediate skills (NVQ3) at 20.9% and Scotland on higher level skills (NVQ4+) at 39.4%. According to UKCES[173] (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.

264. 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.

265. In the farming and forestry sectors, higher qualification levels lead to more successful businesses, greater innovation and receptiveness to innovations (environmentally and economically)[174]. 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.

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

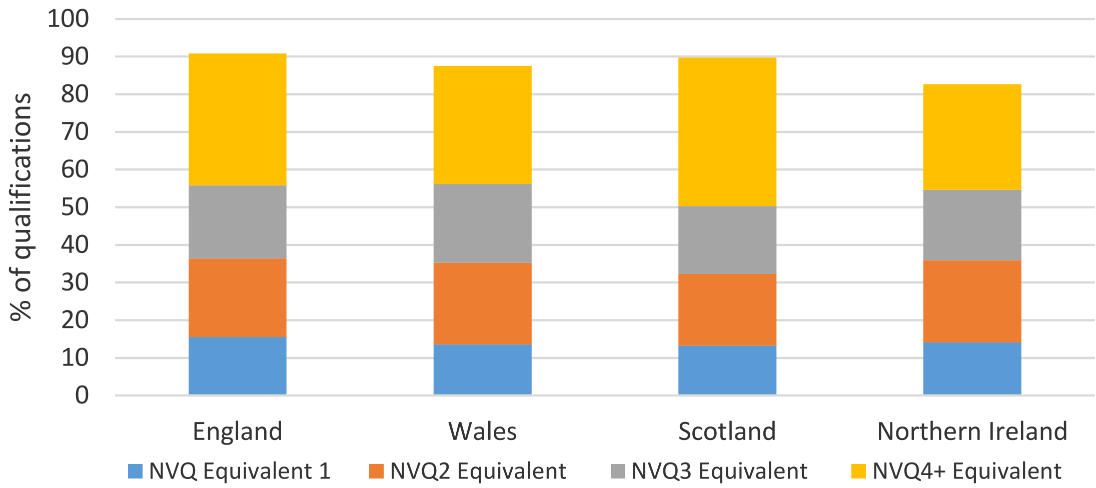

Figure 39: % of 16-64 year olds with NVQ level 1-4+
Source: Annual population survey (Jan 2013-Dec 2013), Office for National Statistics

266. Data on vacancies from the United Kingdom Commission on Employment and Skills (UKCES) Survey 2013[175] shows that the agriculture, forestry and fishing sector in England has a higher level of Skills Shortage Vacancies (SSVs)[176] as a proportion of vacancies (28%) compared to the national average (22%). The same survey suggests that the result of this is increased costs, difficulties introducing new working practices, and new technologies, products and services.

267. 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 2013 UKCES Survey indicates that a smaller proportion (50%) of employees working in agriculture, forestry and fishing received training in 2013 compared to the national all-sector average (66%), and recent evidence from the Labour Force Survey corroborates this[177].

268. Within this context the main UK challenges and opportunities 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. • 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. • Levels of employer training are comparatively low. • Low skill levels and relatively expensive	• Renewed focus in the FE sector on employer needs and quality of qualifications. • High quality HE provision and opportunities for commercialisation of research. • Focus on schemes to encourage employer participation (e.g. Apprenticeships) including SMEs.

[175] Further details at: http://data.gov.uk/dataset/ukces-employer-skills-survey-2013
[176] 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.”
[177] Further details at: http://data.gov.uk/dataset/ukces-employer-skills-survey-2013

Challenges	Opportunities
training in the land based sector, affect environmental and economic performance of businesses.	

Domestic interventions

269. 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;
- 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.**

270. Specifically the ESI Funds should:

- continue to support basic skills needed for employment and progression;
- support intermediate and higher-level skills, including support for 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

271. 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.

272. 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; activities aimed at helping unemployed and inactive women into work and to progress at work, especially in sectors or occupations where they may be under-represented 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.

273. 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 THE LATTER EVALUATION IS UNDERTAKEN BY THE MEMBER STATE AT ITS OWN INITIATIVE (ARTICLE 15 (1) (A) (II) CPR)[178]

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 EVALUATION 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[179]. 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 has 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.

[178] Not required for the EMFF pursuant to Article 14 (5) CPR.
[179] Further details at: http://www.ghkint.com/

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.
5. It should be noted that this ex ante evaluation considered the process for development and content of the draft Partnership Agreement up to the point of formal submission of the document to the European Commission on 17 April 2014. The Partnership Agreement has been developed further since that time as a result of further work with partners across the UK and the European Commission.

UK Chapter

6. 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.
7. The Partnership Agreement also identifies the relevant Country Specific Recommendations for each target. The proposed objectives and priorities for ESIF 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.
8. 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, primarily 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– entirely reasonably - proposes to focus ESI funds on contributing to Smart Growth through, inter alia, improving the commercialisation of R and 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.

9. 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).
10. At a UK level all thematic objectives (except thematic objective 11) have an allocation of ESI Funds but there is greater prioritisation at the level of individual territories. 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. The evaluators believe that the Government needs to consider measures to mitigate the risk that such small allocations to these thematic objectives will lead to high administrative costs relative to the potential benefits of the investments.
11. 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.
12. 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.
13. The UK chapter incorporates a commitment to utilise common output indicators drawn from the EU regulations. 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.

14. 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.
15. 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
16. The application of CLLD and ITIs across the UK is set out but is best assessed against each individual Administration's intentions.
17. 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.

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 (ARTICLE 15 (1) (A) (III) CPR)

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	✓	✓	✓	✓	✓

	England	Scotland	Wales	N. Ireland	Gibraltar
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	✓	×	✓	×	×
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 (ARTICLE 15 (1) (A) (IV) CPR)

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).

	ERDF €	ESF €	EAFRD[180] €	EMFF €	TOTAL €
1.Strengthening research, technological development and innovation	1,468,469,689	0	163,064,860	0	1,631,534,549
2. Enhancing access to, and use and quality of, information and communication technologies	196,067,843	0	94,410,442	0	290,478,285
3. Enhancing the competitiveness of small and medium-sized enterprises,	2,058,178,754	0	303,057,134	67,167,281	2,428,403,169

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

	ERDF €	ESF €	EAFRD[180] €	EMFF €	TOTAL €
4. Supporting the shift towards a low-carbon economy in all sectors	1,314,332,685	0	52,332,940	4,080,899	1,370,746,524
5. Promoting climate change adaptation, risk prevention and management	86,661,198	0	1,744,632,862	0	1,831,294,060
6. Preserving and protecting the environment and promoting resource efficiency	141,654,293	0	2,053,806,113	143,456,513	2,338,916,919
7. Promoting sustainable transport and removing bottlenecks in key network infrastructures	164,312,815	0	0	0	164,312,815
8. Promoting sustainable and quality employment and supporting labour mobility	167,080,903	1,634,437,150	168,782,527	15,906,292	1,986,206,872

	ERDF €	ESF €	EAFRD[180] €	EMFF €	TOTAL €
9. Promoting social inclusion and, combating poverty and any discrimination	38,343,701	1,178,451,128	364,613,217	0	1,581,408,046
10. Investing in education, training and vocational training for skills and lifelong learning	0	1,905,516,542	74,535,330	0	1,980,051,872
11. Enhancing institutional capacity of public authorities and stakeholders and an efficient public administration	0	57,097,055	0	0	57,097,055
Technical assistance	194,958,036	169,215,775	176,182,067	12,528,452	552,884,330
TOTAL	**5,830,059,917**	**4,944,717,650**	**5,195,417,492**	**243,139,437**	**16,213,334,496**

Total indicative amount of EU support for climate change objectives is €5,324,227,955.93

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	€ 185,295,479
ESF matching funding	€ 185,295,479

2. Additional allocations will also be available via the Youth Employment Initiative. The following core areas will benefit, because they meet the criteria in the regulations:

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

3. These five NUTS2 areas are the only ones in the UK with youth unemployment rates at 25% or higher. However, there are pockets of very high youth unemployment in some places outside these five areas. We have therefore decided to use the 10% flexibility allowed in the regulations to provide some of the YEI funding to NUTS3 areas in England with youth unemployment rates above 30%. This will ensure YEI can make an impact on lowering the youth unemployment rate by supporting and strengthening initiatives and programmes in those areas.
4. 90% of the UK’s YEI allocation will go to Inner London, Merseyside, Tees Valley & Durham, the West Midlands and South West Scotland. The remaining 10% will go to Kingston upon Hull, Nottingham, Leicester and Thurrock. The resulting allocations are as follows.

NUTS2 allocations	**YEI € million**	**ESF match € million**	**Total € million**
Tees Valley and Durham	23,713,760	23,713,760	47,427,520
Merseyside	26,588,155	26,588,155	53,176,310
West Midlands	50,661,214	50,661,214	101,322,428
Inner London	42,846,453	42,846,453	85,692,906
South Western Scotland	25,507,055	25,507,055	51,014,110
Sub-total	169,316,637	169,316,637	338,633,274
NUTS3 allocations			
Kingston upon Hull, City of	4,495,742	4,495,742	8,991,484
Thurrock	1,841,629	1,841,629	3,683,258
Nottingham	4,766,570	4,766,570	9,533,140
Leicester	4,874,901	4,874,901	9,749,802
Sub-total	15,978,842	15,978,842	31,957,684
TOTAL	**185,295,479**	185,295,479	**370,590,958**

Technical Assistance

5. Technical Assistance (TA) funds the preparatory, management, monitoring, evaluation, information and control activities of the ESI Funds programmes, together with activities 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 (€)	Share of technical assistance of total allocation (by Fund and by category of region, where appropriate)
ERDF	Less developed regions	42,298,239	2.52%
	Transition regions	61,933,085	4.11%
	More developed regions	90,726,712	3.43%
ESF	Less developed regions	22,973,227	2.39%
	Transition regions	40,743,002	3.82%
	More developed regions	105,499,546	3.62%
CF	N/A	N/A	N/A
EAFRD	N/A	176,182,067	3.39%
EMFF	N/A	12,528,452	5.15%

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 [181]	45.90%
The share of ESF of the Structural Funds resources in the 2014-2020 programming period[182]	45.90%

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

1.5 THE APPLICATION OF THE HORIZONTAL PRINCIPLES REFERRED TO IN ARTICLES 5, 7 AND 8 OF THE CPR AND POLICY OBJECTIVES FOR THE IMPLEMENTATION OF THE ESI FUNDS (ARTICLE 15 (1) (A) (V) CPR)

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 (ARTICLE 15 (1) (C) 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.

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. As well as a public online consultation, 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, listed in the EMFF Operational Programme) 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 focused 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[183].
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.

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

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. Operational Programmes will also be subject to proportionate equality impact assessments; and
- 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[184]. 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

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

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 and created the Marine Management Organisation (MMO) as the body responsible for marine planning in England. Under related, but separate legislation, Marine Scotland within the Scottish Government is responsible for marine planning in Scottish waters and the devolved administrations of Wales and Northern Ireland are in the process of setting up their own arrangements in relation to marine planning in their territorial waters. The aim of marine planning is to contribute to the effective management of marine activities and to a more sustainable use of marine resources, by creating a framework for more consistent, sustainable and evidence-based decision-making. Marine plans will contribute to the wider growth agenda, for example by creating greater certainty for developers and by providing the means for optimising the sustainable use of the marine environment.

Resource efficiency

9. All relevant Programmes should adhere to UK Government Buying Standards including those provisions within the UK Standards that ensure SMEs are not inhibited from participation at all stages of supply. These currently cover priority product groups, similar to the groups identified in the EU's Green Public Procurement programme.
10. 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.
11. 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

12. 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, including marine biodiversity.

Climate change mitigation and adaptation including disaster resilience

13. The programme will directly contribute to moving towards a Low Carbon Economy through allocation to low carbon thematic objective 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.
14. 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.
15. All relevant investments will be expected to integrate an approach to current and future climate proofing in design, delivery and on-going maintenance.[185] 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

16. 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.
17. The measures foreseen for sustainable transport/sustainable urban development will take sustainable urban mobility plans, noise abatement plans (Environmental Noise Directive (2002/49/EC)), and air quality plans (Ambient Air Quality Directive (2008/50/EC), Gothenburg Protocol) into account.

'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.

1.5.4 HORIZONTAL POLICY OBJECTIVES

1. Aside from promotion of equality and sustainable development, the UK's nations have

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[185] Tools and guidance available from the Climate Ready Support Service http://webarchive.nationalarchives.gov.uk/20140328084622/http://www.environment-agency.gov.uk/research/137557.aspx

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. (England 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) (ARTICLE 15 (1) (A) (VI) CPR)[186]

Programme Title	ESI Fund	Total (€)	2014 (€)	2015 (€)	2016 (€)	2017 (€)	2018 (€)	2019 (€)	2020 (€)
European Fisheries Fund – UK programme	EMFF	**243,139,437**	0	67,079,977	34,061,403	34,613,468	35,418,887	35,661,073	36,304,629
ESI Funds Growth Programme for England (ERDF OP)	ERDF	**3,649,257,601**	0	985,812,289	507,755,494	523,012,383	533,478,964	544,154,994	555,043,477
ESI Funds Growth Programme for England (ESF OP)	ESF	**3,326,721,750**	0	899,042,788	463,063,745	476,653,947	486,192,813	495,922,545	505,845,912
England YEI	ESF	**159,788,424**	0	159,788,424	0	0	0	0	0
Rural Development Programme for England	EAFRD	**3,470,717,109**	475,531,544	497,298,575	499,402,760	499,397,439	499,367,597	499,631,552	500,087,642
Scotland ERDF	ERDF	**452, 441,795**	60,787,939	42,284,999	66,724,006	68,575,132	69,947,495	71,347,278	72,774,946
Scotland ESF	ESF	**394,709,177**	44,575,884	44,018,720	58,474,453	60,082,304	61,284,704	62,511,128	63,761,984

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

Programme Title	ESI Fund	Total (€)	2014 (€)	2015 (€)	2016 (€)	2017 (€)	2018 (€)	2019 (€)	2020 (€)
Scotland YEI	ESF (YEI)	**25,507,055**	18,551,007	6,956,048	0	0	0	0	0
Scottish Rural Development Programme	EAFRD	**844,685,131**	0	173,709,110	173,991,982	123,928,025	123,852,339	124,578,872	124,624,803
West Wales & Valleys ERDF	ERDF	**1,206,110,065**	161,878,817	165,119,659	168,424,924	172,426,381	175,877,079	179,396,722	182,986,483
East Wales ERDF	ERDF	**203,312,254**	27,346,623	27,894,108	28,452,475	29,021,901	29,602,706	30,195,115	30,799,326
West Wales & Valleys ESF	ESF	**804,554,786**	107,919,211	110,079,773	112,283,282	115,067,721	117,370,524	119,719,335	122,114,940
East Wales ESF	ESF	**203,312,254**	27,346,623	27,894,108	28,452,475	29,021,901	29,602,706	30,195,115	30,799,326
Wales EAFRD	EAFRD	**651,590,163**	0	128,406,999	128,371,785	98,589,767	98,594,216	98,711,579	98,915,817
NI 2014-2020 ERDF Investment for Growth and Jobs Programme	ERDF	**313,254,888**	41,431,691	42,261,161	43,107,119	45,237,602	46,142,910	47,066,306	48,008,099
NI 2014-2020 ESF Investment for Growth and Jobs Programme	ESF	**210,578,341**	27,621,127	28,174,107	28,738,079	30,580,991	31,192,982	31,817,200	32,453,855
NI Rural Development Programme (RDP) 2014-2020	EAFRD	**228,425,088**	0	49,028,511	49,092,793	32,654,707	32,585,359	32,520,110	32,543,608
Gibraltar ERDF Programme	ERDF	**5,683,314**	764,517	779,826	795,702	811,011	827,454	843,897	860,907
Gibraltar ESF Programme	ESF	**4,841,342**	-	1,315,551	677,820	690,861	704,868	718,875	733,367
Totals		**16,398,629,975**	993,754,983	3,456,944,733	2,391,870,297	2,340,365,541	2,372,043,603	2,404,991,696	2,438,659,121

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		
	ERDF/ ESF Split[187]		Total		ERDF/ ESF Split		Total		ERDF/ ESF Split		Total
Less developed regions	1,519,457,957	ERDF	**2,389,484,961**	Transition Regions			0	0.00%	1,677,934,767	ERDF	**2,641,135,453**
	870,027,004	ESF		More Developed regions			0		963,100,686	ESF	
Transition regions	1,566,844,826	ERDF	**2,669,120,577**	Less Developed Regions	49,469,578	ERDF	**78,523,140**	2.94%	1,517,375,248	ERDF	**2,590,597,437**
					29,053,562	ESF					
	1,102,275,751	ESF		More Developed Regions			0		1,073,222,189	ESF	
More developed regions	2,770,229,442	ERDF	**5,767,578,400**	Less Developed Regions	109,007,232	ERDF	**173,027,352**	3.00%	2,661,222,210	ERDF	**5,594,551,048**
					64,020,120	ESF					

[187] The ERDF/ ESF splits in this table are indicative and may be subject to change during the Operational Programme negotiations.

	2,997,348,958	ESF		Transition Regions		0		2,933,328,838	ESF	

The option to transfer funding between categories of regions

1. The European Commission's 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[188]. This is broken down as follows:

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

2. 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 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.

3. 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 (current prices)	€6,937m	€895m	€2,412m	€513m	€10.5m	€866m

4. Funding for the UK's two Less Developed Regions would fall by 24 per cent 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 Europe 2020 objectives.

5. 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

[188] 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.

budgets, totalling €252 million 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 (€2,635 million) will be allocated to ensure both regions are subject to an equal 16 per cent cut in funding compared to 2007-13.

Allocations of EAFRD across the UK and between categories of regions

6. 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%

7. 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..

Allocations of EMFF across the UK and between categories of regions

8. The UK's EMFF allocation of €243 million, has been distributed as follows:

	England	Scotland	Wales	NI	Total
EMFF (€million)	€97.2	€107.7	€14.7	€23.5	€243.1

9. The criteria used to share out the funding broadly follow those set out in the EMFF Regulation, and is the fairest way of supporting each part of the UK to meet the key objectives of the fund, e.g. helping the sector to adapt to the requirements of the reformed Common Fisheries Policy.

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

1. Not applicable.

1.9 Request for a transfer of technical assistance to the European Commission, where applicable (Article 25 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[189]				
Fund	**Category of region**	**Total Union support** [190] **(€)**	**Matching ESF support to YEI (€)**	**CAP transfers**[191]	**Union support subject to the performance reserve (€)** [192]	**Performance reserve (€)**	**Performance reserve as a share of the Union support subject to the reserve**[193]
ERDF	Less developed regions	1,677,934,767			1,677,934,767	100,676,085	6%
	Transition regions	1,507,951,008			1,507,951,008	91,042,513	6%
	More developed regions	2,664,174,142			2,664,174,142	159,673,335	6%

[189] In accordance with Article18 of the CPR
[190] Including the performance reserve, after transfers between categories of regions and goals, where applicable
[191] 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.
[192] Total Union support after transfers less the amounts excluded for the purposes of calculation the performance reserve
[193] The total for each ESI Fund, and for each category of region, should form 6% of the amounts set out in column 6

			Amounts excluded for the purposes of the calculation of the performance reserve[189]				
Fund	**Category of region**	**Total Union support [190] (€)**	**Matching ESF support to YEI (€)**	**CAP transfers[191]**	**Union support subject to the performance reserve (€) [192]**	**Performance reserve (€)**	**Performance reserve as a share of the Union support subject to the reserve[193]**
	Special allocation to outermost or sparsely populated regions	N/A			N/A	N/A	N/A
TOTAL ERDF					**5,830,059,917**	**351,391,933**	**6%**
ESF	Less developed regions	963,100,686	0		963,100,686	57,786,042	6%
	Transition regions	1,066,944,798	52,609,257		1,014,335,541	61,105,470	6%
	More developed regions	2,914,672,166	132,686,222		2,781,985,944	166,921,701	6%
TOTAL ESF					**4,944,717,650**	**285,813,213**	**6%**
EAFRD	N/A	5,195,417,492		2,614,249,900	2,581,167,592	154,870,055	6%
EMFF	N/A	243,139,437			243,139,437	14,588,366	6%

			Amounts excluded for the purposes of the calculation of the performance reserve[189]				
Fund	**Category of region**	**Total Union support** [190] **(€)**	**Matching ESF support to YEI (€)**	**CAP transfers**[191]	**Union support subject to the performance reserve (€)** [192]	**Performance reserve (€)**	**Performance reserve as a share of the Union support subject to the reserve**[193]
CF	N/A	N/A			N/A	N/A	N/A
TOTAL (All Funds)	**16,213,334,496**		**185,295,479**	**2,614,249,900**	**13,413,789,117**	**806,663,567**	**6%**

2 ARRANGEMENTS TO ENSURE THE EFFECTIVE IMPLEMENTATION OF ESI FUNDS (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 (ARTICLE 15 (1) (B) (I) CPR)

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 2014-20. 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. Detailed arrangements for coordination between the ESI Funds and other funding instruments are set out in the national chapters of this document.
2. 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 cross-UK role carried out by the Department for Business, Innovation and Skills (BIS) under previous programmes, in which BIS has co-ordinated UK Structural Funds 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. It has therefore been agreed that BIS will be designated as the Co-ordination Body for the 2014-20 period under Article 123(8) of Regulation 1303/2013.
3. 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 be built up. Further detail on the approach to UK-wide performance monitoring is included in section 2.4 below.
4. 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 (including ETC programmes as coordinated through the cross-UK ETC Board); 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.

5. Co-ordination between the Investment for Growth and Jobs goal and ETC goal will be overseen and facilitated by the cross-UK ETC Board chaired by DCLG. This Board will promote effective coordination across these goals through consideration of complementary ETC programmes, respective Operational Programme objectives, programme calls and scope for aligned activity with the ESI Funds across the UK and in each nation.

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.
9. Where monitoring committees exist in a devolved administration for all funds (e.g. in Scotland), their role with regard to the EMFF will be advisory, as the UK-wide EMFF Programme Monitoring Committee will be the decision-making body where the partnership principle is implemented.

NON-ESI FUNDING FROM THE UNION

10. 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 40).
11. In this concept 'upstream' activities are those funded primarily (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.
12. '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.

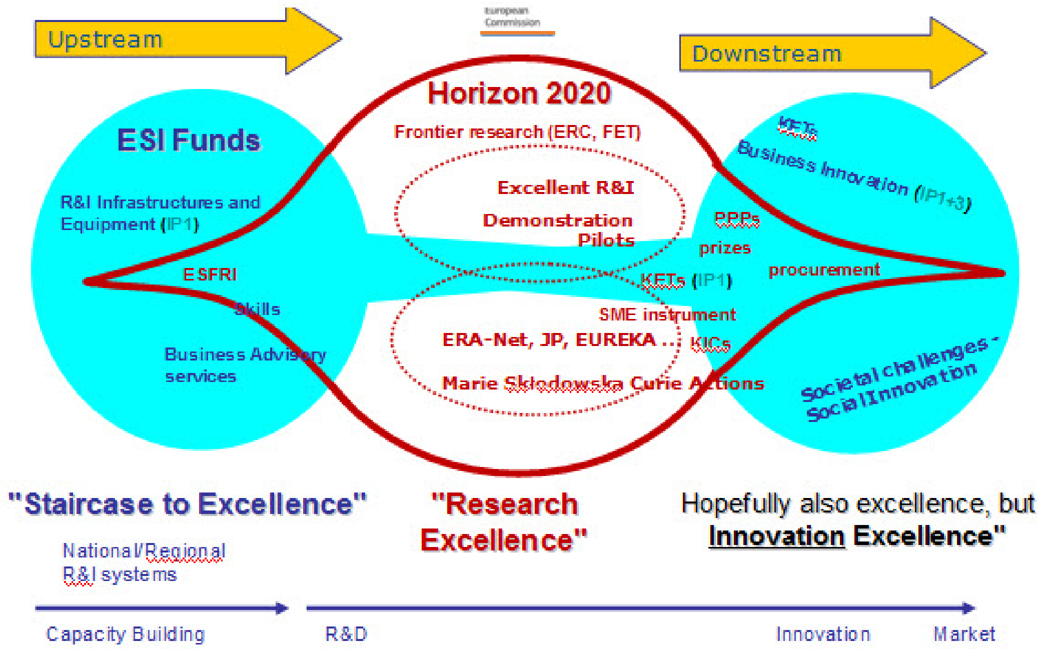

Figure 40: Relationship between ESI Funds and Horizon 2020
Source: European Commission

13. 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 ('FP7'). The most recent update[194] 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[195]. The inherent uncertainty of competition makes it difficult to plan complementary investments of ESI Funds with zero opportunity cost.

14. Detailed arrangements for coordination between the ESI Funds and other EU funding instruments are set out in the national chapters of this document.

[194] eCORDA database, released 1 November 2013
[195] 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

European Investment Bank

15. 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 (Article 15 (1) (b) (ii) CPR, 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 19 and Annex XI of the CPR at national level and, in the event that the applicable ex-ante conditionalities are not fulfilled, of the actions to be taken, the bodies responsible, and the timetable for implementation of those actions (Article 15 (1) (b) (iii) CPR)

1. Although Gibraltar is a British Overseas Territory, it has a separate legal jurisdiction from the UK. The English Law (Application) Act of 1962 stipulates that English Law will apply to Gibraltar unless it is overridden by Gibraltar Law. Therefore, as a self-governing British territory, Gibraltar can establish its own Laws, independently of the UK.

2. As such the UK level text in the tables should not be considered as covering Gibraltar. How Gibraltar meets the ex ante conditionalities ('EACs') relevant to its programmes will be sent out in its respective Operational Programmes.
3. Due to devolution arrangements a significant proportion of the EACs are met in part or solely at the national level. For example, in relation to the employment and skills EACs the activities of DWP only cover Great Britain (England, Scotland and Wales) and Northern Ireland has their own employment service.
4. The Partnership Agreement will only cover EACs where they are solely met at the UK level.
5. As none of the general EACs are fulfilled at the UK level they will only be addressed in the operational programmes (see table below).

	Applicability of EAC by nation					Administrative Level at which EAC is met	
	England	Scotland	Wales	Northern Ireland	Gibraltar	UK Level Only	Includes National Level
1. Antidiscrimination	✓	✓	✓	✓	✓	-	✓
2. Gender	✓	✓	✓	✓	✓	-	✓
3. Disability	✓	✓	✓	✓	✓	-	✓
4. Public Procurement	✓	✓	✓	✓	✓	-	✓
5. State Aid	✓	✓	✓	✓	✓	-	✓
6. Environmental legislation[196]	✓	✓	✓	✓	✓	-	✓
7. Statistical system and results indicators.	✓	✓	✓	✓	✓	-	✓

[196] The assessment of the fulfilment of the general ex-ante conditionality related to the EIA and SEA legislation is without prejudice to the obligation of the UK government to implement the CJEU judgement of 13 February 2014 (case (C-530/11) Commission v. UK). For the avoidance of doubt, the assessment of the fulfilment of the general ex-ante conditionality will not include any assessment of the implementation of the CJEU judgment.

6. The following table sets out a summary of which Thematic Objective EACs are applicable across the UK and whether they are met solely at the UK level or not.

	Applicability of EAC by nation					Administrative Level at which EAC is met	
	England	Scotland	Wales	Northern Ireland	Gibraltar	UK Level Only	Includes National Level
1.1 Research	✓	✓	✓	✓	-	-	✓
1.2 Infrastructure	✓	-	✓	-	-	-	✓
2.1 Digital Growth	✓	✓	✓	-	-	-	✓
2.2 Next Generation Access	✓	✓	✓	-	-	-	✓
3.1 Implementation of the SBA	✓	✓	✓	✓	✓	-	✓
4.1 Energy Efficiency	✓	-	✓	-	-	-	✓
4.3 Renewable Energy	✓	-	✓	✓	✓	-	✓
5. Climate Change	✓	-	-	-	-	-	✓
7.1 Road	✓	-	✓	-	-	-	✓
7.2 Rail	✓	-	✓	-	-	-	✓
7.3 Other modes of transport including inland waterways	✓	-	-	-	-	-	✓
8.1 Access to Employment	✓	✓	-	✓	✓	-	✓
8.6 YEI	✓	✓	-	-	-	-	✓
9.1 Active Inclusion	✓	✓	✓	✓	-	-	✓
10.1 Early School Leaving	-	-	✓	-	-	-	✓

	Applicability of EAC by nation					Administrative Level at which EAC is met	
	England	Scotland	Wales	Northern Ireland	Gibraltar	UK Level Only	Includes National Level
10.2 Higher Education	-	✓	-	-	-	-	✓
10.3 Lifelong Learning	✓	✓	✓	-	✓	-	✓
10.4 Vocational and Education Training	✓	✓	-	✓	-	-	✓

7. As none of the Thematic Objective EACs are fulfilled at the UK level they will only be addressed in the operational programmes.

8. The following table sets out a summary of which EAFRD EACs are applicable across the UK and whether they are met at solely the UK level or not.

	Applicability of EAC by nation					**Administrative Level at which EAC is met**	
	England	**Scotland**	**Wales**	**Northern Ireland**	**Gibraltar**	**UK Level Only**	**Includes National Level**
3.1 Risk Prevention and Risk Management	✓	✓	✓	✓	N/A	-	✓
4.1 Good Agricultural and Environmental Conditions (GAEC)	✓	✓	✓	✓	N/A	-	✓
4.2 Minimum requirements for fertilisers and plant protection products	✓	✓	✓	✓	N/A	-	✓
4.3 Other relevant national standards	✓	✓	-	✓	N/A	-	✓
5.1 Energy efficiency	✓	✓	✓	✓	N/A	-	✓
5.2 Water sector	✓	✓	✓	✓	N/A	-	✓
5.3 Renewable energy	✓	✓	✓	✓	N/A	-	✓
6. Next Generation Network (NGN) Infrastructure	✓	✓	✓	✓	N/A	-	✓

9. As none of the EAFRD EACs are fulfilled at the UK level they will only be addressed in the operational programmes.

2.4 THE METHODOLOGY AND MECHANISM TO ENSURE CONSISTENCY IN THE FUNCTIONING OF THE PERFORMANCE FRAMEWORK IN ACCORDANCE WITH ARTICLE 21 OF THE CPR (ARTICLE 15 (1) (B) (IV) CPR)

1. The UK is required to confirm the methodology and mechanisms that will be used to ensure consistency of the performance frameworks across the managing authorities and within funds across the UK Individual performance frameworks (indicators and their respective milestones and targets) must be established for each operational 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. The UK ESI Programme Board, which consists of senior representatives of Managing Authorities, will receive biennial performance management reports beginning in 2016. This will allow them to strategically manage the implementation at UK level. It will meet at least every 6 months and will review aggregated progress against the key elements of the performance within the UK. It will receive performance reports during quarter two of the year to inform the Annual Implementation Report cycle and at the end of the end of the year to review overall annual performance of all the funds. The group will consider the performance of all ESI funds (both individually and collectively) and will have a particular role in discussing and agreeing UK-wide Strategic Reports (as required in the regulations). BIS will act as the secretariat.
3. At an operational level, throughout the development of the Operational Programmes, the UK and devolved administrations have been meeting to discuss the indicators and the development of the individual Performance Frameworks. This Performance Management Group (PMG), 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.
4. Initially the PMG has concentrated on developing indicators and performance management frameworks. Part of the work of this group has been to ensure consistency of target setting across the Operational Programmes. To this end the PMG has reviewed the target setting methodologies across all of the UK Operational Programmes to ensure, as far as practicably possible, there is consistency across the programmes. Where differences in approach have been identified the group has explored the reasons for these differences and tested the underlying assumptions. The group has also reviewed the indicator definitions and where there is not sufficient detail has agreed on further refining of the definitions
5. As the Operational Programmes move into the delivery phase the PMG will continue to meet and its role will expand to cover wider performance of the programmes, including evaluation. Whilst individual OPs will respect the relevant fund requirements the PMG will review the overall UK perspective. It will focus on real-time programme management and performance issues. The group will support the UK-wide monitoring and reporting requirements, share best practice across regions, prepare reports for the ESI programme board and discuss and resolve management and performance issues relating to the UK as a whole.
6. 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) 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, the common definitions provided within the guidance documents to the relevant regulations.

7. 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 consistency in reporting the achievements of programmes across UK programmes. Where the indicators do not have EC common definitions the UK will work across departments and Managing Authorities to ensure the indicators are utilised in a common manner. Each Managing Authority will provide the relevant information to BIS in a timely manner to allow for the data to be aggregated and interrogated. Managing Authorities will explain any deviations from planned delivery of the selected indicators.
8. 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.
9. Electronic data exchange will take place from each Managing Authority to the EC as required under the relevant regulations. The table in section 1.10 of the UK Chapter shows the relevant amounts for calculating the performance reserve. 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, as outlined within this section.

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 (ARTICLE 15 (1) (B) (V) CPR)

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 will 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 coordinating role in on-going 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 the stronger arrangements for monitoring on-going performance and clearer governance structures described at paragraphs 4 and 5 of Section 2.1 above. BIS will serve as the secretariat for the UK Partnership Agreement Programme Board.

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. It is not envisaged that technical assistance will be made available to increase the number of posts in the BIS cross-UK and cross-fund co-ordination function, as this would entail complex arrangements in relation to the use of technical assistance from multiple administrations and funds across the UK. However, BIS in its co-ordination role will continue to work closely with the Managing Authorities, drawing on their input and assistance as necessary to deliver its functions.

4. For EAFRD, there will remain a separate UK co-ordinating body. Delivery of EAFRD is a devolved responsibility. Defra will be designated as the Member State for the UK for EAFRD funds, coordinating input and dialogue at UK "level with the Commission and other Member States via the Rural Development Committee and related committees at European Union level. The UK Co-ordinating Body for the Common Agricultural Policy is designated by the Member State in accordance with Article 7(4) of Regulation No 1306/2013 and will be responsible for:

- collecting the information to be made available to the Commission and sending that information to the Commission;
- taking or coordinating, as the case may be, actions with a view to resolving any deficiencies of a common nature and keeping the Commission informed of any follow-up; and
- promoting and, where possible, ensuring harmonised application of the Union rules.

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

INTRODUCTION

1. The list of thematic objectives which can be supported with ESI Funds is broad. Government has considered the range of thematic objectives in light of the requirement of the ESI Funds Regulations to concentrate resources on a limited number of priorities in England. It has considered how the thematic objectives specified in the thematic concentration requirements of the ERDF and ESF Regulations, the EU2020 targets and the preferences expressed by the European Commission in its position paper (December 2012) relate to the development needs of England and Government's most relevant policies for smart, sustainable and inclusive growth (including the Industrial Strategy, Social Justice Strategy and England's Natural Environment White Paper). This has resulted in the Government prioritising the following thematic objectives for the ESI Funds in England:

- Strengthening research, technological development and innovation (using mainly ERDF);
- Enhancing access to, and use and quality of, information and communication technologies (using ERDF and EAFRD)
- Enhancing the competitiveness of small and medium-sized enterprises (using mainly ERDF), the agricultural sector (using EAFRD) and the fisheries and aquaculture sector (using EMFF);
- Supporting the shift towards a low-carbon economy in all sectors (using mainly ERDF);
- Promoting climate change adaptation, risk prevention and management (using EAFRD and ERDF)
- Preserving and protecting the environment and promoting resource efficiency (using mainly EAFRD);
- Promoting sustainable transport and removing bottlenecks in key network infrastructures (using ERDF)
- Promoting sustainable and quality employment and supporting labour mobility (using mainly ESF);
- Promoting social inclusion and, combating poverty and any discrimination (using mainly ESF); and
- Investing in education, training and vocational training for skills and lifelong learning (using mainly ESF).

The Industrial Strategy

2. The Industrial Strategy of 2012[197] sets out a long-term, whole of Government approach to how we support business in order to give confidence now for investment and growth. It is based on strategic partnership between industry and Government. As described above in the innovation section of the UK chapter, the Industrial Strategy has informed the overall strategy for use of the ESI Funds in England. It effectively provides the

[197] Further details at: https://www.gov.uk/government/policies/using-industrial-strategy-to-help-the-uk-economy-and-business-compete-and-grow

overarching framework for the England Smart Specialisation Strategy, which will inform selection of operations in all parts of the country.

3. The Industrial Strategy has five core themes of activity[198]: access to finance, skills, public procurement, sectors and enabling technologies.

4. As noted in the Commission's Position Paper, **Access to finance** is a major issue for many SMEs. Government is committed to making the UK one of the best places to start, finance and grow a business. In order to invest and grow, many businesses require external finance. Support for SME competiveness is one of the top priorities for ESI Funds in England in 2014-2020. Around 40% of the England allocation of ERDF will be used on this priority. A significant proportion of this funding will be routed into access to finance. Business advice services will also be a priority.

5. **Skills** are essential to all businesses to enable them to thrive in a modern economy. The capacity of businesses to innovate and grow is critically dependent on the knowledge and skills of their workforces and on how effectively that expertise is deployed. Other countries, from the most established to developing economies, invest heavily in education. There is a particular risk to the country's ability to compete in high value sectors and to exploit new technologies if we do not keep pace. Investment to support skills is the top priority for ESF in England in 2014-2020 with particular focus on reducing the relatively high proportion of people with low levels of qualifications/skills and developing qualifications and skills that meet employers' needs.

6. Within its Industrial Strategy, Government has identified eleven **sectors** that will benefit from a long-term strategic partnership and where this can make the most difference to the economy. These are sectors which are either already large contributors to the economy and/or where analysis shows there is likely to be significant increasing domestic and global demand that the UK has the potential to exploit, and where Government involvement can have the greatest impact. Strategic partnerships with industry[199] were strengthened or established to lead work on individual strategies for each of these sectors: Life Sciences[200], Aerospace[201], Nuclear[202], Oil & Gas[203], Information Economy[204], Construction[205], Automotive[206], Professional Business Services[207], Offshore Wind[208], Education[209] and Agricultural Technologies[210].

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[198] Further details at: https://www.gov.uk/government/speeches/industrial-strategy-cable-outlines-vision-for-future-of-british-industry

[199] 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.

[200] Further details at: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/32457/11-1429-strategy-for-uk-life-sciences.pdf

[201] 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

[202] Further details at: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/168047/bis-13-630-long-term-nuclear-energy-strategy.pdf

[203] 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

[204] Further details at: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/206944/13-901-information-economy-strategy.pdf

[205] Further details at: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/210099/bis-13-955-construction-2025-industrial-strategy.pdf

7. Innovation and exploitation of **technologies** have been, and will continue to be, key drivers of UK growth and economic prosperity, accounting for up to 70% of economic growth in the long term. Key Enabling Technologies (KETs) can be used across a number of sectors and have the potential to deliver transformational improvements in productivity and performance. The Eight Great Technologies[211] are those in which the UK has a genuine comparative advantage and potential for commercial exploitation across a global market.
8. As described above, identification and prioritisation of the Industrial Strategy sectors and the Eight Great Technologies is a key part of England's Smart Specialisation Strategy, which will inform selection on ESI Funds operations across thematic objectives and in particular under the innovation thematic objective. The innovation thematic objective is the second highest priority for the ERDF in England, reflecting the Government's desire to increase levels of investment in research and commercialisation of research, in line with the Commission's Position Paper.

Employment and social inclusion

9. As set out above, ensuring that the workforce has the right skills to support development of a modern economy and fulfil the needs of businesses in growth sectors is a key priory of the Industrial Strategy and for ESI Funds. However, addressing skills issues will not only help improve employability and productivity but will also contribute to breaking the deprivation cycle. 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. One of the key principles supporting this approach is that promoting work for those who can is the most sustainable route out of poverty. Consistent with the Europe 2020 target on social inclusion and the related Country Specific Recommendation, ESI Funds will be used under the social inclusion thematic objective to provide services to help people tackle barriers to work (including from jobless households) and move towards employment. Support will complement existing local services and address gaps in services.
10. As the Commission's Position Paper highlights, England faced particular challenges after the recession with long-term unemployment, and in particular youth unemployment, workless households, and weaknesses in skills levels, particularly at the lower and intermediate levels. The economy is now growing, the employment rate is increasing (employment is now at record levels) and unemployment is falling. As the

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[206] 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
[207] 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
[208] Further details at: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/243987/bis-13-1092-offshore-wind-industrial-strategy.pdf
[209] 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
[210] Further details at: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/227259/9643-BIS-UK_Agri_Tech_Strategy_Accessible.pdf
[211] The Eight Great Technologies are: Big data and energy efficient computing; Robotics and autonomous systems; Satellites and commercial applications of space; Life Sciences, genomics and synthetic biology; Regenerative medicine; Agri-science; Advanced materials and nano-technology; Energy technologies.

recovery strengthens, it is likely that those already closest to the labour market will find it easiest to find work, but there is a risk that the most disadvantaged will be left behind and find it increasingly difficult to compete effectively for work. This challenge requires action across the thematic objectives of employment, social inclusion and skills. Some groups are already well catered for through national programmes. ESF needs to provide additional help to those not able to access or not able to benefit from this help. This includes activities building on the Government's Work Programme and specialised activities to tackle youth unemployment (under the employment thematic objective).

England's Natural Environment White Paper

11. The Natural Environment White Paper (NEWP) outlines a vision for the future of the natural environment in England over the next 50 years. Published in 2011, it described how greater value of the natural environment can be an appreciated across society by:
    - Protecting and improving the natural environment;
    - Growing the green economy which better recognises the value of nature; and
    - Strengthening the connections between people and nature to the benefit of both.
12. The National Ecosystems Assessment, also published in 2011 and informing the NEWP, found that nature in England is highly fragmented and unable to respond effectively to new pressures. The NEWP proposed an ambitious, integrated approach, creating a resilient ecological network across England. In line with the Commission's Position Paper, ESI Funds investments will tackle multiple environmental challenges: EAFRD's multi-annual agri-environment agreements and ERDF support for targeted investment in green infrastructure in urban and peri-urban areas will extend the network of habitats available.
13. The NEWP recognises that the fragmentation and degradation of natural environments is driving continuing threats to biodiversity. Biodiversity 2020: A strategy for England's wildlife and ecosystem services was published later in 2011. It sets out the strategic direction for biodiversity policy, with the objective of halting biodiversity loss and supporting healthy, well-functioning ecosystems and ecological networks. The Government's Prioritised Action Framework for Natura 2000 in England provides a planning tool to identify strategic priorities and funding options for Natura 2000 at a regional level. Biodiversity actions will also help deliver the protection of important sites under the EC Habitats and Birds directives. This is a major priority for ESI Funds investment, primarily through EAFRD, which will focus on individual and landscape scale agri-environmental interventions, but also through ERDF.
14. The NEWP identifies challenges relating to the quality and resilience of key natural resources – water, air and soil. ESI Funds investment through EAFRD will promote actions by farmers and land managers to reduce water pollution as a key priority and so deliver many of the aims of the EU Water Framework Directive. Across a range of environments, EAFRD agri-environment measures and investments in urban Green Infrastructure through ERDF, will contribute to improving natural resources more widely.
15. ESI Funds investment will also help take forward the NEWP commitments to growing the green economy. It will improve the energy efficiency of companies, increase energy from renewables and support land management for carbon sequestration. Adaptation to climate change will be a cross-cutting objective for EAFRD and will include actions that bring land into economic use by investing in flood and coastal risk management and increasing resilience of food production.
16. The sections that follow provide the detailed analysis of development needs, opportunities and relevant domestic interventions under each thematic objective, justifying the key priorities for investment within the scope of each thematic objective in England and linking back to the Government's overarching strategy for ESI Funds.

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)

MACRO-ECONOMIC CONTEXT FOR ENGLAND

1. England is the largest of the UK's constituent nations in terms of population (53.5 million in mid-2012, 84% of the UK total population of 63.7 million) and land area (130,000 square kilometres, 54% of the UK total land area of 243,000 sq km).
2. As of 2012, England accounted for approximately 85% of UK Gross Value Added (GVA)[212], 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 41).

	GVA, 2012 (million)	GVA per head, 2012	Productivity* 2012
UK	£1,383,082 (€1,738,948)	£21,674 (€27,250)	£27.80 (€34.95)
England	£1,173,512 (€1,475,456)	£21,937 (€27,581)	£28.30 (€35.58)
Wales	£47,344 (€59,525)	£15,401 (€19,363)	£23.20 (€29.17)
Scotland	£106,342 (€133,703)	£20,013 (€25,162)	£27.00 (€33.95)
Northern Ireland	£29,410 (€36,977)	£16,127 (€20,276)	£22.80 (€28.67)

Figure 41: Output and productivity measures by UK Devolved Administrations. *(nominal GVA per hour worked),
Source: Office for National Statistics

3. Despite above average performance relative to the UK overall, there is substantial variation across English regions. As Figure 42 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[213]. There are similarly large disparities in productivity performance across NUTS 1 areas, with nominal GVA per hour worked in London 131% of the English average, versus 85% in the East Midlands (as of 2012).

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

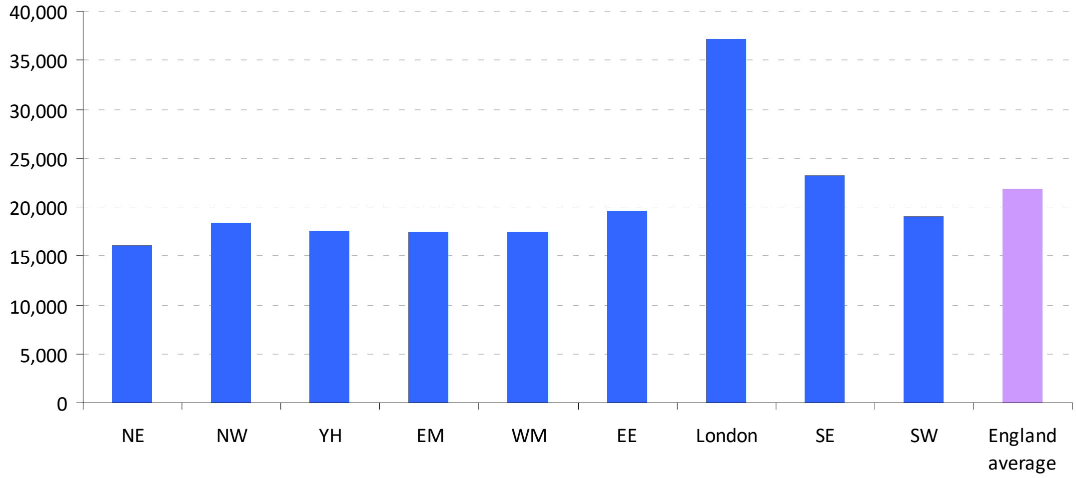

Figure 42: Nominal GVA per head, UK Regions, 2012
Source: Office for National Statistics

4. The industry which contributes the most to GVA varies by region. In London in 2011, the biggest contributor was financial and insurance activities, whilst in the South East it was the wholesale and retail trade. In most of the remaining regions, manufacturing was the biggest contributor to output. Its importance, however, has fallen over time, with the manufacturing sector contributing a falling share of GVA in every region between 1997 and 2011.

5. Figure 43 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.

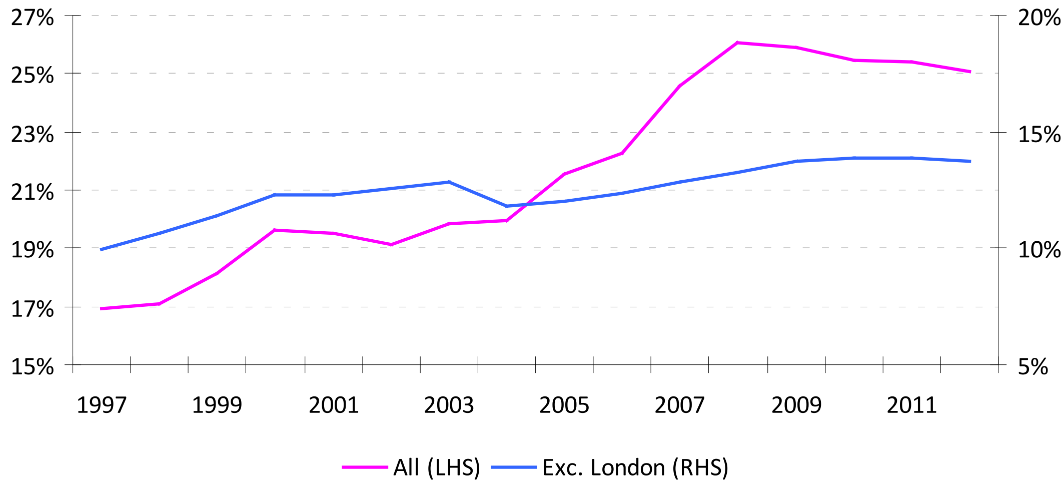

Figure 43: Coefficient of variation of Residence based GVA per head levels, English NUTS 1 areas, 1997-2012 England and England excluding London, 1997-2012[214]
Source: Office for National Statistics

[214] 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.

6. There was a declining trend in employment rates across almost all regions of England between Feb-Apr 2007 and Feb-Apr 2009. Furthermore, there was no immediate recovery in employment rates through the next three years to Feb-Apr 2012. However, over the most recent two years (Feb-Apr 2012 to Feb-Apr 2014) employment rates have been on an upward trend in all regions, with a particularly large improvement in the employment rate in London. The net effect is that employment rates in Feb-Apr 2014 had returned to similar levels to those in Feb-Apr 2007 across most of England's regions. The biggest improvement was in London where the employment rate increased by 3.5 percentage points over this period.

Region	**Percentage point change in employment rates by region and country, 2007 to 2014 (February to April for each year)**			
	2007-2009	**2009-2012**	**2012-2014**	**2007-2014**
London	0.1	-1.1	4.5	3.5
Yorkshire and The Humber	-1.5	-0.4	3.0	1.1
North East	-1.9	-0.4	2.9	0.6
East	-0.4	-0.1	0.9	0.4
South West	-1.0	-1.7	2.7	0.0
East Midlands	-0.8	-1.0	1.8	-0.1
South East	-0.7	-1.0	1.4	-0.3
West Midlands	-1.8	0.0	1.3	-0.5
North West	-1.2	-0.8	1.2	-0.8

Figure 44: Percentage point change in employment rates by region and country, 2007 to 2014
Source: Regional Economic Indicators for July 2014[215], Office for National Statistics

7. In summary, latest regional economic indicators show that the economy across England has been improving with nominal output in 2012 surpassing the pre-recession level in all regions. Meanwhile, employment rates have been on a rising trend in all regions since early 2012 such that employment rates in Feb–Apr 2014 had returned to similar levels to those in Feb–Apr 2007 across most regions. It is clear that London and the South East, and to a lesser extent the East of England, outperform the rest of the English regions by a significant margin in most economic indicators.

[215] Further details at: http://www.ons.gov.uk/ons/rel/regional-trends/regional-economic-indicators/july-2014/sst-region-economic-indicators.html

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) TFEU AND RELEVANT COUNCIL RECOMMENDATIONS ADOPTED IN ACCORDANCE WITH ARTICLE 148(4) TFEU (ARTICLE 15 (1) (A) (I) CPR)

SMART GROWTH

STRENGTHENING RESEARCH, TECHNOLOGICAL DEVELOPMENT & INNOVATION

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 at EU level. 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 45 shows the variation across NUTS2 areas. Some areas are well ahead of the target set in the 'Europe 2020' Strategy. These include the East, the South East and some parts of the North West. Investment is notably high as a proportion of GDP around the major ports of Liverpool and Southampton. 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.

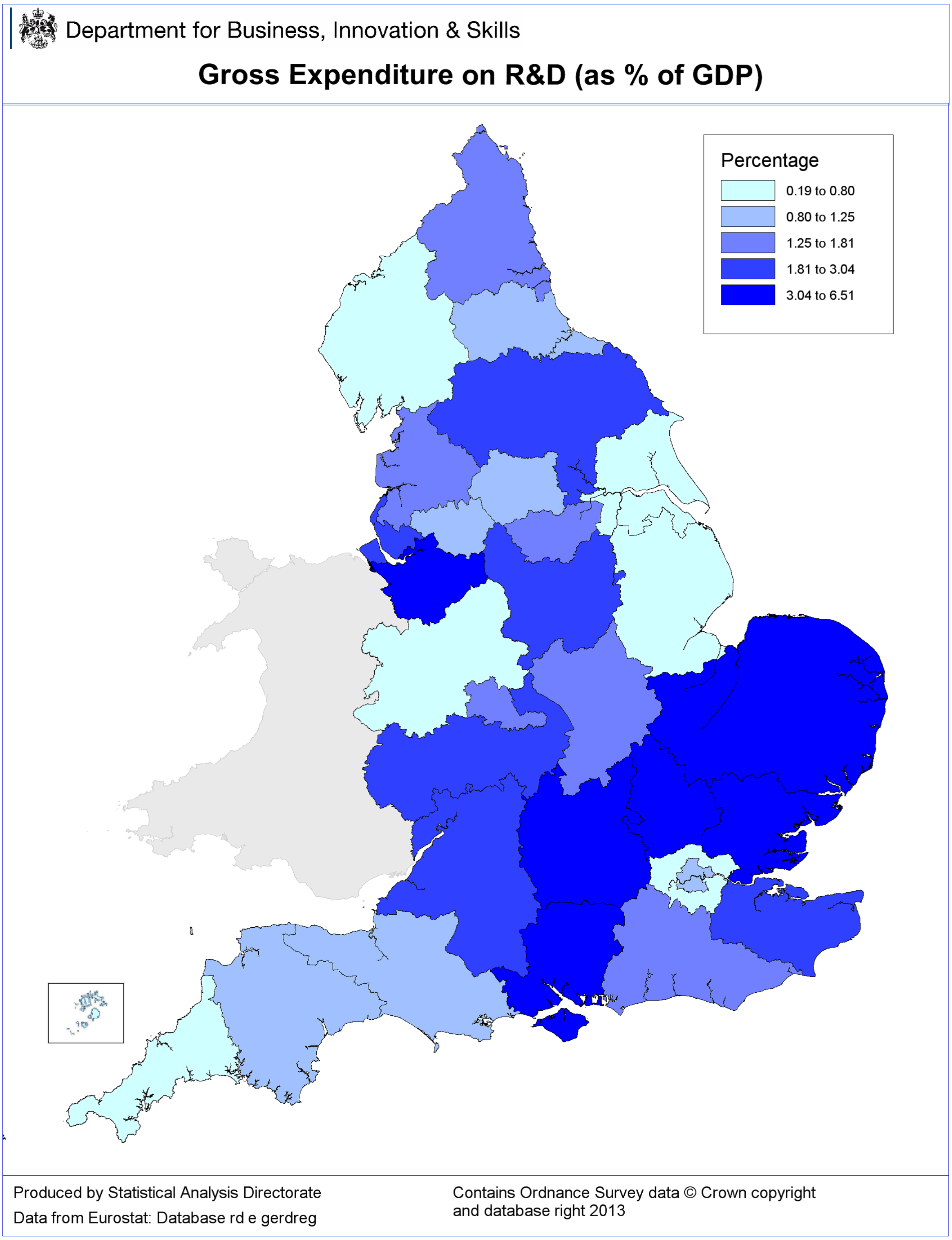

Figure 45: Gross expenditure on R&D (as % of GDP) across NUTS2 areas
Source: Eurostat Database rd_e_gerdreg

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 46 shows numbers of R&D tax credits[216] claimed in England's NUTS1 areas, including the average amount for active firms in the areas. This geographical disparity in levels of commercialisation across NUTS1 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 (€23)	63725	£282 (€355)
North West	1,210	£60 (€75)	232400	£258 (€324)
Yorkshire and The Humber	840	£38 (€48)	165840	£229 (€288)
East Midlands	775	£46 (€58)	156190	£295 (€371)
West Midlands	990	£72 (€91)	187420	£384 (€483)
East of England	1,315	£154 (€194)	238540	£646 (€812)
London	2,135	£355 (€446	439405	£808 (€1,016)
South East	2,410	£319 (€401)	380620	£838 (€1,054)
South West	1,020	£57 (€72)	206260	£276 (€347)

Figure 46: 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)* [217]

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 (€914 million) in the same period whilst SMEs made claims to the value of £381 million (€479 million).
5. Across England, there is also wide variation in the levels of **collaborative research between enterprises, research institutions and public institutions**. Figure 47 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[218] with 16.9% of the world's top-cited articles[219], and 61% more citations per paper than the world average[220]. There is therefore huge potential for growth in England in collaboration of research institutions and businesses.

[216] 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.
[217] 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 £1 million (€1.26 million)
[218] Further details at: http://www.timeshighereducation.co.uk/world-university-rankings/2013-14/world-ranking
[219] Elsevier (2013) International Comparative Performance of the UK Research Base
[220] as measured by the Field-Weighted Citation Impact

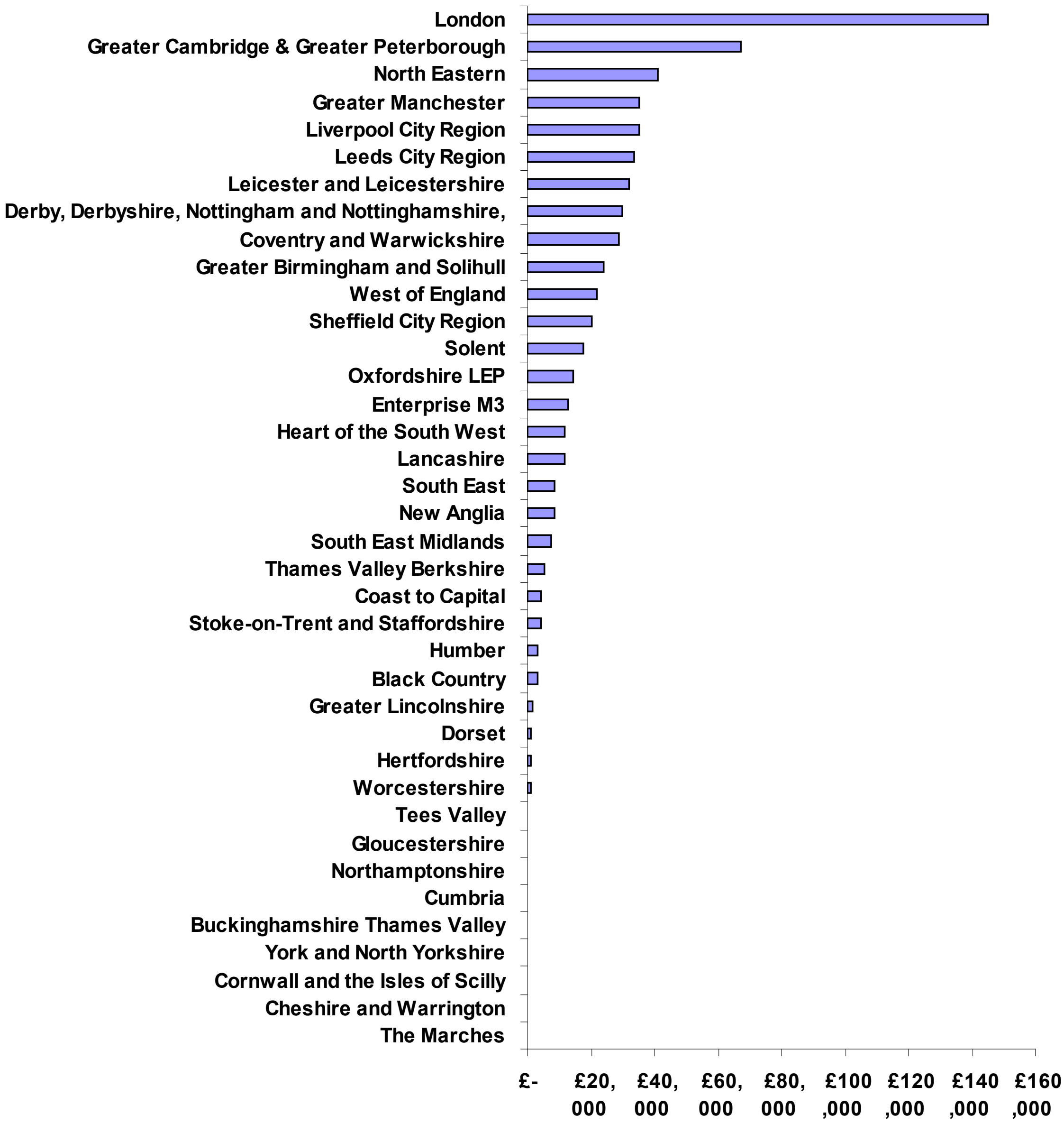

Figure 47: Cash value of collaborative research England in 2011/12 (figures are estimates due to overlapping Local Enterprise Partnership (LEP)[221] boundaries and in £000's)
Source: HE-CBI

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

[221] LEPs are private sector-led partnership between local authorities and local businesses which sets the local priorities for achieving economic growth in its area. There are 39 LEPs covering England. They are formed around functional economic areas and as such data may be broken done by LEP area where this is the best geographical unit to use.

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.[222] 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. This is also reflected in the variation in coastal areas between areas around major ports where there is a significant concentration of economic activity and more sparsely populated, peripheral or less economically active areas.

7. Chapter 1 sets out the main overarching policy context, including the UK Government'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.
8. Recent policy developments and UK funding programmes are increasingly designed to support the commercialisation of research. However, large elements of the UK's on-going 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.
9. 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. Relative values of innovation investments will be highest where innovation levels are lowest and needs correspondingly greatest (predominantly rural, more peripheral and more economically deprived post-industrial areas in the North, North West, West and South West, including coastal areas beyond the major ports).
10. Investments in this thematic objective will be brought forward by local partners within the strong context of the strategy 'Smart Specialisation in England'[223] This approach will see linkages to both the priority sectors and 8 Great Technologies identified in the Government's Industrial Strategy, where relevant to the local area, and investments in local specialist sectors or niche technologies.
11. The ESI Funds will also be used to strengthen local areas' systems of collaborative leadership for innovation which will see greater engagement with universities and with partners in other local areas including firms and universities with similar sector specialisms.
12. As set out in chapter 1, investments will also include 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. Such investments will be targeted, draw funding from financial instruments where appropriate, and take account of both the European Court of Auditors report on incubators[224] and relevant Smart Specialisation strategies.
13. Focusing in on the **Life Sciences Sector** can help illustrate how the ESI Funds could, in line with the smart specialisation approach, link into national programmes.

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[222] As evidenced in the 'heat maps' published within the Witty Review
[223] Further details at: https://www.gov.uk/government/publications/smart-specialisation-in-england
[224] Further details at: http://www.eca.europa.eu/en/Pages/search.aspx?k=incubators

14. Innovation in Health and Wealth[225], published in December 2011, outlined the contribution the National Health Service can make to the Life Sciences Strategy and to the wider economy. In line with this strategy NHS England designating 15 new Academic Health Science Networks[226] (AHSNs) across the country[227]. Acting as the strategic entry point for industry to the health sector, each AHSN has the potential to transform health and healthcare by putting innovation at the heart of the NHS. The use of ESIF to support the work of AHSNs to bring new products to the commercial market provides an important opportunity to support firms who have benefitted from the Health, Demographic Change & Wellbeing strand of the Societal Challenge focus within the new Horizon 2020[228] research programme funded directly the European Commission.

15. OECD evidence suggests that the key driver of **improved productivity in agriculture** is essentially innovation – by which we mean research and development and the rate of technological diffusion. For this reason the UK Government has developed a new UK Strategy for Agricultural Technologies with accompanying investment, which will help us to position the UK as a world leader in agricultural research and technology.

16. In addition to the UK strategy for Agricultural Technologies (one of the sector strategies under the Industrial Strategy), the Government is supporting in England a Sustainable Intensification Research Platform to drive applied research and improve translation of research into practice.

17. 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.

18. The Government also expects that cooperation, 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. The Government is also considering how to develop integrated projects that will help large numbers of farm and forestry businesses to collaborate with each other, or with other businesses through the supply chain, to target their activity at specific high priority objectives. The integrated projects will be designed to combine advice and training to enhance the benefits of investment in physical assets, and will likely focus on policy objectives in the areas of animal health, resource efficiency and the wood fuel supply chain.

19. For the next CAP period, the Government is exploring greater provision of advice to farmers as an important part of driving better farming practices, environmental

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[225] Further details at: http://www.institute.nhs.uk/images/documents/Innovation/Innovation%20Health%20and%20Wealth%20-%20accelerating%20adoption%20and%20diffusion%20in%20the%20NHS.pdf
[226] Further details at: http://www.england.nhs.uk/2013/05/23/acc-health-sci-ntwrk/
[227] The designated AHSNs are: East Midlands, Eastern, Greater Manchester, North East and North Cumbria, North West Coast, Imperial College Health Partners, Oxford, South London, South West Peninsula, Kent, Surrey and Sussex, UCL Partners, Wessex, West Midlands, West of England, and Yorkshire and Humber.
[228] Further details at: http://ec.europa.eu/programmes/horizon2020/

improvement and innovation in farming. We are also aiming to increase the focus on knowledge exchange by providing investment in demonstration facilities and flexible ways of helping skills development such as through workshops and discussion forums.

20. In regard to **rural areas** 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[229] 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 make interventions to assist new entrants entering the industry and remove barriers to exit, facilitating a more innovative, entrepreneurial workforce where possible. For that reason we will ensure that new entrant young farmers can access support for training, advice and investment in physical assets. Specifically we are considering how to offer business start-up support and ensure that it is accompanied by a robust business planning approach in the early years of the business.
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.
22. There are significant opportunities for effectively supporting research and development in **marine and maritime** sectors. Particularly among the emerging 'blue' sectors, for example aquaculture, renewable energy, low carbon technologies and advanced subsea technologies, investment in research as well as the fostering of research links between businesses and research institutions, will be important enablers of growth. A long term plan to sustain and develop the UK's research and development capabilities is part of the UK Marine Industries Growth Strategy. The extensive output and capabilities of England's leading academic institutions underpin widespread research and development activity in the commercial sector. The largest public funder of research in engineering and the physical sciences is the Engineering and Physical Sciences Research Council (EPSRC), which has a growing marine portfolio. Innovation is also supported by the Technology Strategy Board, the Small Business Research Initiative and the Natural Environment Research Council.

Enhancing Access to, and Use and Quality of, Information and Communication Technologies

23. As set out in the UK chapter, the expansion of the availability and take-up of broadband, and in particular superfast and ultrafast broadband, are essential drivers of inclusive economic growth. Ensuring access to superfast broadband across England, including in areas the private sector would not otherwise have reached, is a key part of the Government's long term economic plan. Access to, and take-up of, broadband encourages the creation of start-ups; makes it easier for SMEs to outsource processes

[229] Further details at: https://www.gov.uk/government/organisations/department-for-environment-food-rural-affairs/series/farm-business-survey

and information; enables increased international trade and facilitates collaborative innovation.

24. A recent study for the Department for Culture, Media and Sport estimated a return of £20 (€25) for every £1 (€1.26) of public funding invested in broadband availability and take-up – an unusually high rate of return on public investment, but one which the study concluded was 'realistic, given 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'[230].

25. Significant progress was made during 2007-2013 with the **rollout of broadband in England**, thanks in no small part to major ERDF investments supported by additional investments through the EAFRD. However it will be important to maintain momentum in the coming period, building on this success and consolidating progress made to date.

26. Ofcom provides a full suite of information regarding broadband performance down to postcode level[231]. This data covers percentage of broadband users receiving less than 2Mbit/s and superfast broadband availability. Information on broadband take up including superfast broadband is also available at local authority level. This data will be important in deciding where investment is needed.

27. This data is used to develop the Ofcom UK Communications Infrastructure Report[232]. The 2013 release set out that 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 as shown in the table below:

Classification	**Type**	**% UK Premises**	**% of population with access to superfast broadband**
Urban	Large city, small city, large town,	34%	88%
Semi-urban	Medium town, small town with <15,000 population	51%	78%
Rural	Rural area with <2,000 population	14%	25%

28. Ofcom data for 2013[233] 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%).

29. The Ofcom 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%). These are some of the areas where further investment will be required to meet the UK targets.

30. Currently no Local Authority area is expected to reach 100% coverage through private sector investment alone. This is mainly because the cost of infrastructure deployment in hard to reach and remote areas increases substantially but such areas often include out-of-town business parks and industrial estates.

31. As noted in Chapter 1, Government is investing alongside English local authorities through its current Superfast Broadband Programme to address this market failure.

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[230] SQW study for DCMS, *UK Broadband Impact Study,* November 2013
[231] The data sets can be found on the following web page: http://maps.ofcom.org.uk/broadband/
[232] Further details at: http://stakeholders.ofcom.org.uk/binaries/research/telecoms-research/infrastructure-report/IRU_2013.pdf
[233] Further details at: http://maps.ofcom.org.uk/broadband/broadband-data/

Drawing on 2007-13 European funding programmes, £720 million (€905 million) is being invested to provide superfast broadband to 90% of England. The funding from the 2007-2013 England ERDF programmes are expected to provide superfast coverage to almost 1.5 million premises (over 6% of the total premises in England). 400,000 of these are in Cornwall, which has had a project separate from the BDUK programme. The remainder are projects which also have funding from BDUK.

32. A further £210 million (€264 million) was recently announced for England, to be matched locally, which will see superfast availability extended to 95.5% of England by 2017.

33. Under the BDUK Superfast Broadband Programme it is expected that the projects to reach 95% will mainly be delivered through counties or groups of counties. Some very small-scale projects may also continue to go ahead but these will be unlikely to deliver the scale of coverage that is needed. Before any project goes ahead it is necessary to undertake mapping and consultation on the proposed intervention area to ensure that there will be no overbuild of other superfast networks (whether funded privately or with other public funding). The premises which will be eligible for public subsidy will only be those for which no other plans exist. Typically, a project at county level could include premises which are in a combination of rural areas, villages, towns and other suburban areas.

34. Given the central importance of broadband in enhancing access to, and use and quality of, ICT; the unusually high rate of return on public investment in broadband infrastructure and take-up thereof; and beyond the immediate economic return, the important social and environmental benefits of widening broadband and superfast broadband access, it is appropriate that the **ESI Funds** should be used to support these objectives, where a strong link to economic growth and a clear market failure can be demonstrated.

35. In the ERDF OP for England the English authorities will specify the criteria and method for how the areas for investment from ERDF will be prioritised and how this mechanism will be ensured. In order to fulfil the EAC 2.2, and in line with regulatory requirements, a plan of infrastructure investments based on an economic analysis taking account of existing private and public infrastructures and planned investments will be prepared.

36. This is an area of investment where it is anticipated that the ERDF and the EAFRD will work together to address the remaining market failures and white areas. Measures should be included in the respective OPs to ensure complementarity between both Funds.

37. In England, EAFRD will be targeted in the final 5% of premises. These 5% areas will not be known until the 95% areas are identified in 2015/16; however, around £20 million (€25 million) has been identified by local partners for future broadband investment under EAFRD.

38. Under EAFRD, broadband infrastructure projects would be developed in line with the results emerging from the Government's new technology pilots to be deployed later in 2014. It is expected that detailed project proposals under EAFRD would be developed to support broadband investment from 2015/2016 onwards. This is to allow time for the outcome of the new technology pilots and the final 5% hard to reach areas identified. This will also allow EAFRD to be appropriately targeted and avoid any overlap with ERDF and other public funding.

39. Due to the current uncertainties around location of the final 5% areas, local partners have not been specific about precise project detail at this stage, but have indicated a range of needs from providing broadband connectivity in areas of market failure to specialist business support in order to increase awareness of the local ICT offer, and support to exploit ICT opportunities. The £20 million (€25 million) is an indicative figure aimed at levering in additional public funding in those priority areas identified. Although EAFRD funding identified is relatively small, it will nonetheless provide an essential

contribution to the overall funding necessary to meet the EU targets and will contribute to rural economic development in the communities that the investment ultimately supports.

40. As set out in chapter 1, the pace of market change means that **ultrafast broadband** may well become a policy priority before 2020. If so, it is likely that the same principles to intervention would be adopted as for delivery of superfast broadband, with public funding only being used to tackle areas of market failure, using the minimum funding necessary and in line with EU State aid requirements.

41. 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.** ICT has a transformative impact on the economy as a whole. Only a small % of SMEs are fully exploiting the opportunities ICT offers in relation to, for example, e-commerce, open innovation, and market research. Improving this will lead to an increase in growth opportunities for SMEs. In 2012 businesses with between 10-49 employees had e-commerce sales through a website equalling £19.8 billion (€24.9 billion), compared with £41 billion (€51.5 billion) for businesses with between 250-999 employees and £84.9 billion (€106.7 billion) for those with more than 1000 employees.

42. As noted above the government's overall role in providing business support within England is set out in the Industrial Strategy[234].

43. The Information Economy strategy[235] (one of the sector strategies under the Industrial Strategy) aims to help businesses develop new technologies and adopt new innovations to deliver faster growth and more jobs. The strategy sets out an action for industry, in partnership with Government, to launch a SME digital capability programme to equip more SMEs with the tools and skills to effectively trade online in both domestic and international markets and grow their business. The intention of the programme, which is being delivered by Go ON UK, the digital skills alliance, is to reach 1.6 million businesses between 2013 and 2018.

44. As part of the Government's strategy, business growth hubs are currently being rolled out to co-ordinate and improve access to business support for small businesses at local level. For example, The Greater Manchester digital business support programme is integrated into the wider support services offered by the business growth hub and provides an effective model for other local broadband projects to adopt as business growth hubs are established elsewhere.

45. The Government also has more targeted schemes such as a Women and Broadband Challenge Fund: £1 million (€1.26 million) of funding to provide capacity for local broadband projects to support actions that encourage women-led businesses and potential female entrepreneurs to take advantage of faster broadband to expand or set-up new businesses in areas where the superfast broadband programme is being deployed.

46. Despite this comprehensive domestic programme of work the ESI Funds will complement these activities supporting SMEs to embrace e-commerce and in doing so contribute towards increasing the number of SMEs trading online.

47. Results under this objective will support and underpin other objectives such as supporting rural development, increasing innovation, increasing SME competiveness,

[234] Further details at: www.gov.uk/government/collections/industrial-strategy-government-and-industry-in-partnership
[235] Further details at: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/206944/13-901-information-economy-strategy.pdf

and introducing clean technologies, which support a low carbon economy. Action is also dependant on skills support.

ENHANCING THE COMPETITIVENESS OF SMALL AND MEDIUM ENTERPRISES

48. As noted in the chapter 1, SMEs in England operate in one of the best business environments in the world. SMEs in England delivered a combined turnover of just under £1,400 billion (€1,760 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, (€64,100) whilst for SMEs it was around £43,600 (€54,800). The level of enterprise creation in England compares well with other G7 countries but is behind the US with a total early stage Entrepreneurial Activity rate (TEA) of 7.5% in 2013 compared to 5% for Germany and 4.6% for France and 12.7% for the US.[236]

49. 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 (€54,800). Average SME GVA per employee in London and the South East were £65,000 (€82,000) and £44,500 (€56,000) respectively. Average SME GVA per employee in other areas ranged from £33,300 (€441,900) in the North East to £42,000 (€53,000)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; and
- 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%.[237]

50. 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 5.8% to 7.3% between 2008 and 2013, some groups are particularly under-represented in enterprise relative to their share of the overall population, notably:

- minority ethnic groups - around 6% are minority ethnic group led[238] but make up approximately 14% of the population in England);[239]and
- women - around 20% are majority women led. England is not unique in this as similar trends are seen in other countries. In comparing the level of female TEA with that of males we see that the England level of female TEA was 68% that of males in 2013, and this compares well against France and Germany but is slightly behind US (69% in 2013).[240]

51. **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.

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236 Further details at: http://www.gemconsortium.org/teams/1/uk
237 Bank Search 2013 data
238 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. BEIS Small Business Survey.
239 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.
240 Further details at: http://www.gemconsortium.org/teams/1/uk

52. High growth businesses[241] 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. Compared to the England average of 5.1% only nine LEP areas have a rate higher than this. While these areas are principally located in the south and central east there is still a good spread of high growth business across England. In addition the high numbers of high growth businesses outside London and the South East, indicate that there are opportunities for all areas to establish a pipeline of high growth business

53. In 'Small Business: GREAT Ambition'[242], the Government sets out how it will support those businesses who wish to grow 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.

54. In line with the Government's priorities, the objectives for ESI Funds investment under this thematic objective will be to improve the competitiveness of SMEs in the programme by increasing the capacity and capability of SMEs and promoting entrepreneurship. This will support the Government's commitment to support ambitious SMEs and in doing so strengthen the pipeline of high growth business across England[243].

55. **Social enterprises** are an important contributor to economic growth, and their performance compares well against SMEs[244]. In England:

    - 55% of social enterprises developed a new product or service in 2012 compared to 43% of SMEs;
    - 33% saw an increase in turnover compared to 29% of SMEs between 2011-2012; and
    - Social enterprises are also more likely to have a female leader (39%) or have a Black, Asian and Minority Ethnic led leader (14%).

56. The barriers that social enterprises face are similar to those faced by SMEs, and as such social enterprises are expected to access Government business and finance support in the same way as SMEs. The same general principle will apply to ESI funds, however, as with domestic support, in order to address specific barriers that social enterprises face such as a lack of understanding by banks and support organisations on the social enterprise business model, schemes specifically targeted at social enterprises will be possible for instance through the Managing Authority's Local Impact Fund Financial Instrument model.

57. Compared to the EU average, large companies in England represent a larger share of all enterprises, employment and value added[245]. The **supply chains** of these companies play a key role in supporting SMEs by building capacity and reputation and access to new markets.[246] Research also shows improvements in productivity and performance as a result of this.[247] Foreign owned SMEs can help strengthen supply chains by bringing in new ideas, skills, new technologies, new management practices, third country export

[241] 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.
[242] Further details at: https://www.gov.uk/government/publications/small-business-commitment
[243] High Growth businesses are defined as those with at least 10 employees and who have experienced growth at an annual average of 20% over a three year period.
[244] Further details at: http://www.socialenterprise.org.uk/uploads/files/2013/07/the_peoples_business.pdf
[245] European Commission SBA Fact sheet 2012 UK
[246] Growing your business – A report on growing micro businesses, Lord Young 2013.
[247] Jamieson, D et al (2012) 'Large businesses and SMEs: Exploring how SMEs interact with large businesses', ORC International

potential and deliver productivity improvements in supply chains.[248] SME **foreign investors** however need help in accessing contacts, networks and information and guidance in navigating the legal and regulatory framework in England.[249]

58. The ESI Funds will therefore have a role to play in improving the global competitiveness of UK advanced manufacturing supply chains. Projects supported under ESI funds will need to consider both those supply chains that are of a sectoral nature and those that are cross sectoral. Support from the ESI Funds will focus on the barriers to business and collaboration across the supply chains and link in with other thematic objectives such as innovation and skills.

59. As set out in the chapter 1, **exporting** acts as a key factor in driving SME productivity. Current Government policy has the ambition to double the number and value of UK exports of goods and services to £1 trillion (€1.26 trillion) by 2020. Businesses in England will need help to deliver the majority of this. Existing Government support works at the developmental level, aiming to communicate the benefits of exporting to more companies, providing help to those in the early stages of exporting or those exporting reactively, and assisting established exporters to become more strategic and successful. The ESIF funds clearly have a role in contributing to Government and EU objectives by improving the reach of the national UKTI offer, delivering more of the same to a higher volume of exporters and potential exporters, providing additional upstream and downstream support and stimulating further local innovation in the kind of assistance on offer at a local level.

60. Government provided **business support** is limited to several national schemes. Yet, as outlined above, disparities in entrepreneurial activity vary across England. This is due to a variety of reasons, from local industrial make up and history to infrastructure, skills and locations of centres of research. ESI Funds will therefore 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.

61. 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; help that evidence shows must be credible and sustainable to the business seeking that 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. Growth Hubs will be one of the mechanisms that will be used by ESI Funds for ensuring that support is joined up locally so the offer makes sense to business.[250]

62. **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, while areas such as the West Midlands and the North East have low levels of

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[248] Business ownership in the UK 2011 ONS (published 2013)
[249] Exporters and Importers in Great Britain 2012 ONS (published 2013)
[250] 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; and
- help businesses make contact with and learn from other businesses through networking and peer to peer forums.

venture capital in relation to the number of business in the region.[251] This is likely due to industrial mix, a greater culture of seeking venture capital investment and the clustering of venture capital funds.

63. 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.

64. 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 £3.9 billion (€4.9 billion) of resources to unlock up to £10 billion (€12.6 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.

65. In line with the access to finance theme of the Government's Industrial Strategy, ESI Funds will be used to address the gaps in finance support by setting up LEP area or multi-LEP area based finance support schemes. By taking a 'fund of funds' approach, these Financial Instruments 'FIs' will have the flexibility to target a range of investments from micro-finance through to equity, guarantee and straight forward loan funds.

66. Approximately £450 million (€566 million) has been set aside for this. 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, Cornwall and may include the South East. 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.

67. There will also be Local Impact Funds (LIF) - this financial instrument model will promote investment into social enterprises and those looking to start a social enterprise through loans to Social Sector Organisations (SSOs).

68. **The Government recognises that new start-up companies can benefit from supported business spaces.** In 2012, a scheme was announced to open up vacant or under-used space in the Government estates to business start-ups. A number of these types of activities have been supported successfully through EU Funds and have been a key element within JESSICA programmes. Building on the JESSICA model in the 2014-2020 programme similar activity will be supported through the Managing Authority's Urban Development and Energy Efficiency (non-domestic) Financial Instrument model. Such investments will be targeted, draw funding from financial instruments where appropriate, and take account of both the European Court of Auditors report on incubators[252] and relevant Smart Specialisation strategies..

69. **Agriculture in England** generates £7.2 billion (€9 billion) in GVA, which represents 0.6 % of national GDP. It employs 228,000 people, 0.9 % of total employment[253.] . In rural

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[251] Further details at: http://www.bvca.co.uk/ResearchPublications/IndustryStatistics.aspx (in Report on Investment Activity, click years for files); Business Population Estimates - https://www.gov.uk/government/publications/business-population-estimates-2013
[252] Further details at: http://www.eca.europa.eu/en/Pages/search.aspx?k=incubators
[253] DEFRA, (2012), *Agriculture in the UK* statistics for 2011

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[254].

70. 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)[255]. For example tourism is estimated to be worth £96.7 billion (€121.5 billion) to England´s economy, taking into account direct and indirect impacts, and supports 2.2 million jobs.

71. 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[256] 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.

72. 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.

73. Government is aware 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).

74. 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 of the *Rural Development Programme for England* 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.

75. Government will support farming businesses to become more productive and responsive to market demand. As a result they will be able, as individual businesses and a sector as a whole, to become more resilient to changing circumstances and competitive in the domestic and international market place.

76. OECD evidence suggests that the key drivers of productivity are research and development rate of technology diffusion and economies of scale[257]. Education and

[254] Further details at: https://www.gov.uk/government/publications/statistical-digest-of-rural-england-2013
[255] Statistical Digest for Rural England. Defra. 2013
[256] Further details at: http://www.visitbritain.org/Images/Final%20proof%2015%20Nov_tcm29-39296.pdf
[257] OECD (2011), *Fostering Productivity and Competitiveness in Agriculture*, OECD Publishing.

skills levels are also important as they impact on technology diffusion. Our evidence suggests that the key reason for trends in UK agricultural Total Farm Productivity (TFP) in recent decades is that although the UK is well established in basic research related to agriculture, there has for some time been a failure to plug the gap between basic research and commercial research, and to translate this into new technologies and practices on farms[258]. In addition there are skills shortage in British agriculture which OECD evidence suggests reduces the ability of farmers to innovate and make cost savings[259] .

77. For this reason the Government is focusing future EAFRD on supporting innovation through investment in the latest technology and helping to extend the pipeline between research and practical application at business level. We will increase our focus on support for advice, knowledge exchange and skills development that will help businesses work towards the standards of the highest performers. We will also provide some business start up support for new entrants, because for the farming and forestry sectors to be successful we are going to need to ensure that there are sufficient number of talented, entrepreneurial new entrants coming forward to become a high performing workforce of the future.

78. More specifically we intend to support:

- investment in innovative equipment and infrastructure that will help farm and forestry businesses to become more efficient and competitive;
- support for development of technical and specialist skills, and to enable businesses to benchmark their performance against others;
- support for exchange of knowledge and ideas, to help businesses work in cooperation with others, or set up demonstration facilities;
- support to help farm and forestry businesses work together as part of national and regional scale integrated projects; and
- support for businesses to work with researchers to explore new solutions to practical issues they face, as part of the new European Innovation Partnership process.

79. There are major opportunities to support the growth and competitiveness of innovative SMEs across the range of ‘blue growth’ sectors and in particular the emerging sectors. England is well placed to take advantage of new opportunities created, for instance, by growing international demand for seafood; the development of new technologies in the extractives sector; and the growing need for low carbon technologies to be applied throughout supply chains.

80. Most **aquaculture and fisheries businesses** are SMEs or micro- businesses and experience the same issues as SMEs in other sectors in accessing finance. 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. Such growth in the English aquaculture sector would help contribute to the needs of the EU28 for sustainable seafood supplies to 2020 and beyond.

81. 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 access to additional finance other than EMFF or through advice on innovation or technological initiatives.

82. SMEs also predominate across the range of ‘blue’ sectors beyond aquaculture and fisheries, and are essential to innovation and growth in these sectors. The marine and maritime economy supports SMEs not only in coastal areas but also in supply chain

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http://dx.doi.org/10.1787/9789264166820-en
258 Thirtle and Holding (2003) *Productivity of UK Agriculture: Causes and Constraints*
259 UKCES, Agriculture, Forestry and Fishing Sector Skills Assessment 2012

activities inland. Funds will be used in a range of ways to assist such growth. Investments to catalyse the development of new infrastructure, plants and skills will help SMEs to grow, innovate and connect with opportunities in supply chains. Support for SMEs including fostering business to business networks, will, as in other sectors, help SMEs access finance, build knowledge, identify business opportunities including exporting opportunities and reduce their dependency on the public sector and on single large enterprises. Some coastal LEPs plan to establish local revolving funds focussed on improving access to finance among emerging sectors including marine and maritime sectors.

83. Given the importance of SMEs to the economy in England and the challenge and opportunities that SMEs face, SME competiveness will be the highest priority for the 2014-2020 Growth Programme in terms of value of investment, with over €1.5 billion allocated to this thematic objective. This figure represents about 39% of all ERDF and close to 40% of the EAFRD in the Growth Programme. The ESI Funds will address barriers in: accessing finance, linkages between skills providers and business, internationalisation, business advice, business incubator provision, supply chain development and sectoral support.

84. In addition, SME growth will also be supported through investments under other thematic objectives, including innovation, ICT, low carbon and skills.

Summary of needs and growth potentials justifying selection of key Thematic Objectives

Needs	**Growth Potential**	**Thematic objective**
• Increase the level of R&D investment particularly in areas where investment levels are below the England average. • Improve the numbers of businesses actively innovating to bring new products to the market. • Increase the levels of collaborative research between enterprises, research institutions and public institutions. • Increase the willingness to continue training that may support the take up of innovative practices and technologies in both the marine and farming sectors.	• The innovation system in England has many strengths; • Strong national framework in place; the Industrial Strategy, eight great technologies and catapult centres; and • The use of Smart Specialisation at both national and local levels to identify a limited number of priorities for investment.	(1) Strengthening Research, Technological Development & Innovation
• Businesses not fully exploiting ICT to maximise their competitiveness. • Gaps in superfast broadband coverage, including but not only in hard to reach and rural	• Exploitation of ICT is key to increasing SME competitiveness and productivity growth and to enabling research and innovation.	(2) enhancing access to, and use and quality of, information and communication technologies (ERDF, EAFRD)

Needs	Growth Potential	Thematic objective
areas.		
• Not all SMEs able to access the finance they need to grow or establish their businesses. • Need to strengthen supply chains. • SMEs not fully exploiting new markets particularly those in other countries. • SMEs not meeting productivity potential in particular sectors, e.g. manufacturing. • 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. • Some SMEs in coastal areas, particularly those areas not situated near major ports, face barriers due to peripherality, lack of proximity to skilled staff and inadequate infrastructure.	• Supportive regulatory environment. • Competitive advantage in advanced manufacturing, financial sector and professional services. • The attraction of FDI to strengthen local supply chains. • Rural economy has a strong potential to contribute to UK growth. • Significant economic potential in growing marine and maritime sectors including aquaculture, renewable energy, advanced manufacturing including subsea robotics, and low carbon technologies.	(3) Enhancing the Competitiveness of Small and Medium Enterprises

SUSTAINABLE GROWTH

SUPPORTING THE SHIFT TOWARDS A LOW CARBON ECONOMY IN ALL SECTORS

85. Chapter 1 set out the Government's ambitious targets for 2020 to shift the UK to a low carbon economy.[260] 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[261] particularly with a view to reducing the levels of Green House Gas (GHG) emissions[262], increasing the share of renewable energy and enhancing the energy efficiency of homes, business and transport.

86. These include:

- In relation to the **GHG emissions target** key policies are: the Climate Change Act

[260] Further details at: http://www.hm-treasury.gov.uk/d/national_reform_programme_2012.PDF
[261] Further details at: http://www.businesslink.gov.uk/Horizontal_Services_files/Enabling_the_transition_to_a_Green_Economy__Main_D.pdf
[262] Further details at: https://www.gov.uk/government/policies/reducing-the-uk-s-greenhouse-gas-emissions-by-80-by-2050

2008[263]; the UK Carbon Plan[264]; Carbon Budgets[265], the Carbon Price Floor[266], the Heat Strategy[267]; the Forestry Policy Statement[268]; and the Greenhouse Gas Action Plan for Agriculture[269]

- In relation to the **Renewable Energy target** key policies are: Renewables Obligation[270] and Feed-in Tariffs for electricity[271], Renewable Heat Incentive[272], Renewable Transport Fuel Obligation[273]; Electricity Market Reform (EMR)[274] via the Energy Bill; and the Gas Generation Strategy[275]
- In relation to the **Energy Efficiency target** key policies are: Enabling the Transition to a Green Economy and the accompanying Policy Timeline[276]; the establishment of the UK Green Investment Bank; Green Deal; The Energy Efficiency Strategy[277] (including Electricity Demand Reduction); the Plan for Growth[278]; the Climate Change Levy & Climate Change Agreements[279], and the CRC energy efficiency Scheme[280]
- 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[281] plus The Future of Heating: Meeting the Challenge[282].

87. 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

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263 Further details at: http://www.legislation.gov.uk/ukpga/2008/27/contents
264 Further details at: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/47621/1358-the-carbon-plan.pdf
265 https://www.gov.uk/government/policies/reducing-the-uk-s-greenhouse-gas-emissions-by-80-by-2050/supporting-pages/carbon-budgets
266 Further details at: http://www.hmrc.gov.uk/climate-change-levy/carbon-pf.htm
267 Further details at: https://www.gov.uk/government/publications/the-future-of-heating-meeting-the-challenge
268 Further details at: https://www.gov.uk/government/publications/government-forestry-policy-statement
269 Further details at: http://www.ahdb.org.uk/projects/documents/GHGAPDeliveryPlan04April2011.pdf
270 Further details at: https://www.gov.uk/government/policies/increasing-the-use-of-low-carbon-technologies/supporting-pages/the-renewables-obligation-ro
271 Further details at: https://www.gov.uk/government/policies/increasing-the-use-of-low-carbon-technologies/supporting-pages/feed-in-tariffs-scheme
272 Further details at: https://www.gov.uk/government/policies/increasing-the-use-of-low-carbon-technologies/supporting-pages/renewable-heat-incentive-rhi
273 Further details at: https://www.gov.uk/renewable-transport-fuels-obligation
274 Further details at: https://www.gov.uk/government/policies/maintaining-uk-energy-security--2/supporting-pages/electricity-market-reform
275 Further details at: https://www.gov.uk/government/publications/gas-generation-strategy
276 Further details at: http://www.businesslink.gov.uk/Horizontal_Services_files/Enabling_the_transition_to_a_Green_Economy__Main_D.pdf
277 Further details at: https://www.gov.uk/government/publications/energy-efficiency-opportunities-in-the-uk
278 Further details at: http://www.hm-treasury.gov.uk/ukecon_growth_index.htm
279 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
280 Further details at: https://www.gov.uk/crc-energy-efficiency-scheme
281 Further details at: https://www.gov.uk/government/publications/the-future-of-heating-a-strategic-framework-for-low-carbon-heat
282 Further details at: https://www.gov.uk/government/publications/the-future-of-heating-meeting-the-challenge

taking forward a number of initiatives[283] to make these modes of transport more attractive. This includes the Door to Door Strategy[284] 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.

88. The UK and England have reached the EU target level for GHG reductions and other National targets for 2020 are expected to be reached through current Government policy interventions. In addition, 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. In particular, by being responsive to local challenges and opportunities within the context of national priorities. These local challenges and opportunities will vary from area to area.

89. In the case of carbon emissions, across England there is significant variation, particularly from industrial and commercial sources. Figure 48 below shows the variation across England regions 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. Transport emissions figures demonstrate the benefits of integrated sustainable transport particularly in urban areas (as illustrated by London having the lowest emissions, yet a huge demand for transport).

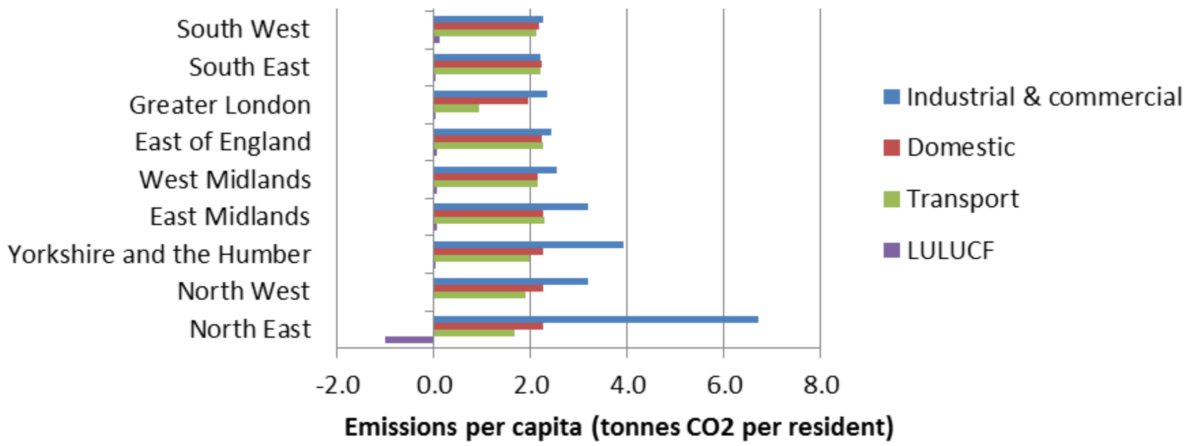

Figure 48: 2012 per capita end-user CO_2 emissions by region and sector in England (LULUCF stands for Land Use, Land Use Change, and Forestry)

Source: Figure 2 on page 12 2012 Local Authority CO_2 emissions estimates: Statistical summary, BIS

90. All ESI Funds investments under this thematic objective will contribute to a reduction in GHG emissions. However, a reduction in GHG emissions has not been included as a main result 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.

283 Further details at: https://www.gov.uk/government/policies/improving-local-transport

284 Further details at: https://www.gov.uk/government/publications/door-to-door-strategy

91. The measures foreseen for sustainable transport/sustainable urban development will take sustainable urban mobility plans, noise abatement plans (Environmental Noise Directive (2002/49/EC)), and air quality plans (Ambient Air Quality Directive (2008/50/EC), Gothenburg Protocol) into account.

92. **There is significant growth potential in the low carbon and environmental goods and services sector in England.** As noted in chapter 1, the global market is worth £3.4trillion (€4.3 trillion) of which the England share is £108billion (€136 billion). From 20010/11 to 11/12 the sector grew at 4.63% in England and employed over 785,000 people across 43,282 companies.

93. Across England the opportunities of the LCEGS varies from area to area. Figure 49 below sets out the comparative strengths of the LCEGS of England's LEP areas. Note London has been removed as it out- performs all other regions under all 3 indicators (employment, sales and growth).

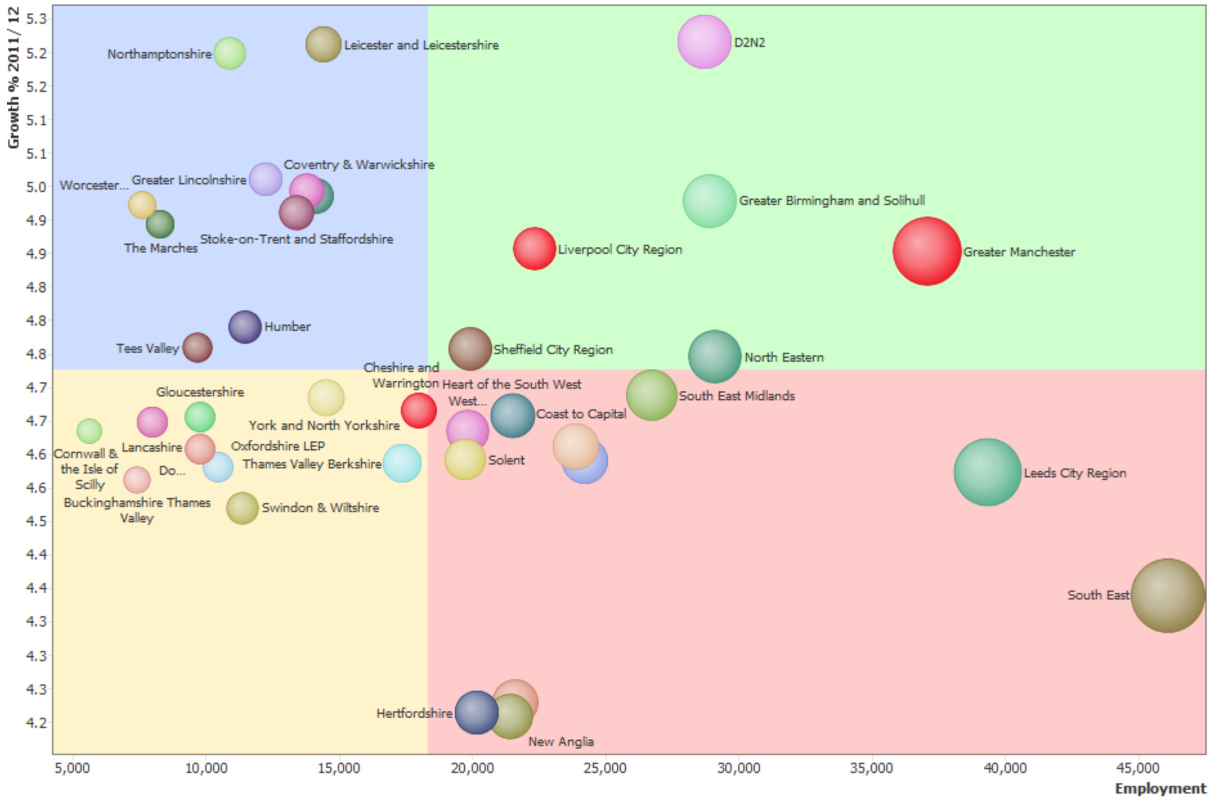

Figure 49: LEP areas (minus London) compared by Growth, Employment and Sales for 2011/12
Source: *Low carbon and environmental goods and services: 2011 to 2012*, *BIS*

94. Support to further develop the LCEGS in England partly requires us to both support growth in the sector in itself and partly to support companies to invest in Low Carbon innovation and companies to implement that innovation.

95. 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.

96. **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 (excluding Northern Ireland), as of March 2014, currently has 13.8m homes with cavity wall insulation and 16.4m homes with loft insulation of at least

125mm, out of about 27m homes[285].

97. In relation to energy efficiency in industry, in 2011 UK industry had reduced total emissions by 70.6 $MtCO_2e$ since 1990 – a reduction of around 41.5% over 21 years as well as reducing total energy consumption by 56% since 1980 and by 33% since 1990.[286] In England industry reduced emissions by 63.0 $MtCO_2e$ (45.3%) since 1990

98. The ESI Funds can complement national initiatives to improve energy efficiency of companies, buildings and transport through innovation in low carbon technologies including increasing business awareness of the benefits of investing in energy efficiency measures. 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). In addition, low carbon transport and sustainable urban mobility may be supported as part of low carbon strategies.

99. **There are significant differences in levels of investment in renewable energies across England.** For example, figure 50 below shows the disparities for investments in renewable electricity which also demonstrates the linkage between investment and jobs and the potential to drive future growth via further renewable energy investment).

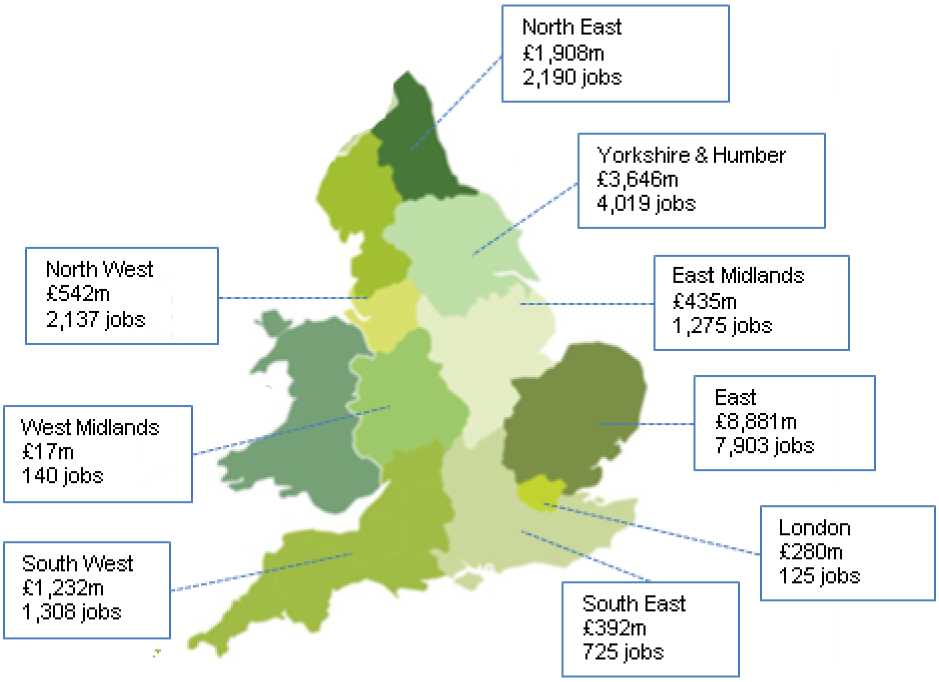

Figure 50: Renewable Electricity Investment and Jobs: Announcements as at February 2014
Source: Department for Energy & Climate Change

100. The need to increase the percentage of energy from renewables to meet EU and UK targets will be met by a combination of large-scale investments, for example on/off-shore wind capacity, and small-scale investments, for example micro-generation. Given the small amounts the ESI Funds available the main focus of investments should be on

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[285] Further details at: https://www.gov.uk/government/publications/green-deal-energy-company-obligation-eco-and-insulation-levels-in-great-britain-quarterly-report-to-march-2014
[286] Further details at: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/224130/uk_energy_in_brief_2013.PDF

small-scale renewable projects, whole place energy solutions and low carbon innovation.

101. The diverse geography of England enables a variety of renewable energy options to be pursued, and several areas already have strengths which the ESI Funds could be used to further develop.

102. The UK Government published its first **community energy strategy**[287] in January 2014. Community energy covers aspects of collective action to reduce, purchase, manage and generate energy.

103. Community energy projects have an emphasis on local engagement, local leadership and control and the local community benefiting collectively from the outcomes. Community-led action[288] can often tackle challenging issues around energy, with community groups well placed to understand their local areas and to bring people together with common purpose.

104. **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-£250 million (€189-€314 million) per year (including through lost production)[289]. 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).

105. 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.

106. 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 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.

107. Funding for carbon reduction efforts in fisheries and aquaculture will focus on improving energy efficiency of the processing sector, and on on-board energy efficiency measures.

108. In England **Financial Instruments** will be pursued as a means of delivering value for

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[287] Further details at: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/275163/20140126Community_Energy_Strategy.pdf

[288] The community approach covers many different types of community getting involved in many different ways; a group of local people setting up their own solar installation or wind turbine; a local authority leading a collective purchasing scheme to help local people get a better deal on their energy; or an energy advice session at a local community centre. This approach is a potential route to ensure that ESI Fund investments are responsive to local need.

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

money for Low Carbon investments. Financial Instruments currently under consideration include investment in Low Carbon infrastructure working with Green Investment Bank and a Low Carbon Investment Fund being promoted by the University of East Anglia.

PROMOTING CLIMATE CHANGE ADAPTATION, RISK PREVENTION AND MANAGEMENT

109. The first UK *Climate Change Risk Assessment* (CCRA)[290], described in Chapter 1 and published in 2012, details projected economic, social and environmental impacts of climate change in the UK. The most significant single climate change risk to England as a whole is increased flood risk due to changing patterns and intensity of rainfall.

110. The CCRA was followed up in 2013 with the first National Adaptation Programme[291]. This sets out that extreme events, such as the flooding which occurred in 2012, 2013 and the Winter of 2014, or the drought of early 2012 are likely to become more frequent and more severe in the coming decades, bringing considerable potential disruption to the economy. The most urgent risks are associated with flooding,

The impacts of flooding

111. Flood damages in England have risen by around 60% over the past 25 years and already exceed £1 billion (€1.26 billion) per annum in direct costs to communities and business. The increased incidence of flooding in recent years has prompted extensive research and analysis of flood risk, forming a strong evidence base, as well as a significant policy response and strong emergency response capacity in England.

112. Figure 51 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.

113. Across England, climate change is increasing exposure to flood and coastal erosion risks and associated damages for existing communities and their local economies. These increasing risks also affect the future growth of local economies. They restrict the supply of land, undermine the viability of commercial investment, damage future prosperity and hamper the sustainable growth of affected communities and their businesses.

114. Around 5 million properties across England, including 1.25 million businesses, are at an increasing risk of flooding. This significant risk-exposure is consistent with England's extensive coastline, its historic pattern and density of coastal and riparian settlement, and on-going demographic change.[292]

115. Qualitative evidence from the Frontier Economics 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 studies can provide empirical evidence to substantiate these qualitative views. 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 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.

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

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

[292] Environment Agency 2014 (unpublished)

Flood risk mitigation – national policy response

116. The National Flood and Coastal Erosion Risk Management (FCERM) 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.

117. The UK Government and local Flood and Coastal Erosion Risk Management (FCERM) partnerships, under the Partnership Funding policy, continue to increase domestic investment to better protect existing households, existing infrastructure and existing business capital.

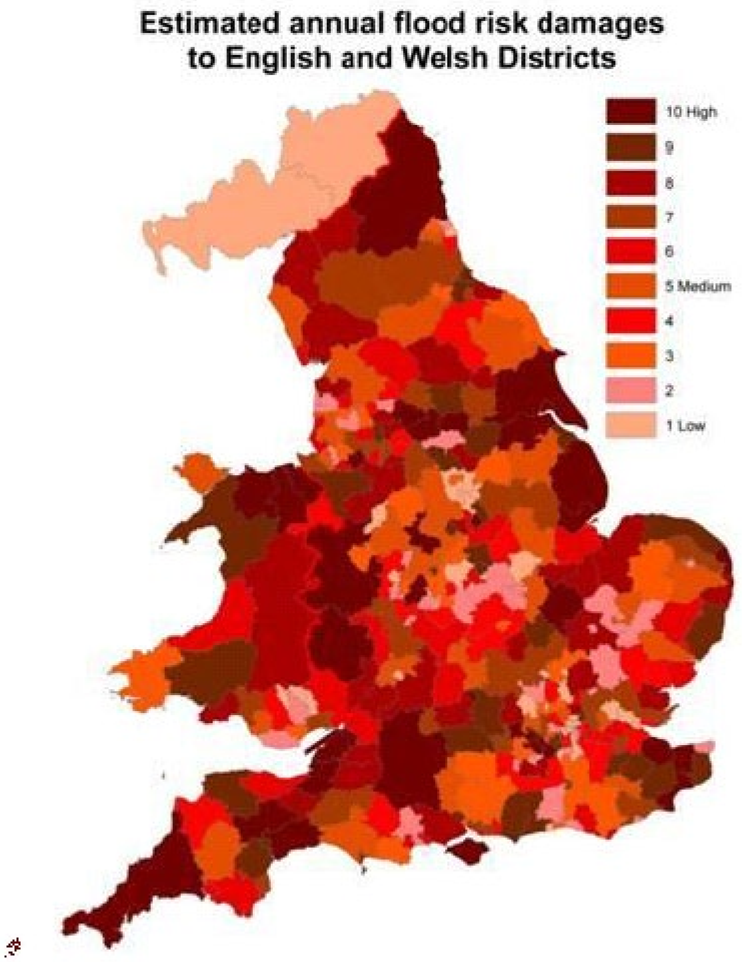


Figure 51: Estimated Flood Risk damages to English and Welsh Districts
Source: Environment Agency 2014 (NAFRA 2012 unpublished)

118. The value of domestic FCERM investment has been demonstrated several times in recent years. As an example of the safeguarding benefits; over 140,000 households were protected and an estimated £4.2 billion (€5.3 billion) of damage to infrastructure and business property was avoided, during the heavy rains of summer 2012. Investment in new flood defences is calculated to have a cost:benefit ratio of 1:8, demonstrating a significant return.

119. The UK Government will be making record levels of investment in capital improvement projects in England; £370 million (€465 million) in 2015/16 and then rising to over £400 million (€503 million) in 2020/21: - more than £2.3 billion (€2.9 billion) invested in capital over a 6 years period, representing an 18% increase in grant in aid

and leveraging additional partnership contributions averaging £50-60 million (€63-€75) per year. Additionally, in response to severe storms and flooding during the 2013/14 winter, the UK Government has provided an extra £270 million (€339 million) available to repair, restore and maintain critical defences, vital to economic sustainability.

120. Research by the Environment Agency in 2009 (currently being updated) suggests that total investment in flood and coastal erosion risk management will need to rise by around £400 million (€500 million) per annum (or nearly two-thirds) by 2035[293] to prevent increasing flood and climate change damages to existing households, existing commercial property and the infrastructure that underpins existing local economies.

121. The specific proportion of this needed just to maintain existing business flood risk exposure is an estimated increase of £100 million (€126 million) per annum.

122. Existing planned investment will improve protection to at least 300,000 households. It will also deliver:

- a clearly defined 6-year capital programme of specific FCERM projects across England (to be published this autumn);
- improved protection to an estimated 150,000 existing business premises; and
- avoidance of almost £5 billion (€6.3 billion) of damage to existing infrastructure, and economic capital.

123. 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.

124. Risk Management Authorities (e.g. Environment Agency, Local Authorities, Water companies) work in partnership with local communities to prioritise domestic funding for FCERM. 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.

125. Although budgets for flood risk management have been maintained and increased at a time of economic challenge, inevitably, UK government funding is constrained. Domestic policy will continue to prioritise investments protecting existing households, especially those in deprived areas who have the least ability to manage risk for themselves, and the highest existing value business locations. Existing Partnership Funding 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.

126. A pipeline of projects has been identified. Partnership Funding Schemes focused on economic growth require greater investment from external sources to meet the costs of delivery. Without this additional funding, there is likely to be a gap between the amount available from central government funding and the amount required for the project to proceed. **There remains a need for targeted external investment to meet the gap in provision for local flood risk mitigation schemes benefiting small-scale commercial development.** Investment here would remove barriers to private investment in undercapitalised commercial sites and unlock brownfield sites. The need is targeted in areas with spare capacity, low productivity and thus with the greatest

[293] https://www.gov.uk/government/publications/flood-and-coastal-risk-management-in-england-long-term-investment

growth potential and future economic need, in particular supporting new and existing SMEs.

ERDF priorities

127. Flood risk can lead to economic blight in affected areas with economic sites remaining undeveloped through flood risk related planning restrictions, economic barriers to private sector investment and businesses exiting areas which have experienced flood damage in the past. **There is an important role for ERDF in bridging the investment gap for potential business development sites held back by flood risk, to unlock future growth potential**.

128. Through a strategic assessment of local needs flood risk mitigation investments have been identified in a small number of local areas, predominantly but not exclusively along the east coast, west and south west of England. Sites identified include the North East (Team Valley, Durham, Morpeth and Chester-le-Street), Yorkshire and Humber (Hull, Goole, and Spurn), Derbyshire (Derby city), Cornwall (Bude) and Cumbria (Ulverston).

129. ERDF will be used to stimulate local inward investment where flood and coastal erosion risk is a significant threat/constraint on potential economic growth and where market mechanisms cannot deliver the 'upfront' FCERM investment contributions required to 'prime' commercial development. Specifically, investments will realise the benefits to potential new commercial development sites and under-utilised (and under-capitalised) existing commercial premises.

130. ERDF would fund a range of hard and soft infrastructure to mitigate flood risk. Hard defences include the creation of flood barriers, strengthening of river banks, erection of flood barriers and gates and improvements to local surface water drainage. On commercial sites, these can be introduced as part of improvements to street layouts and open spaces. Soft infrastructure to manage flood risk can be introduced either on site or upstream from commercial premises. Options include green embankments and open spaces that can hold water or reduce surface run off. Interventions upstream can help to 'slow the flow' of water at peak times by enabling the land to hold more water at strategic points in the upper catchment of rivers.

131. ERDF investments will be directed with an aim of securing specific benefits to identified development sites. Such investments also present excellent value for money. Recent research[294] has suggested that a pound invested in flood management projects can generate between £2 (€2.5) and £4 (€5) of net additional local Gross Value Added within 10 years, via its beneficial effects on the productivity of SMEs (excluding multiplier effects). Although GVA will be the ultimate result sought, the results of ERDF investments will be measured in the first instance through the increase in area of commercial land protected and opened up for (new or additional) investment as a result of mitigation operations.

Climate risks to agriculture and the rural economy

132. The UK *Climate Change Risk Assessment* identifies floods, changing rainfall patterns, increased temperature and new and increased incidence of pests and diseases as the major threats to the rural economy and agriculture. All these threats are likely to impact on terrestrial and aquatic species and habitats (altering their 'climate space') and could severely affect agricultural production so that changes in agricultural practice are required. Changes in the suitability of forestry tree species and risk of wildfire are further threats posed to forestry by climate change.

133. Efficient irrigation and on-farm reservoirs can help farmers to adapt to the consequences of changing rainfall patterns, increasing the resilience of food production.

[294] "Flood management and the wider economy", Frontier Economics for Defra, yet to be published.

Allowing species and habitats space to adapt on farms, in water bodies and in forests will be an important part of building climate change resilience for the environment and the economy. This will require actions to help reduce habitat fragmentation, increase connectivity, and reduce pollution.

National policy response – rural adaptation

134. 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.

135. Flooding is projected to have significant negative impacts on UK agriculture. Actions identified in the National Adaptation Programme to help reduce flood risk include maintaining good soil quality, protecting peatlands and government working with the Association of Drainage Authorities.

136. 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.

137. 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.

EAFRD priorities

138. EAFRD has climate adaptation as a cross-cutting theme. Operations to support agricultural and silvicultural businesses to improve their risk management; efficient use of resources such as water; and help crops and animals adapt to the changing threats posed by pests and diseases are all covered under other Thematic Objectives: but they will play an important additional role in terms of climate change adaptation. Agri-environment schemes overall will increase the resilience of the natural environment to climate change by reducing fragmentation and improving the condition of habitat sites.

139. Under this Thematic Objective, EAFRD will provide support to the land based sector through agri-environmental and forestry schemes to deliver activities that help tackle flooding. A quarter of the budget allocated to the new environmental land management scheme will be dedicated to investments that deliver synergies across biodiversity, water quality and flood risk management outcomes. The scheme will target woodland and habitat creation in priority flood risk catchments. Advice and capital grants will promote catchment-sensitive farming practices to reduce soil run off into rivers, reducing sedimentation. Local enhancements such as woody debris dams can help to reduce flooding and sediment loss. River restoration and floodplain management projects can help address flood risk as part of landscape scale or more localised interventions. Managing peat in the uplands can help retain water in the upper catchment. Local catchment scale analysis is key to locating new woodlands and wetlands and taking other measures to reduce flood risk.

PRESERVING AND PROTECTING THE ENVIRONMENT AND PROMOTING RESOURCE EFFICIENCY

Overall situation in England

140. Chapter 1 set out the need to safeguard our natural assets and the essential services they provide, at various scales in terrestrial (both urban and rural) and marine environments.

141. The situation in England and elements of the Government's existing policy response is described here in relation to biodiversity, water, air, soil, resource efficiency and the marine environment *individually*. However, both key aspects of existing national policy and the priorities proposed for ESIF investments adopt a more *holistic* response to the challenges posed. This is in line with the Government's Natural Environment White Paper (NEWP)[295] which promotes an ecosystems approach: this recognises that the various elements of the natural environment all help to describe the state of the natural environment and we should manage it as an interconnected system – at various scales - rather than by one issue at a time.

142. As a densely populated country, settlement and economic activity in both rural and urban areas of England place heavy demands on the natural environment and resources. 70% of England is farmland, either intensively cultivated or in a semi-natural state. Intensification of farming, particularly since the 1970s, has led to reductions in farmland biodiversity and negative impacts on soil, water and air quality. Over 80% of people live in towns and cities that cover around 11% of the country. These urban areas make the highest demands on, and are the greatest recipients of, ecosystem services – often requiring more ecosystem services[296] than they provide. Urbanisation tends to compact soil, prevent good drainage and increase the risk of flooding, create heat islands and, where traffic is congested, causes pollution to air, soils and water. They can also act as barriers to wildlife, with historic patterns of development creating large areas with very limited biodiversity value. Intelligent and dynamic urban design can incorporate green infrastructure that provides greater opportunities for biodiversity whilst at the same time addressing a number of the challenges presented above.

143. The NEWP sets out how we can better understand the value of nature (in both urban and rural areas) and how we manage it. In 2012 48 Local Nature Partnerships (LNPs) were announced in response to a commitment in the NEWP to work at a strategic level to do this 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.

144. The work of the Natural Capital Committee, updates to Government appraisal guidance, and research programmes such as the National Ecosystems Assessment Follow-on aim to increase understanding of how to better incorporate the value of nature in to decision making.

145. The Ecosystem Markets Task Force report[297] urges business to integrate the real value of nature into their thinking as they would for innovation or infrastructure.

146. Utilising this concept offers a coherent approach to targeting investment in the natural environment and its contribution to national and international objectives

[295] Further details at: https://www.gov.uk/government/publications/natural-environment-white-paper-implementation-updates
[296] Ecosystem services are the benefits arising from properly functioning ecosystems.

(including but not exclusively benefits linked to: Birds Directive and Habitats Directives, Ambient Air Quality Directive and Water Framework Directive).

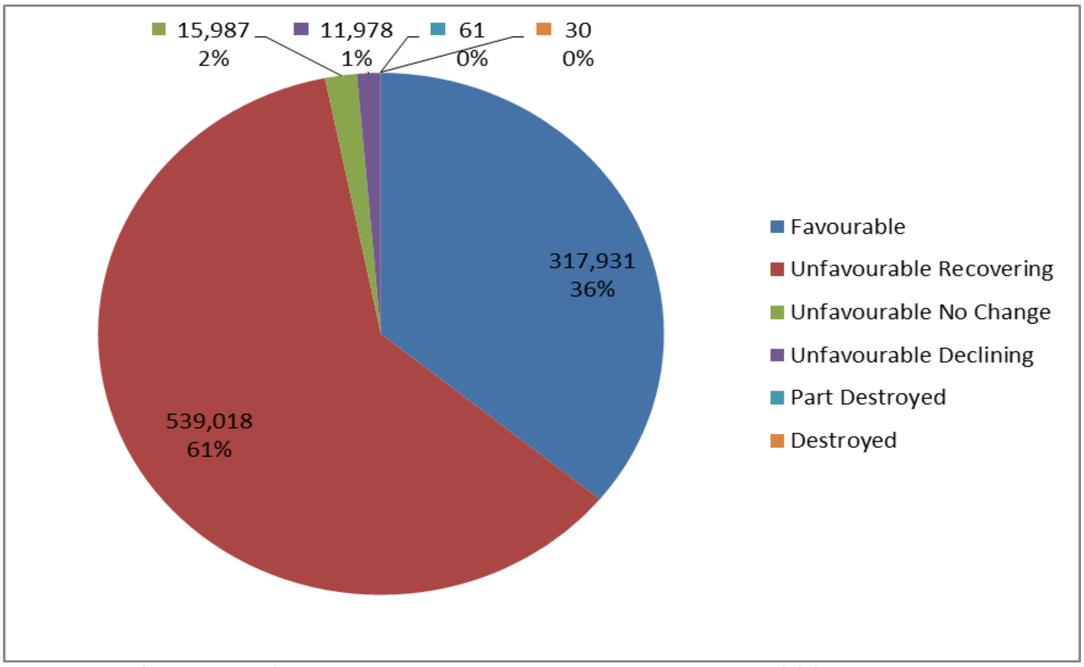
147. In the longer term this work should help to change attitudes and behaviours, so that the benefits of nature are more prominent in investment decision making, however in the short to medium term there is still a strong need for public finance to support the protection and enhancement of environmental assets.

Biodiversity

148. In England there are 337 sites designated as part of the Natura 2000 network covering 2,077,276 hectares, aimed at protecting the most threatened habitats and species from degradation. Whilst many of these sites are well on the path to recovery, a significant number are not yet in a healthy state. The England Prioritised Action Framework (PAF) explains that all Natura 2000 sites (terrestrial and marine) in England have conservation objectives in place and work is underway which will identify the measures necessary to achieve these objectives and will improve the application of these objectives to decision-making.

149. All terrestrial Natura 2000 sites in England are underpinned by Sites of Special Scientific Interest (SSIs) designation and information on their legal protection, condition and management constraints and objectives is publicly available.

150. The chart below sets out the Natura 2000 sites' SSSI condition assessment by land area, which provides a good proxy for the condition of terrestrial Natura 2000 sites in England:



Condition of terrestrial Natura 2000 sites based on their SSSI condition assessment – ha
Source: Natural England

151. In 2012 95% of SSSI were considered to be in either favourable or recovering condition compared to 72% in 2007, largely thanks to using agri-environment schemes as a remedy. However, despite improvements overall England is currently below the trajectory for achieving our Biodiversity 2020 targets of 50% of our Sites of Special

Scientific Interest (SSSIs)[298] to be in favourable condition by 2020[299] and there remains a need for investment to address this.

152. In England farming has a big influence on the environment. Since the 1940s mechanisation and agricultural intensification have successfully increased yields, but at the expense of significant declines in biodiversity and other public goods.

153. In woodland, charcoal production and timber growing were once common activities in our woods, but their decline has led to shadier, more closed and less structurally diverse forests with significant impacts on the wildlife they support.

154. Many species are declining in population. Across our best-known groups, about a quarter of all species are at historically low levels or significantly threatened[300]. For example:

- The farmland bird index shows whilst 21% of species are increasing, 27% are declining;
- 76% of all butterflies have declined since the 1970s[301], because of habitat deterioration resulting from a combination of neglect and intensification;[302] and
- 60% of England's flowering plants predominantly species of nutrient-poor areas are declining.

155. Interventions for species recovery have been most successful when specifically targeted for their needs, for example cirl bunting and stone curlew.

156. As set out in chapter 1 all UK nations are signed up to the objectives in the EU biodiversity strategy and the PAF underpins work to deliver the EU 2020 biodiversity targets. England's Biodiversity Strategy, *Biodiversity 2020: A strategy for England's wildlife and ecosystem services* directly reads across to the EU strategy. It sets out the strategic direction for biodiversity policy for the next decade on land (including rivers and lakes) and at sea. It builds on the successful work that has gone before, but also seeks to deliver a real step change including 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. Action taken to deliver the domestic outcomes in these strategies will also make a contribution to the biodiversity outcomes established at the European level.

157. As part of this work, 12 Nature Improvement Areas[303] have been established across England: these include within them Natura 2000 sites and will become much better places for wildlife – creating more and better-connected habitats at a landscape scale, providing space for wildlife to thrive and adapt to climate change.

158. Much, however, relies upon the active creation, restoration and management of sites for wildlife benefit, a public good, which will be underprovided by the market without

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[298] In England, all Natura 2000 sites 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.
[299] Further details at: https://docs.google.com/file/d/0B9V3MFss6gRxVi1QY1hQOUpxMmc/edit?usp=sharing&hl=en-GB&forcehl=1&pli=1
[300] Natural England (2010) *Lost life: England's lost and threatened species*. Sheffield: Natural England.
[301] Thomas, J.A. (2010) Butterflies. In N. Maclean, (Ed.). *Silent Summer: the state of wildlife in Britain and Ireland.* (pp. 430-447). Cambridge University Press: Cambridge.
[302] Fox, R., Brereton, T.M., Asher, J., Botham, M.S., Middlebrook, I. Roy, D.B. and Warren, M.S. (2011). *The State of the UK's Butterflies 2011*. Butterfly Conservation and the Centre for Ecology & Hydrology, Wareham, Dorset.
[303] Further details at: http://www.naturalengland.org.uk/ourwork/conservation/biodiversity/funding/nia/default.aspx

intervention. **To reverse declines in biodiversity there is a need for investment to build on the favourable condition secured on many of our most important sites, and ensure appropriate management is in place** on remaining areas of semi-natural habitat outside of statutory designation. In addition, better targeted habitat restoration and expansion is required to achieve more joined up habitats at a landscape scale.

159. On-going support for the agricultural management necessary to prevent deterioration and secure favourable conservation status on Natura 2000 sites is currently provided through Environmental Stewardship Schemes (ELS & HLS, plus organic and uplands sub-schemes), the Environmentally Sensitive Areas scheme, and the Countryside Stewardship scheme*.* Woodland grant schemes are used to secure and maintain favourable condition of woodland *Natura* 2000 sites.

160. These 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. Interventions through previous programmes have had some clear successes in reversing declines in some habitats and species and in maintaining important landscapes and rural cultural heritage. However**, there remains a need for sustained investment in this area for progress to continue.**

Water quality

161. Currently 27% of water bodies in England have good status and this is expected to improve to 31% by 2015 – similar levels of improvements to those envisaged by other densely populated and industrial countries in the EU. However, only 29% of river SSSIs are in favourable condition and there are 154 SSSIs (16440.14ha) with a diffuse water pollution remedy required.

162. According to Environment Agency figures in late 2011[304], pollution from agriculture is cited as the likely cause in 33% of known failures to achieve Good Ecological Status for water bodies in England (resulting from nutrients, BOD/ammonia, sediment, morphology).

163. Ammonia, alongside nitrogen dioxides, are the pollutants from which nitrogen deposition is mainly derived. Deposition from nitrogen dioxides is usually more widely dispersed than from ammonia. Measures are in place that will reduce emissions of oxides of nitrogen by 55% between 2005 and 2020. Figure 52 compares LEP areas with the locations of sensitive habitats that are at risk due to the nutrient nitrogen critical load being exceeded.

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

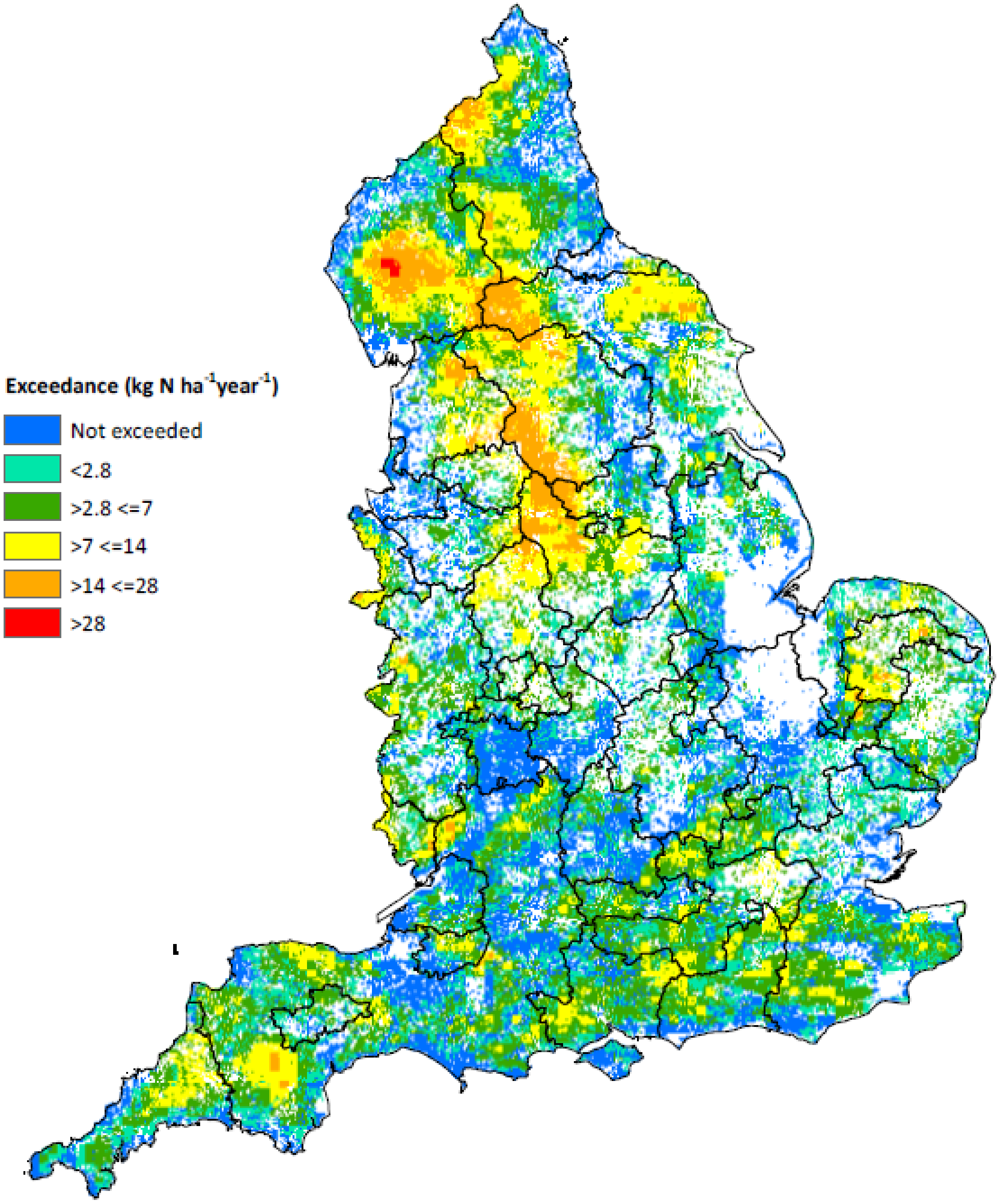

Figure 52: LEP boundaries overlaid on the exceedance of the 5th-percentile critical loads of nutrient nitrogen (all habitats combined) by CBED 5x5 km (grid-average) nitrogen deposition for 2009-10

Source: Defra

164. There is good evidence that farmers are using fertilisers and manures more efficiently and effectively and evidence that this reduction in applications is feeding through to a reduction in diffuse pollution comes from the positive trends identified in some indicators[305]. Nevertheless agriculture accounted for 82% of ammonia emissions in 2011 (ammonia emissions have increased slightly in recent years and are projected to fall by only 8% between 2005 and 2020). High levels of atmospheric nitrogen are one of the factors that have driven the observed decline in farmland biodiversity.

305 Defra (2010) A biodiversity strategy for England – Measuring Progress: 2010 assessment

165. The estimated total annual cost of water pollution to river and wetland ecosystems and natural habitats in England and Wales is between £716 million (€900 million) and £1,297 million (€1,630 million)[306].There is a market failure in this area, with costs borne by society rather than land managers. There is therefore an insufficient incentive for them to reduce pollution. **Interventions are needed to enable land managers to make a step change towards practices that lower the risk of pollution.**

166. The Catchment Sensitive Farming (CSF) programme is raising awareness about water pollution from agriculture in priority catchments and strategic partnership catchments, encouraging voluntary action by farmers through a combination of advice, workshops, demonstrations and capital grants[307]. The efforts of farmers in implementing measures developed by the Pesticide Voluntary Initiative, and Stop Every Drop Campaign have helped avoid deterioration and reduce pesticide contamination in catchments across the country. However, there remains a risk that with current interventions alone, England will not meet its commitments under the Water Framework Directive.

Air quality

167. In the UK there has been a long-term decline in the emissions of sulphur dioxide, ammonia and nitrous oxides. Despite the declines in emissions, ninety-seven per cent of sensitive habitats exceeded the critical load for eutrophication from air pollution in the period 2006-2008. The total UK deposition of nitrogen is currently equally derived from emissions of nitrous oxides (NOx) and ammonia (NH3).

168. 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.

169. 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).

170. **There remains a need for support for improvements in fertiliser and manure management** to reduce losses of ammonia and nitrous oxide at source and tree planting around point sources to help capture ammonia aerosols.

Soil quality

171. Recent evidence from the Countryside Survey, found no overall decline (across all land uses) of soil organic matter in England. However **soil degradation** has been estimated by the Soil Strategy for England[308] as costing the economy £150-£250 million (€189-€314 million) per year (including through lost production). In one recent survey (Defra 2008 Farm Practices Survey) half of farmers reported that they have experienced

[306] Explanatory Memorandum To The Nitrate Pollution Prevention Regulations 2008 2008 No. 2349
[307] Defra (2008) ECSFDI Evaluation Report.
[308] Further details at: http://www.defra.gov.uk/environment/quality/land/soil/documents/evidence-paper.pdf

soil erosion. Good soil management and soil quality can increase the incomes of farmers and are essential for long term business sustainability – economically and environmentally.

172. Widespread sealing and degradation have resulted in urban soil losing function and resilience. The cost of environmental damage from polluted urban wash-off has been estimated at £150 - £250 million (€189 - €314 million)[309]: England's remaining legacy of industrial land contamination continues to be successfully cleaned up through the redevelopment process and by risk-based targeting of other potentially contaminated sites.

173. Defra has set an ambition that England's soils will be sustainably managed by 2030. Good management of agricultural soils is embedded as a requirement of some CAP based support to farmers whilst good management and restoration of peatlands is currently promoted through agri-environment schemes, designation of key sites and through the UK Peatland Code.

174. Unsustainable use of natural assets and continued environmental degradation, including of soil quality, are identified as threats that will significantly affect the farming sector in the longer term. There is a degree of market failure in relation to soil management. **There remains a need for targeted interventions, including advice**, to: reduce the erosion risk at source; intercept the pathway for sediments; and to mitigate the impacts on receptors, notably river and wetland protected sites.

ESIF support for environmental protection

175. As set out above, **ESIF support for environmental protection** will be through holistic interventions that deliver benefits across multiple environmental challenges.

176. **Agri-environment and forestry schemes supported by EAFRD** will play a key role with aims to restore and preserve biodiversity, improve water and soil management and prevent soil erosion. The schemes will focus on maintaining, enhancing and preventing the degradation of natural capital assets in ways that help to meet Biodiversity 2020 goals and the legal requirements of the Habitats Directive, Birds Directives and Water Framework Directive, and making landscape scale improvements in the wider countryside.

177. Agri-environment schemes have demonstrated high quantified benefit to cost ratios[310] and the new Rural Development Programme will build on the investments in environmental benefits obtained under the 2007-2013 Programme. About 75% of the budget for new schemes, including annual payments and capital investments, will be focussed on biodiversity of which 25% will be targeted at delivering joint benefits for biodiversity; water quality and flood risk mitigation. Sub-optimal levels of woodland management will be addressed to better deliver the public goods associated with woodland management. The other main focus for EARFD will be on the water environment, targeting funds to reduce the source of pollutants to waters; stop the movement of pollutants into waters from source; and protect water itself. Funds will also support soil management, to reduce the need for irrigation and reduce degradation of soil quality. Farmers and foresters will be supported to invest in, and deploy effectively, equipment designed to reduce ammonia emissions.

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[309] 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

[310] Impact Assessment published by Defra alongside the CAP Implementation consultation

178. Outside of the farmed landscape **ERDF will support targeted improvements in the urban environment through an increase in the area of Green Infrastructure**. The UK National Ecosystems Assessment (NEA)[311] argues that whilst in general, urban areas tend to be ineffective in delivering regulating ecosystem services[312], green infrastructure can contribute to urban cooling, remove pollution particles, help noise abatement and improve habitat and species connectivity. However investments in the provision of green infrastructure and ecosystem services can be challenging to fund, particularly in urban areas, as it operates in space that is historically subject to a range of market failures.

179. Specifically, ERDF operations will include habitat creation to enhance the connectivity and resilience of priority sites and species; incorporating green infrastructure into revitalised and remediated sites including through site clearance, soil desealing, decontamination and land remediation.

180. The Office for National Statistics is currently developing national Natural Capital Accounts, and a range of activity is underway to enable better mapping and measurement of ecosystem services: however no suitable single metric for measuring multi-functional environmental assets currently exists. These investments will therefore seek to address multiple environmental benefits whilst specifically targeting an increase in the provision of priority habitats and species, measured directly in terms of hectares of high quality green infrastructure coupled with locally measured improvements in biodiversity.

Resource Efficiency

181. A range of natural, renewable and non-renewable resources produce the products and services we need and to sustainably grow our economy. The efficient use of materials and land is not readily measurable at the sub-national level but we know that our leading eco-innovation areas are renewable energy, energy efficiency, and waste recycling[313] 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.

182. **Pressures on water catchments** are greatest in South East and Eastern England, mainly from a high population density, drier climate and added pressure from agriculture during the driest times of the year. A report by the Government "The Further Benefits of Business Resource Efficiency"[314] noted that the agriculture sector could possibly save £84 million (€106 million) 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.

183. The Government's *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

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[311] http://uknea.unep-wcmc.org/Resources/tabid/82/Default.aspx

[38]ng air quality regulation, climate regulation, water regulation, erosion regulation, water purification, disease regulation, pest regulation, pollination, natural hazard regulation

[313] 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.

[314] Further details at: http://randd.defra.gov.uk/Default.aspx?Menu=Menu&Module=More&Location=None&Completed=2&ProjectID=16943

focused, and water is valued as a precious and finite resource. 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.

184. 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 **Waste Prevention Programme for England** 'Prevention is better than cure – moving to a more resource efficiency economy' (2013) sets out a range of actions to help people and organisations make the most of opportunities to save money by reducing waste.

185. Working largely through voluntary agreements (a collaborative and non-regulatory tool 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. **However, across a range of resources there remains a need to help businesses to become more resource efficient.**

186. Initiatives like the *Green Food Project*, *Grown in Britain* and the push to get neglected woodlands into sustainable management are considering how we can increase food and wood production / productivity sustainably, through increased resource efficiency, whilst improving the environment and the associated public goods. **There remains a need for investment to support take up of cutting edge technology and to disseminate knowledge of best practice, to drive resource efficiency across the sector.**

ESIF support for Resource Efficiency

187. **ESI funds will also help increase resource efficiency and productivity**, helping businesses optimise the use of resources, particularly raw material consumption, and competitiveness whilst delivering environmental benefits. 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.

188. **EAFRD will be used to target the agricultural and forestry sectors**. Funds will address a weakness relating to the lack of awareness within the farming sector of opportunities to improve resource efficiency in farming practices. Operations will be supported through a combination of demonstration activities, advice and capital grants. Investments in physical assets will include water storage, equipment to facilitate efficient and targeted application of nutrients and pesticides, and culverts and water retention measures to address increased winter rainfall.

189. **ERDF will promote increased resource efficiency in non-land-based businesses**, targeting a reduction in materials consumption and water use (energy efficiency measures are covered under Thematic Objective 4). It will support operations providing advice to businesses, particularly SMEs, to increase their resource efficiency, and prevent waste as part of increasing their competitiveness.

190. ERDF will support new business models and more circular systems that keep materials in use for longer and reduce resource use through activities such as, eco-

design, re-use, remanufacture and recycling. This will include investment in the development of 'green' products and services, including supporting individual businesses to develop new products that use waste materials as inputs. It will also provide support and advice for the dissemination of innovative technologies. The objective of ERDF investment will be to contribute to environmental and resource efficiency objectives whilst helping businesses to optimise performance, increase resilience and maximise profitability and competitiveness.

Marine Environment

191. **England has some of the finest marine wildlife in Europe**, with a wide diversity of underwater landscapes, habitats and species including many of national and European importance. The geology of the seabed around England is rich and diverse ranging from intertidal rock to muddy deep sea beds and it is this variety of seabed type, coupled with the influence of both colder and warmer waters around our shores that results in the diverse range of marine species and habitats in our seas. However, at present the marine environment is coming still under pressure from unsustainable human activities, in particular fishing, activity which is damaging marine ecosystems. In comparison to terrestrial conservation, marine conservation is less well developed and it is important that appropriate additional conservation is introduced in order to protect our marine resources before it is too late. The latest summary under the Habitats Directive indicated that no marine habitats protected by that Directive could be considered in favourable condition, with lack of data hindering an accurate assessment. However, where assessments could be made over 40% were unfavourable. Improved protection of our marine environment now will ensure that our seas, which are a common resource, will continue to contribute to our society for generations to come

192. Marine plans enable us to manage competing uses of our seas and identify opportunities for sharing space in busy areas, so that as many marine users as possible can benefit. The Secretary of State is the marine plan authority for the English marine area but has devolved many marine planning functions to the MMO. The East Inshore and Offshore marine plans, the first of 11 marine plans which will cover the whole English marine area, were published in April 2014 and enable plan-led, transparent decision making, reduce regulatory burden and provide certainty for developers based around compatibility with the agreed marine plan objectives, while safeguarding our environment. Work on the South Inshore and Offshore marine plans is underway and the MMO are committed to completing all 11 marine plans by 2021.

193. The Coastal Concordat improves co-ordination for coastal development projects and simplifies the application process. Defra has also been changing the way the marine licensing system works to reduce the regulatory burden, while maintaining a high level of environmental protection. Nearly a quarter of English inshore waters are already established as marine protected areas. The 27 Marine Conservation Zones, designated in autumn 2013 supplement the Natura 2000 network, as will further marine Special Protection Areas. Defra is planning two more tranches of Marine Conservation Zones by the end of 2016.

194. Defra is managing fisheries in Natura 2000's European Marine Protected Areas to ensure that key habitats are protected from damaging activities. All sites where the risk of damage was rated as red are now protected. Defra is implementing the shark, skate and ray conservation plan, which aims to allow depleted stocks to recover and those faring better to be fished sustainably. Defra has also put in place measures to reduce bycatch of dolphins and porpoises.

ESIF support for the Marine Environment

195. **English priorities for EMFF in England reflect those set out in the UK Chapter.** Funding will be focused primarily on supporting the fisheries and aquaculture sectors to implement the new Common Fisheries Policy, with the aim of making fishing more sustainable, decentralising decision making and eliminating discards, which will bring environmental and biodiversity benefits. More broadly, a small element of EMFF funding will also be available to encourage actions to maintain and restore the natural diversity of the marine ecosystem, achieve Good Environmental Status under Marine Strategy Framework Directive, and carry out evidence work contributing to the production of marine Plans (including implementation of the Maritime Spatial Planning Directive), for example.

PROMOTING SUSTAINABLE TRANSPORT AND REMOVING BOTTLENECKS IN KEY NETWORK INFRASTRUCTURES

196. Chapter 1 sets out the current issues the country faces in terms of its transport networks. As described in the chapter, the most affected parts of the country are generally peripheral areas or areas suffering from a lack of dominant or dispersed agglomeration. In these areas, the lack of or poor transport infrastructure have social, environmental and economic impacts with reduced productivity, increased fuel consumption, increased risk of social exclusion, reduced attractiveness of particular areas resulting in low inward investment or export levels etc.

197. As described in the UK Chapter, and in the National Reform Programme, the Government is committed to taking decisive action to continue to improve the capacity and quality of its networks. It has identified the issues and risks in its ‘Investing in Britain’s future’ paper. The Government directly funds nationally important transport infrastructure (major roads and railways). As outlined in the UK chapter, there is a large programme of improvement planned across England, set out in the National Infrastructure Plan, Rail Strategy[315] and Road Strategy[316]. This covers much of England but is particularly focused on connections between the main economic centres.

198. Decisions on regional and local transport infrastructure (98% of England’s roads are owned and maintained by Local Authorities) investment are planned and made at local level and, in the case of major projects, by LEPs. Government is devolving funding to LEPs for investments in infrastructure (major roads and public transport schemes) that can have a direct and decisive impact on economic growth. The Government agreed growth deals with all 39 LEPs on 7 July. The deals are a result of a negotiated process between Government and LEPs aiming to combining local and national priorities in a strategic way. However, despite the funding now awarded through this process, funding gaps do still remain in certain areas not least in the most peripheral regions such as Cornwall and the Isles of Scilly.

199. 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:

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[315] Further details at: https://www.gov.uk/government/policies/expanding-and-improving-the-rail-network

[316] Further details at: https://www.gov.uk/government/publications/setting-the-road-investment-strategy-now-and-in-the-future

- congestion points in the road network acting as a block on the overall development of employment space, economic growth and productivity;
- capacity issues in the rail network acting as a block on passenger and freight mobility and access to sustainable transport options;
- the need to encourage more sustainable forms of travel; and
- port infrastructure that has the potential to underpin both economic growth opportunities and passenger access (in particular for the Isles of Scilly).

200. Cornwall's lack of a single dominant centre in terms of population and functionality impacts upon the economy and future growth potential. Cornwall 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. Transport connectivity including roads, rail, ports and multimodal approaches is a key driver for growth in the Less Developed region and provides the basis for facilitating private sector investment, supply chain development and job creation.

201. Equally, the Less Developed region features an archipelago of islands – the Isles of Scilly - 28 miles off the mainland with a population of just over 2000 and an economy almost wholly dependent on tourism. Ensuring resilient and reliable connectivity to and from the islands and on the Isles of Scilly (IoS) is critical to preserving their economic integrity and to realising any potential for further growth.

202. More than anywhere else in England, investment to improve connectivity in Cornwall and IoS is an essential pre-requisite for the long-term success of all other investments in the area. A well-functioning transport system helps people to access work, increases the forces of competition, promotes greater efficiency, and increases the likelihood of colocation and clustering. Without improvements to connectivity, all other EU and domestically funded investments helping businesses to grow or improving the skills and employability of the workforce in Cornwall and IoS may not achieve their full potential impact.

203. The Connecting Cornwall strategy[317] sets out a vision to connect people, communities, businesses and services in a way that is reliable, efficient, safe, inclusive and enjoyable. It has six goals:

- Respond to the challenges of climate change;
- Support economic prosperity and raise income levels by improving transport links for business and access to employment, education and training;
- Respect and enhance natural and built surroundings;
- Encourage healthy active lifestyles by providing people with the opportunity to walk and cycle;
- Ensure communities are safer and more enjoyable places to live and improve individual wellbeing by reducing the negative impacts of transport; and
- Provide equal opportunities for everyone regardless of age, postcode, income level or ability, to feel safe and access the services they need.

204. Investments supported by ERDF are expected to improve reliability (e.g. through addressing congestion bottlenecks) in specific and low quality sections of the TEN-T network. The UK's TEN-T map, approved by the European Commission, includes the A30 in Cornwall and the main railway line from London to Penzance as part of its comprehensive network. The A30 is the main trunk road linking Cornwall with the rest of the UK but has two pinch points where it is single carriageway only which causes

[317] Further details at: http://www.cornwall.gov.uk/connectingcornwall

congestion. Current signal block lengths, which ensure sufficient space between trains to avoid collisions, limit the capacity of the main railway line to operate more frequent trains. The Connecting Cornwall strategy estimates that each 100 minute travel time from London reduces productivity by 6 per cent. Support from the ERDF will enable will facilitate these improvement to the TEN-T network, in order to reduce congestion and speed up travel times.

205. Further evidence will be provided in the England ERDF OP to justify the possible inclusion under thematic objective 7 of other small-scale investment to increase mobility and connectivity with and within Cornwall and Isles of Scilly.

206. The measures foreseen for sustainable transport/sustainable urban development will take sustainable urban mobility plans, noise abatement plans (Environmental Noise Directive (2002/49/EC)), and air quality plans (Ambient Air Quality Directive (2008/50/EC), Gothenburg Protocol) into account.

Summary of needs and growth potentials justifying selection of key Thematic Objectives

Needs	Growth Potential	Thematic objective
• Increase innovation in, and adoption of, low carbon technologies • Increase implementation of whole place low carbon solutions including sustainable urban mobility • Increase decentralised energy production[318] including small-scale renewable energy projects • Increase energy efficiency and implementation of low carbon technologies including in farming and forestry businesses. • Improve carbon storage through agricultural and forestry land management.	• Significant growth potential in the low carbon goods and services sector in England	(4) supporting the shift towards a low-carbon economy in all sectors

[318] Decentralised energy measures are small scale energy generation close to where it is consumed rather than long scale distribution through a national grid. This type of generation can have real advantages including less transmission losses, increased security of supply and even economic benefits depending on the competitiveness of the technology in question.

• Climate change is increasing damages and exposure to flood and coastal erosion risks for existing communities and their local economies including the agricultural sector. • SMEs are particularly at risk from flooding due to the lack of flexibility in their resources. • The economic potential of certain areas is not being fully realised as domestic funding is focussed mainly on protecting households.	• Through linking ESI Funds to domestic FCREM funding approaches relatively small amounts can release considerable match funding and impressive increases in GVA relative to the investment. • Integrated flood risk management that improves river, wetland and coastal habitats and provides benefits to rural communities and businesses.	(5) Promoting Climate Change Adaptation, Risk Prevention and Management
• Preserve, protect and enhance biodiversity across all types of habitat including marine. • Improve water, soil and air quality. • Prevent soil erosion. • Increase resource productivity. Reduce the environmental impacts of urbanisation.	• Economic and social benefits to be gained from investing in multi-functional green space particularly in urban areas. • Increased Total Factor Productivity for farm businesses derived from increased resource efficiency • Tourism benefits deriving from enhanced natural environment	(6) Environment / resource efficiency
• Improve economic growth and accessibility to jobs in poorly connected areas with GDP below the EU average by: • Improving the comprehensive TEN-T network and access to it (road and rail). • Investment in low carbon and environmentally friendly transport systems.	• Transport as a key enabler for economic growth particularly in peripheral areas and rural economies. • Transport investments can increase the effectiveness of other investments to promote economic growth particularly in areas with below average GDP per head. • Stronger local control over transport investments in their area set within the context of a national strategy.	(7) promoting sustainable transport and removing bottlenecks in key network infrastructures (ERDF)

INCLUSIVE GROWTH

PROMOTING SUSTAINABLE AND QUALITY EMPLOYMENT AND SUPPORTING LABOUR MOBILITY

Development needs and growth potentials across England

207. 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 exactly 75% and the England employment rate is 74.7%. In the UK, the 16-64 age range is commonly used in labour market statistics, and using this age range the headline employment rate in the UK is currently 73% and in England the employment rate is 73.3%.[319] The employment rate is currently increasing and unemployment is falling.

208. **Across England, there are significant variations in employment rate for 16 to 64 year olds.** Looking at broad geographies in England 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. As shown in figure 53, the areas of England with rates below the national employment rate are mainly in the north of England (Liverpool City Region 66.8%, North Eastern LEP 67.2%, Tees Valley 67.4%, Greater Manchester 67.8%) and the midlands (Greater Birmingham and Solihull 66.9% and the Black Country 65.6%) with the exception of London and Cornwall and the Isles of Scilly. The employment rate does vary considerably at lower geographies with rates tending to be lowest in inner city areas and former industrial areas and some coastal towns.[320]

[319] Further details at: http://www.ons.gov.uk/ons/rel/lms/labour-market-statistics/august-2014/statistical-bulletin.html
[320] Further details at: Annual Population Survey data published on www.nomisweb.co.uk for April 2013 to March 2014.

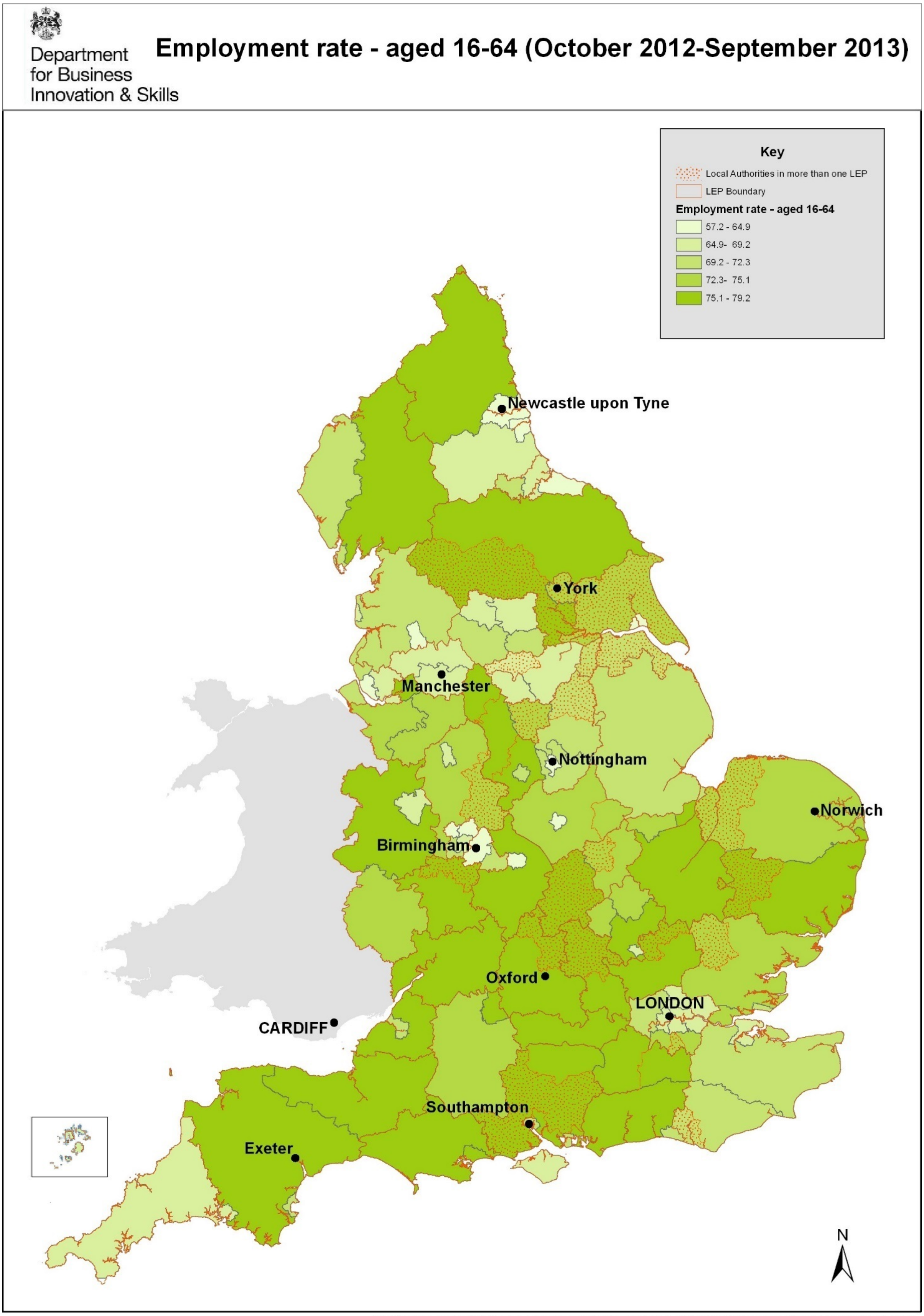

Figure 53: Employment rate (16-64) by LEP area
Source: NOMIS

209. The **unemployment rate** in the 12 months to March 2014 for those aged 16 and over in England is 7.1%.'The comparable figure before the last recession was 5.42% in the 12 months to March 2008'. The highest rates of unemployment (over 9%) are mainly in urban northern areas (Tees Valley 10.7%, , Liverpool City Region 9.7%, North Eastern LEP 9.5% and Sheffield City Region 9.1% and the Midlands (Black Country LEP 11.2 and Greater Birmingham and Solihull 9.6%) with also high levels in London.[321]

210. The current UK overall **inactivity rate** of 21.9% (16.5% for men and 27.6% for women) is at a near record low with more people engaging in the labour market, either in work or actively looking for work. [322]

211. 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.

212. To assist in developing the right business environment in rural areas the Government has established five Rural Growth Networks. These will 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 partners.

213. In England ESI Funds will provide additional provision of support to target groups identified at the local level, aligning with and building on national programmes, such as the Work Programme, as well as filling gaps in national programmes. The main activities 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 local partners identify specific needs;
- 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); and
- for coastal and fisheries areas, and for maritime industries situated outwith coastal areas, support sector specific employment and training initiatives, for example by allowing people both within and outside the fishing industry to improve their skills, or

[321] *Ibid*
[322] Further details at: http://www.ons.gov.uk/ons/rel/lms/labour-market-statistics/august-2014/statistical-bulletin.html

supporting skills development in 'blue' sectors including those emerging sectors with the potential for significant future growth. This up-skilling could be in order to adapt to the Common Fisheries Policy, add value, or to diversify into other areas.

214. 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. A key element of this is the Youth Employment Initiative (YEI) which is targeted at areas of high youth unemployment. The YEI will help to integrate more young people between the ages of 15 and 24 into the labour market. In England, the YEI will be part of the ESF Operational Programme within the Growth Programme.

215. The **youth unemployment** (16-24) rate in England is 19.3% (in 12 months to March 2014). The figure before the last recession was 13.8% in the 12 months to March 2008. Figure 54 shows that the rate is particularly acute in the areas which qualify for the Youth Employment Initiative: Birmingham and Solihull, Black Country, Coventry and Warwickshire, Liverpool City Region, London, Tees Valley and North Eastern LEP. Youth unemployment is also an issue in other areas which contain high concentrations of young unemployed people in smaller pockets, especially in Hull (29.4%), Nottingham (25%) and Leicester (32.8%).[323] In addition, there are also high levels in coastal and fisheries areas.

216. 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 3.8% are NEET, at age 17 7.4%, at age 18 12.9% and at age 19-24 16%.[324]

217. The Commission for Rural Communities reports[325] 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.

218. There are a range of national policies in place to help young people who are NEET and to tackle youth unemployment. These are set out in the National Reform Programme and the 'Building Engagement, Building Futures' paper. For example, the Government launched the Youth Contract in April 2012 to provide opportunities to unemployed young people. Building on this, in August 2013, Government funded Traineeships in England are helping unemployed people aged 16-24 into apprenticeships 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.

[323] Source: Annual Population Survey data published on www.nomisweb.co.uk. for April 2013 to March 2014. This is annual data and therefore not as current as the headline Labour Market Statistics (August 2014) based on the Labour Force Survey.
[324] DfE Statistical First Release 21/08/2014, Labour Force Survey, Quarter 2 2014 https://www.gov.uk/government/statistics/neet-statistics-quarterly-brief-april-to-june-2014
[325] Further details at: https://communityplanningbucks.files.wordpress.com/2012/08/executive-summary-barriers-to-education-employment-and-training-for-young-people-in-rural-areas1.pdf

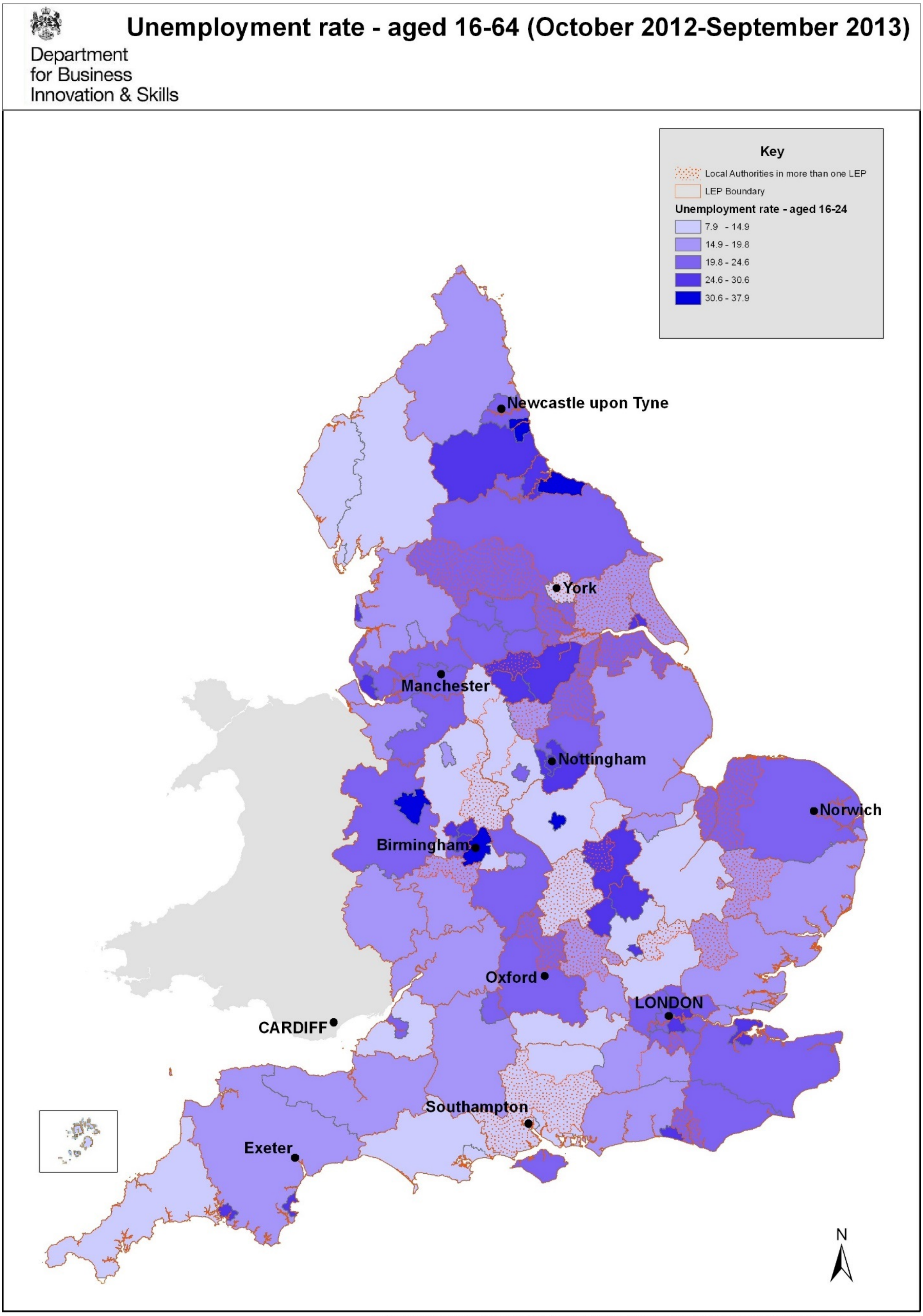

Figure 54: youth unemployment rate (16-24) by LEP area
Source: NOMIS

219. As set out above a particular focus for the ESI Funds will be to get young people into employment. Activities to be supported through the Funds 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.

220. 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.

221. In England, the employment rate for **women** is 68.1%[326] and has been growing consistently although the gender gap persists. 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 (41.7%) than men (11.2%) in England;[327] 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.[328]

222. 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 occupations where they are under-represented and women in work with caring responsibilities. 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.

223. 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). The actual values of employment support investments will be highest where unemployment is highest (urban areas in the North and Midlands and London).

Promoting Social Inclusion, Combating Poverty and any Discrimination

Development needs and growth potentials across England

224. 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.

225. The Country Specific Recommendation under this thematic objective for the UK is to continue efforts to reduce child poverty in low-income households, by ensuring that the Universal Credit and other welfare reforms deliver adequate benefits with clear work incentives and support services. **The level of inactivity and workless households in**

[326] Further details at: http://www.ons.gov.uk/ons/datasets-and-tables/data-selector.html?table-id=18B&dataset=lms
[327] Annual Population Survey for the year to March 2014, part-time employment rates 16-64
[328] Further details at: http://www.ons.gov.uk/ons/rel/lms/labour-market-statistics/february-2014/statistical-bulletin.html, Table 3

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.

226. **Across England, there are significant territorial variations in rates of economic inactivity in the 16-64 age range.** As set out in figure 55, the highest inactivity rates (aged 16-64) are in Cornwall and the Isles of Scilly (26.4%), North Eastern LEP (26.2%), Liverpool City Region (25.8%), Greater Birmingham and Solihull (25.7%), Greater Manchester (25.7%), Tees Valley (25.4%), Black Country (25.3%) and Lancashire (25.3%). The lowest levels are mainly located in the southern LEPs.

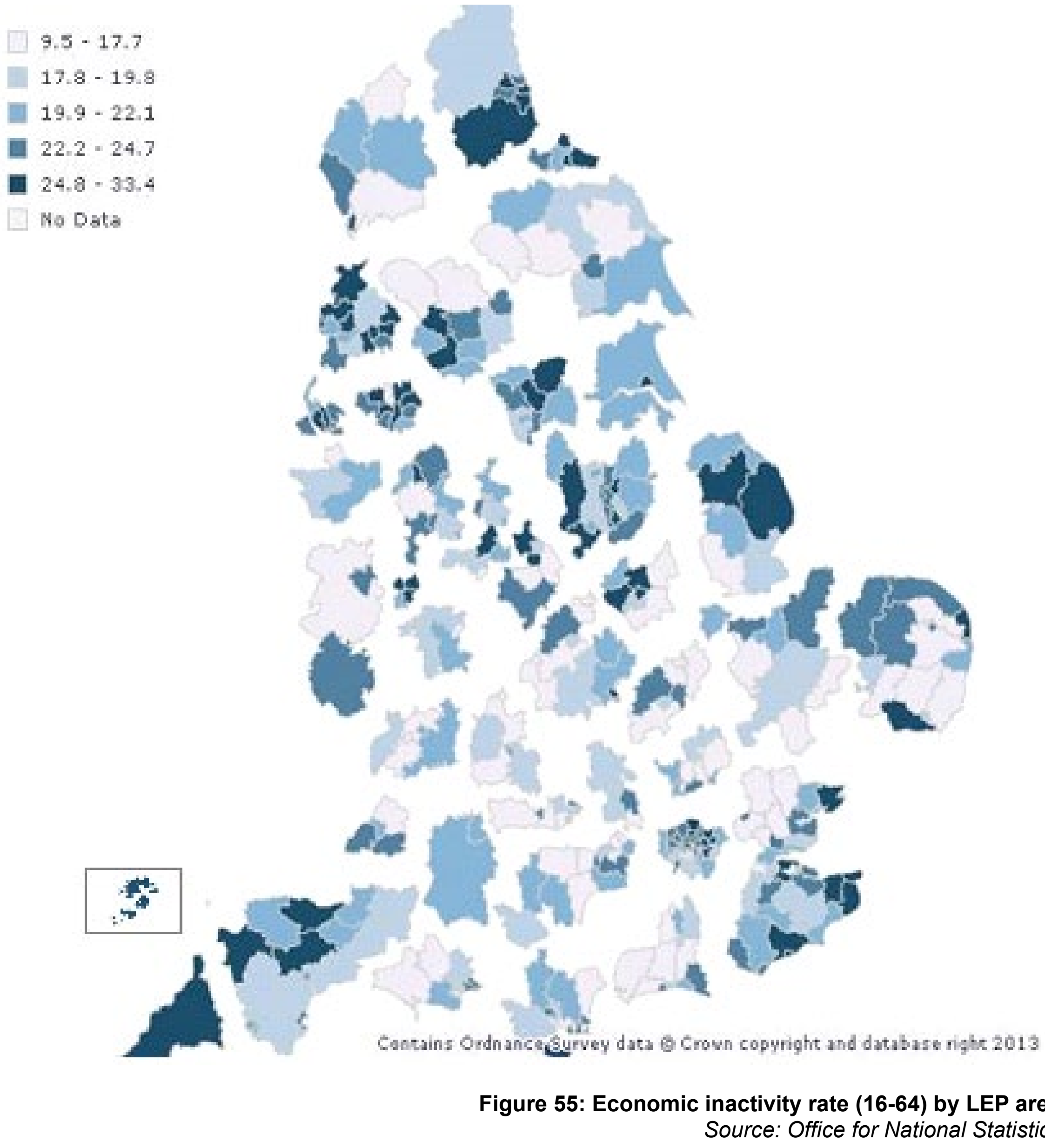

Figure 55: Economic inactivity rate (16-64) by LEP area
Source: Office for National Statistics

227. 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.

228. 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. How this is broken down across England is set out in figure 56 which shows that areas which have workless households

above the average for England are located in the North and the Midlands. 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 56: Workless Households in England
Source: Office for National Statistics

229. **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).

230. 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;
- 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; and
- People in low paid employment who do not have the skills to progress or move into higher paid jobs.

231. 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.

232. Rural areas have proportionately older people. An 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[329]. The most marked difference between rural and urban populations is at the 16 - 29 age group. In urban areas this age group accounts for 20% of the population

[329] Statistical Digest for Rural England. Defra, 2013.

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.

233. 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.

234. 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.

235. 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.

236. In line with this approach the ESI Funds will be used to provide services to help people tackle barriers to work and move towards employment. Support will complement existing local services and address gaps in services. Local partners will identify groups who are disadvantaged in the labour market in their areas and who need additional help to address their barriers to work. Target groups will include:

- the long-term unemployed;
- people with disabilities or health barriers;
- those with caring responsibilities;
- lone parents;
- ethnic minorities;
- 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).

237. The main activities to be supported through the ESI Funds will include:

- tackling barriers to work in troubled families;
- tackling in work poverty;
- helping unemployed and inactive women into work and progress at work in sectors where they are under-represented;
- 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, gender or communities; and
- growing the social investment market to support social enterprises and develop the capacity of social entrepreneurs to address the needs of local communities.

238. The UK Country Specific Recommendation under this thematic objective also states that the Government should improve the availability of affordable quality childcare'. 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 (€2.5 billion) per year.

239. The Government has responded to past Country Specific Recommendations to accelerate the implementation of planned measures to reduce the costs of childcare and improve its quality and availability. The Government's plan to help families meet the costs of childcare and to increase the amount of affordable provision were announced in its response to the Childcare Commission: 'More Affordable Childcare', July 2013.[330]

240. The document sets out that 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 £760 million (€956 million) in 2014-15.

241. Under Universal Credit, families will be able to recover childcare costs in line with the current arrangements: up to £532.29 (€669.24) for one child or £912.50 (€114.73) 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.

242. 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.

243. 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. The ESF programme will also make it a <u>contractual requirement</u> for providers to make a contribution to childcare costs in cases where a lack of childcare is acting as a barrier to access to ESF. Providers will also be contractually required to advertise this support when recruiting participants onto the programme.

244. 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.

245. 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.

246. The ESI funds will be used in England to work alongside the Government's reforms. The Funds will be made available to help offenders and ex-offenders who would benefit from additional employment and skills provision. The focus of this activity will be to:

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330 HM Government, 2013, *More Affordable Childcare*

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.

247. 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). This includes helping 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.

248. 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.

Investing in Education, Training and Vocational Training for Skills and Lifelong Learning

Development needs and growth potentials across England

249. 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 49.7% of 30-34 year-olds had tertiary or equivalent education in the UK and in England the estimated proportion was 49.9%.

250. **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 2013 show that of men aged 19 to 64 and women aged 19 to 59[331]:

- 81.2 per cent were qualified to at least Level 2;
- 62.5 per cent were qualified to at least Level 3; and
- 40.3 per cent were qualified to Level 4 and above.

251. There is a clear link between qualification level and employment rates. For those with below level 2 qualifications the employment rate in England was 60% in 2013. This compares with an employment rate of 84.9% for those qualified at Level 4 and above.

252. A recent OECD report[332] 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.

253. However, these national trends mask large differences in skills disparities across LEP areas. Figure 57 shows the percentage of individuals aged 16-64 with no qualifications (as a proxy for low levels of skills).

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[331] Further details at: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/324008/learner-participation-outcomes-and-level-of-highest-qualification-release-june14.pdf

[332] Further details at: http://skills.oecd.org/skillsoutlook.html

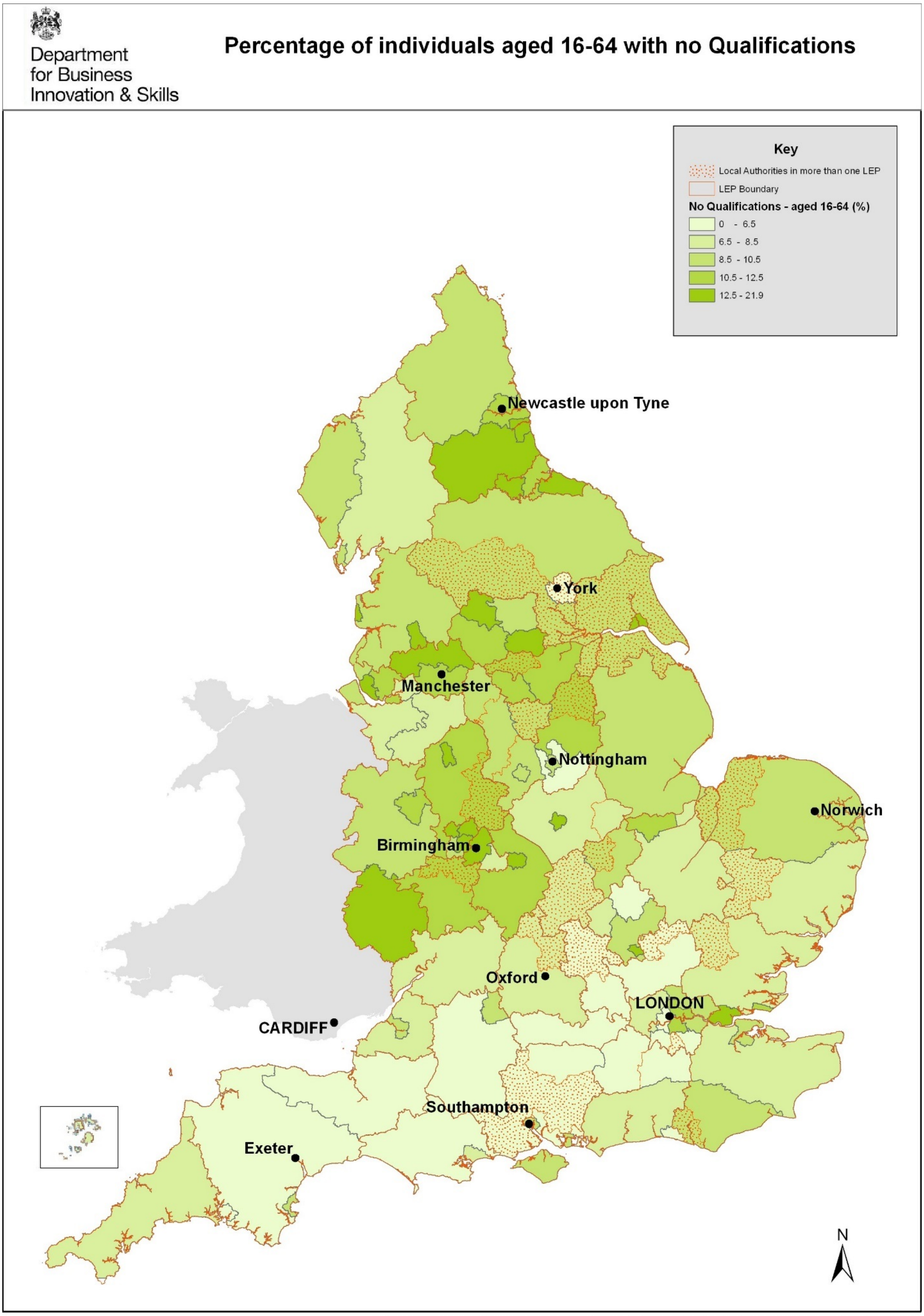

Figure 57: Percentage of individuals aged 16-64 with no qualifications
Source: NOMIS

254. 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.

255. **The FE skills system** is being reformed but the priorities remain a broad range of current Government initiatives. These include 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). The Government has embedded English and maths in all its major programmes and within study programmes for 16-19 year olds. Has continued to enable adults to improve their English and maths and to achieve skills and qualifications even where they missed out earlier in life. Supports 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.

256. **In terms of Higher Education (HE)**, student choice and provider opportunity is a cornerstone of Government policy. In 2011/12 Government spent approximately £14 billion (€17.6 billion) on teaching, research and student support.

257. 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.

258. 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.

259. **ESI Funds will be used to complement and build on these 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.

260. 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.

261. **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.[333] 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.[334] 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.[335] This points to gaps at many levels, but in particular in advanced and higher level skills, consistent with the Country Specific Recommendation on skills in the UK.

262. In line with the skills theme of the Government's Industrial Strategy, Government must work with business to ensure that its skills offer meets the needs of employers. This must 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.

263. 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.

264. **ESI Funds will be used to complement and build on these national skills activities** to increase the relevance of skills interventions. Activities to be supported include:

- 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;

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333 UK Commission for Employment and Skills; Employer Skills Survey 2013 (January 2014)
334 National employers skills survey for England 2009; Key findings Report, UK Commission for Skills , March 2010
335 UK Commission for Employment and Skills; Employer Skills Survey 2013 (January 2014)

- promotion of a supportive environment for new Higher Level Apprenticeships (especially in manufacturing and the Industrial Strategy priority sectors and to underpin other thematic objectives);
- 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; and
- 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.

265. 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.

266. 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.

267. The Farm Business Survey also shows 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.

268. While skills, knowledge transfer and training delivery for the land based sector is available commercially, uptake is insufficient to achieve objectives.

269. Levels of qualification vary across coastal 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.

270. 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, Local Action Groups and other support networks for assistance.

Summary of needs and growth potentials justifying selection of key Thematic Objectives

Needs	Growth Potential	Thematic objective
• Increase employment particularly in areas where employment is below the England average. • Needs vary from area to area so local action required to identify groups most requiring support. • Increase the numbers of 16-24 year olds in employment particularly in areas where the youth unemployment rate is above the England average. • Increase the employment rate of women by removing barriers to participation.	• National programmes are already in place helping to address employment issues.	(8) Promoting sustainable and quality employment and supporting labour mobility.
• Reduce the level of inactivity and numbers of workless households. • People with multiple disadvantages face greatest barriers to work. • Enhance the employability of offenders and increase access to employment and skills.	• Strong national offer around which ESI Funds can build on. • As well as facilitating growth entrepreneurship and social enterprise has the potential to provide a route out of poverty and worklessness.	(9) Promoting Social Inclusion, Combating Poverty and any Discrimination.
• Reduce the relatively high proportion of people with low levels of qualifications/ skills. • Reduce skills shortages at all levels. • Develop qualifications and skills that meet employers' needs.	• There is a clear link between qualification level and employment rates. Those with higher level qualifications are more likely to be in employment. • Strong national offer around which ESI Funds can build on.	(10) Investing in education, training and vocational training for skills and lifelong learning.

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 THE LATTER EVALUATION IS UNDERTAKEN BY THE MEMBER STATE AT ITS OWN INITIATIVE (ARTICLE 15 (1) (A) (II) CPR)[336]

1. 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.
2. 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.
3. The Partnership Agreement proposes a hybrid solution, involving the detailed determination of ERDF and ESF priorities by 39 LEPs (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 the LEPs means that the balance between interventions should be responsive to local needs.
4. The evaluators consider that the intervention logic for the England programme is generally quite 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.
5. In the case of England every thematic objective except for institutional capacity has a financial allocation. Some LEP areas will not wish to implement all 10 thematic objectives. LEPs should, of course, have a clear understanding of intervention logic and basis of prioritisation at the local level.
6. The evaluators consider that the broad span of thematic objectives and range of investments eligible for ESI Funds support set out in the Regulations mean that the proposed priorities for support in England inevitably represent something of a 'patchwork quilt' of aspects that do not always dovetail neatly together – although all support a coherent wider EU and UK policy agenda.
7. The evaluators consider that Community Led Local Development (CLLD) is adequately covered through targeting urban areas; urban/rural areas; and non-LEADER areas.

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[336] Not required for the EMFF pursuant to Article 14 (5) CPR.

CLLD as LEADER will continue to be a mandatory component of the Rural Development Programme. 20 LEPs are identified as interested in bringing forward CLLD. There is also a justification for not using ITIs in England given that LEPs can bring forward multi-fund proposals.

8. 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.
9. 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.
10. It should be noted that this ex ante evaluation considered the process for development and content of the draft Partnership Agreement up to the point of formal submission of the document to the European Commission on 17 April 2014. The Partnership Agreement has been developed further since that time as a result of further work with partners across the UK and the European Commission.

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 (ARTICLE 15 (1) (A) (III) CPR)

1. In England further work is being taken forward to finalise the result indicators in the ESI Fund programmes. The results below will be further detailed in the relevant programmes.

Thematic Objective	**Main Results**
(1) strengthening research, technological development and innovation	• Increase the number of SMEs innovating to bring new products and processes to the market (ERDF) • Increase collaborative research and innovation between businesses, research institutions and public institutions (ERDF) • Increase in cooperation in the farming and forestry sectors (EAFRD)
(2) enhancing access to, and use and quality of, information and communication technologies	• Increase access and use of superfast broadband (ERDF) • Enhancing Access to ICT (EAFRD) • 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)	• Strengthen the SME sector, in terms such as productivity and early stage Entrepreneurial Activity (ERDF) and jobs created (ERDF, EAFRD) • Increased innovation in the fisheries and aquaculture sectors to improve the sustainability and competitiveness of both industries (EMFF)
(4) supporting the shift towards a low-carbon economy in all sectors	• Increase innovation in, and adoption of, low carbon technologies (ERDF) • Increase implementation of whole place low carbon solutions and decentralised energy measures including renewables[337] (ERDF) • Increase energy efficiency and implementation of low carbon technologies in all types of enterprise (ERDF, EMFF) • Supporting the move to a Low Carbon economy (EAFRD) • Increase the percentage of agricultural and forest land under management to foster carbon sequestration (EAFRD)
(5) Climate Change	• Increase farm, forest and ecosystem resilience to the projected impacts of climate change (EAFRD) • Mitigation of flood and coastal risk to commercially viable land (ERDF)

(6) Environment / resource efficiency	• Increase Green Infrastructure (ERDF)
	• Increase natural resource efficiency of enterprises (ERDF)
	• Percentage of agricultural/forest land under management contracts:
	  ○ Contributing to biodiversity
	  ○ Improving water management
	  ○ Improving soil management and/or preventing soil erosion (EAFRD)
	• 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)
	• Integrating scientific knowledge with ecological knowledge in the fishing industry (EMFF)

(7) promoting sustainable transport and removing bottlenecks in key network infrastructures	• Reductions in journey times(ERDF) • Increase in number of low carbon vehicles registered in Cornwall and the Isles of Scilly (ERDF)

[337] Decentralised energy measures are small scale energy generation close to where it is consumed rather than long scale distribution through a national grid. This type of generation can have real advantages including less transmission losses, increased security of supply and even economic benefits depending on the competitiveness of the technology in question.

Thematic Objective	Main Results
(8) promoting sustainable and quality employment and supporting labour mobility;	• More unemployed and inactive people enter employment (ESF) • More young people who are not in education, employment or training start to participate in the labour market or learning (ESF) • Supporting the development of fisheries and coastal areas, encouraging diverse sections of the community to work together in partnership to improve economic sustainability (EMFF) • 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)
(9) promoting social inclusion, combating poverty and any discrimination;	• Employment increase and number of new enterprises within targeted areas (ERDF) • 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)
(10) Investing in education, training and vocational training for skills and lifelong learning	• Participants gaining a qualification or unit, or successfully complete a course, or progress into or within education or training (ESF) • Successfully completed projects to increase employer engagement and the number of individuals progressing into or within skills provision (ESF) • 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 (ARTICLE 15 (1) (A) (IV) CPR)

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)

	ERDF (€)	ESF (€)	EAFRD (€)[338]	TOTAL (€)
1.Strengthening research, technological development and innovation	793,269,792	0	52,125,131	**845,394,923**
2. Enhancing access to, and use and quality of, information and communication technologies	110,841,953	0	93,529,412	**204,371,365**
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)	1,563,277,620	0	148,592,968	**1,711,870,588**
4. Supporting the shift towards a low-carbon economy in all sectors	763,364,936	0	8,098,445	**771,463,381**

[338] EAFRD allocations in this table include voluntary modulation.

	ERDF (€)	ESF (€)	EAFRD (€)[338]	TOTAL (€)
5. Promoting climate change adaptation, risk prevention and management	86,661,198	0	1,312,343,203	**1,399,004,401**
6. Preserving and protecting the environment and promoting resource efficiency	90,442,443	0	1,322,634,963	**1,413,077,406**
7. Promoting sustainable transport and removing bottlenecks in key network infrastructures	57,925,547	0	0	**57,925,547**
8. Promoting sustainable and quality employment and supporting labour mobility	0	1,198,427,047	160,967,932	**1,359,394,979**
9. Promoting social inclusion and, combating poverty and any discrimination	38,343,701	819,263,435	224,751,579	**1,082,358,715**
10. Investing in education, training and vocational training for skills and lifelong learning	0	1,176,674,987	8,873,477	**1,185,548,464**
11. Enhancing institutional capacity of public authorities and stakeholders and an efficient public administration	0	0	0	**0**

	ERDF (€)	ESF (€)	EAFRD (€)[338]	TOTAL (€)
Technical assistance	145,130,411	132,356,281	138,800,000	**416,286,692**
TOTAL	**3,649,257,601**	**3,326,721,750**	**3,470,717,110**	**10,446,696,461**

1.5 The application of the horizontal principles referred to in Articles 5, 7 and 8 of the CPR and policy objectives for the implementation of the ESI Funds (Article 15 (1) (a) (v) CPR)

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 (Article 15 (1) (c) 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[339]:

    - 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 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 (see part 2 of this chapter) have worked to develop specific proposals for use of some ESI Funds in their localities in line with the overarching strategy and objectives set out above. In doing this work, Local Enterprise Partnerships were asked to work with a broad range of interested parties from all relevant sectors.
4. In September 2013, Government established a senior stakeholder Board (the ESI Funds England Growth Programme Board) to oversee development of the England chapter of the Partnership Agreement and the ERDF and ESF Operational Programmes, which will be delivered in a coordinated way. The Board has representatives from local government, LEPs, small businesses, the voluntary sector, higher and further education

[339] Further details at: https://www.gov.uk/government/policies/making-european-funding-work-better-for-the-uk-economy#who-weve-consulted

establishments, environmental groups, equalities bodies, UK Government and, in an advisory capacity, the European Commission[340].

5. 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[341], 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.
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.

Added Value of Partnership

7. The Government has engaged extensively with partners during the development of the ESIF Programmes in England to ensure that the overall strategy whilst addressing national priorities do so in a way that also responds to local needs and those of key stakeholders.

Wider Consultation

8. An informal written consultation was launched in March 2012 to hear views from around England. The Government's response was published in July 2012[342].
9. The official consultations on the ESF & ERDF Operational Programmes were launched in April & May 2014, respectively. The consultation documents were made available for online viewing on GOV.UK together with a series of questions to guide partner responses. Both consultation ran for a four-week period, and were supported by two partner events where detailed discussions on key themes and areas contained within the Operational Programme took place. The majority of responses were complimentary about the approach to the programmes, although there were requests for greater clarity on certain areas which has been addressed in the documents submitted to the Commission.
10. 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 inter-pillar transfer. In parallel, a series of 10 local engagement events targeted at land managers, businesses and others who might otherwise not have the opportunity to engage in the consultation. In total around 770 people attended the events which were invaluable in providing local stakeholders with the opportunity to discuss the priorities of the RDP with policy and delivery representatives, and in providing input to the consultation. Defra Ministers also hosted meetings of key stakeholder representatives to discuss CAP reform issues and proposals in the run-up to the public consultation.
11. 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

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340 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

341 Full list set out in the Annexes.

342 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

for support in the UK Operational Programme.in the CAP. Government published responses to the formal written consultation in December 2013 and February 2014.

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 (GE) and Equal Opportunities (EO) within the **ESF** in England in 2010. The key findings of the final report[343] 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; and
   - 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;

[343] Further details at:
https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/194251/667summ.pdf

- Engaging women, under-represented and excluded groups with business finance; and
- Ensuring wide accessibility, including targeting of hard-to-reach groups, where the Programme supports training and other Human Resource Development actions.

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 **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.
7. 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.

Local measures to promote equality

8. As mentioned above, Local Enterprise Partnerships have worked to develop specific proposals for use of some ESI Funds in their localities in line with the overarching strategy and objectives set out above. In doing this work, LEPs and partners were asked[344] 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 EU Regulations;
    - proportionate evidence around equalities issues in local areas and how proposals for investment will impact on those issues; and
    - evidence that partners with expertise in equality have helped prepare proposals for investment.

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.
2. The National Adaptation Programme (NAP)[345] sets out the actions that government, councils, businesses and civil society are taking to address the key risks identified in the

[344] Further details at: https://www.gov.uk/government/publications/european-structural-and-investment-funds-strategies-supplementary-guidance-to-local-enterprise-partnerships
[345] Further details at: https://www.gov.uk/government/publications/adapting-to-climate-change-national-adaptation-programme

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.

ERDF and ESF

3. In developing specific local proposals for ESI Funds investment, LEPs and partners were asked to give due consideration to sustainable development, setting 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.

4. In developing projects, local partners will also give consideration to:

   - the Polluter Pays principle[346] 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 Excellent[347] for new build; BREEAM Very Good for refurbishment; and CEEQUAL Very Good[348] for infrastructure projects.

5. Managing Authorities will work with local partners to ensure that:

   - Local governance structures include representation from appropriate Sustainable Development experts and champions;
   - All projects make a relevant contribution to sustainable development; and
   - Sustainable Development impacts are monitored, evaluated and communicated

[346]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
[347] Further details at: http://www.breeam.org/
[348] Further details at: http://www.ceequal.com/

EAFRD

6. Sustainable development will be at the core of the Rural Development Programme (RDP) for England. 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'
7. 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.
8. Competitiveness and productivity grants will promote improvements in resource use efficiency alongside other aspects of business improvement.
9. 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.

EMFF

10. Sustainable development is at the heart of England's EMFF programme. The fund will seek to address the main pressures on the marine environment (climate change and impacts of fishing) in several ways. Primarily, the focus will be on meeting the landing obligation (reducing pressure on fish stocks), with support also being made available to promote cooperation between scientists and fishermen, promote new technologies, and increase resource efficiency, for example.

1.5.4 Horizontal Policy Objectives

1. None

2 ARRANGEMENTS TO ENSURE THE EFFECTIVE IMPLEMENTATION OF ESI FUNDS (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 (Article 15 (1) (b) (i) CPR)

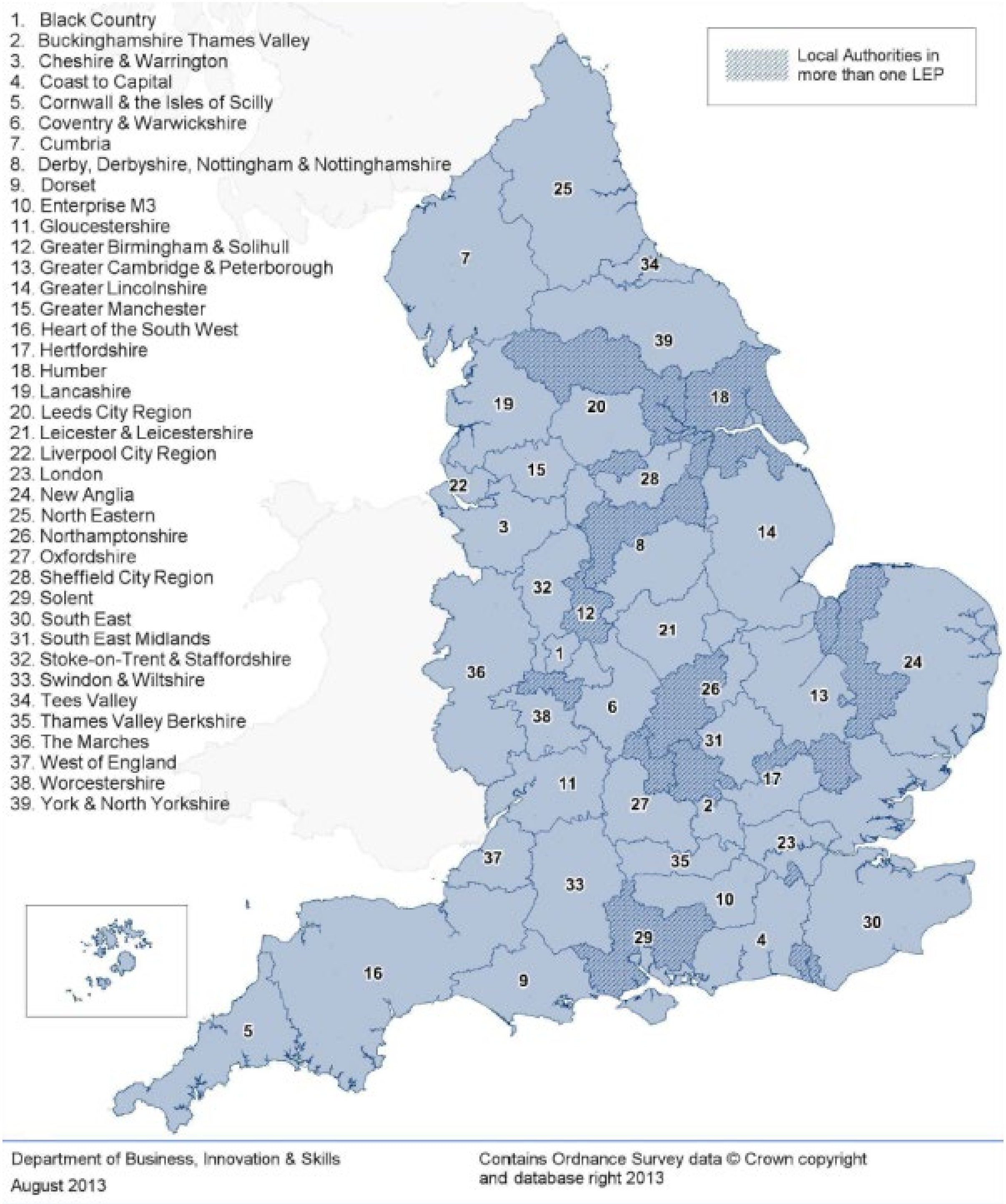

Figure 58: LEP areas in England

1. At the heart of this new approach are Local Enterprise Partnerships (LEPs), introduced after the abolition of the RDAs. A LEP is a private sector-led partnership between local authorities and local businesses which sets the local priorities for achieving economic growth in its area. There are 39 LEPs covering England. They are formed around functional economic areas (see figure 58) and are roughly consistent with NUTS2 areas - much smaller than the areas covered by the RDAs, reflecting need for greater local differentiation.
2. The Government's approach to the ESI Funds reflects both its national strategic priorities and this more localised approach to policies to drive growth. It published

guidance which set out the overarching strategy and priorities for ESI Funds in England (see section 1.1), and then invited LEPs to work with social, environmental and economic partners[349] to propose activities that should be supported in their areas with ERDF and the ESF[350] and a proportion of the EAFRD. This has resulted in the development of local 'ESI Funds Strategies', which show how ESI Funds investments might be coordinated with each at local level and aligned with complementary interventions funded through local public and private sector funding. This approach is known as the 'ESI Funds Growth Programme for England' and is the main means of coordination between the ESI Funds in 2014-2020 in England.

3. Within the ESI Funds Growth Programme in England, ERDF and ESF will be run as two national programmes, each with its own Operational Programme. Government will establish the ESI Funds Growth Programme Board (GPB) which will act as the Programme Monitoring Committee (PMC) for the operation of both the ERDF and ESF. This will ensure strategic coordination at national level between the ERDF and the ESF in England, and provide an opportunity for strategic discussions about synergies with other European and national funding instruments.
4. In line with the good practices and main principles in the European Code of Conduct on Partnership, successful delivery will depend on close working between the Managing Authorities and local partners. The detailed governance and delivery arrangements for the Growth Programme, including the role played by national and local partners, are set out in the English ERDF and ESF Operational Programmes (see sections 2, 7 and 8) as required by the Common Provisions Regulation. Similar detail will also be set out in the EAFRD Operational Programme.

Rural Development Programme for England

5. 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
ESI Funds 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.

6. The Rural Payments Agency will retain responsibility for all paying agency functions and all other aspects of the programme.

[349] Local partners, and national where appropriate, 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.
[350] €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).

7. 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.
8. Whilst ERDF and ESF will be brought under the Growth Programme Board to maximise synergies, there will be a separate Programme Monitoring Committee for Rural Development (RD) as the majority of EAFRD is being delivered through a standalone RD programme, outside of the ESI Funds Growth Programme. This also will be the PMC for EAFRD money channelled via the ESI Funds Growth Programme. The ESI Funds Growth Programme Board will, with issues concerning growth, ensure alignment between the ESI Funds Growth Programme and the new RD Programme. It will do this through advising the RD monitoring committee on the development of the ESI Funds Growth Programme, such as where changes in the ESI Funds Growth Programme might require an amendment to the RD programme. The RD monitoring committee would remain responsible for agreeing this amendment. The RD monitoring committee will also advise the Growth Programme Board on any issues relevant to strategy or delivery. (These reciprocal advisory arrangements will be written into the Terms of Reference for the RD monitoring committee and the GPB.)
9. 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.

EMFF

10. 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.
11. 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.
12. The EMFF will be overseen by a single UK EMFF Programme Monitoring Committee. The Growth Programme Board (PMC for ESF and ERDF) will advise the EMFF PMC on issues concerning growth, while the EMFF PMC will advise the GPB on maritime issues. There will be regular liaison between these committees, and attendance from members of each committee at each other’s meetings.

ETC

13. England’s ETC interests will primarily be delivered through the cross-UK ETC Board, which will also provide direction and oversight of each programme. The network of

Contact Points employed by each programme will have specific responsibilities to embed complementarity with other funds.

NON-ESI FUNDING FROM THE UNION

Horizon 2020

14. In Chapter 1, a distinction is drawn between 2 types of innovation investment "upstream" and "downstream". 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). However, downstream activities will be the main focus of innovation investments using ESI Funds in 2014-2020 in England.
15. In developing proposals for investment under the Growth Programme for England, LEPs and partners will work with Government to consider need for upstream and downstream activities in line with the intervention logic and the objectives for the ESI Funds. Universities have been heavily involved in the development of proposals and will have an instrumental role in identifying these opportunities. H2020 Contact Points[351], 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.
16. In relation to rural priorities, Horizon 2020 will fund research and innovation (including in the agriculture/food security area) through a competitive process run by the European 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.

LIFE+

17. 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.
18. Government will engage with the LIFE National Contact Point to explore complementarities between the new Rural Development programme and prospective LIFE projects.

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[351] 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.

ERASMUS+

19. Within the ESI Funds Growth Programme, Government, 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.
20. To complement the employment thematic objective, Government, 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.
21. 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

22. 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)

23. Government and 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 ESF will be used to test new approaches to employment and social inclusion developed through EaSI, and to disseminate good practice.

Synergies between CAP Pillar 1 and Pillar 2

24. Both Pillars of the CAP provide measures that can be used to support the environment and the economic position of the farming sector, which are key objectives of England's Rural Development Programme**. In designing its approach to the new CAP Reform package as a whole, England has sought to maximise the simplicity of Pillar 1. Pillar 2 instruments are designed to build on and complement Pillar 1 schemes, but provide greater scope for addressing complex challenges in a more sophisticated way without compromising the efficient delivery of the Basic Payment Scheme.**
25. The Government, in the longer term, believes that agricultural production should be rewarded through the market and that paying farmers for the delivery of public goods, such as environmental benefits, is a better use of taxpayers' money than direct subsidy. It has therefore chosen to rebalance the CAP budget in England through a **12 per cent transfer of funding from Pillar 1 to Pillar 2** to enhance the ability to deliver our ambitions for the environment, productivity and growth.

EUROPEAN INVESTMENT BANK

26. 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.
27. 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 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 there will likely also be new pan-LEP area 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.
28. The Government is also exploring the potential to use financial instruments in a number of other areas. A small number of LEP areas wish to set up, or roll forward existing, JESSICA-type instruments for urban development. Government is working with some LEP areas to explore 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 (ARTICLE 15 (1) (B) (II) CPR, 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 OF THE CPR AT NATIONAL LEVEL AND, IN THE EVENT THAT THE APPLICABLE EX-ANTE CONDITIONALITIES ARE NOT FULFILLED, OF THE ACTIONS TO BE TAKEN, THE BODIES RESPONSIBLE, AND THE TIMETABLE FOR IMPLEMENTATION OF THOSE ACTIONS (ARTICLE 15 (1) (B) (III) CPR)

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 (ARTICLE 15 (1) (B) (IV) CPR)

1. 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 (ARTICLE 15 (1) (B) (V) CPR)

1. Managing Authorities for the ESI Funds in England are developing arrangements to ensure efficient and effective staff resources and structures are in place. These will deliver robust management and control systems and processes at national and local level and a coherent framework that supports strategic and operational objectives and requirements for the ESI Funds in England. The details will be set out in the respective Operational Programmes.

ESI Funds Growth Programme

2. The ESI Funds Growth Programme, and the Operational Programmes that underpin it, at one level represent a significant change of approach for the delivery of the Structural and Investment Funds in England but at another level build on the structures and lessons from the existing programme.
3. The Managing Authorities and the Department for Business, Innovation and Skills are developing virtual teams across the Funds to deliver the Operational Programmes that underpin the Growth Programme, working with LEPs and local partners in and across LEP areas. Managing Authorities will continue to undertake the day-to-day management and administration of the ESI Funds through local teams. 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. Although reaching out to partners at local level will increase demands on administration, more effective joint working between teams for each Fund will bring synergies and reduce duplication.
4. Technical Assistance from both the ERDF & ESF Programmes will be used to reinforce the administrative capacity of the Managing Authority to support the implementation of this delivery model.
5. In particular Technical Assistance will be used to support MA staff costs for the compliant delivery of the programme.
6. Support for MA costs will specifically relate to but not exclusively local teams, policy teams, IT, and Legal. Technical Assistance will also support the work of the Audit and Certifying Authority. Activities to be supported will also include 2007-13 programme closure (previously agreed by the Commission).

7. 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.
8. All of the above will help to ensure that the Managing Authorities have the administrative capacity to deliver ERDF & ESF Programmes are delivered in a clear and compliant way.

ERDF

9. Building on past experience and evaluations, technical assistance will be used as part of the ERDF Operational Programme to ensure sufficient capacity to develop the programme through:
    - The provision of technical advice and support to ensure that the requirements of EU regulations and National guidance are incorporated within project design and development at an early stage; and
    - Training and development for authorities managing the ERDF, project applicants, relevant partners including members of the PMC (National Growth Board) and its sub committees;

ESF

10. 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 LEPs and partners will play in identifying how programmes should be tailored for their areas to support local growth. This local tailoring is likely to require additional staff resource in the Managing Authority to deliver ESF. Technical Assistance will be used where appropriate.
11. 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 Technical Assistance could support more effective delivery, including:

- 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 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); and
- Capacity-building for non-governmental organisations (Civil Society organisations), to encourage adequate participation of and access to actions supported by the ESF.

12. These are not prescriptive or exclusive. It may not be appropriate to use ESF on these at all or in all parts of England. Other issues may emerge during the course of the programme.

RDPE

13. 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]; and
- issues raised by the Commission (and ECA), and as set out in our Error Rate Reduction Plan [2013]

14. 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. 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. 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.
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.

No.	Main lesson identified	Proposed action to address it
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 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 LEPs and LEADER groups, to ensure we implement an approach to grants or schemes that balances national consistency and local need.

15. 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; and
- Inductions will be provided to new staff with support provided from more experienced colleagues whilst becoming fully familiar with processes.

16. 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

17. 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 5% of the 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 covering 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. A new ERDF & ESF IT system will 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.) wherever 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 EU’s e-cohesion agenda which under Article 122 of the Common Provisions Regulation requires 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 Intermediate 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
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.

SCOTLAND 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)

INTRODUCTION

1. Scotland embraces the vision of the EU Regulations for the European Structural and Investment Funds 2014-20 and its strong focus on achieving growth and jobs. Our ambition is that this Scottish Partnership Agreement directly supports the Scottish Government's wider ambition 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 outlined below. 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 will depend on establishing a framework for selecting projects which can identify long-term stability of match funding and leadership and are aligned to achieving major policy changes and ambitious outcomes. It also depends on selecting and 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 AND TAKING ACCOUNT OF THE NATIONAL REFORM PROGRAMME, WHERE APPROPRIATE, AND RELEVANT COUNTRY-SPECIFIC RECOMMENDATIONS ADOPTED IN ACCORDANCE WITH ARTICLE 121(2) TFEU AND RELEVANT COUNCIL RECOMMENDATIONS ADOPTED IN ACCORDANCE WITH ARTICLE 148(4) TFEU (ARTICLE 15 (1) (A) (I) CPR)

Macro-Economic Performance

1. Scotland has seen welcome improvements to the employment and economic picture over 2013. The most recently published 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, marking 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 parts of the UK 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. However, 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, 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 also seen a continued improvement in the labour market, particularly when compared to 2012. 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, among many other things, 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 atrophying of skills due to those long-term 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 remain lower than in 2008 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%). 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 is also lower than the UK's. Only a third of that is private sector investment (BERD), and 60% of that modest figure relies on a few large companies in sectors like aerospace and pharmaceuticals. Like the rest of the UK, raising the private sector's participation in innovation is therefore a strong priority for Scotland, particularly for SMEs with growth potential.
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 have tended 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 directly assist 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 academic innovation capacity in parallel with better linking this to businesses.
12. All these elements will be focused using Scotland's Smart Specialisation Strategy, which is based on a combination of key documents, and is being implemented throughout the organisational structure and programmes of Scottish public sector bodies delivering

R&D&I support. The Scottish Government's Economic Strategy provides the overarching framework for Scotland's economic aspirations including how it will seek to maximise growth through the application of research, innovation and technology. It also gives clear priority to the approaches and policy levers which drive growth most effectively.

13. The 'Can Do' entrepreneurial strategy places the emphasis on the entrepreneurial discovery process, letting entrepreneurs lead the direction of funding, and engaging the next generation of entrepreneurial businesses. The Scotland Can Do Action Framework sets out the areas where the Scottish Government and other public and private sector partners will prioritise efforts and includes activities and investment from private and public sector partners that will deliver on its aims. Finally, alignment work between Scotland's main innovation support agencies ensures that entry into and funding from innovation systems is streamlined.

14. The cumulative effect of the Scottish system – one where public sector delivery and funding organisations align with national strategy and where policy direction can be influenced by entrepreneurs and industry representatives - is consistent with the Smart Specialisation approach. However, in recognition that it is articulated through a number of different documents, the Scottish Government is preparing a single strategy document that will set out our Smart Specialisation approach.

15. Based on the detailed analysis which underpins those strategies and organisational approaches, the key sectors and sub-sectors for innovation and development are:

    - Creative industries – in a wide cultural sense where this enables 'brand Scotland', but particularly in areas such as broadcasting and games, and increasingly in data storage, data mining and informatics;
    - Energy – research into technology and engineering, test facilities, manufacture installation and supply chain, and distribution;
    - 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 stratified and e-health (including capitalising on the Innovation Partnership on Active and Healthy Ageing) and animal health/sustainable agriculture; and
    - Tourism – particularly around opportunities in nature and heritage, business tourism, major events (with three global events in 2014 alone) and destination towns and cities.

16. These are areas of industry characterised by leadership, working alongside public partners, setting the ambition and direction for the sector. This helps develop an overall approach that identifies new opportunities to accelerate growth through long-term sectoral strategies. In addition to these specific areas there are also significant opportunities from Scotland's broad range of science, technology and engineering assets, not least in acting as supply chains for the identified sectors.

17. The assets in each of the sectors are unevenly distributed across Scotland (for example, life sciences cluster around Edinburgh and Dundee, with oil and gas heavily focused on Aberdeen), 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 (international competitiveness);
- locations where development of new assets would make the biggest difference (regional competitiveness); and
- locations which we need to connect more effectively to areas of opportunity (regional cohesion).

18. An important element of innovation is spatial, and particularly spatial agglomeration. Scotland's cities offer a significant concentration of businesses, human capital, entrepreneurs and connections are situated closely enough together to act as a single and larger-scale draw for investment and innovation – 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 and innovate.
19. 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 (€88 million) per year on high quality research in rural and environment as part of its Strategic Research Programme and other domestic spend. This will link to and support ambitions for Blue Growth, with existing strengths in marine management and off- and near-shore energy in particular. Additionally the Scottish Aquaculture Innovation Centre, launched in June 2014, brings together industry and research with the aim of sustainably growing the aquaculture sector in Scotland. ESI Funds should help the sector access, use and develop this growing knowledge base.
20. 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.
21. 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; and
- Resource efficiency and shift to low carbon climate resistant economy.

22. 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.

ENHANCING ACCESS TO, AND USE AND QUALITY OF, ICT

CURRENT INVESTMENTS AND REMAINING DEVELOPMENT NEEDS

23. The Scottish Government has set an ambitious digital policy towards 2020 that aligns very closely with the EU's Digital Agenda for Europe (DAE). Scotland's Digital Future: A Strategy for Scotland, published in March 2011, is our national digital strategy, focused around four interlinked themes – digital connectivity, digital economy, digital participation and digital public services. All four of these are equally important, and mutually

reinforcing – economy, participation and government services all help to drive demand; but can only be effectively delivered and exploited if the infrastructure is in place to support it.

24. 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 substantial 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%). The scale of the issue is illustrated on the map below (Figure 59), which shows the areas which will have no coverage after all existing broadband plans have been delivered (by end of 2018).

25. 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 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 (Figure 59)). Coverage in the Highlands and Islands will only reach 84% by 2015/16 on the basis of current plans, 11% below the UK target.

26. The cost of infrastructure deployment increases substantially in rural areas. For example, 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 (€25) for every £1 (€1.26) 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[352].

27. The high level of return largely derives from the fact that broadband is a General Purpose Technology which has an increasing role in the day-to-day operations of the majority of UK businesses and services. However, because of the timeframe on returns, public sector intervention is required to extend the deployment of this technology across 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. The areas being targeted for public subsidy and ESI Funds also have an ageing population and widespread digital connectivity and skills development is therefore also critical to the long-term and cost-effective delivery of healthcare and other services upon which local communities depend.

28. Reflecting the significant enabling role of ICT, the Scottish Government and partners are making a significant investment through our Digital Scotland Superfast Broadband (DSSB) programme to extend broadband infrastructure to non-commercial areas. The

[352] Further details at: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/257006/UK_Broadband_Impact_Study_-_Impact_Report_-_Nov_2013_-_Final.pdf

DSSB programme is based on a gap funding model, where the public subsidy provided is only to the level which is required to make the investment viable to the private sector.

29. Alongside this, since 2013, the Scottish Government has:

- provided £13.6 million (€17 million) of funding support to promote Scotland's digital economy and to address digital skills issues and actions set out in the ICT & Digital Skills Investment Plan;
- established the Digital Scotland Business Excellence Partnership which is designed to help businesses of all sizes to make the most of digital technology; and
- launched the Digital Participation Strategy, which encourages individuals and businesses to get online, and a Digital Public Services strategy that sets out a comprehensive framework for the development of digital services that will transform service provision across the Scottish public sector.

THE ROLE FOR ESI FUNDS

30. Given the level of need, particularly in remote rural areas in the Transition region, a major focus of the ESI Funds intervention must remain on the supply side, supporting complementary programmes focused on demand side measures. Scottish Government proposes to use ERDF and EAFRD to support the extension of superfast broadband into the most challenging areas, particularly the final 5% of premises that will remain unserved even after existing public intervention. We are also keen to accelerate the deployment of ultrafast networks across Scotland and there could be opportunities for ESI funds to support the development of new delivery models through financial instruments that draw on many of the principles underpinning the proposed Connecting Europe facility for digital. As in the rest of the UK, the presence of these Funds, even in modest amounts, signals the importance of the investment, and acts to draw in wider investment including increased market interest. ESI Funds thus contribute to overcoming market failure both directly and indirectly.

31. ERDF and EAFRD will be deployed in complementary ways in Scotland. ERDF will focus on extending next generation access (NGA) networks to premises that will not have NGA delivered through the existing DSSB programme. This will primarily be done through a series of regionally aggregated procurements, separate from existing DSSB contractual arrangements. This investment with ERDF will be limited to the transition region. To satisfy State Aid requirements, Scottish Government will identify the specific areas where mainstream contracts will not deliver (at 6 digit postcode level), de-scope these from the mainstream contract, and procure separately. In many cases, this will require the use of alternative access technologies, not currently available through the main DSSB delivery contract. Where State Aid approval is required, this will be sought as individual projects and operations are specified.

32. EAFRD will be used to provide tailored support to communities where it will be particularly challenging to develop a commercial solution. The focus will be extending access to affordable backhaul for community schemes, promoting and piloting emerging technologies such as white space and continuing to support models that enable community ownership of assets.

33. Community Broadband Scotland (CBS) (a Scottish Government funded programme to support rural communities to gain access to faster broadband) is uniquely placed to coordinate work across both funds, through promoting innovation in delivery; developing community-led projects and community-owned infrastructure. CBS will act as an interface by working with a range of industry players, as well as communities, to design and support sustainable initiatives that complement and add value to the DSSB roll-out and other domestically funded demand side initiatives.

34. CBS is currently testing this approach through the Argyll Isles project, where they have

helped create a community of interest comprising 1,500 premises, spread across 4 island locations, that are not part of mainstream planned deployment through the existing Digital Scotland programme. If successful, this will form the blueprint of the Scottish approach for spending ERDF.

35. Infrastructure investment alone will not achieve all the aims of the Scottish Digital Strategy. Although the commercial market for internet service providers in the UK is very competitive, there are also still significant gaps in usage – for example the number of small businesses with no on-line presence or plans, and areas with low take-up despite excellent coverage (Glasgow has one of the lowest reported rates of household broadband usage despite being one of the first cities in the UK to launch 4G services).

36. Whilst a significant amount of demand stimulation is carried out using domestic resources. These include supporting those with low or no ICT skills to adopt them, for example to access and use services like banking and debt advice, and to access employment opportunities. Government and local services are increasingly available online too, and in some cases only online, helping to drive up demand for digital services as increasing numbers of people adapt and take these up. There is also support for businesses and start-ups on creating and maintaining a digital presence.

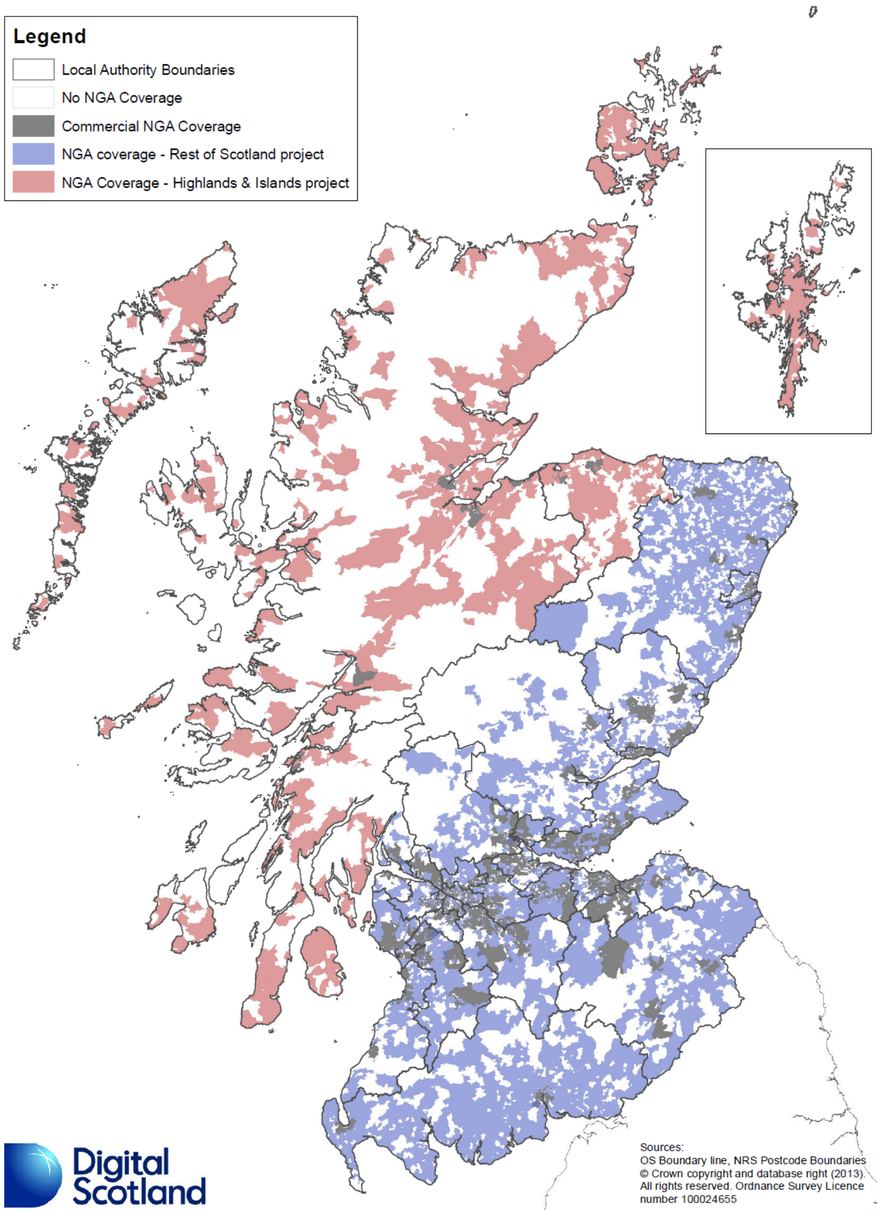

Figure 59: Projected NGA coverage: Scotland

37. There is a need and significant potential to develop and expand this kind of activity into more advanced and high quality usage, beyond basic skills or basic websites. However, to align this more effectively with other forms of support, this activity in Scotland is proposed under other thematic objectives. For example, ERDF will support business usage and exploitation of digital technology under SME Competitiveness, with a particular emphasis on getting SME's to adopt advanced digital technology for production, sales and data management, and on clustering SMEs to improve usage. ESF will support the development of the skills required by Scotland's high-growth ICT sector under Education, Skills and Lifelong Learning.

Enhancing the Competitiveness of SMEs

38. Scotland has a lower business stock than the UK as a whole (relative to population size), an historical trend that persists in 2013. Recent increases have been driven by substantial growth in VAT-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.

39. 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). A high number of micro, small and medium enterprises are 'steady state' with limited capacity for growth.

Nesta's analysis on the geography of high growth firms
Source: Nesta

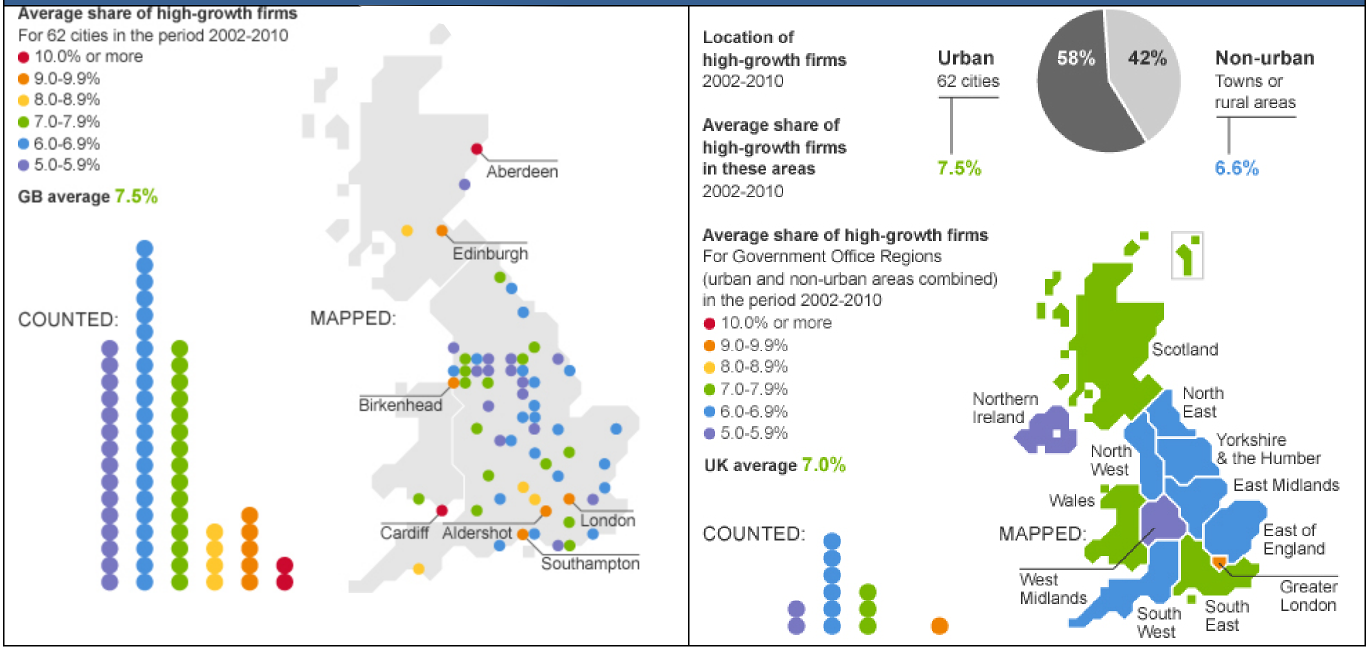

Figure 60: Nesta's analysis on the geography of high growth firms
Source: Nesta

40. 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. 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.

41. Growth does not have to be 'high-growth' by international standards to have a significant regional impact, and there is significant evidence that relatively modest growth, sustainable investment and sustainable employment in such SMEs widen and stabilise the economic base. However, a number of the requirements for creating both 'steady' and 'high' growth are the same.

42. 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:* bottlenecks remain in the entrepreneurial system around the current relevance and 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 exports are growing, and are a well-recognised path to company growth. However, data from the Small Business Survey shows that only 13 per cent of SMEs in Scotland in 2012 were exporters, down from 16 per cent in 2007.[353]
- *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[354] 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.

43. Current public 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 creating a 'single entry point' support to businesses focused on the four areas above, with an explicit aim of identifying ad promoting the next generation of growth companies in Scotland, and on increasing the number of Scottish SMEs which are 'born global'.

44. 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, and aiming to work with entrepreneurial discovery processes and networks to widen the benefits out from those companies being helped directly. 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.

45. The support will also be aligned to Financial Instruments aimed at increasing access to finance for business for growth and/or innovation. Early ex-ante assessment scoping work looked at a range of options for the use of Financial Instruments. The results of this work highlighted that the main area where dedicating ERDF to financial instruments could be justified from the beginning of the Programme was in the continuing provision of access to finance for SMEs.

46. Independent research highlights that lack of access to finance is a continuing barrier to growth for businesses. In order to ensure that financial instruments are operational from an early stage the scoping work also recommends building on the existing successful SME debt and equity funds developed in the 2007-13 Programme. Taking account of the lessons learned from the previous Programme the intention is to streamline the various existing products and to combine management of funds to achieve greater

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353 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.
354 Further details at: http://businesshelp.lloydsbankbusiness.com/downloads/LB_UK_Business_Digital_Index_31_03_14.pdf

economies of scale. The ex-ante assessment work is currently being developed further to identify the specific products and delivery mechanisms.

47. In rural regions, smaller companies with lower growth potential and ambition remain 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.
48. EAFRD will also continue to support farming businesses to modernise and become more competitive with a particular focus on helping new entrants to support generational renewal, and supporting small-scale investments on small farms to help them modernise and adapt to changing conditions. 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.
49. EMFF will support the modernisation of the significant numbers of fishery-based businesses in Scottish waters. The reformed CFP envisages progress to its objectives over a number of years. The main objectives of a successful regional management system, landing obligation and management of fisheries at Multiple Sustainable Yield will all be taken forward in co-operation with industry as we deliver a smooth transition to the reforms objectives. The detail of each element will be reflected through the operational programme.
50. Support will 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. This includes developing areas such as maritime based tourism. Aquaculture, as part of the food and drink sector, also has significant growth potential if managed well. EMFF will 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. SMEs 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.

Investing in Education, Training and Vocational Training for Skills and Lifelong Learning

51. 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.
52. 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, and therefore the Inclusive Growth strand, are linked to this, ranging from 84% for those with tertiary education; to just 41% for unqualified individuals.

53. 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.

54. 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 and high level vocational education and training which delivers the skills employers need; and gradually reduces the need for social inclusion interventions over time.

55. 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. 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, as well as to economic growth.

56. Skills development is another example of the **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 quality 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. Whilst EAFRD and EMFF will not directly contribute to this thematic objective, the skills requirements in rural and coastal areas will therefore form part of the regional skills plans.

57. Workforce development support under ESF is therefore also linked to the Smart Specialisation strategy though tailoring regional skills provision to those future sectoral needs, and includes rural, forestry and heritage skills in regions where these continue to be important. It will also include the technical, regulatory and scientific skills required for blue growth, for example in areas such as marine ecosystems, safety, innovation, and entrepreneurship.

Summary of needs and growth potentials justifying selection of key Thematic Objectives

Needs	Opportunities	Thematic Objective

Needs	Opportunities	Thematic Objective
• Increase commercialisation and take-up of RTD&I, drawing on the strong research basis to maintain and increase global competitiveness increase business demand for RTD&I support and investment, particularly in SME's with growth potential and in key sectors	• key sectors in life and health sciences, chemicals • strong links to sustainable growth through renewable and low carbon technology innovation, and circular economies • Digital sector and services growth • Improve knowledge-based regulation and management	(1) Strengthening research, technological development and innovation
• A high number of 'white areas' remain in remote rural Scotland, disadvantaging people and businesses, restricting opportunities, risking social exclusion and exclusion from services	• Remote service delivery, particularly telehealth • IT dependent sectors such as creative and data management and - mining	(2) Enhancing access to, and use and quality of, ICT
• Lack of available business finance • Need to increase growth and export readiness and ambition of SMEs • Support diversification and sustainability in fragile areas	• Large SME base to target • Quality of Scottish produce and products, including marine products • Increased adoption of digital technology, including SMART technology to enhance competitiveness • 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)
• Structural skills gap between high and low skills, knock on impact on life outcomes • Changing skills demands for future industries, particularly decreasing demand for low skills base • Lack of vocational and technical learning options contributing both to early school leaver rates and skills shortages.	• Skills shortages in key sectors including oil and gas, and particularly mid to high skills • Skills needs can be directly linked to growth sectors in each region • Plugging skills gaps by focussing actions on NEETs or young people at risk of becoming NEET	(10) Investing in education, training and vocational training for skills and lifelong learning

SUSTAINABLE GROWTH

LOW CARBON ECONOMY

58. 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)[355] . 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 into blue growth in sea fisheries- dependent areas. This opportunity encompasses supply chain development as well, strengthening SME competitiveness.
59. 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 economic 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.
60. To achieve this, Scotland has set itself ambitious domestic 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; and
    - 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.
61. These ambitions exceed EU 2020 targets, and are 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.
62. Scotland's scope for developing and supplying renewable energy is significant – the practical offshore renewables resource has been estimated at 206 GW[356], 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. Scotland in this way can make a significant contribution to the Strategic Energy Technology Plan
63. 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 change. The ESI Funds will therefore be 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

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[355] Further details at: www.scotland.gov.uk/Resource/Doc/175776/0115759.doc
[356] The Offshore Valuation Group (2010), The Offshore Valuation. http://www.offshorevaluation.org/

term, this kind of investment would then be seen as increasingly normal, less risky, and more attractive. 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.

64. The proposed approach will aim to make a wide variety of low carbon technology a natural investment proposition in Scotland – using ESIF to bring in a wider range of funding sources and in effect seeking to change the market for low carbon investment to a lower-risk but still high-innovation one. This approach is likely to see both technology and products supported across a broad range of 'low carbon' areas, including, supply chain development of businesses focused on the low carbon economy, environmentally friendly products) and particularly innovation in new low carbon technologies. This latter focus may require the development of localised infrastructure in support of specific test sites. It will not support general grid or infrastructure improvements.

65. Energy efficiency is already the focus of a number of domestic funding initiatives and policies, and it is therefore important to target the ESI Funds. Support could therefore also be provided to energy efficiency demonstration projects in businesses or groups of businesses, and in premises including public premises where investment would demonstrate the feasibility of new energy efficient technology. Support would not cover the whole-sale retrofit of domestic or public premises unless it formed part of such a demonstration.

66. **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.

67. The second change is in how transport is powered. With transport one of the main CO_2 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, allowing 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.

68. The measures foreseen for sustainable transport/sustainable urban development will take sustainable urban mobility plans, noise abatement plans (Environmental Noise Directive (2002/49/EC)), and air quality plans (Ambient Air Quality Directive (2008/50/EC), Gothenburg Protocol) into account.

PROTECTING THE ENVIRONMENT AND PROMOTING RESOURCE EFFICIENCY

69. 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. The ESI Funds have very particular and separate roles in maintaining and improving that environment, and regulating the use of it as a resource.

70. 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 help Scotland meet its environmental obligations around NATURA, The EU Biodiversity Strategy and other relevant international and national requirements, this will include:

- *Peatland Restoration and Afforestation initiatives,* a significant rural contributor to the Scottish Governments efforts to reduce Scotland's carbon footprint, 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. EMFF will also contribute to WFD obligations by way of improvements and modifications in Scotland's freshwater aquaculture production; and
- *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.

71. 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.

72. The combination of forestry and agri-environmental-climate initiatives will more than meet the EAFRD ring-fence of 30% towards this thematic objective, amounting to 45% of the Scotland Rural Development Programme.

73. Scotland also has large, diverse and productive marine resources. It produces the great majority of the UK's seafood and maintaining a traditional industry is socially and economically important in may coastal areas of Scotland. The Scottish seafood sector aims to be fully sustainable, and the EMFF will support initiatives relating to:

- The Marine Strategy Framework Directive, including Part 1 of the UK Marine Strategy published in 2012 – primarily by way of ensuring key CFP obligations, such as fishing to MSY, adhering to the landings obligations and participating in improved, knowledge-based management. This will involve adaptation of segments of the fleet so as to balance fishing capacity with fishing resource, as well as technical innovation in areas such as gear selectivity;

- Natura 2000 and related designations under the provisions of the Marine Scotland Act (2010), which also incorporates the key concept of marine spatial planning. Participating in the management process for designated areas is seen as an opportunity for the catching sector, and Scottish aquaculture already works closely with Scottish Natural Heritage and others in relation to our existing marine Natura 2000 sites;
- Marine spatial planning and coastal zone management principles will be utilised when developing new locational opportunities for Scotland's expanding aquaculture sector, and specific collaborative EMFF projects are already foreseen in this area; and
- Opportunities for diversification and **complementarity** with other sectors will require to be developed to allow the marine sector to reach its full potential.

74. There are also two specific roles for the European Regional Development Fund. The first of these is for ERDF to **align and complement** rural and marine activity to protect and improve the environment by investing in green infrastructure in urban environments. Cities are resource intensive, acting as home to 70% of the population, and taking up a proportionate share of resources. They generate particular environmental concerns around the quality of air, noise, urban waterways, wildlife corridors and habitats; but also offer a real opportunity for lower-resource intensive living precisely because of their population sizes and densities.

75. Supporting the development of green infrastructure in cities, for example, sustainable drainage, urban farming, and the greening of deprived urban areas will help regulate environmental quality, which in turn will support public health and the attractiveness of cities as a place to live and invest. Green infrastructure projects can also deliver multiple benefits if they are well designed and include landscaping and urban mobility. For example opening up old canal ways as green corridors can benefit wildlife, but can also double as walking and cycling routes, act as noise reduction barriers, and provide new or revitalised greenspace which in turn attracts further development. The recent restoration and regeneration round the Forth and Clyde Canal in inner-city Glasgow is an example of such a multi-use project. It has increased wildlife (breeding birds in particular) as well as human use of the new spaces opened up, and has encouraged urban regeneration and new business space around it, as this is now easier to travel to and better linked to the city centre.

76. The type of projects that ERDF aims to support will similarly be of scale and intended to connect rather than to make very localised improvements; and will aim explicitly to link to wider Scotland-wide networks such as the Central Scotland Green Network[357], to maximise the environmental and social impact. The projects will be locally based and seek to help unemployed people either get into environmental improvement work, or build 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, and also links this strand of ERDF investment to Labour Market Mobility and Social Inclusion,

77. The second role for ERDF is to invest in Scotland's industry becoming resource efficient. In addition to the heavy energy usage of industry in Scotland noted under the low carbon thematic objective. It is estimated that businesses collectively lose 2% of annual profits through inefficient use of resources such as water and waste with over

[357] Further details at: http://www.centralscotlandgreennetwork.org/Download-document/91-Scottish-Green-Roof-s.html

90% of the materials used in production not finding their way into the final product.[358] The Small Business Survey 2012 asked SMEs whether they had taken any steps to reduce their environmental impact[359], and found that while improvement had taken place, 66% of SMEs 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 an increasing focus on this within an industrial context further could both improve resource efficiency and give rise to a strengthened re-use and re-processing industry in Scotland..

78. Individual initiatives or working with individual business projects will not be enough to promote the scale of **structural reform required**. Instead ERDF will offer 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. This is expected to include an enhanced and expanded referral system connecting business support services building on the collaborative Scottish Energy and Resource Efficiency (SERES) partnership, and a brokerage service to assist businesses in finding and using waste material which is already collected. .As with low carbon, this may be complemented by financial instruments to support commercial scale investment, and will encourage clustering to permit re-use of resources.

79. These actions will support and also be complemented by measures highlighted in other thematic objectives, including those relating to ICT, R&D, SME competitiveness and low carbon. Particularly with regard to energy technology development and innovation, including actions related to, re-use of resources and the consequent reduction in both resource and energy needs, they will take account of, complement and help to support the successful implementation of the EU's Strategic Energy Technology (SET) Plan.

80. On resource efficiency, the EAFRD and EMFF will undertake complementary activity for their relevant sectors. EMFF, for example, will deliver energy and fuel efficiency through all parts of the production chain and bringing wider resource efficiency to onshore processing activities. 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.

Summary of needs and growth potentials justifying selection of key Thematic Objectives

Needs	**Opportunities**	**Thematic Objective**
• Continue decrease in GHG emissions, particularly through energy efficiency • Support and exploit low carbon technology and energy as a significant growth and employment opportunity • Address modal shift in transport usage	• Significant potential for renewables, including marine and tidal • Existing expertise in energy and off-shore engineering	(4) Supporting the shift towards a low-carbon economy in all sectors

[358] Further details at: http://www.scotland.gov.uk/Publications/2010/11/15085756/5
[359] Scottish Government, 2012, Small Business Survey Report 2012. http://www.scotland.gov.uk/Topics/Economy/ASBS/Report2012

• Build resource efficiency in all industrial and commercial sectors • Exploit the growth potential of the circular economy • Improve the condition of Scotland's natural assets (designated sites, water quality, abundance of breeding birds, forest and peatland) and its marine environment	• Exploit the opportunities for "blue growth" from marine resources • A circular economy could give rise to new re-use and re-processing industries • Maintain and increase public goods and competitive advantage from high quality nature • Mitigate the impact of human activity through better environmental management	(6) Environment / resource efficiency

INCLUSIVE GROWTH

EMPLOYMENT AND LABOUR MARKET MOBILITY

81. 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% 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.
82. In addition 14% of young people currently leave school early and the trend and proportion of 16 – 24 year old, not in Education, Employment or Training (NEET) has shown no significant trend downwards over the last 10 years. Similarly the trend in levels and proportion of 16 – 19 year olds NEET in Scotland has not dropped below 11% over the same period.
83. In order to break the above trend and to make an impact on the lives of young people and individuals 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;[360]
    - 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, leading to lower wages; and an ageing workforce,* 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,

[360] 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.

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* in the region: 50.6% 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%)[361], women carry out more part-time work (as noted above for H&I); and are over-represented in relatively low-paid caring and administrative occupations, and under-represented in management and skilled trades; and
- *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.

84. 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 (Stage 1) and those only requiring small amounts of pre- or in-work support to enter higher-skilled employment or access training (Stages 4 and 5). 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.

85. The heaviest 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, and health inequalities. These actions mainly form part of Stage 1 of the pipeline model and will be supported under the Social Inclusion and Combating Poverty thematic objective.

86. Whilst gender equality is not an express target of the ESF in Scotland (achieving parity would take more than simply financial resources, and in any case significantly more than the resource available), including child care as party of the package is likely to have a positive effect on the inclusion of women. 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.

87. 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.

88. The Youth Employment Initiative will focus on intensive support for young people in South West Scotland, 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 the core long-term results of employment, traineeships, apprenticeships or long-term education measured 6 months after the support finishes, with a high

[361] 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.

proportion of both jobs and qualifications aimed at growth sectors in the region. A number of the activities will also seek to improve the gender balance in particular sectors, e.g. attracting more females into creative sector and IT apprenticeships. The initiative will align with current national and local Youth Employment Strategies, as well as initiatives under Education, Skills and Lifelong Learning.

89. EMFF funds could support training in fisheries-related and diversification skills, and will specifically fund projects that encourage new entrants into worthwhile and rewarding careers in the seafood industry.

Promoting Social Inclusion, Combating Poverty and any Discrimination

90. 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.

91. 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, child or social care, or help with digital access and basic skills to ensure a community is better connected and can access a wider range of services. These approaches will aid those that are experiencing poverty but in employment and recognise that certain barriers need a local response to be relevant and meaningful.

92. ESF will also support specific initiatives on financial inclusion, to ensure that individuals and families can learn to manage and avoid unsustainable debt levels. This will include, access to basic banking and the ability to build a financial history, and increasing awareness of a possible range of financial products and the positive and negative impacts they can have on poverty. Again, the provision of locally targeted services will encourage a more inclusive and targeted approach.

93. Both community-based action and financial inclusion will take social innovation and social enterprise 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. These sectors will be supported to develop approaches and help drive sustainable and inclusive growth. ESF support under this thematic objective will be strategically concentrated on the most disadvantaged and 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 heavily affected by family circumstances.

94. Social inclusion and combating poverty activity under ESF is not suitable for CLLD, as it requires to be very spatially concentrated and targeted to have an impact in the most

deprived communities. However, by focusing on discreet elements and development needs, the ESF approach **aligns** with EAFRD/LEADER, 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.

95. Other thematic objectives will also contribute more widely to social inclusion through a focus on communities under low carbon and resource efficiency, business growth and innovation and employability programmes.

Summary of needs and growth potentials justifying selection of key Thematic Objectives

Needs	Opportunities	Thematic Objective
• 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 • Plugging skills gaps by focussing actions on NEETs (linked to TO 10)	(8) Promoting sustainable and quality employment and supporting labour mobility;
• Areas of concentrated disadvantage/ poverty/ fragility • Disadvantaged groups facing exclusion, inequality and deprivation • Digital exclusion in target areas and demographies	• Enabling communities to determine local solutions to addressing disadvantage, social exclusion and poverty • Strengthening the social economy and enterprise sector to address poverty and social exclusion	(9) Promoting social inclusion, combating poverty and any discrimination;

TERRITORIAL CHALLENGES

96. 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.

97. 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.

98. Within Scotland, there are five broad typologies of territory, with considerable overlap;

including a specific current issue with youth unemployment.

Areas of multiple deprivation

99. 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.

100. These areas are highlighted in the Scottish Index of Multiple Deprivation[362] (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.

101. 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.

[362] Further details at: http://22fa0f74501b902c9f11-8b3fbddfa1e1fab453a8e75cb14f3396.r26.cf3.rackcdn.com/simd_448749_v7_20121217.pdf

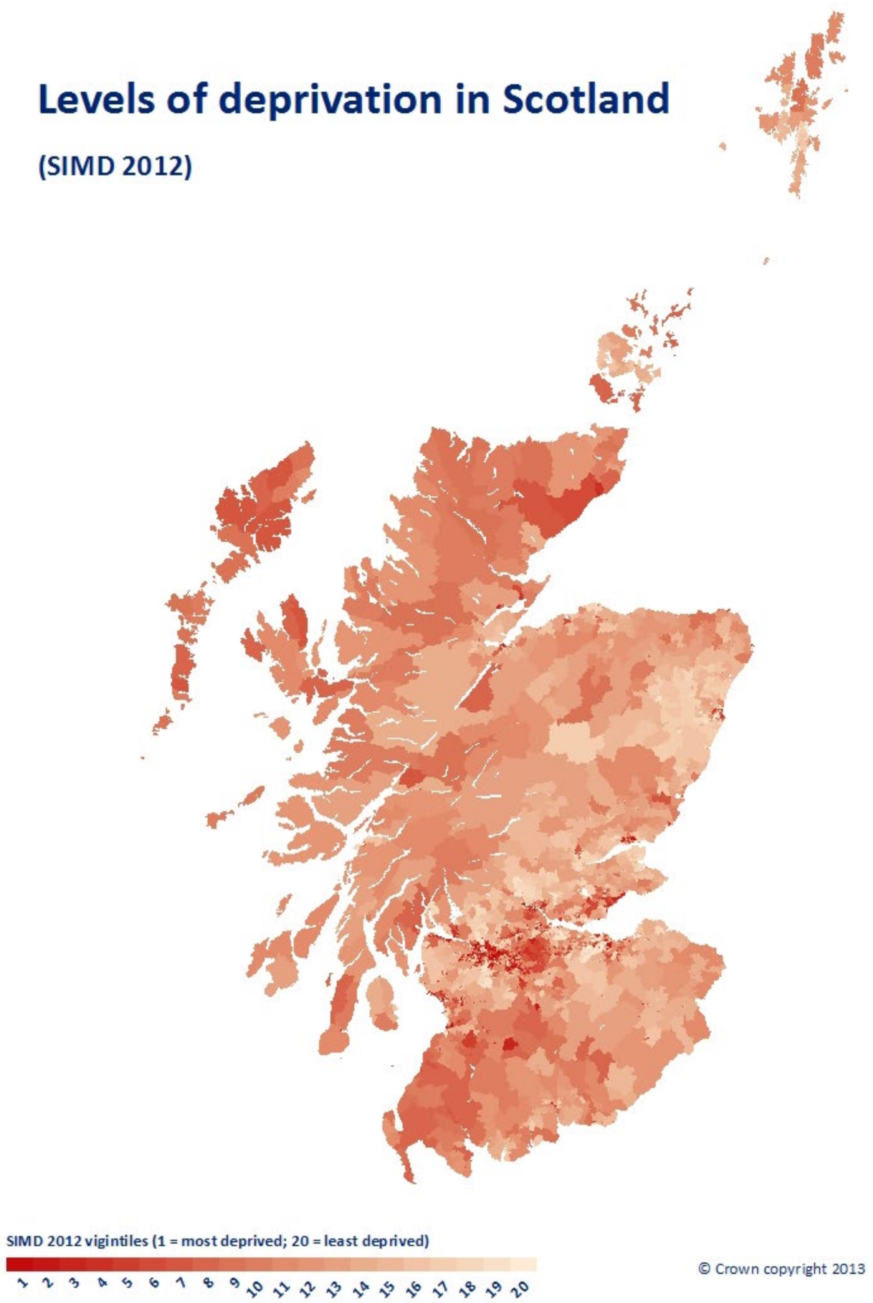

Figure 61: Levels of deprivation in Scotland

Rural, Remote Rural and Island

102. 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.

103. 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:

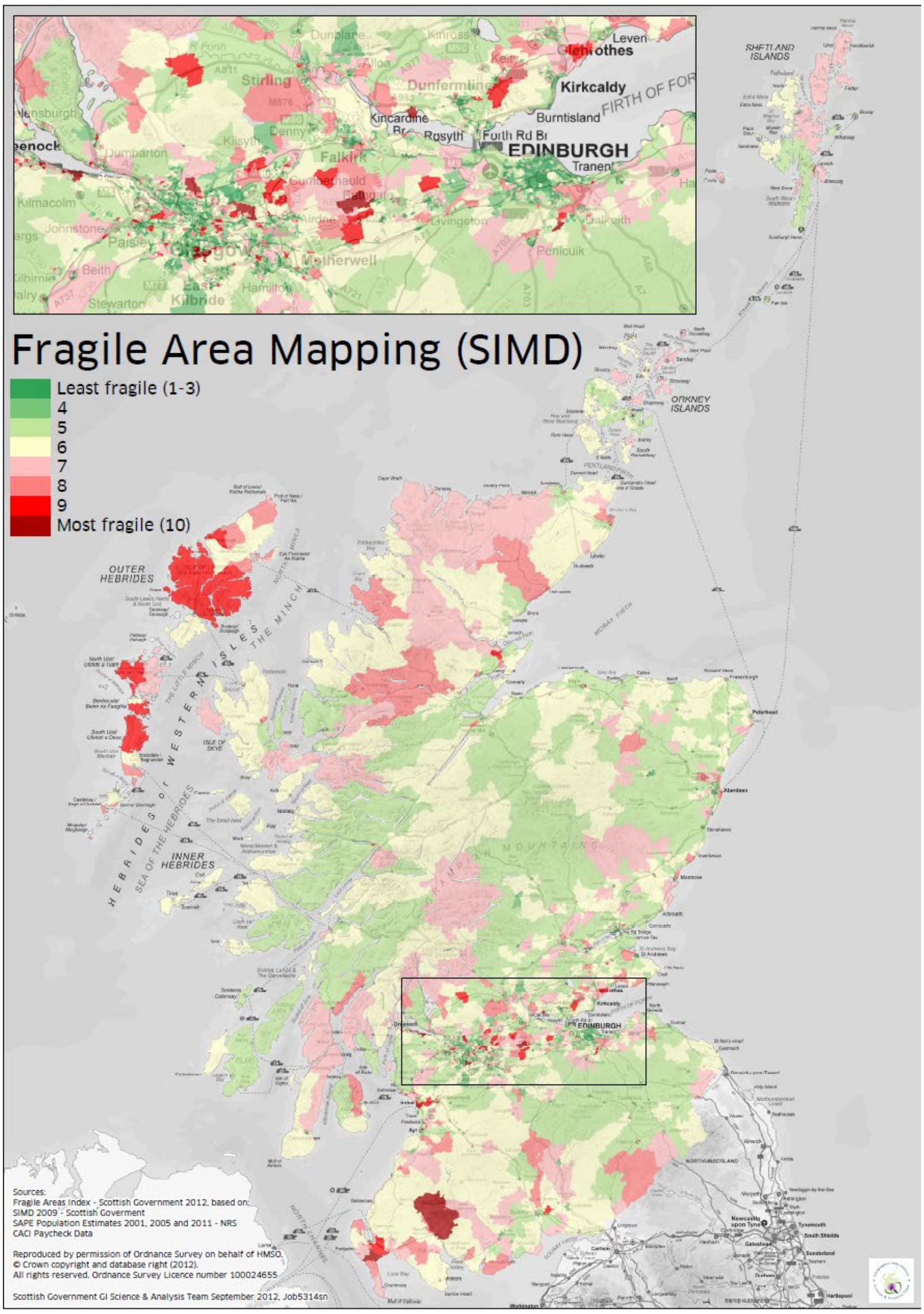

Figure 62: Fragile Area mapping (SIMD)

104. 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.

105. 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).

106. 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

107. Scotland is blessed by a wealth of maritime resources; some of the richest fishing grounds in Europe, a large proportion of Europe's wave and tidal energy resource, rich biodiversity and a multitude of marine habitats, including sea lochs ideal for Scotland's important aquaculture sector, and coastal landscapes and cultural heritage on which our innovative tourism sector relies on. The general challenges lie in the remoteness of many of the communities that stand to benefit from maritime investment, and their isolation on the periphery of Europe, adding barriers to partnership working with other Member State regions.

108. 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 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.

109. For example, pressures and impacts on 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

110. 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 help the transition from fishing to new opportunities in tourism and energy.

111. One such area with huge potential is marine renewables. This is both a priority for Scotland and for the EU as a whole and Scotland is actively engaged within the EU Ocean Energy Forum and with many partners in developing technology around the Scottish coast and most notably in the Pentland Firth through the European Marine Energy Centre. The Scottish Government has established what is recognised as the most effective planning and licensing system in Europe to facilitate the development of

the sector in a sustainable way, but grid connections will be a challenge as many of the best test and development areas are in remote locations which are already constrained. Public support for projects such as the ISLES project and the North Sea Countries off shore grid therefore remain critical

112. Scotland also has the most developed aquaculture industry in the EU and is keen to share our expertise with EU partners to help establish the industry more firmly in Europe as a key sector under Blue Growth. We have ambitions to grow significantly finfish and shellfish sectors sustainably with due regard to the marine environment. We are developing innovative approaches for larger scale high energy/more exposed sites, multi-trophic farms and the potential for combining maritime activities, such as co-location of renewable and aquaculture sites; and engaging with local communities to lock-in financial and other benefits from investments from aquaculture's sustainable growth. Demonstrator projects are under consideration including the use of state-of-the-art equipment and promoting advanced husbandry techniques (such as use of cleaner fish as alternatives to sea lice medicines) and would benefit from targeted support.

113. The wealth of biodiversity in Scotland's waters means that there is a strong potential for developing the marine biotechnology industry. There are already numerous SME biotech firms based around Scotland. The challenge for these companies is securing investment funding for the protracted process from identification of novel bio-products to its entry into the market, a process that can take well over a decade. Support for SMEs in developing marine bio-products would enable the sector to establish itself and contribute to Blue Growth objectives.

114. Finally, Scotland's marine and coastal areas support a range of recreational, sporting and visitor activities, ranging from coastal walking to international sporting events. A rich cultural and natural heritage provides a range of opportunities for tourism based on local food and drink, sport and recreation, wildlife watching and historic attractions. Leisure, recreation and tourism encompass a wide range of interests and industries, many of which are complementary. Opportunities will therefore exist for those in the fisheries sector to diversify into tourism opportunities and EMFF will support eligible actions where there is economic benefit or where it reduces pressure on sectors of the sea fisheries industry.

115. 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. Recent legislation in Scotland introduced a framework for the sustainable management of Scotland's seas. The Marine (Scotland) Act 2010 provides a new statutory marine planning system to manage the increasing, and often conflicting, demands on our seas. The introduction of marine planning is a key tool in achieving sustainable economic growth. It will allow the management of our marine space, and the growth of existing and new marine industries integrated with enhanced protection of the natural and historical assets. Marine Planning Partnerships will have a statutory role in creating Regional Marine Plans and Local Costal Partnerships will also support the evolution of this process in a voluntary capacity. The EMFF will support eligible actions of these groups relating to the marine environment, marine industries and coastal communities.

116. Measures to enhance the resilience of our seas to the effects of climate change, such as Scotland's emerging network of Marine Protected Areas and the National Marine Plan, 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 (€79 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 2010, £1.3 million (€1.6 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.

117. 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.

118. The UK is in the process of implementing the Marine Strategy Framework Directive, having published Part 1 of the Marine Strategy in 2012 and recently establishing the associated monitoring programme. The marine policy, marine science and stakeholder communities in Scotland have played a full part in the implementation for Scottish waters and opportunities to achieve and maintain Good Environmental Status will be supported where eligible and particularly where these provide broader benefits. This will include the evidence work contributing to the production of Marine Plans (including implementation of the Maritime Spatial Planning Directive)

Scotland's Cities

119. 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.

120. 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.

121. 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

122. 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

123. The design of a new programming period must draw on previous experience, and on the institutional environment in which it can be expected to operate. The Scottish programmes from 1989 through to 2007 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 Scottish Government ambitions, the programmes can be used to gradually shift national policy towards EU 2020, making both ESI 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 current 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 on-going 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 (€63 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 THE LATTER EVALUATION IS UNDERTAKEN BY THE MEMBER STATE AT ITS OWN INITIATIVE (ARTICLE 15 (1) (A) (II) CPR)[363]

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. Parallel activities have been underway for EMFF, with studies and evaluations commencing in 2012, and continuing through to the formal stages of SWOT preparation, ex ante evaluation, SEA and participation in the development of the UK EMFF Operational Programme.
3. Overall, each of the operational programmes addresses 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.

[363] Not required for the EMFF pursuant to Article 14 (5) CPR.

4. 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.
5. 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.
6. 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 have questioned the way the programmes were developed, calling for greater transparency and more time to respond to the call for interventions, and greater clarity around poverty, capacity building (for the third sector) and social exclusion. This is unlikely to impact adversely on the effective delivery of programmes however there is a need to clarify delivery arrangements with partners to allay concerns over audit and compliance; involvement of the voluntary sector and availability of match funding.
7. 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.
8. 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. Through their report the Evaluators put forward a number of recommendations which have largely been accepted and the various interventions form a consistent and coherent whole that serve the high level priorities. The Evaluators are therefore convinced that the SRDP has planned its various interventions so that there is a clear logical chain of connections between interventions and impacts that are intended to serve objectives.
9. 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 these barriers.

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 (ARTICLE 15 (1) (A) (III) CPR)

Thematic Objective	Main Results Expected
(1) Strengthening research, technological development and innovation	• Increase in the number of innovative enterprises as a % of all businesses in Scotland (ERDF) • Additional leverage BERD (Business Expenditure on Research & Development) (ERDF) • Increase business efficiency through innovative investments in food and drink sector (EAFRD) • Improve agricultural land management through innovation (EAFRD)
(2) Enhancing access to, and use and quality of, ICT	• Additional business and personal take up of high speed broadband of at least 30 mbps in previously low-speed or unserved areas (ERDF, EAFRD) • Improve business efficiency and competiveness though extending broadband access to at least 30mpbs (ERDF, EAFRD)
(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 the number of SMEs exporting (ERDF) • Increase in turnover in Scottish SMEs (ERDF) • Increase employment opportunities in Scottish SMEs (ERDF, EAFRD, EMFF) • Improve access to farming for new entrants to agriculture (EAFRD) • Increase in sustainable aquaculture production of finsfish and shellfish (EMFF) • Fleet restructuring and modernisation delivered through financial investments, supporting CFP reform obligations (EMFF) • Increase rate of new business start-ups in fisheries areas (EMFF)
(4) Supporting the shift towards a low-carbon economy in all sectors	• Reduction in average GHG emissions (ERDF) • Increase in the number of low carbon products, services and processes (ERDF) • Number of new ULEV[364] registrations in Scotland[365] • Increase in the Blue Growth developments established, particularly marine biomass for energy purposes (EMFF) • Increased use of renewable energy generation in aquaculture and processing & marketing (EMFF)

[364] Ultra Low Emission Vehicle (Baseline at 2012 is 224 new ULEV's (2012 is the last full year with available data)
[365] Based on current trends, we would expect to see a year-on-year increase in the number of new ULEVs registered in Scotland. The aim of this scheme is to result in additional registrations, over and above this business as usual scenario. This additional impact is estimated at 20 new ULEVs per year, over the course of the 5 year programme.

Thematic Objective	Main Results Expected
(6) Environment / resource efficiency	• Facilitate provision of advice to reduce energy & waste consumption (EAFRD) • Improvement in the condition of Scotland's protected natural and historical sites and its marine environment (EAFRD) • Support biodiversity and/or improve water or soil management through effectively managed woodland and farmland (EAFRD) • Increase in the area of woodland and farmland contributing to carbon sequestration (EAFRD) • Reduction in agricultural emissions of methane nitrous oxide (EAFRD) • Increase in savings from resource efficiency measures in supported enterprises (ERDF) • Decrease in average GHG emissions (ERDF) • Savings from resource efficiency measures in supported fleet assets and enterprises (EMFF)
(8) Promoting sustainable and quality employment and supporting labour mobility;	• Increased number in employment, education or training (ESF) • Increase in the level of skills attained for supported participants (ESF) • For YEI: Decrease in unemployment or inactivity especially amongst 16-24 year olds (ESF, YEI) • Increase in the level of skill in fisheries and related marine sectors (EMFF) • Increase new entrants to seafood/ marine sectors (EMFF)
(9) Promoting social inclusion, combating poverty and any discrimination;	• Decrease in the number of people affected by poverty, social exclusion and disadvantage (ESF) • Increase in employment opportunities in community enterprises (ESF) • Improvement in rural community capacity (EAFRD, EMFF)
(10) Investing in education, training and vocational training for skills and lifelong learning	• Participants in employment, including self-employment, 6 months after leaving (ESF) • Participants with ISCED 3A and above skills attainment (ESF) • number of employers in providing work-based vocational opportunities in key growth sectors (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 (ARTICLE 15 (1) (A) (IV) CPR)

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).

	ERDF (€)	ESF (€)	EAFRD (€)[366]	TOTAL (€)
1. Strengthening research, technological development and innovation	106,716,778	0	4,268,257	**36,995,012**
2. Enhancing access to, and use and quality of, information and communication technologies	17,757,540	0	22,396	**17,779,936**
3. Enhancing the competitiveness of small and medium-sized enterprises, the agricultural sector (for the EAFRD) and fisheries and aquaculture sector (for the EMFF)	148,019,749	0	68,453,260	**216,473,009**
4. Supporting the shift towards a low-carbon economy in all sectors	119,592,692	0	0	**119,592,692**
5. Promoting climate change adaptation, risk prevention and management	0	0	201,420,403	**201,420,403**

[366] EAFRD allocations in this table include voluntary modulation.

	ERDF (€)	ESF (€)	EAFRD (€)[366]	TOTAL (€)
6. Protecting the environment and promoting resource efficiency	51,211,850	0	500,301,894	**551,513,744**
7. Promoting sustainable transport and removing bottlenecks in key network infrastructures	0	0	0	**0**
8. Promoting sustainable and quality employment and supporting labour mobility	0	150,748,252	0	**150,748,252**
9. Promoting social inclusion, combating poverty and any discrimination	0	79,328,267	63,092,968	**142,421,235**
10. Investing in education, training and vocational training for skills and lifelong learning	0	130,877,907	0	**130,877,907**
11. Enhancing institutional capacity and an efficient public administration	0	25,507,055	0	**25,507,055**
Technical Assistance	9,143,186	8,247,696	7,125,953	**24,516,835**
Total	**452,441,795**	**394,709,177**	**844,685,131**	**1,691,836,103**

1.5 THE APPLICATION OF THE HORIZONTAL PRINCIPLES REFERRED TO IN ARTICLES 5, 7 AND 8 OF THE CPR AND POLICY OBJECTIVES FOR THE IMPLEMENTATION OF THE ESI FUNDS (ARTICLE 15 (1) (A) (V) CPR)

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 (ARTICLE 15 (1) (C) CPR)

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 and 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 at Annex A.
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 Consultation

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 road shows and the websites. 305 responses across both consultations were received with strong agreement with wider proposals for stronger integration and strategic implementation. Finally, all Scottish Operational Programmes were made available on the Scottish Government website for partner and public comment prior to their submission and negotiation with the Commission. 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. Low carbon transport measures have also been incorporated specifically in recognition of their contribution towards the development of a low carbon economy. And the particular needs of the Transition region have been more precisely reflected.

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
2. 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 published in 2013, sets 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.
3. 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.
4. The Scottish Government is committed to the EU goal of halting biodiversity loss and the degradation of ecosystems by 2020, and seeking their restoration. Its 2020 Challenge aims to increase biodiversity on land and in its 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.

5. Scotland’s seas are economically productive with a wide range of human activity depending on them. 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.
6. 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. Some of the proposed innovation measures in EMFF regarding Scotland’s aquaculture sector 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.
7. 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. Where a plan, programme or strategy has the potential to impact significantly on the environment, either positively or negatively, a Strategic Environmental Assessment must be undertaken. The fisheries and aquaculture sectors are increasingly embracing independently accredited certification schemes, and this trend will continue, with EMFF support, towards 2020.
8. 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. Support for improved knowledge of, and ability to work with, environmental regulations, such as EIA, are envisaged for the EMFF Programme.
9. 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. For EAFRD innovation in the land based sector will be further promoted through close links with the European Innovation Partnership, facilitated by the Scottish Rural Network and other measures within the Operational Programme such as the Advisory Service.

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 THE EFFECTIVE IMPLEMENTATION OF ESI FUNDS (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 (ARTICLE 15 (1) (B) (I) CPR)

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 to enable policy alignment.
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.

   This 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. Focussed programme monitoring committees will be established to oversee the ESF and ERDF programmes and the EAFRD programme. All four programmes, including EMFF, will share information on the programmes, including progress towards the delivery of the Partnership Agreement, expenditure and outputs and any risks or challenges. Common reporting between these Programme Monitoring Committees will be established to monitor progress of all the ESI Funds and their contribution to the targets and objectives set out in this document.
3. 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 will be explored including the promotion of case studies and best practice and news/updates.

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Co-ordination of the ESI funds with other Union and National Funding Instruments and the EIB

4. In addition to alignment between the ESI Funds, 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.
5. The approach to innovation aims to align 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, and as described in the UK chapter, allows early engagement on innovation to be supported through ERDF to promote wider participation in H2020 activity; which in turn may lead to further development and marketization of innovation using ESI Funds. The new Innovation Centres being created with industry partnership, will also be an important aspect of the innovation 'mix' as these encourage SME's to engage with European level instruments such as H2020, creative Europe and COSME.
6. For EAFRD links with Horizon 2020 will be facilitated through links between the European Innovation Partnership, Scottish Rural Network and EAFRD Advisory Service. The EIP and Horizon 2020 have close working relationships with work plans being developed coherently, this will allow rural Scotland to benefit from the learning available through all innovation routes.
7. For wider CAP funds care has been taken to ensure that there is complementarity between Pillar 1 and Pillar 2 EAFRD. A joint approach has been taken to some distinct fragile sectors such as Beef, New Entrants and Crofting. And when developing agri-environment payment rates Greening requirements under Pillar 1 have been taken into account to ensure added value of the operations funded under Pillar 2 EAFRD.
8. 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.
9. 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 available to employers in Scotland.
10. Care will be taken that there is clear demarcation between what the ESIF funds do, and other EU and domestic funding sources. Through identifying clear areas of intervention for each of the ESIF funds as set out in this document and further elaborated in the Operational Programmes we can avoid difficulties of mixed funding sources with the complexities and risks that brings. Where a mixed funding approach is taken, it will be where funding is directed towards specific elements of an overall project as permitted within the rules governing particular sources.

11. EMFF will coordinate with other Scottish, UK and EU funding streams to help deliver the reformed CFP. For example, European level funding streams for monitoring and developing marine knowledge, such as Quality Assurance, reporting and publication of marine environmental data and assessments for MSFD, and adopting new technology and cross border mechanisms for marine planning can sit alongside EMFF interventions.
12. Through the recent establishment of an EU Funding Network within Scottish Government we have a solid platform on which to share, coordinate and better exploit existing experience and knowledge of EU funding streams to raise awareness and identify opportunity for synergy. The Network is focussed on the practical elements of understanding and accessing EU funds, and seeking examples of cross-policy working to maximise impact and outcome – for example, Smart Cities actions are expected to combine as a minimum digital, transport and energy activities within individual proposals.
13. The main focus of the EU Funding Portal will be to provide an information and support platform for stakeholders. However, the Network sees this as a potentially useful tool for increasing awareness, interest and use of EU finds within Scotland to improve strategic cross-policy thinking and connected support mechanisms. The Network has also provided a forum for discussing wider EU policy interests relevant to the funding streams, gaining greater awareness of Scotland's engagement and involvement in EU initiatives including the Smart Strategic Specialisation (S3) Platform, Vanguard Initiative, Digital Agenda for Europe, Atlantic Area Action Plan, and Arctic Strategy.

2.2 THE INFORMATION REQUIRED FOR EX ANTE VERIFICATION OF COMPLIANCE WITH THE RULES ON ADDITIONALITY (ARTICLE 15 (1) (B) (II) CPR, 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 OF THE CPR AT NATIONAL LEVEL AND, IN THE EVENT THAT THE APPLICABLE EX-ANTE CONDITIONALITIES ARE NOT FULFILLED, OF THE ACTIONS TO BE TAKEN, THE BODIES RESPONSIBLE, AND THE TIMETABLE FOR IMPLEMENTATION OF THOSE ACTIONS (ARTICLE 15 (1) (B) (III) CPR)

1. See corresponding section in UK Chapter for a summary of which ex ante conditionalities apply in Scotland.

2.4 THE METHODOLOGY AND MECHANISM TO ENSURE CONSISTENCY IN THE FUNCTIONING OF THE PERFORMANCE FRAMEWORK IN ACCORDANCE WITH ARTICLE 21 OF THE CPR (ARTICLE 15 (1) (B) (IV) CPR)

1. 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 (ARTICLE 15 (1) (B) (V) CPR)

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 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, the Structural Funds programmes will seek to identify fewer and higher quality projects, ensuring and that concentration is achieved around key desired and structural changes.
3. 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;
    - projects, operations and sponsors often overlap and we could do more to co-ordinate the efforts between public agencies to minimise this
    - 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. More effective administrative tools will ensure that we have a more robust and effective control system, as well as the ability to better align EU and 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. Guidance for both systems and the business processes used by each Managing Authority will be available for the respective programme commencements.

6. Staff training forms an integral part of implementation and management plans. For Structural Funds this will involve ensuring that project management, compliance and verification is on-going in support of the longer-term interventions foreseen. The previous SRDP introduced joint working arrangements between the various key delivery partners governing the majority of EAFRD (Forestry Commission Scotland, Scottish Natural Heritage, Scottish Government), and this will continue in the new programme period. Improved guidance, training and support will be made available to all EAFRD delivery partners (including Local Action Groups (LAGs)) so there is clarity on the legal requirements, and the processes to be followed to ensure outcomes are achieved effectively and efficiently. This guidance has been developed in consultation with partners and customers to ensure it is relevant to their needs.
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, Managing and Audit Authority administration of the funds (particularly staffing costs aimed at the functions held by these two control bodies)and evaluation work, 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. EMFF will utilise Technical Assistance to fund new data management system, administration of the funds and evaluation work. Support for the administration element of CLLD will come through the lead fund (EAFRD) however eligible wider preparatory costs and wider capacity support may be considered.
9. 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. In Scotland, this role will be carried out by Marine Scotland, a directorate of the Scottish Government.
10. The Scottish 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 are robust from the start of the programme. Plans include standardising the processes employed by IBs and the methodology for reporting. 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.
11. Exchange of data will be managed through a new IT system which will connect the Scottish IB and the Managing Authority allowing the capture of robust monitoring information. This will also have significant benefits for applicants, facilitating the streamlining of applications and of scheme guidance information.

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 and 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 including on-going public service reform and improvement, and will therefore be in place prior to programmes commencing.

Increased use of procurement contracting and commissioning

3. Beneficiaries, LAGs and FLAGs (Fisheries Local Action Groups) will be encouraged to procure and contract as much as possible, and to avoid splitting the Funds into very small amounts where appropriate. This allows the programmes to deliver more strategically and effect change more quickly in relevant areas, as well as keeping consistent and verifiable records of funding decisions. Guidance on the detailed operation of the model will be available in 2014 prior to programme commencement.

Alignment with major policy

4. Seeking to identify a smaller number of projects will allow the Operational programmes to align with major policy directions and trends domestically, as well as delivering the objectives of the Partnership Agreement. Grouping projects around identifiable and recognised needs, for example the digital strategy, or the funding of the Wood Commission on vocational education, will allow a tighter focus on long-term results, as well as greater clarity for potential beneficiaries about the scale and maturity of project applications expected.

Increased use of simplified cost options

5. In evaluation of the 2007-13 programmes, 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 2014-20, Financial Instruments will be considered for SME competitiveness, low carbon economy, ICT/Digital and R&D&I and the fisheries sectors. 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 2015, ready for programme launch. Although 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 previous systems and provides a platform for data exchange, data interrogation and reporting. It is designed to accommodate simplification such as cost options and will permit the automation of some verification checks, as well as better risk-based sampling for full compliance checks and visits.
9. The EMFF in the UK will operate from a single data exchange system, which should simplify the experience for beneficiaries.

Improved guidance and support

10. Improved guidance and support will be complete by the early summer 2014, prior to programme launches. It will roll out for both Structural Funds and EAFRD starting from summer and continuing on a rolling updates basis as required.

Staff training

11. Relevant staff training on all Funds will be delivered during 2014 prior to programme launches, with on-going training into 2015, and completed before the end of 2014. Refresher training will be offered throughout the programme period as required.
12. 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.
13. 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.

WALES 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 combine 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’.[367]
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

[367] 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) TFEU AND RELEVANT COUNCIL RECOMMENDATIONS ADOPTED IN ACCORDANCE WITH ARTICLE 148(4) TFEU (ARTICLE 15 (1) (A) (I) CPR)

Macro-economic context for Wales[368]

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[369].
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.
5. In considering 'rural Wales' it is important to be aware that there is no single definition of 'rural' that is relevant for all purposes within Wales. The term has many definitions,

[368] Further details at: http://www.ons.gov.uk/ons/rel/regional-trends/regional-economic-indicators/march-2013/regional-economic-indicators---march-2013.html
[369] Further details at: http://wales.gov.uk/statistics-and-research/welsh-index-multiple-deprivation/?lang=en

some of which are more relevant in some circumstances than in others. For the Wales Rural Development Programme two main definitions will be used. The first is to classify each of the 22 local authorities in Wales as 'rural'. This has the advantage that many socio-economic and demographic variables can be found at the local authority level. As well as picking out the mainly rural local authorities this classification also groups the non-rural areas into a set of classes selected for their relevance to Wales.

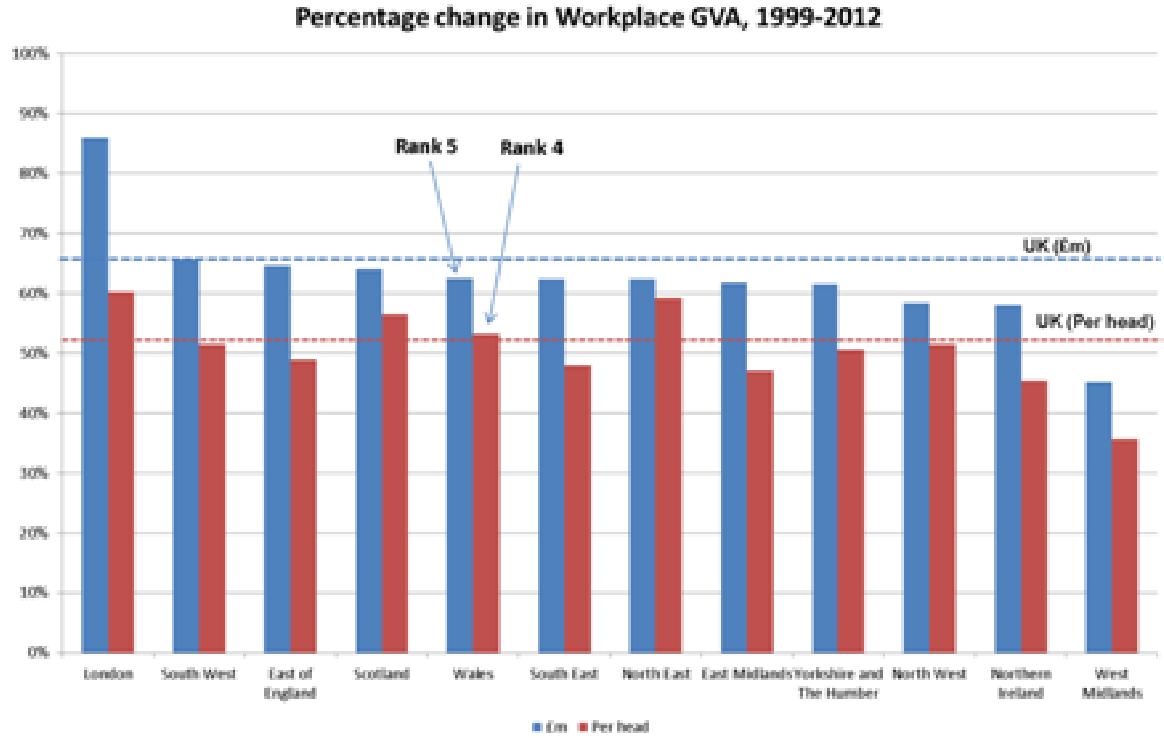
- Rural authorities – Isle of Anglesey; Gwynedd; Conwy; Denbighshire; Powys; Ceredigion; Pembrokeshire; Carmarthenshire; Monmouthshire.
- Valleys authorities – Rhondda Cynon Taff; Merthyr Tydfil; Caerphilly; Blaenau Gwent; Torfaen. Authorities in the old industrial areas of south east Wales. Generally areas of higher rates of deprivation.
- Urban authorities – Swansea; Cardiff; Newport. Authorities based on the three largest settlements in Wales each with a population of at least 100,000.
- Other authorities – Flintshire; Wrexham; Neath Port Talbot; Bridgend; Vale of Glamorgan. These are mixed authorities where the majority of the people are in urban areas but there is a significant minority of people living in rural locations.

6. This rural area (i.e. the nine predominantly rural local authority areas) covers an area of 1.706m hectares (82.1%) with a population of around 960,000 (33%).
7. The more detailed classification uses a smaller building block. These are the Lower Super Output Areas (LSOA). These are statistical reporting units based on areas with around 1,500 people in each. There are 1,896 such areas in Wales. The classification covers Wales and England. It classifies areas into three settlement types and places these settlement types into a sparsest and less sparse context.

- Large towns – all settlement of at least 10,000 people
- Small towns – include the fringes of urban areas
- Smaller settlements – includes villages, hamlets, smaller settlements and isolated dwellings

8. Using the statistical settlement definitions from the Office for National Statistics for 2010 approximately 637,000 (21% of population) live in settlement with under 2.500 people. Roughly a further 502,000 (17%) live in settlements between 2,500 and 9,999.
9. 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.
10. 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):



11. 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.[370]

12. Gross Value Added (GVA) per head in Wales between 2010 and 2012 was approximately £6,000 (€7,544) lower than GVA per head in the UK. The majority 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.

13. 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.

14. Comparing rural Wales to Wales as a whole, 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

[370] Welsh private sector output dropped by 12% compared with an average of 8% across the UK.

incomes are around the average suggesting other sources of income. In addition, poor local transport links often deprive businesses of labour and people of employment and social opportunities.

15. In Wales there are several challenges facing coastal and maritime areas. The Welsh Ministers are committed to the introduction of Marine Spatial Planning in Wales to ensure a joined up policy approach to managing Welsh seas.

16. 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 of 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

17. In addressing the Europe 2020 target and supporting productivity growth through research and innovation, Figure 63 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[371]; 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%).

18. 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,[372] and is identified as an 'innovation follower' in the Regional Innovation Scoreboard[373] 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*[374] 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*

[371] Agreed at European Council, Barcelona, 2002: http://cordis.europa.eu/search/index.cfm?fuseaction=prog.document&PG_RCN=6319877
[372] Innovation Wales
[373] Regional Innovation Scoreboard (2012): http://ec.europa.eu/enterprise/policies/innovation/policy/regional-innovation/index_en.htm
[374] Further details at: https://www.gov.uk/government/publications/government-innovation-and-research-strategy

Wales[375] and *Innovation Wales*[376], 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.

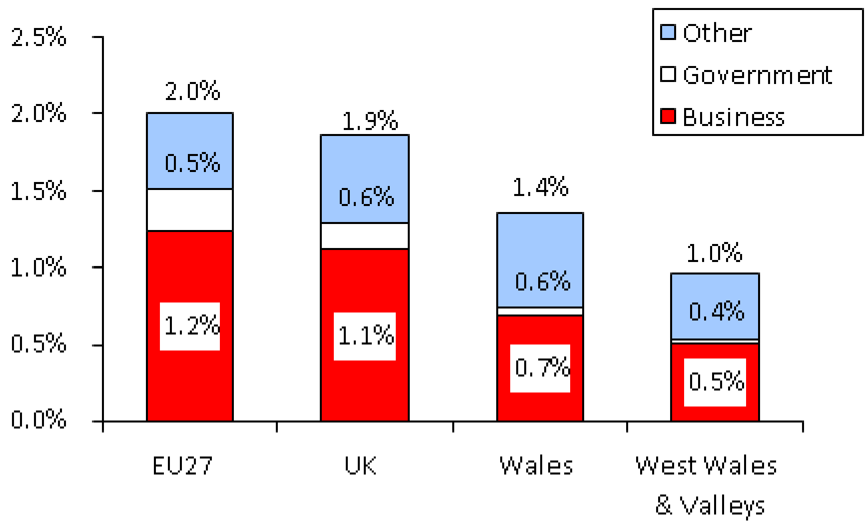


Figure 63: Research and Development (%of GDP, 2009)
Source: Eurostat

19. 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.
20. 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.
21. Examples of smart specialisation identified in Welsh Smart Specialisation strategy (illustrative only – the specialisation areas and illustrative areas will be subject to periodic review and on-going 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)

[375] Further details at: http://wales.gov.uk/topics/businessandeconomy/csaw/publications/130319sfw/?lang=en
[376] Further details at: http://wales.gov.uk/topics/businessandeconomy/innovation/?lang=en

Grand Challenge*	Specialisation Examples	Illustrative areas supporting smart specialisation (examples only)
Life Sciences and Health	Life Sciences coordination	Hub in Cardiff Bay houses £100 million (€126 million) 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 £25 billion (€31 billion) planned investment in Anglesey Energy Island in combination of Nuclear, Biomass, and offshore Wind).
		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 (€12.6 million) UK government funding

Grand Challenge*	Specialisation Examples	Illustrative areas supporting smart specialisation (examples only)
		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 (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
		£35 million (€44 million) agriculture research facility and innovation centre in Aberystwyth University (the Aberystwyth Innovation and Diffusion Campus) to be completed by March 2015. Includes a £14.5 million (€18.2 million) grant from the Biotechnology and Biological Sciences Research Council of which £2.5 million (€3.1 million) is for research into improving upland farming (part of the UK Agricultural Technology Strategy).
		£6.8 million (€8.5 million) 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).

22. In Wales the consultations, independent evaluations, advisory groups and independent research by the Wales Rural Observatory (WRO) have reinforced the importance of effective, well-coordinated **knowledge transfer activities**. In particular it is crucial for enhancing the largely untapped human and social capital potential of persons engaged in the agricultural, food and forestry sectors, land managers and SMEs operating in rural areas.

23. Furthermore it is vital for fostering and supporting innovation and lifelong learning, for enhancement of the knowledge base, and for ensuring the necessary links which enable the transfer of research needs and results between land managers and researchers/academia.

24. EAFRD investments will therefore focus on creating a more sustainable and competitive rural economy and will provide a flexible and responsive tool to respond to evolving industry and policy priorities. Mechanisms will directly contribute to the six RD Regulation priorities & focus areas, and Programme for Government priorities, through

an emphasis on green growth, building resilience, increasing resource efficiency and tackling poverty across the rural economy.

25. Specifically on Knowledge Transfer and Innovation (KTI), independent research undertaken by the WRO found that greater **cooperation and coordination** across and beyond Rural Development Programme activity is needed to address issues of fragmentation. KTI actions need to be targeted at those businesses and persons engaged in the agricultural, food and forestry sectors to promote the economic growth and development of rural areas and to improve the sustainability, competitiveness, resource efficiency and environmental performance of agricultural and forestry holdings.
26. It is intended to deliver a more professional, profitable, diverse and resilient land based sector, supporting the adjustment away from reliance on CAP payments, thereby increasing focus on opportunities in the market place.
27. Detailed information on the measures and schemes, and analysis informing them, will be set out in the Rural Development Plan for Wales. Investments will contribute to increasing the links between agriculture, food industry, forestry and research through ensuring timely transfer of knowledge and research results to the ground and facilitating two-way communication of needs to and from the research community. To reinforce this, activities will have strong links to the Wales European Innovation Partnership for Agricultural Productivity and Sustainability to enable relevant issues or opportunities to be elevated for consideration at Operational Group level. Where justified issues will be taken forward/examined further through Horizon 2020 or other appropriate research funding opportunities.

Small and Medium Enterprise (SME) Competitiveness

28. 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)[377]. 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.
29. 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[378]. 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 including leadership and management skills. 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.

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[377] Welsh Government (2012). *Size Analysis of Welsh Business.* Avalable: http://www.wales.gov.uk/topics/statistics/about/reference/econsources/. Last accessed 16/04/2013.
[378] BEIS 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.BEIS.gov.uk/analysis/statistics/business-population-estimates . Further data on productivity across labour market available in Statistical bulletin: Labour Productivity, Q1 2013, ONS.

30. 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[379] which compares with around 74% across the UK[380]. 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[381]; and 37.8% of innovative firms who tried to access finance were unable to obtain any (doubled from 14% in 2007/8)[382].

31. 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 availability of fibre broadband (2013) among the UK nations[383]. 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 2007-13 (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. This is an area of investment where it is anticipated that ERDF and the EAFRD will be able to coordinate investment approaches to help add value to address the majority of the remaining market failures and white areas. It is envisaged ERDF will be used to complete as much additional core network infrastructure as possible (adding value to and building on domestic and private sector plans), with the EAFRD used to provide bespoke solutions in areas this mainstream provision cannot reach (rural areas, farmers and the hardest to reach areas).

32. 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.

33. **Agriculture** covers around 80 % 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

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[379] Welsh Government (2013) 2012 Small Business Survey, BMG Research
[380] BEIS Economics Paper No. 16: SME Access to External Finance, January 2012
[381] The UK innovation survey 2011, BEIS, in June 2013
[382] 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
[383] Refers to premises by postcode: *Communications Market Report: Wales* (August 2013), OfCom, p67

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, £5.2 billion (€6.5 billion) turnover, 45,000 jobs and £1.3 billion (€1.6 billion) GVA. Long-term reductions in CAP Pillar 1 support threaten profitability of farms and the Welsh Government foresees the need to place knowledge management mechanisms at the heart of the next RDP in order to strengthen the core skills in agriculture, complemented by targeted investment measures increasing value added in the supply chain. Intergenerational renewal is needed to counter the ageing population of farmers and a relative lack of new entrants. There is an opportunity to modernise farming practice to improve business performance, compliance and GHG emissions.

34. The **supply chain** in Wales covers 23,300 registered businesses, £17.3 billion (€21.7 billion) turnover, 170,000 jobs and £4.0 billion (€5.0 billion) GVA. 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. Wales' RDP SWOT analysis indicates significant opportunity to encourage cooperation and collaboration among supply chain actors to create local food hubs, to distribute on a local/ regional basis and to enhance supply chain transparency and linkages

35. 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[384] agenda in Wales.

Summary of needs and growth potentials justifying selection of key Thematic Objectives

Needs	Growth Potential	Thematic Objective
• Relatively low business investment in RD&I • Relatively low levels of commercialisation of research • Lower levels of access to the knowledge economy including knowledge transfer, market intelligence,	• Number of Universities engaged in world class research • Longstanding culture of innovation, with some areas of expertise • Part of world class UK research and innovation system • Renewed policy focus on Research and Innovation backed by significant investment in Sêr Cymru.[385]	(1) strengthening research, technological development and innovation (ERDF, EAFRD)

[384] 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/
[385] 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
benchmarking and producing to market requirements for farm and rural businesses	• Profit growth through innovation in farming and aquaculture businesses • Capitalise on HE and research for land-based industries	
• Persistent market failure creating gaps in ICT infrastructure and connectivity • Low level of e-commerce uptake in some areas • 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 • New ICT developments offers the potential to increase connectivity to harder to reach areas • EAFRD to fund information actions to enable farms and 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)
• Productivity and competitiveness of SMEs is low relative to other parts of the UK • Wales would prosper from an increased business stock • Levels of business growth are still low in Wales • To reduce the amount of resources used by businesses • 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 • To improve the age profile in farming	• Growing Financial and Professional Services sector in Wales • SMEs more competitive in manufacturing sector compared to rest of UK • Growing energy and environment sector • Eradicating supply chain inefficiencies could benefit SMEs across all sectors in Wales • Diversification within and outside agriculture and fisheries • Profit growth in farm businesses through professional skills, genetics, breeding, energy efficiency and cost management • Profit growth in food supply chain through more efficient chains, energy efficiency and cost reduction • Profit growth in forestry via an integrated woodland management and creation package incorporating options more suitable for supporting commercial forest planting • Profit growth in fisheries and aquaculture businesses through increased marketing and value added • Social enterprises growth sector in Wales and represent significant minority of SMEs • Encourage more young entrants into farming	(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

36. In a survey of 778 businesses assisted by the 2007-2013 ERDF Programmes in the first half of the programming period approximately 35-40 % of surveyed businesses reported that ERDF support had a positive effect on turnover, profitability or productivity.[386] 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).[387] 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 indicates that businesses are not dependent upon ERDF assistance and that Programmes are not interfering with the churn in business survival.
37. 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.[388] 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 2007-13 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

38. 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 Europe 2020 targets will therefore require joint-working between both Governments.
39. 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

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[386] *ERDF Business Survey*, Old Bell 3, 2012
[387] 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)
[388] Thematic Evaluation of Enterprise Support, ERS, 2012

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.

40. This limits the scope of investments which the Welsh Government would directly control to the likes of micro-generation. However there is regular cooperation between the Welsh and UK Governments around larger scale operations across Wales.

41. 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. NRW are also responsible for preparing the Priority Action Framework for Wales. This will identify appropriate resources, in line with that Framework, which will be available for Natura 2000 so as to achieve the favourable conservation status of habitats and species of community interest. These resources are expected to include specific ESI funding opportunities, in particular those supporting Sustainable Growth.

42. Figure 64 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 emissions. In 2009[389] 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 (CO_2) 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[390].

43. 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 (CO_2) is not the dominant GHG emitted as a result of agricultural activity. The main gases involved are methane (CH_4) and nitrous oxide (N_2O), which are respectively 21 and 310 times more powerful in “global warming potential” terms than CO_2. Without a concerted effort across of the rural economy and infrastructure, overall targets will not be achieved.

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[389] Climate change strategy for Wales, First Annual Progress Report, Welsh Government (March 2012)

[390] Greenhouse Gas Inventories for England, Scotland, Wales and Northern Ireland 1990-2011. National Atmospheric Emissions Inventory.

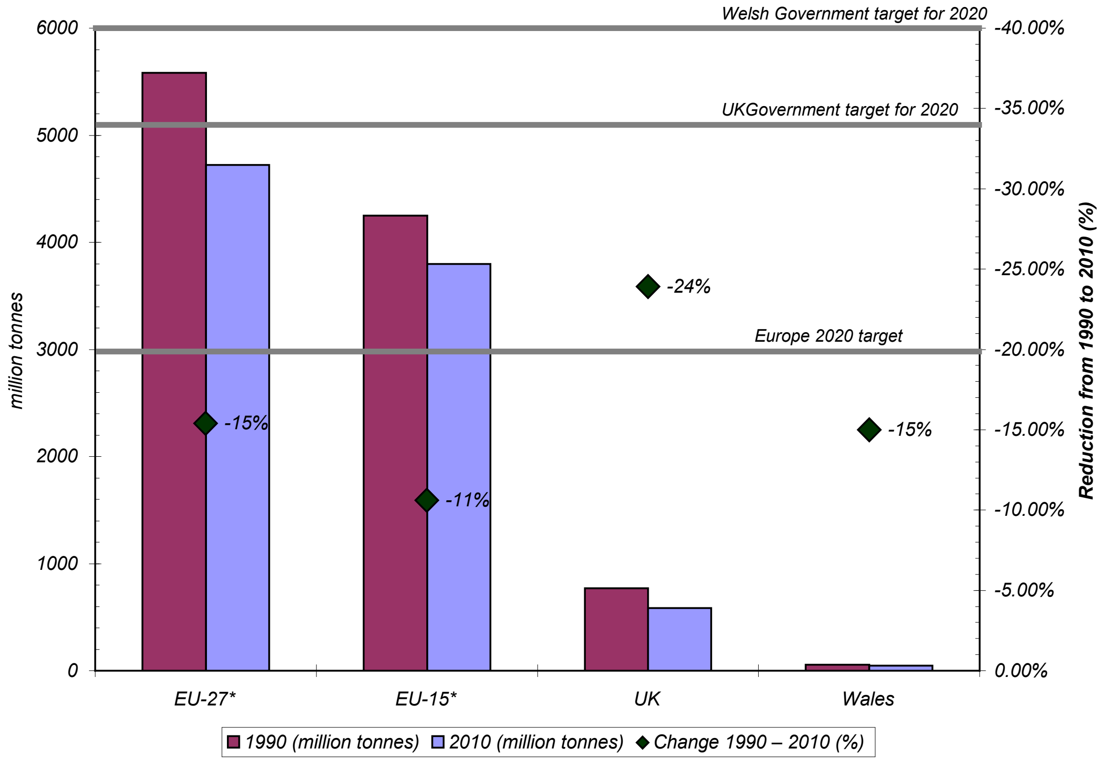

Figure 64: Greenhouse Gas Emissions in CO_2 Equivalent
Source: European Environment Agency

44. 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 65, 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.

45. **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[391]. The largest proportion of that consumption is by industry[392] (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,[393] 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.

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[391] Sub-national total final energy consumption statistics, DECC, 20 December 2012
[392] 49% of final energy consumption by sector in 2010 compared to 37% for the UK
[393] Wales has a relatively high amount of heavy industry compared to the UK average.

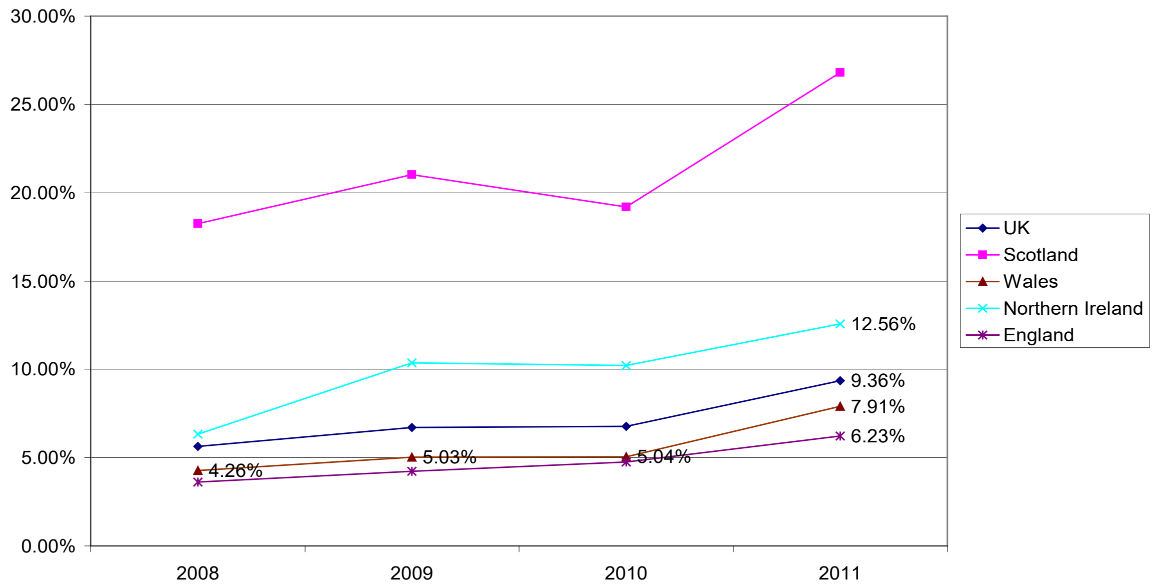

Figure 65: Proportion of electricity generated from renewable sources
Source: The Department of Energy & Climate Change

46. Figure 66 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 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.

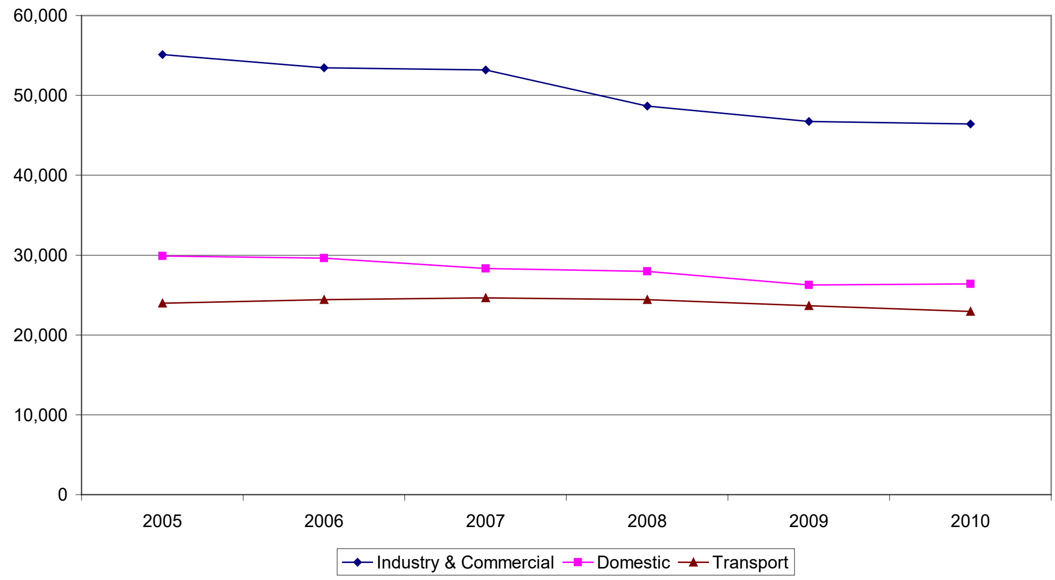

Figure 66: Total final energy consumption by consuming sector (GWh)
Source: The Department of Energy & Climate Change

47. 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 Commission's Position

Paper which states that ESI funds should 'promote energy efficiency, particularly in buildings'.

48. Concerted efforts need to be maintained to address energy efficiency challenges, to support the EU2020 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[394], and a focus of intervention on domestic resources in this area may be appropriate.

49. Reducing costs in the fisheries sector by increasing efficiency features heavily in SWOT analysis. Adoption of more energy efficient equipment, techniques (can also include more energy efficient gear so long as it doesn't undermine selectivity) and engine modification should help the Welsh fleet to improve energy efficiency and reduce costs.

50. 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. In 2013-14 severe winter storms destroyed much of the fishing gear associated with the Welsh crab and lobster fleet. It can also impact on aquaculture in coastal waters where storm actions can affect stocks.

51. **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 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.

52. 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 Europe 2020 targets as well as improving energy security and resilience.

53. 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

[394] Fuel poverty evidence plan (Welsh Government) 2012

further north, increasing the amount of GHG produced and the profitability of the sector.

54. 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.

55. The provision of food and fibre is another essential ecosystem service 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.

56. 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.

57. 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 (€2.4 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. 54% 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.

58. Welsh Ministers are the Marine Planning Authority for Wales, and are responsible for developing marine plans under the Maritime Spatial Directive for the Welsh marine area. The Welsh Government has committed to developing a National Marine Plan for Wales by 2015. The Wales National Marine Plan (WNMP) will set out our policies, objectives and the approach for the **sustainable development of Welsh seas**.

59. It is essential that we all recognise the role our **fisheries** play in the ecosystem. This means we need to manage our natural resources together so that our underlying ecosystems are sustained in a healthy, functioning way. It is this feedback and balance

between use and maintenance of the natural environment that is at the heart of the ecosystem-based approach. The impact that damaging fisheries activities in the wrong area can have on the marine environment and biodiversity are recognised, and the Welsh Ministers have worked with the fishing industry to improve management of fisheries activities in Natura 2000 sites. Further work in this regard to firmly establish the ecosystems approach and develop management plans will be welcome.

60. Welsh Ministers have an obligation under the Marine Strategy Framework Directive to achieve Good Environmental Status in the seas around Wales. Intrinsic in that is ensuring that fishing and aquaculture activities are undertaken in a sustainable manner, and that commercial fisheries are exploited to Maximum Sustainable Yield. Under the Common Fisheries Policy (CFP) Welsh Ministers are signed up to achieving Maximum Sustainable Yield by 2015 where possible and 2020 at the latest.

61. Welsh Ministers are also committed 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.

62. 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.

63. Intervention is needed to support the fisheries and aquaculture sectors to continue to operate in a more sustainable way to assist the Welsh Government in achieving its vision of ‘clean, healthy, safe, productive and biologically diverse seas’ while meeting our obligations under the various legislation.

64. **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[395], 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.

65. Recent research[396] 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

[395] For example the November 2013 report on the Cardiff Capital City Region Metro. Available at: http://wales.gov.uk/topics/transport/public/metro/?lang=en
[396] Regional and Local Economic Impacts of Rail Investments, Mott MacDonald for Welsh Government, 2012

impacts on the local economy. Case study catchment areas also saw a reduced decline in employment growth compared to the baseline.

66. 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. This remains a factor in rural areas where poor local public transport arrangements can grind down or sever the vital links between the labour market and businesses.

67. 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.

68. Analysis of productivity differentials within Wales[397] 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.

69. Peripherality has major impacts in one form or another on levels of productivity across Wales, and in West Wales in particular[398]. 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[399]. 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.

70. 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[400] 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

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[397] Productivity in Wales: the impacts of peripherality on spatial patterns of productivity, University of the West of England (2010)
[398] Productivity in Wales: Analysis of the impacts of peripherality on spatial patterns of productivity- Report to the Economic research advisory panel, Welsh Assembly Government
[399] Commission staff working paper impact assessment - Part II: Annexes Accompanying the document. Proposal for a Regulation of the European Parliament and of the Council
[400] Further details at: http://www.harbourwayproject.com/first-minister-officially-opens-multi-million-pound-road-to-regeneration-in-port-talbot

example of how seeking to address capacity issues in an urban centre can support sustainable urban development. Subjecting programme transport investments to rigorous ex-ante Socio-Economic Assessments[401] 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.

71. 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.

72. 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.

73. 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. There are significant opportunities emerging in these most peripheral areas (e.g. enterprise zones for renewable energy, linked to TEN-T ports), the success of which could be constrained through poor transport connectivity.

74. 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[402]. 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.

75. 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. Major investments are planned by the UK and Welsh Governments in the next programme period to address road bottlenecks in the M4 and rail capacity and performance issues through electrification. These investments offer significant potential to support growing City Regions, but there remain challenges in ensuring these benefits are felt in the more peripheral areas and do not serve to simply continue increase disparities. These investments therefore provides a significant opportunity to utilise ERDF to add value to by ensuring the poorest parts of Wales can benefit from these major investments and ensure sustainable transport is at the forefront of those options.

76. The measures foreseen for sustainable transport/sustainable urban development take sustainable urban mobility plans, noise abatement plans (Environmental Noise Directive

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[401] For example Pont Briwet Redevelopment Project Socio-Economic Impact Assessment, Ove Arup & Partners Ltd (2009)

[402] 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

(2002/49/EC)), and air quality plans (Ambient Air Quality Directive (2008/50/EC), Gothenburg Protocol) into account.

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 • Greater resource efficiency required in industry, including agriculture, to reduce CO2 emissions • Investments in the energy grid are required to open access for renewable operations • Poor energy efficiency of Welsh housing stock and issues of fuel poverty • Better and more frequent sustainable transport options for those seeking employment to access job markets • Improve efficiency of fishing industry	• Extensive natural resources as sources of renewable energy, existing capability and grid capacity compared to other parts of the UK • Existing expertise and growing supply chains in environmental goods and services sector (including in energy efficiency) offer the potential to capture wider benefits in the Welsh economy (any direct support for SMEs would need to be provided under Thematic Objective 3) • Research expertise and capability, including through the Low Carbon Research Institute • 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 • Major investments planned in electrification of rail lines offers opportunities if less developed areas are better connected. • Growth of City Regions in Wales and increased policy focus provides significant opportunity for modal shifts and to ensure population growth is accompanied by increased use of sustainable transport (rather than cars and congestion). • Adoption of more energy efficient equipment (can also include more energy efficient gear so long as it doesn't undermine selectivity) and engine modification.	(4) supporting the shift towards a low-carbon economy in all sectors (ERDF, EAFRD, EMFF)
• Reduction in GHG emissions needed throughout agriculture, other land based industries and the wider food chain together with the need to improve carbon capture in soils, forestry, grassland and peat lands.	• Advisory and technical services are likely to grow in this area as businesses pursue cost efficiencies with benefits for GHG emissions • Promotion of sustainable forestry management and woodland creation. • Promotion of use and installation of agricultural technologies to improve efficiency and reduce GHG emissions.	(5) Climate Change (EAFRD)

Needs	Growth Potential	Thematic Objective
• To address Eco-system and Biodiversity degradation • Fisheries exploited at Maximum Sustainable Yield • Discard free fisheries	• Environmentally sustainable land management practices which will support ecosystem and bio-diversity • Leveraging private sector initiatives to improve land and water management practices • Increasing use of sustainable fishing and aquaculture practices including the use of more selective fishing gear • increased innovation in the fisheries and aquaculture sectors to improve the sustainability and competitiveness of both industries	(6) Environment / resource efficiency (EAFRD, EMFF)
• Ageing infrastructure coupled with issues of peripherality exacerbates transport connectivity problems in Wales • Urban areas suffer from a lack of agglomeration effects • Areas of deprivation need better access to areas of employment and growth centres • 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 • Development of City Regions to maximise potential benefits of those regions as agglomeration economies • Major planned TEN-T connectivity investments (e.g. M4 and rail electrification) offer opportunities for ERDF and other investments to add value, build a critical mass of investment, and ensure the benefits are felt in a geographically more inclusive way. • Operations that tie in with major ERDF works to join rural communities to large transport interchanges or the TEN-T network • Local community transport initiatives	(7) promoting sustainable transport and removing bottlenecks in key network infrastructures (ERDF)

Experience of 2007-2013 and relevant evaluations

77. Evidence from evaluations of operations highlights a number of benefits from ERDF and RDP operations in this area in the 2007-13 Programmes

78. 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.[403] 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.

79. The Green Compass operation evaluation[404] 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

[403] Evaluation of Arbed Phase One, Eco Centre Wales, 2012
[404] Evaluation of PAS 402:2009 / Green Compass Scheme, AECOM Ltd, 2013

to implement improvements that minimised waste and reduced resources.[405]

80. 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.[406] 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.

81. In addition to this evidence from operation evaluations a Programme level evaluation found that the environmental sector was perceived by stakeholders as offering new market and growth opportunities.[407] This helped to place the Environmental Sustainability Cross Cutting Theme higher on the agenda.

INCLUSIVE GROWTH

82. 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.

83. 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.

84. 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 Europe 2020 targets.

POVERTY AND SOCIAL EXCLUSION

85. 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

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405 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.
406 Mid Term Evaluation of the Growth in Environmental Marine Sciences (GEMS) operation, Blue Sky Consulting, 2011
407 Evaluation of the Effectiveness of Programme Implementation, Old Bell 3, 2013

others in society'. **Social Exclusion** or the ability to participate is strongly linked therefore to issues of poverty.

86. 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[408], 80,000 live in jobless households[409].

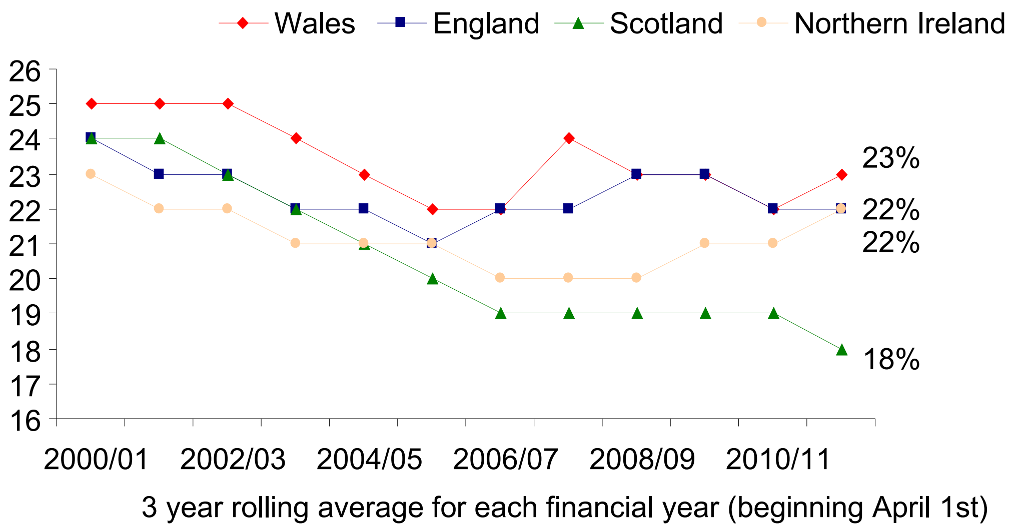

Figure 67: % of People Living in Relative Income Poverty (defined as 60% of the median UK income after housing costs)
Source: Family Resources Survey

87. In the UK, of those households in poverty, 72% were classed as jobless with one or more unemployed. Joblessness 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, however, has a higher percentage of jobless households and children living in jobless households than the UK average.

88. There is a growing body of evidence to suggest that the experience of living in a jobless family for a child is associated with lower educational attainment and a reduced aspiration to gain employment[410]. Furthermore, parental circumstances, including poverty, greatly affect the well-being of children and their employment and income outcomes[411]. The role of the **childcare workforce** and quality of the early years and childcare provision also plays a substantial role in supporting child development.

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[408] Family Resource Survey: Households Below Average Income
[409] Labour Force Survey - April-June 2013
[410] 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.
[411] Allen, G. (2011): 'Early Intervention: the next steps' An Independent Report to Her Majesty's Government.

89. Tackling the issue of jobless 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 Country Specific Recommendation for the UK in 2014 to reduce child poverty in low income households. Welsh Government policy, as articulated through its *Tackling Poverty Action Plan*, states that the best route out of poverty is through **employment** and places supporting access to sustainable employment at the centre of a cross governmental approach to tackle, prevent and mitigate the impacts of poverty[412]. It is therefore important that ESI funds focus on reducing levels of joblessness and jobless households, relative income poverty and persistent poverty through supporting those individuals across Wales (including those living in rural and coastal communities) who are most at risk of poverty and social exclusion, including those facing multiple or complex barriers to employment, to access secure and long term (Sustainable[413]) employment.

90. Ill health and work limiting health conditions can impact on an individual's ability to maintain secure and long term employment. Although we are living and required to work longer, our health is not improving at similar rates[414]. 2.5% of working hours are lost due to sickness or injury in Wales[415] higher than the UK at 1.8%. Poor mental health in the workforce has been estimated to cost the Welsh economy £1.2 billion (€1.5 billion) a year with an average of 1 in 6 of a workforce being affected by mental health issues [416].Action therefore needs to be taken to address health related barriers to maintaining sustainable employment.

91. 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 at £539 (€678) 86.9% of the UK average[417] suggesting these issues might be further exacerbated in Wales.

EMPLOYMENT

92. **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.

93. Specifically, the unemployment rate in Wales was 7.4% of the economically active population during August to October 2013, down from 7.9 % a year earlier.[418] 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% over the year. This represented 33.9% of all those unemployed in the

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[412] Further details at: http://wales.gov.uk/topics/socialjustice/tacklingpoverty/?lang=en http://wales.gov.uk/topics/socialjustice/tacklingpoverty/?lang=en
[413] Sustainable Employment for the ESF programmes means that an individual remains in work, either in one job or by moving to other jobs; but that provides opportunities to advance and earn more.
[414] Dame Carol Black (2008); *Working for a Healthier Tomorrow*
[415] Office for National Statistics: www.ons.gov.uk (these figures include employees and self-employed, aged 16+, across the whole of the UK)
[416] Frideli and Parsonage (2009); *Promoting mental health and preventing mental illness: the economic case for investment in Wales*
[417] Source: Annual Survey of Hours and Earnings, ONS, NS
[418] Welsh Government Statistical Bulletin SB 81/2013 August 2013.

year, 1.7 percentage points lower than the figure for the previous year. The equivalent UK rate was 36%, 2.8 percentage points higher than the previous year.

94. 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. Their participation will have to increase if the Europe 2020 target is to be achieved. These groups have higher inactivity rates also when compared to the UK.

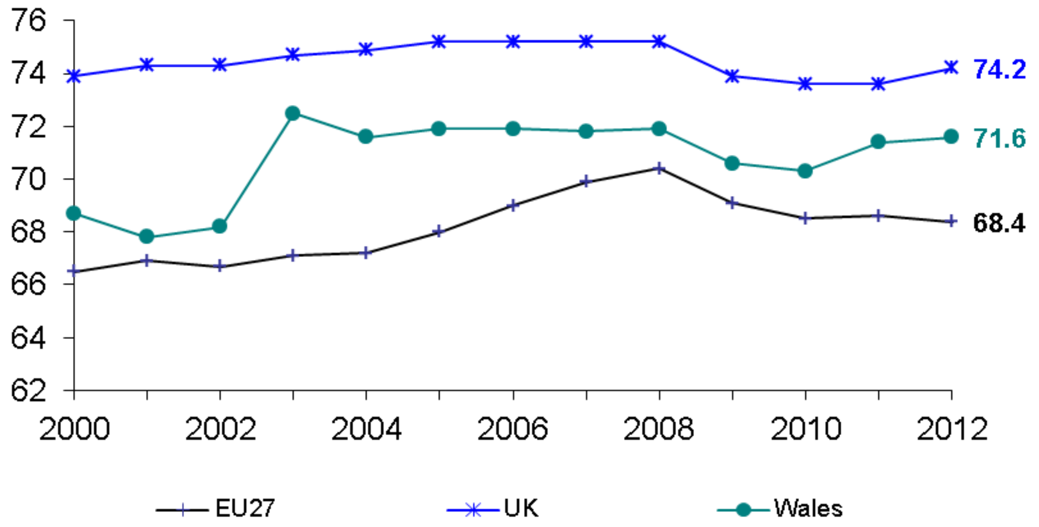

Figure 68: Employment Rates (Aged 20-64 years)
Source ONS, Eurostat

95. 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 jobless households (52% in WWV and 47% in EW), this reduced to 17% for those who were unemployed (slightly higher in EW at 18%)[419]. There are a number of characteristics for the economically inactive or long term unemployed demographic which are linked to higher than average rates of economic inactivity or long term unemployment. These characteristics can be barriers to employment. These barriers are multiple and complex and include work limiting health conditions or disabilities, low or no skills, childcare or caring responsibilities and individuals in jobless households.

96. Women are also more likely to be economically inactive than men, with 28.4% of women economically inactive compared to 15.8% of men.[420.] Women are also more likely to be in part-time work than men and more likely to be looking after the family home or to have caring or childcare responsibilities. As a result, women make up 37% of the full time workforce but 74% of part time workers.

97. Ensuring parents are able to access affordable, flexible and high-quality childcare and early years provision is a key priority for the Welsh Government, with extensive domestically funded provision in place. This includes the Flying Start Programme (providing free childcare for eligible two to three year olds) and early education for three

[419] Annual Population Survey, ONS – excluding students and retired people.
[420] ibid.

to four year olds provided through the Foundation Phase. The Welsh Government also provides grants to fund targeted wrap-around and holiday childcare and to sustain the childcare market[421], alongside advice and funding to increase the number of childcare businesses and address gaps in childcare provision.

98. Women also continue to be under-represented in senior positions and in high growth sectors, particularly where STEM subjects are required. Only 9.9% of employed women are employed in 'Managers and senior officials' occupations, while only 38.4% of those who are classified as 'Managers and senior officials' are women. [422] The socio-economic analysis shows that women also have a higher propensity to be in part-time employment than men (43.1% of women in Wales work part time, as compared to 13.7% of men) with large proportions of the female workforce earning below two thirds of the UK average national income; female earning as a proportion of male earning is 91.9%.

99. The Welsh Government's policy to tackle poverty by removing barriers to employment and helping people to move onto the employment ladder highlights the need to deploy ESI funds to support access to sustainable, secure and long-term employment for those most at risk of poverty and social exclusion (including those in rural and coastal communities) who face multiple and complex barriers to employability and to promote gender equality in employment. Interventions will also facilitate and promote career advancement, improve the position of women in the labour market and tackle in-work poverty. Where childcare poses a specific barrier to participation in an ESI funded intervention, costs can be covered if domestically funded provision is not available.

100. **Youth unemployment**[423] rose sharply following the economic downturn to 25.2% in 2011 but has since shown signs of recovery, reducing to 24.2% in 2012. However, it remains a key challenge, with young people finding it harder to access work and move from education into employment in a highly competitive labour market which is becoming more congested as people work later in life[424].The Not in Education Employment or Training (NEET) rate among 19-24 year olds also markedly increased following the 2008 recession, standing at 23% in 2012[425]. In contrast, the proportion of 16-18 year olds who were NEET in Wales has remained fairly constant at a rate of between 10-13% over the years 1996 to 2010, indicating that non-engagement is also a structural and persistent issue which is present through all economic conditions.

101. Some of the prominent characteristics shared by those young people who are NEET are low or no qualification levels, sickness or disability and family or caring responsibilities. 21% of 16-18 year old NEETs have no qualifications and 26% of 19-24 year old NEETs are without qualifications[426]. The proportion of young people who are NEET is higher amongst those with a disability[427] with 60% of 16-18 year old NEETs classed as unemployed and 20% as inactive due to sickness or disability, family or caring responsibilities. Among 19-24 year old NEETs, 40% were classed as unemployed while nearly 60% were considered to be economically inactive, mainly due

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[421] Welsh Government, Building a Brighter Future: The Early Years and Childcare Plan http://wales.gov.uk/topics/educationandskills/publications/guidance/building-a-brighter-future/?lang=en

[422] Stats Wales

[423] Unemployment amongst 15-24 year olds.

[424] UKCES (2011), *Youth Enquiry: Employers perspective on tackling youth unemployment March 2011*

[425] Statistical First Release (24th July 2013) *Participation of young people in education and the labour market*.

[426] Welsh Government Statistical Article, *Further Analysis of data related to Young People Not in Education, Employment or training (NEET)*

[427] Welsh Government Statistical Bullet, *Young people not in education, employment or training (NEET) (Year to 31 December 2013)*

to sickness, disability, family or caring responsibilities. [428] Other barriers to employment cited by young people who are NEET are a lack of work experience and a lack of self-confidence.[429]

102. The structural and persistent nature of NEET status among 16-18 year olds indicates a need to target tailored interventions at addressing the requirements of this cohort, alongside interventions to support 19-24 year olds to increase their employability and to access the labour market. The Welsh Government's *Youth Engagement and Progression Framework* [430] provides the foundation to identify and support those young people who need support. Opportunities exist to target ESI funded interventions using the Youth Engagement and Progression Framework at those in greatest need.

103. 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. Investments will need to address multiple and complex barriers to employment including broader social aspects of managing a transition into the labour market following prolonged periods of inactivity or unemployment.

104. 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

105. **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[431]. 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.

106. 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[432]. The Welsh Government has set a target to increase the level 2 **attainment** at 15 to 65% by 2015.

107. There is a sharp decrease in participation levels in science, technology, engineering and mathematics (STEM) subjects post 16, especially among girls, with

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[428] Welsh Government Statistical Article, *Further Analysis of data related to Young People Not in Education, Employment or training (NEET)*
[429] ComRes on behalf of the University and College Union, *NEETS Survey*, http://www.knowledgeeconomy.org.uk/the-research/neets-july-2013/
[430] Further details at: http://wales.gov.uk/topics/educationandskills/skillsandtraining/youthengagement/?lang=en
[431] Bradshaw, J., Ager, R., Burge, B. and Wheater, R. (2010). PISA 2009: Achievement of 15-Year-Olds in Wales. Slough: NFER
[432] Office for National Statistics, Annual Population Survey

Welsh figures lower than the rest of the UK[433]. With the exception of ICT, the proportion of A level students taking STEM subjects has declined over the period 2001-2013. In 2013, 17% of male A level students were taking science, while the equivalent figure for girls was 10.7%.

108. Of the 16-24 cohort young people who are NEET are more likely to have low or no qualifications than the equivalent age group population as a whole, with 21% of 16-18 year old NEETs having no qualifications (compared to 8% of the age group population as a whole) and 26% of 19-24 year old NEETs without qualifications (compared to 9% of the age group population as a whole)[434]. This fact, combined with the structural and persistent nature of NEET status among the 16-18 year age group, highlights a need for early, preventative and tailored actions to increase engagement and attainment levels among those young people who are at risk of becoming NEET.

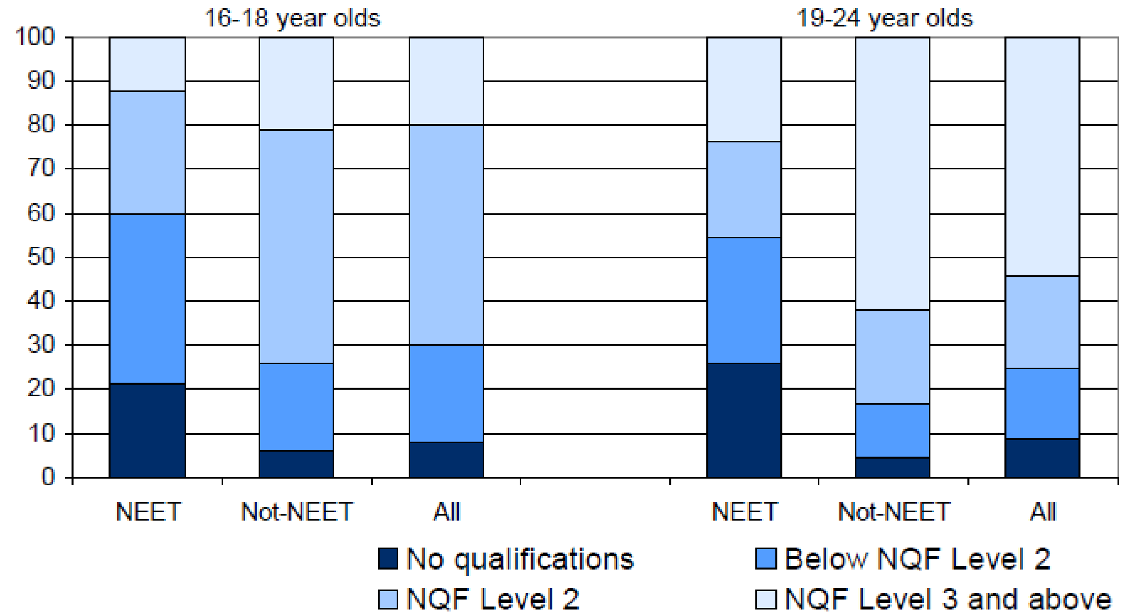

Figure 69: Percentage of young people not in education, employment or training (NEET) in Wales, by level of highest qualification, 3 year average 2008-2010

Source: Annual Population Survey 2008-2010

SKILLS

109. 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%.

110. 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. According to UKCES[435] (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. The

[433] The Royal Society, *State of the nation, Preparing for the transfer to STEM higher education*, 15 February 2011 https://royalsociety.org/education/policy/state-of-nation/higher-education/ as cited in The Welsh Government (2012), *Science for Wales, A strategic agenda for science and innovation in Wales*.

[434] Welsh Government Statistical Article, *Further Analysis of data related to Young People Not in Education, Employment or training (NEET)*

[435] Quoted in the Wales Employment & Skills Board Report, “Skills for Jobs”, July 2011

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. Wales also has a large concentration of employment at an intermediate level and intermediate occupations are projected to contribute more than one third of future job openings.[436].

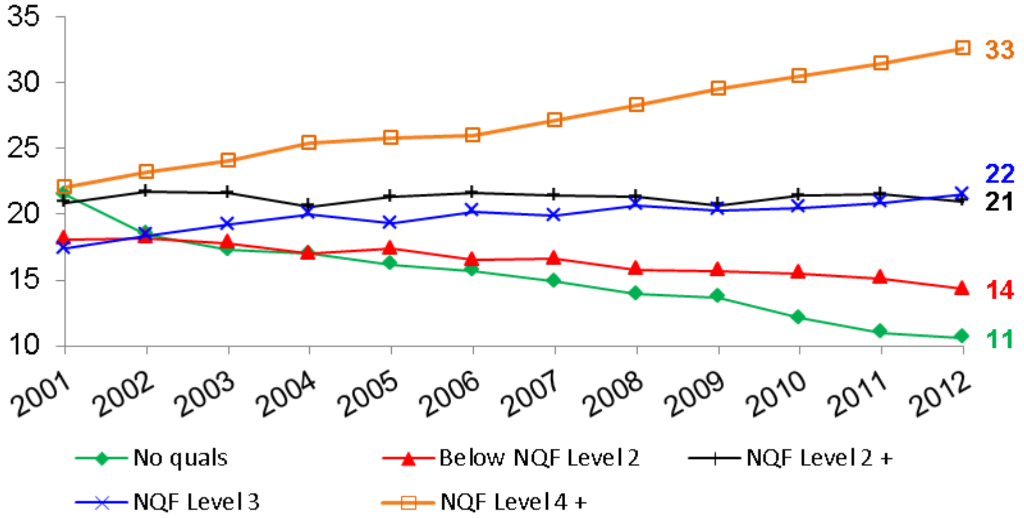

Figure 70: Qualification Levels of Working Age Adults in Wales
Source Welsh Government, ONS

111. 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 mis-match is further emphasised in Wales as the skills profile of working age adults shows that 25% still have below level 2 qualifications[437], (slightly higher than in the UK as a whole) and only 7.4%are qualified to NQF Level 7-8 (below the UK average of 8.1% and the lowest rate of the four constituent nations of the UK)[438]. Of those working age adults who are in employment in Wales, the most recent figures show that 6.9% have no qualifications at all, 14.1% are qualified to below NQF level 2, 21.7% have qualifications at NQF level 2, while 57.3% are qualified to NQF level 3 or above and 37.2% are qualified to NQF level 4 and above.[439]

112. STEM skills are vital to areas of future growth and employment[440][441]. Approximately 20% of the people in the UK workforce need scientific knowledge and training to do their current jobs.[442] However, in 2013, 39% of UK employers who recruit staff with STEM skills reported difficulties recruiting such skills[443]. *Innovation Wales – the Innovation*

[436] UKCES, Wales Future Skills Assessment
[437] Stats Wales
[438] UKCES (November 2012); *UK Skill levels and international competitiveness Evidence Report 70*
[439] Stats Wales - Annual Population Survey / Welsh Local Labour Force Survey, Office for National Statistics
[440] Wales Employment and Skills Board (2011); *Skills for Jobs: Priorities July 2011*
[441] Advanced Materials and Manufacturing (AM&M) Summary Advice from the Sector Panel
[442] The Royal Society (2014);: A picture of the UK scientific workforce https://royalsociety.org/policy/projects/leading-way-diversity/uk-scientific-workforce-report/
[443] Pearson/CBI Education and Skills Surveys of 2008 and 2013

Strategy for Wales[444] states that the level of Research and Innovation within businesses in Wales needs to increase and identifies the importance of equipping the next generation of learners with the right skills to innovate.

113. Investment in supporting individuals to obtain technical and job specific skills at all levels, including apprenticeships and digital skills, will ensure that Welsh workers are able to access the opportunities which exist in the development of a high-skilled economy. Integrated action will be possible to support communities across Wales, including rural and coastal communities, to utilise ESI Funds to develop workforce skills to take advantage of growth opportunities, address emerging economic challenges and diversify into new markets.

114. Skills investments can bring additional benefits to the individual, with higher levels of qualification associated with higher levels of employment and higher wages. Skills development for participants can facilitate career progression and improve income levels, whilst skills acquisition is a key element of tackling in-work poverty[445]. High Performance Working, supporting the better use of latent skills within the workforce, can also support efforts to address in-work poverty. Additionally, investments aimed at up-skilling the early years workforce can support high quality early years and childcare provision, thus enhancing the cognitive development of children.

Summary of needs and growth potentials justifying selection of key Thematic Objectives

Needs	Growth Potential	Thematic Objective
• Need to address the relatively high incidence of NEET and youth unemployment; • High levels of Youth Unemployment adding to challenges in Wales in seeking to achieve the Europe 2020 target of 75% employment; • Lower labour mobility in longer-term unemployed and lower skilled, compounded by greater barriers; • Continued gender inequality, with women more likely to be working part time and to have care or childcare responsibilities	• Youth unemployment has been reducing more recently • Alignment with Youth Engagement and Progression Framework ensures a targeted Wales wide approach to addressing issues of NEET • Employment rates have recovered post-recession • Employment rate gap to the UK has been reducing over the last few years • 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)

[444] Welsh Government (2014); *Innovation Wales – the Innovation Strategy for Wales*
[445] European Commission (2010), *Platform against Poverty*, COM(2010) 758 Final.

Needs	Growth Potential	Thematic Objective
• 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; • Barriers in linking employment needs to areas of economic growth, e.g. connectivity; • Relatively high unemployment and economic inactivity with significant numbers of jobless households; • Child Poverty is relatively high in Wales and needs to be reduced; • Rurality and peripherality (including coastal geographies) exacerbate barriers participation.	• Significant cross governmental focus on tackling poverty and social exclusion; • Opportunities in the Tackling Poverty Action Plan to contribute to a wider cross governmental approach to addressing poverty, worklessness and workless households**;** • Secure, long term (sustainable) employment seen as the main route out of poverty; • Employment helps to prevent the impact of poverty on health and wellbeing 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; • Opportunities to enhance linkages with growth areas to link employment supply and demand • 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
• 6.9% of working age adults in employment have no qualifications, 14.1% are only qualified to below NQF level 2, 21.7% are only qualified to NQF level 2; • A decline in traditional low skilled industries - the fastest declining occupations cluster around NQF Level 2; • The existing workforce needs to be up-skilled to respond to economic opportunities from a knowledge based economy - only 7.4%of working age adults are qualified to NQF Level 7-8; • 39% of UK employers who recruit staff with STEM skills reported difficulties recruiting such skills; • High levels of Early School Leavers and low levels of attainment amongst young people; • Young people who are NEET have higher incidence of no or low qualifications.	• The fastest growing occupational groups require skills at NQF Levels 3, 4 and above; • Investing in work-relevant and intermediate and higher level skills will support the development of modern knowledge based economy; • Investing in skills and up-skilling those with no or low skills can help address in-work poverty; • Opportunity to support skills attainment to level 3 or above to help support progression and address in-work poverty; • Early, targeted interventions can increase engagement and attainment levels among young people and reduce the risk of NEET; • 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

115. The 2011 ESF Leavers Survey[446] found that the majority of participants who took part in ESF operations developed essential skills in organisation, 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

[446] 2011 ESF Leavers Survey, Cardiff University et al, 2013

population suggest that unemployed participants were about 20% more likely to find a job than unemployed individuals who have not attended ESF training.

116. 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.

117. An example of business benefits of ESF can be found in the Interim Evaluation of the Enhancing Leadership and Management operation. [447] 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 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.

118. The Evaluation of the Young People's Priority in the 2007-13 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.[448] 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.

119. Although the picture varies by Priority, the latest data suggest that the 2007-13 ESF Programmes will not meet all agreed targets, for example female participation[449]. The Evaluation of Increasing Skills (Convergence Priority 3 and Competitiveness Priority 2) found evidence of 'passive' monitoring of progress against targets for specific groups on the part of some projects, rather than a proactive pursuit of achieving the participant profiles indicated within the Operational Programmes and business plans[450]. The evaluation recommended that WEFO improve monitoring of indicators below the headline level, specifically relating to participant mix and level of activity[451]. Similarly, the Evaluation of ESF Convergence Priority 2 recommended that projects ensure that they have effective engagement mechanisms in place to reach groups where recruitment has so far been lower than expected.[452] These recommendations will be implemented for the 2014-20 Programmes.

120. There is evidence of good practice in the area of 'vertical' interventions with a specific focus on promoting gender equality in employment, and in helping employers to develop

[447] *Interim Evaluation of ELMS* operation, Old Bell 3, 2013
[448] Evaluation of ESF Convergence Priority 1, GHK Consulting, 2012
[449] Programme Monitoring Reports for ESF Convergence and Competitivness Programmes, WEFO, 15/05/2014
[450] *Thematic Evaluation of Increasing Skills*, ERS, 2013, p.37
[451] *Ibid.* p.60
[452] *Evaluation of ESF Convergence Priority 2*, Old Bell 3 and WEFO, 2012, p.54

better and more robust diversity policies, and to understand the content and implications of the 2010 Equalities Act.[453] There is also evidence of good practice in the area of 'horizontal' integration of gender equality. Where appropriate, lessons learned in these areas will be taken forward to help reinforce gender equality across the programmes.

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 THE LATTER EVALUATION IS UNDERTAKEN BY THE MEMBER STATE AT ITS OWN INITIATIVE (ARTICLE 15 (1) (A) (II) CPR)[454]

1. Ex-ante evaluations for the 2014-20 Structural Funds and Rural Development Programmes for Wales have been completed.
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 2 years with a number of these recommendations being incorporated into the programme documents.
3. The evaluators have indicated that the Programmes' proposed activities are consistent with the priorities and focus areas specified within the Common Provisions Regulation, and are consistent with the main development needs of Wales. They also outlined that the programmes 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 strategies and consistent with other relevant policies and programmes and based on a sound and explicit Intervention Logic;
   - consistent with the Europe 2020 Strategy, the Common Strategic Framework and the Country Specific Recommendations for the UK, and will make a proportionate contribution to the Europe 2020 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,
   - 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 a case for further reflection but note that they respect the counter arguments put forward and that such remaining differences of view are legitimate.

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[453] *Mid-Term Evaluation of the Agile Nation Project*, ECORYS, 2012, p.1
[454] Not required for the EMFF pursuant to Article 14 (5) CPR.

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 (ARTICLE 15 (1) (A) (III) CPR)

Thematic Objective	Desired Results
(1) strengthening research, technological development and innovation	• To increase the success of Welsh research institutions in attracting competitive and private research (ERDF) • To increase the successful translation of research and innovation processes into commercial products, processes and services, in particular through improved technology transfer from HEIs (ERDF, EAFRD)
(2) enhancing access to, and use and quality of, information and communication technologies	• To contribute to Digital Agenda for Europe targets in Wales for 100% access to next generation broadband (30Mbps and above) and 50% access to 100Mbps (ERDF, EAFRD) • 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 amount of finance available to SMEs for start-up and expansion, including risk capital to undertake innovation and commercialise R&D (ERDF) • Increase number of SME start-ups (ERDF) • Increase take up and exploitation of NGA networks and ICT infrastructure by SMEs (ERDF, EAFRD) • Increase growth of those SMEs with growth potential, in particular through accessing new markets addressing barriers to growth at key stages (ERDF, EAFRD) • Increase profitability in farm businesses through broader adoption of leading practice (EAFRD) • Increase value added in fisheries and aquaculture products (EMFF) • 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) including increasing the number of small scale schemes (EAFRD, ERDF) • Increase the number of marine energy devices tested off the Welsh coast establishing Wales as centre for marine energy production (ERDF) • Improve energy efficiency in housing, targeted at most fuel poor households (ERDF) • To increase urban and labour mobility to and from key urban and employment centres (ERDF)
(5) Climate Change	• Land-based measures to reduce GHG and improve Carbon retention (EAFRD) • Improved resilience of farm businesses to the extreme effects of climate change (EAFRD)

Thematic Objective	Desired Results
(6) Environment / resource efficiency	• Land-based actions with a particular focus on environmentally sustainable land management (EAFRD) • Promotion of sustainable forestry (EAFRD) • Improved Natura 2000 participation, biodiversity and water quality (EAFRD, EMFF) • Discard free fisheries and transition to Maximum Sustainable Yield (EMFF)
(7) promoting sustainable transport and removing bottlenecks in key network infrastructures	• To address issues of peripherality and improve private investment in local areas through improvements to the functioning of the Trans-European Transport Network (TEN-T) (ERDF)
(8) promoting sustainable and quality employment and supporting labour mobility	• Reduction in the proportion of young people who are unemployed (ESF) • Reduce inequalities, in particular to improve the position of women in the workforce (ESF) • Reduction of those who are Not in Employment, Education or Training 16-24, including those in jobless households (ESF) • To increase employment through investments in prioritised local or regional infrastructure supporting a regional or urban economic strategy (ERDF)
(9) promoting social inclusion, combating poverty and any discrimination	• Increased labour mobility of those closest to the labour market who are at most risk of poverty and discrimination (including those with low skills or a work limiting health condition or disability or those impacted by redundancy) (ESF) • Reducing social exclusion and tackling poverty among the long term unemployed and economically inactive who have complex barriers to employment through supporting access to appropriate, affordable and long term (**Sustainable**) employment (ESF, EAFRD) • Reduced underemployment or absence rates for employed individuals with work limiting health conditions or other barriers to sustainable (appropriate, affordable, long term) engagement with the labour market (ESF)
(10) Investing in education, training and vocational training for skills and lifelong learning	• Increased skills levels of those in the workforce with no or low skills (ESF, EAFRD) • Increased number of people in the workforce with intermediate level skills and above (ESF, EAFRD) • Increase in number of people undertaking higher level (NQF 7-8) Research and Innovation activities in collaboration with enterprise (ESF) • Increased attainment levels and reduction of young people 11-24 at risk of becoming NEET (ESF) • Increased engagement with and participation in STEM subjects among 11-19 year olds (ESF) • Increased quality of the early years and childcare workforce (ESF) • To support organisational growth, increase flexibility and enhance workforce diversity through increasing leadership and management skills (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 (ARTICLE 15 (1) (A) (IV) CPR)

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).

	ERDF (€)	ESF (€)	EAFRD (€)[455]	TOTAL (€)
Strengthening research, technological development and innovation	454,997,885	0	105,474,472	**560,472,357**
Enhancing access to and exploitation of ICT	67,468,350	0	858,634	**68,326,984**
Enhancing the competitiveness of SMEs, the agricultural sector and the fisheries and aquaculture sector	201,731,716	0	72,695,610	**274,427,326**
Supporting the shift towards a low-carbon economy in all sectors	383,619,743	0	32,600,397	**416,220,140**
Climate change	0	0	145,787,567	**145,787,567**

[455] EAFRD allocations in this table include voluntary modulation.

	ERDF (€)	ESF (€)	EAFRD (€)[455]	TOTAL (€)
Preserving and protecting the Environment and promoting resource efficiency	0	0	145,787,567	**145,787,567**
Promoting sustainable transport and removing bottlenecks in key network infrastructures	106,387,268	0	0	**106,387,268**
Promoting sustainable and quality Employment and Labour mobility	167,080,903	205,928,229	7,814,595	**380,823,727**
Promoting social inclusion, combating poverty and any discrimination	0	219,859,426	53,256,707	**273,116,133**
Investing in education, training, vocational training for skills and lifelong learning	0	530,376,334	61,510,305	**591,886,639**
Enhancing institutional capacity of public authorities and stakeholders and an efficient public administration.	0	31,590,000	0	**31,590,000**
Technical Assistance	28,136,454	20,113,051	25,804,308	**74,053,813**
TOTAL	**1,409,422,319**	**1,007,867,040**	**651,590,163**	**3,068,879,522**

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

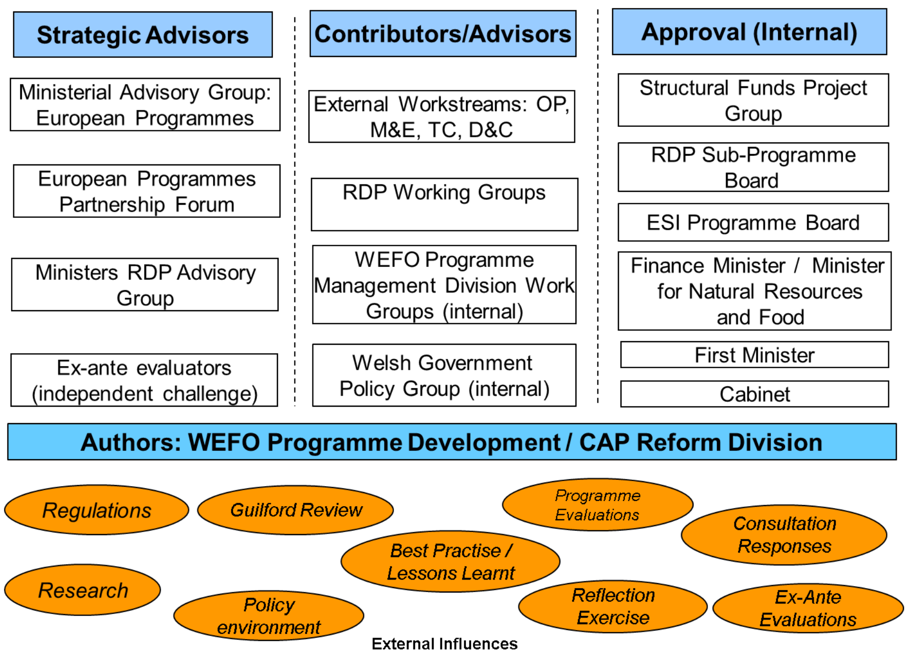
combination of interventions under the agri-environment-climate, organic and forestry measures and the climate and environment related investment support.

1.5 THE APPLICATION OF THE HORIZONTAL PRINCIPLES REFERRED TO IN ARTICLES 5, 7 AND 8 OF THE CPR AND POLICY OBJECTIVES FOR THE IMPLEMENTATION OF THE ESI FUNDS (ARTICLE 15 (1) (A) (V) CPR)

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 (ARTICLE 15 (1) (C) 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 work streams/ 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.

2014-2020 Programme Development & Partnership Engagement



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.
6. Specific expert **work stream 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[456]
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.

Added Value of Partnership

10. These partnership arrangements were essential in developing the Programmes, providing both strategic and technical advice and in generally engaging with

[456] 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.

stakeholders across all sectors over the priorities and types of investment required in Wales.

Wider Consultation

11. A **Reflection Exercise**[457] 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.
12. **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).
13. 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.
14. 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.

15. 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 its farm-based agri-environment actions 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.

[457] Full report available here http://wales.gov.uk/docs/wefo/publications/120515reflectionsexerciseen.pdf

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 Government's 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. 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.
4. 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. 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 the operations are legally compliant.
5. 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 (NRW), providing environmental assessments and controls to all types of land use change and development. NRW are also responsible for preparing the Priority Action Framework for Wales. This will identify appropriate resources, in line with that Framework, which will be available for Natura 2000 so as to achieve the favourable conservation status of habitats and species of

community interest. These resources are expected to include specific ESI funding opportunities. 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.

6. 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. 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.
7. 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. 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 EAFRD 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.
8. 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. Sustainable Development will be supported through 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

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 THE EFFECTIVE IMPLEMENTATION OF ESI FUNDS (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 (ARTICLE 15 (1) (B) (I) CPR)

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 ESI Programmes and these are set out in more detail in each of the Operational Programmes and the Rural Development Programme by Thematic Objective and Priority Axis. A strict approach to demarcation has been avoided for 2014-2020 with the expectation that the joint programming approach adopted in development of programmes will continue into the joint development of schemes and projects to ensure each is a part of a coordinated portfolio of investments.
3. This approach to complementarity means the only significant red lines in terms of demarcation are likely to be directly related to state aid rules; this will be set out in national eligibility guidance. It is therefore expected that farming businesses and fisheries businesses will be able to access ERDF (where State Aid allows) and farmers and fishermen able to access ESF on the same terms.
4. Links to other EU funding instruments are also expected to be made on a project-by-project basis. Specific questions will be asked of each application for support to ensure the most appropriate funding mechanism has been utilised and signposting used to redirect at an early stage in the development process.
5. To facilitate this joint programming approach a number of administrative functions have been brought together:
   - a single Programme Monitoring Committee covering the ERDF, ESF and EAFRD (they will also be updated on EMFF issues in Wales for which there will be a UK PMC.)[458];
   - a single Research Monitoring and Evaluation Team planning and coordinating monitoring and evaluation processes;
   - a single Cross-Cutting Themes Unit advising across the Structural Funds and Rural

[458] Separate Programme Monitoring Committees will be responsible for the European Territorial Co-operation (ETC) Programmes in which Wales will participate, including the Ireland/Wales Programme Monitoring Committee. Robust structures will be put in place to ensure close co-ordination and complementarity of activities between the regional and ETC Programmes

Development Plan;
- a single overarching ESI Funds Management Board bringing together heads of the Managing Authorities;
- a single website portal for all ESI funds with advice and signposting on a thematic basis; and
- a single set of national eligibility rules and guidance covering the ERDF, ESF and EAFRD where possible.

6. In terms of managing potential areas of overlap (where joint planning and coordination will be essential), a working group will be established to plan investment portfolios and manage delivery; avoiding unintentional duplication of funding, identifying the most appropriate source of funding and building portfolios across the funds. This will include representatives from the ERDF, ESF, EAFRD, EMFF and ETC Managing Authorities in Wales, as well as a representative from the Horizon 2020 unit. This approach will be monitored by a senior Board with oversight of the ESI Funds.
7. Areas of joint working are expected across the ESI Funds, but primarily to focus on Research and Innovation, SME Competitiveness, Community scale energy, ICT infrastructure and exploitation, and investments in skills. There are also a wide range of links to the centrally managed (sometimes called sectoral) EU programmes (e.g. Erasmus, Connecting Europe, Horizon 2020, LIFE+, etc). Those sectoral programmes are included below, but it should be noted that the primary links are on a fund-by-fund basis and therefore specific links are drawn out more explicitly in the relevant sections of the Operational Programmes (Section 8) and the Rural Development Programme. This section therefore primarily focusses on the links across ESI Funds.
8. In terms of **Research and Innovation and higher level skills**, delivery of ESF investments should directly support the supply of individuals to research institutions supported through ERDF and also have links to the works of the EIPs under the EAFRD. It is envisaged that Horizon 2020 and other research programmes will also complement R&D investments across the ESI funds. Wales has signalled its intent to maximise the synergies between ESIF and Horizon 2020 by creating a new Horizon 2020 Unit in the Structural Funds' 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 and will be an aim for the EIP element of the EAFRD. Any investments in research capacity in Wales will need to add value to existing provision in the UK and Europe. Where joint development of that capacity and/or access to existing infrastructure is the most appropriate route, this will be encouraged.
9. 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.
10. 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 the 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.

11. 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.
12. There is also potential for complementarity between the EAFRD and ERDF 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 ERDF to support larger scale actions. ERDF investments in marine energy will complement activity under the EMFF in exploring co-location of aquaculture and marine structures, contributing to the delivery of blue growth, with further links to the European Territorial programmes also envisaged in this area.
13. In terms of **SME Competitiveness** 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 Funds 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. It is anticipated that the SME support (e.g. access to finance, entrepreneurship, growth support) through the ERDF will be open to rural SMEs, farming, forestry and fisheries businesses (where State Aid-compliant). This should allow for EAFRD to focus on addressing very specific gaps for those SMEs rather than simply duplicating provision. Development of schemes in this area will be coordinated with appropriate referral mechanisms to be put in place.
14. Investments in **sustainable transport** will need to be complementary in terms of alignment with the national and regional transport plans, but it is not expected to be an area of specific overlap given the limited number of investments likely through the ERDF, though any EAFRD investments will seek to complement those where appropriate. Opportunities to access a range of other funding related to sustainable transport will also be explored including Innovative Actions in the area of sustainable urban development (Article 8, ERDF Regulation), Connecting Europe, URBACT, ETC Programmes, related strands of Horizon 2020 and LIFE+. In particular the fact that the ERDF investment will be limited it will be important to ensure that those investments help drive a broader package of investments in that particular place. 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.
15. 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. In addition to this demand-side focus it is intended to use ESI Funds in a complementary manner to support the

completion, as far as possible, of ICT networks in Wales. This is expected to result in ERDF being used to add value to significant private and domestic investments aiming to address the remaining white areas and complete the networks across Wales. This will be complemented through EAFRD provision for bespoke solutions, running alongside and directly coordinated with the mainstream network provision, to address those areas (expected to be rural) where the mainstream programme will not be able to support (as well as potentially offering solutions direct to farmers).

16. In terms of **renewable energy** there are also significant opportunities for joint working across the ERDF and EAFRD. The EAFRD will focus on micro-generation and small scale investment and there is an expectation that, through LEADER, some community-led organisations might begin to develop capacity and organise themselves to develop proposals for community energy schemes or pilot new approaches. The ERDF aims to address the barriers that already established community groups, or regional / community energy schemes, face in developing proposals to a point where they are commercially attractive to the market (i.e. there is no market failure in the finance available, but there are barriers in capacity, consents and development to address before that finance is accessible). In this way there is a logical progression for support whereby EAFRD supports micro-generation or early capacity building for communities, ERDF can then support the development of a viable idea of sufficient scale into a commercially viable proposition, and the market then provides the finance to complete the scheme.

17. There are also clear synergies between **EAFRD and EAGF – Pillar 1** of the Common Agriculture Policy (CAP). Beneficiaries of Pillar 1 will be eligible to receive support under the RDP, particularly the climate, land-management and organic measures and knowledge transfer relating to the economic and environmental performance of farm and forestry businesses. For the land-based measures all beneficiaries will be expected to meet cross-compliance and GAEC requirements and actions undertaken will exceed these statutory levels.

18. Knowledge transfer and innovation will play a key role in improving the sustainability of both agricultural and forestry businesses and it is anticipated that there will be strong links with the EIP and other sources of academic and practical research to drive forwards business and environmental performance. Opportunities also exist in the diversification of rural and land-based businesses including the provision of environmental, economic and social goods and services and RDP funding will be used to develop these. There will also be a focus on the development of co-operative approaches and of short and/or improved supply chains for local produce and services. Consideration is also being given to opportunities presented by the development of renewable energy, energy efficiency, catchment management and community supported agriculture,

19. 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.

20. The Welsh Government is also investigating opportunities to integrate LIFE funding with any green infrastructure supported by 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.

21. A suite of guidance documents, including an Economic Prioritisation Framework (EPF), will be used to drive synergy between ESI Funds and wider investments in the Welsh economy. The EPF attempts to capture the wider investments of relevance to the ESI Funds taking place in the Welsh economy. Using this all ESI Funds will be expected to add value to those wider investments, avoid duplication and build on existing assets. It will also be used by the Managing Authorities to ensure all operations fully consider how they interact as part of a wider investment context.
22. The European Investment Bank (EIB) has already invested a loan of £75 million (€94 million) 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 (ARTICLE 15 (1) (B) (II) CPR, 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 OF THE CPR AT NATIONAL LEVEL AND, IN THE EVENT THAT THE APPLICABLE EX-ANTE CONDITIONALITIES ARE NOT FULFILLED, OF THE ACTIONS TO BE TAKEN, THE BODIES RESPONSIBLE, AND THE TIMETABLE FOR IMPLEMENTATION OF THOSE ACTIONS (ARTICLE 15 (1) (B) (III) CPR)

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 (ARTICLE 15 (1) (B) (IV) 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 (Article 15 (1) (b) (v) CPR)

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[459] 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

[459] Full review: http://wefo.wales.gov.uk/programmes/post2013/guildford/guilfordreport/?lang=en

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 learned. 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 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 2014-20 programmes.
10. Workshops are already scheduled to ensure that potential beneficiaries are ready to begin the application process for the 2014-20 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 2014-20 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[460] 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 2007-13 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.
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, where potential beneficiaries will be directed to specific thematic or funding teams for detailed support and advice.
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 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

[460] Further details at: http://wefo.wales.gov.uk/publications/publications/monitoringevaluation/programmeevaluations/customerinsightsurvey2009/?lang=en

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 EU 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 ESI 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 emerging 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) TFEU AND RELEVANT COUNCIL RECOMMENDATIONS ADOPTED IN ACCORDANCE WITH ARTICLE 148(4) TFEU (ARTICLE 15 (1) (A) (I) CPR)

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[461]' which summarises that:

- Northern Ireland living standards have persistently lagged behind Great Britain, with

[461] Further details at: http://www.northernireland.gov.uk/ni-economic-strategy-revised-130312.pdf

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[462];
- 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 Great Britain, 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 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 (expected by end of 2014) Evaluation of Grant for R&D (Invest NI'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 £30.8 million (€38.7 million) compared to £72.8 million (€91.5 million) 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[463]. In 2012, there were 495 companies in Northern Ireland who were believed to be performing R&D. There is therefore a need to increase the proportion of innovation-active enterprises in Northern Ireland.

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[462] Further details at: http://www.dfpni.gov.uk/northern-ireland-net-fiscal-balance-report
[463] Further details at: http://www.detini.gov.uk/innovation_strategy.pdf
http://www.dfpni.gov.uk/agenda_item_4_-_paper_2-14a_-_latest_draft_of_n.i._chapter_of_ukpa-3.pdf
https://www.gov.uk/government/collections/community-innovation-survey

7. Northern Ireland expenditure on R&D in 2011 was 1.7% of GDP[464]. 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 £461.3 million (€580 million), Higher Education expenditure (HERD) was £147.3 million (€185.2 million) and Government expenditure (GOVERD) was £15.5 million (€19.5 million). 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 provides a composite framework that draws on the Northern Ireland Programme for Government 2011-15, the Northern Ireland Economic Strategy 2012-30, the draft Innovation Strategy 2014-25 and the previous and on-going work of the MATRIX Science Industry advisory panel. The Smart Specialisation Framework 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. In addition to the vertical specialisation applied through smart specialisation, horizontal specialisation will also be applied to identify potential target beneficiaries. It is widely recognised that high growth businesses are a key driver for economic growth, so support will be targeted towards those companies that can clearly demonstrate growth potential through the following selection criteria:
    - Actual turnover of >£250k (€314k) (or potential to meet within 3 years)
    - External Sales of >25% or >£250k (€314k) (or potential to meet within 3 years)
    - Potential employment growth >20% or > 20 jobs within 3 years; or
    - Potential external sales growth >20% or >£500k (€629k) within 3 years; or
    - Potential increase in GVA/employee >20% within 3 years
12. There is a strong local research base supporting agriculture and food processing in Northern Ireland. This is enhanced by significant industry engagement and an

[464] 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)

established technology exchange infrastructure. There is evidence that more work is needed on industry engagement and increasing awareness of on-going 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. By setting up European Innovation Partnership operation groups under the Rural Development Programme, better linkages can be created between research and practical farming. This will also allow research from across Europe to feed into innovative projects in Northern Ireland, and make Northern Ireland's findings available to farmers throughout Europe.

SME Competitiveness

13. In common with many regions of the UK and Ireland there is evidence[465] in Northern Ireland of continuing and in some cases increasing market failure in the provision of risk capital in the £50k (€63k) to £2 million (€2.5 million) 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 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).
14. 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 on-going. The results of this work will shape the final format of financial instruments in the 2014 – 20 ERDF Programme.
15. 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 2010-13, 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 startup in the first place is also a key priority as Northern Ireland has the lowest business birth rate of all UK regions.
16. The Northern Ireland Economic Strategy highlights the rural economy as a sector with an important contribution to make to the wider Northern Ireland economy. The sustainability of rural Northern Ireland is inextricably linked to the success of the SMEs in rural areas and to the agriculture and food industry.
17. 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's total GVA and 6% of employment. Despite the growth in many agricultural

[465] Further details at: http://www.eagni.com/fs/doc/publications/eag-review-of-access-to-finance-for-ni-businesses-final-report.PDF

sectors there was a 50% decline in total income from farming in 2012. Agriculture in Northern Ireland relies heavily on Common Agricultural Policy (CAP) Support. In 2012 the Single Farm Payment accounted for 170% of Total Income from Farming (TIFF) and all direct payments from the CAP accounted for almost 204% of TIFF. Contributing factors include rising input costs. Capital investment has declined due to a reduction in working capital.

18. Programme for Government 2011–2015 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, target new markets overseas and to add more value to products to achieve premium prices
19. EMFF will be used to modernise the fisheries and aquaculture sectors, and assisting the fishing fleet to re-structure. In particular, parts of fishing fleet struggle to be profitable due to a combination of inefficient vessels and high fuel costs. Northern Ireland fishing communities are close to centres of tourism and this presents opportunities to support diversification into tourism activities. Commission Fisheries Policy (CFP) and Common Organisation of the Markets of Fishery and Aquaculture Products (CMO) reform will also require SMEs in the fisheries and aquaculture sectors to adapt. EMFF will be used to assist SMEs to meet the new requirements and remain competitive, including support to improve management and systems and measures to add value and quality to fish and infrastructure to deal efficiently with unwanted fish. Competitiveness of fisheries and aquaculture sectors can also be improved by marketing measures and supporting knowledge through networking and exchange of experience and best practice among aquaculture enterprises or professional organisations and other stakeholders.
20. The fisheries and aquaculture sectors require continued support to adapt to change arising from CFP and CMO reform, the need to improve environmental impact, and meet future market demands. This will involve research and the testing and adoption of new technology and practices. The EMFF will be used in the fisheries and aquaculture sectors to support the adoption of new technology and processes to improve the economic, environmental and social sustainability of these sectors. Measures supported will include, research, seeking out best practice, pilot projects, technology transfer initiatives and adoption.

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 Northern Ireland. • To increase R&D&I levels in Northern Ireland's existing large firms. • To support business to undertake R&D for the first time. • To increase the number of innovation-active businesses in Northern	• Potential for increased investment in R&D by existing firms. • Potential for investment in R&D in firms who are new to R&D. • Potential for an overall increase in Northern Ireland BERD. • Existing links between Agricultural Colleges and local universities. • Strong local agricultural research base.	(1) strengthening research, technological development and innovation

Needs	Growth Potential	Thematic Objective
Ireland. • For further investment to meet the Europe 2020 target for R&D investment. • To provide structures for the two-way flow of innovative ideas between the agriculture and food processing industry and local researchers. • To provide structures for the two-way flow of innovative ideas between, agriculture, sector and food processing industry and local researchers		
• To tackle Market Failure in funding SME Growth. • To create jobs in both urban and rural areas. • For investment to improve performance and competitiveness of the agri-food industry. • Adapting to CFP and CMO reform	• High-growth potential SME can deliver increases in productivity employment and competitiveness. • Potential to further stimulate employment growth in Northern Ireland SMEs. • 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 2007-13 and relevant evaluations

21. Based on experience of the 2007-13 programme, it is proposed that resources will be concentrated on fewer more targeted activities. In addition it is proposed that activities in the 2014-20 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. For innovation to flourish there should be a two-way partnership between researchers and those directly involved in the agri-food 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 highlight the importance of funding individuals who have the key skills to identify and facilitate key projects and groups.

24. A range of capital investment interventions have been used in previous rural development programmes to support SMEs 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.

25. There is a pressing need to address the poor thermal performance of much of the social housing stock in Northern Ireland in order to contribute to energy efficiency and fuel poverty targets. A significant number of households in Northern Ireland suffer from severe fuel poverty and whilst a range of initiatives are available these are not always accessible by people living in areas of deprivation. As the magnitude of the challenge dwarfs the available funding there is a need to target resources on those households with lower incomes or those facing issues of deprivation, in particular where the incentive to invest in energy efficiency measures is less clear.

26. The ERDF programme will target energy inefficiency in properties including 2-storey social housing buildings built between 1950 and 1979 using solid wall proprietary concrete systems. Half of these are deemed to fail the thermal comfort criteria. Over-cladding has been identified as a suitable approach which would significantly improve energy efficiency. There would also be a resultant reduction in energy bills for tenants.

27. The over cladding activity will be accompanied by installation of high performance windows, doors, and insulated roofs to provide a 'Deep' retrofit. In the two storey homes, boilers of over 90% efficiency will be installed with advanced controls to meet the reduced heating demands. In addition to the savings achieved by insulation, the new heating installations will provide further energy and CO2 savings of approximately 18%, and up to 40% CO2 savings when changing from heating oil to gas.

28. As well as making this social housing more energy efficient there will be important co-benefits in terms of job creation, health and comfort of tenants, energy security and reducing fuel poverty from its current level of 42%.

29. The specific objective of this intervention is to reduce the number of socially housed families in fuel poverty. The targeted programme of activity will identify those properties with a poor Standard Assessment Procedure (SAP) rating against which energy performance improvement can be monitored. The higher the SAP rating, the lower the fuel costs and the lower the associated emissions of carbon dioxide.

Promotion of sustainable multimodal urban mobility and mitigation relevant adaptation measures

30. Private car transport is one of the main CO2 and particle emitters within the Belfast urban area. Northern Ireland needs to address the attractiveness of public transport to

urban / commuter transport users to lower carbon and active options. Transport remains a key sector of emissions to address through behavioural change. Inclusion of low carbon urban strategies will focus on linking existing types of low carbon modes of transport at a regional level and making them more attractive to use. Reducing congestion is particularly important in central Belfast where there is significant traffic congestion and perceived issues of slow boarding times of buses at stops is a significant issue.

31. The Belfast Rapid Transit (BRT) project seeks to encourage a modal shift from the private car to public transport along the BRT corridors. The use of low carbon hybrid technology for BRT vehicles is forecast to deliver fuel and carbon reductions of between 15% and 30% compared to diesel vehicles of the same size. In addition, it is expected that this initiative will lead to a reduction in traffic volumes on the BRT corridors by up to 20% during peak periods - in part due to modal shift from the private car and also dispersion to other routes

32. The premise of a rapid transit system is to improve journey times through a number of actions including the introduction of bespoke traffic lanes and improved access/egress to the vehicles. Current public transport provision along the routes of the BRT system is by means of conventional vehicles which have a single point of access/egress and an on-board ticket validation system operated by the vehicles operative. This results in passengers wishing to board the vehicle having to allow other passengers to alight before boarding the vehicles which results, particularly at peak times, in queues at stops and delays to the service. The introduction of off board ticketing will make a significant contribution to improving journey times by a predicted 25-30% and journey times are a major factor in encouraging private car users to switch to Public transport for travel to, from and within the city. Additionally a real-time information system will be installed both on vehicle and at all stops along the BRT route.

33. The existing Public Service Vehicle depot is not suitable for operating a modern and improved public transport system and the current location is not suitable as it cannot accommodate the technological requirements for the hybrid vehicles to be used on the BRT routes. There are also a number of economic and efficiency issues including poor thermal performance, energy inefficiency – lighting and heating, asbestos construction materials, poor condition of building fabric and degradation of roof-light fabric. A suitable depot cannot be developed on the current site.

34. A new brown field site within the Belfast Harbour Estate has been identified for a new bespoke depot. This presents the opportunity to develop a depot providing the necessary technological requirements and applying the most up to date energy efficient technologies. The depot will be developed toward the achievement of Building Research Establishment Environmental Assessment Method (BREEAM) excellence standard and will incorporate a number of environmentally innovative and energy efficient technologies including; Photo Voltaic System, Solar Hot Water, Rain Water Harvesting, Enhanced Thermal Envelope, LED Lighting, Maximisation of Natural Light, Natural Ventilation and Building Energy Management System.

35. The specific objective for this multimodal urban mobility activity is to encourage a modal shift from the private car to public transport along the BRT corridor. Success will be measured through reductions in journey times and increased passenger numbers. Common output indicator 34 relates to GHG reductions, and to measure success in this respect the performance framework will monitor measure reductions in emissions as evidenced through reductions in bus idling times, increased patronage of public transport, and as a result of the replacement depot.

PROMOTING CLIMATE CHANGE ADAPTATION, RISK PREVENTION AND MANAGEMENT

36. Significant programmes of work within Northern Ireland, funded out of the Northern Ireland Executive's budget will contribute to this Thematic Objective. Generally, a need to seek support from ESI Funds is not foreseen, although EAFRD activity under Thematic Objective 4 will also contribute to the aims of this objective.

ENVIRONMENT AND RESOURCE EFFICIENCY

37. 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.
38. 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.
39. The 2011-2015 Programme for Government (PfG) contains a target to reduce greenhouse gas emissions by 35% below 1990 levels by 2025. The May 2014 forecast indicates a 27.6% reduction by 2025 based on current forecasts. 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. 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.

40. 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.

41. The flagship initiative 'Resource Efficient Europe'[466] 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.

42. 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.

43. 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.

44. 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.

45. 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.

46. 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.

47. 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[467] 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

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[466] 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'.

[467] Further details at: http://www.legislation.gov.uk/ukpga/2008/27/contents

practices that lead to carbon sequestration.

48. 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.

49. Northern Ireland is working with the fishing industry to progressively eliminate discards of unwanted fish. This will contribute both to CFP reform targets but also to Marine Strategy Framework Directive (MSFD) targets for sustainable fisheries. Whilst much has already been achieved further investment is needed in research, scientific partnerships and technology adoption to reduce unwanted catches to a minimum by 2019. EMFF can also assist the fishing sector to contribute to other MSFD obligations such as, developing and adopting gear with less impact on the marine environment, and schemes to collect marine waste during fishing activities. The protection of marine Natura 2000 sites and national marine protected areas is also a high priority for Northern Ireland and EMFF may be used to assist with the with the management, monitoring and restoration of such sites. The Aquaculture sector will also be supported through the EMFF to become more efficient in its use of resources such as energy and water, and to undertake measures to reduce any negative impacts on the environment or to carry out positive enhancements.

50. A significant part of the Northern Ireland fishing fleet relies on vessels over 20 years old that are inefficient in terms of fuel and emissions. Northern Ireland intends to use the EMFF to improve efficiency of the fishing fleet so that it uses less fossil fuel and reduces emissions. There is also potential to improve the energy efficiency of aquaculture businesses, including adoption of renewable energy technology.

51. 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. A draft Northern Ireland Marine Plan will be published in 2015 for public consultation.

Summary of needs and growth potentials justifying selection of key Thematic Objectives

Needs	**Growth Potential**	**Thematic Objective**
• To improve the poor thermal performance of much of the Northern Ireland social housing stock. • To increase the attractiveness of public transport to urban/ commuter transport users. • To focus woodland expansion on areas with agricultural limitations. • To increase the resilience of woodland to pests and diseases. • To integrate afforestation with agricultural practice. • Realise benefits to coastal	• Improve energy efficiency and reduce greenhouse gas emissions. • Increased use of public transport with associated reduction in private car use. • Sustainable management of existing woods and forest lands to conserve carbon. • Steady expansion of tree cover to increase the benefits from forestry of protection of the environment, climate change, social and recreational and commercialisation. • Potential for fishing sector and	(4) supporting the shift towards a low-carbon economy in all sectors

Needs	Growth Potential	Thematic Objective
communities of offshore renewable energy development.	coastal communities to develop services to support offshore renewable energy.	
• To tackle threats to biodiversity, land and water quality. • To reduce greenhouse gas emissions caused by production methods and nutrient pollution.	• Land management practices can sustain and enhance biodiversity, improve quality of water, air and soil, enhance the landscape and increase woodland creation. • Improved sustainability will enable the agriculture, fisheries and aquaculture sectors to grow and meet requirements under CFP reform and the MSFD. • Improved fishery and aquaculture practices in compliance with CFP reform and the MSFD will enhance and improve marine biodiversity, land and water quality, with potential expansion into new markets for accredited businesses and significant contribution to meeting environmental EU Directives.	(6) Environment / resource efficiency

Experience of 2007-2013 and relevant evaluations

52. Experience of Project Kelvin[468] in the 2007-13 programmes has demonstrated the benefit of concentrating resources on a single infrastructure project to deliver maximum results. In the 2014-20 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.

53. Lessons learnt from the implementation of agri-environment and forestry measures under previous rural development funding shows that more impact can be achieved 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.

[468] Further details at: http://www.tibus.com/Services/Connectivity-Solutions/Project-Kelvin

Inclusive Growth

Employment

54. Northern Ireland has been severely impacted by the global economic downturn with concerns that recovery is lagging behind the rest of the UK.
55. On-going 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.
56. 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).
57. 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.
58. 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.
59. 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.
60. 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.
61. 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.
62. These activities will address the twin objectives of increasing employability and social inclusion.
63. In Northern Ireland, lack of ready access to skilled and qualified personnel and relative lack of professional development impacts on the development fishing and aquaculture sectors and the adoption of new technologies and better practices. EMFF will be used to support professional training and lifelong learning in the fishing and aquaculture sectors to provide the industry with adequate skills and knowledge to adapt to future challenges.
64. Whilst Northern Ireland's coastal communities have seen a reduction in the scale of the commercial catching sector, fishing remains the backbone of these communities and

supports on-shore support services and wider employment. Alternative employment is difficult to attract to these areas and can be transient. Fisheries Local Action Groups (FLAGs) have an important role to play in assisting the fishing communities to fully realise their economic and social potential within integrated local development strategies. In this way the resilience and cohesion of the communities can be strengthened, and new long term employment established through diversification. It is envisaged that EMFF will support a single FLAG reflecting the geographical concentration of fishing along the South East coast of Northern Ireland.

PROMOTING SOCIAL INCLUSION, COMBATING POVERTY AND ANY DISCRIMINATION.

65. 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.
66. 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.
67. The Programme for Government 2011-15 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'.
68. Delivering Social Change[469] (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.
69. The Northern Ireland Authorities are working together to address these issues collectively through a range of mainstream funding initiatives, which the ESI Funds will complement.
70. Research undertaken by Agri Food and Biosciences Institute[470] in 2012 involved a survey of some 2,500 urban and rural households across Northern Ireland which focused on identifying what difficulties, if any, those living in rural Northern Ireland encounter when accessing these key public services compared to their urban counterparts. One of the aims of the study was to examine the 'experiences of service access' for those in relatively more deprived household.
71. The survey findings identified that, for rural dwellers in general accessing public services can be more costly and take longer in terms of travel time, compared to individuals living in urban areas. Most rural dwellers access key services by private transport (car), the

[469] Further details at: http://www.ofmdfmni.gov.uk/index/equality/delivering-social-change.htm
[470] AFBI (2012) Rural Households' Experience of Accessing Public Services in Northern Ireland, Preliminary Findings, 2012.

main reason being that there is no suitable public transport. On the whole, in accessing key services and employment, rural households pay more towards their weekly motoring costs than their urban counterparts. Evidence also suggests that for vulnerable rural households namely, low income households, those with young children and the elderly, accessing services can be more difficult.

72. Pressures on the agricultural sector, demographic change and physical isolation leave many in rural communities in or at serious risk of poverty and compound the problem of social isolation. Deprivation measures for rural areas suggest there are particular spatial pockets of need in the rural west and south of the region. The EAFRD Programme will support investments to provide improved basic services for the economy and the rural population.

73. The Northern Ireland Economic Strategy highlights the rural economy as a sector with an important contribution to make to the wider Northern Ireland economy. The economy of Northern Ireland can be characterised as a small business economy (89% of businesses with 10 employees or less) and many of these small businesses are located in rural areas.

74. Rural businesses face specific challenges such as distance from major population centres, transport cost, poor infrastructure (road and energy) and digital services. Many rural businesses operate in traditional sectors such as farming, forestry and food processing and face additional problems due to volatile commodity markets and a need to modernise. Many rural businesses choose to diversify into new sectors or product lines. The costs for diversification, for both rural businesses and farms are high and demonstrate a case for potential Government support. The majority of new business start-ups (VAT registrations) are in rural areas, however the rate has fallen in recent years reflecting the downturn in the economy.

75. The ESF's contribution to this objective is clearly articulated in the key aim for the 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.

76. 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 Authorities wishes to focus.

77. 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 Thematic 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.

78. 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.

79. The importance of skills is clearly recognised in the 2011-15 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'.

80. 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.

81. 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, 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.

82. One of the actions set out in the ICT Skills Action Plan, is the development of the Public/Private ICT Apprenticeship Scheme. The Northern Ireland Authorities along with 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

83. Interventions under this thematic objective will contribute to the strategic goals of the Northern Ireland Skills Strategy[471] - 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.

84. 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[472] (as part of the Agenda for New Skills and Jobs).

85. The Social Survey of Farmers and Farm Families (2001-2002)[473] indicated that 87% of farmers and business partners had no formal agricultural qualifications. In 2008 the Educational Attainment of Farm Operators in Northern Ireland[474] 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

[471] Further details at: http://www.delni.gov.uk/skills_strategy_2006.pdf
[472] Further details at: http://euskillspanorama.ec.europa.eu/
[473] Further details at: http://www.dardni.gov.uk/statistics-farmers-and-farm-families-in-ni
[474] Further details at: http://www.dardni.gov.uk/index/publications/pubs-dard-learning-and-education/educational-attainment-of-farm-operators.htm

average hourly wages compared with non-farming males.

86. 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.

87. 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 Non-Governmental Organisations to advance innovation in the agricultural sector.

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. • Provision of skills and professional development in the aquaculture and fisheries sectors.	• Number of related Executive key strategies in place already. • Increased employability can contribute directly to social inclusion. • Future growth dependent on fisheries and aquaculture sectors adopting new skills and technologies to remain sustainable and competitive.	(8) promoting sustainable and quality employment and supporting labour mobility;
• To improve or maintain the living conditions of those living in rural areas through the access to basic services. • To support the development and creation of SMEs in rural areas including the diversification of farms into non-agricultural activities.	• Delivering Social Change framework already in place. • Improved quality of life and growth through diversification of rural economic activity. • Investing in rural businesses has the potential to address the lower average earnings and higher cost of living in rural areas, • Increasing employment opportunities in rural areas through diversification.	(9) promoting social inclusion, combating poverty and any discrimination;

Needs	Growth Potential	Thematic Objective
• To tackle high numbers of people without qualifications. • Businesses engage in relatively little job-related training compared with other UK regions. • To assist farmers and farm family members to adapt to the changing needs of the industry and to assess the needs of the whole farm to ensure financial investment is correctly targeted.	• Multiple strategies already in place. • Increased skills can drive a growing private sector. • 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

88. The mid-term evaluation report[475] and the Northern Ireland & Europe in Partnership Reflection Exercise[476] both recognised the need to retain a strong focus on continuing ESF interventions on employment and skills.

89. 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.

90. 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.

91. 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 THE LATTER EVALUATION IS UNDERTAKEN BY THE MEMBER STATE AT ITS OWN INITIATIVE (ARTICLE 15 (1) (A) (II) CPR)[477]

1. The Northern Ireland Statistics and Research Agency (NISRA) has been carrying out

[475] Further details at: http://www.delni.gov.uk/esf-mid-term-evaluation.pdf
[476] Further details at: http://www.dfpni.gov.uk/reflection_exercise_document_april_2012.pdf
[477] Not required for the EMFF pursuant to Article 14 (5) CPR.

the ex-ante evaluations for the ESF and ERDF 2014-20 Northern Ireland Programmes. Much of the identification of need for the region, for both ESF and ERDF funds, has been sourced from the socio-economic analysis which was carried out by economists within the Department of Finance and Personnel (DFP). These economists have experience in the development and monitoring of the Northern Ireland Regional Economic Strategy which captures information relevant to Northern Ireland's economy and labour market. DFP economists consulted with economist colleagues in other Departments to ensure that the socio-economic analysis was broad-ranging. It is noted that the socio-economic analysis was published in January 2013. However, its authors have provided assurance that, although figures have changed, the overall position and development needs in Northern Ireland remain unchanged with the economic recovery continuing to lag behind the rest of UK particularly in the areas of GVA per capita and the labour market. The ex-ante evaluators found the socio-economic analysis to be a sound basis for the economic and ERDF strategies but recommended that the ESF Managing Authority use additional information[1] to thoroughly examine the development needs of Northern Ireland's labour market and broader society.

2. The ex ante evaluators are satisfied that the Member State and the Managing Authority have reviewed cohesion policy areas; consulted across all Northern Ireland Departments, with stakeholder groups through the Consultative Partnership Group and the wider general public, and their decision to focus funds on these key areas is reasonable.
3. The proposal for the 2014-20 Northern Ireland European Regional Development Fund continues to undergo ex ante evaluation. NISRA are satisfied that the thematic concentration adequately reflects the needs in Northern Ireland; specifically the exclusion of TO2: ICT where Northern Ireland already devotes significant resource. NISRA have met with the Managing Authority on many occasions offering critique and advice on the development of the proposed programme, as well as e-mail and telephone correspondence. During the various iterations of the intervention logic and the Operational Programme (OP) documentation, critique offered by NISRA has aided in the following:

- Indicator wording has been altered to no longer reflect target direction (e.g. Increase in BERD as a % of GVA changed to BERD as a % of GVA);
- Further detail has been added to the OP to explain both rationale for employment as a measure of SME growth and the initial consideration of a variety of target measurements that best demonstrated SME growth;
- NISRA have highlighted issues relating to the presentation of information in the OP which the Managing Authority has agreed to amend;
- Consideration given to underlying rationale for use of target ranges; and
- NISRA has highlighted the measurement issue relating to the Europe 2020 target of 3% of GDP to be invested in R&D and the Managing Authorities associated investment to increase BERD. Northern Ireland does not measure GDP; so NISRA have advised that all Northern Ireland targets must relate solely to GVA.

4. Further analysis is taking place at this time on the indicators, target setting and associated methodologies.
5. Given the size of the financial allocation, the ex ante evaluators agree with the Managing Authority's decision to focus on three thematic objectives only. The inclusion of an additional thematic objective would spread all resources

[1] Ex-ante evaluators have recommended the ESF Managing Authority examine further information including NI Labour Market Analysis, demographic trends and projections, and economic forecasts.

(implementation and management) too thinly

6. The proposal for the 2014-20 Northern Ireland European Social Fund programme continues to undergo ex ante evaluation. The Managing Authority identifies relevant current need and comprehensively describes their complementary policies which currently exist to target those needs. NISRA have recommended that the Management Authority further explore the relevant needs looking specifically at the overall picture and trend analysis as opposed to focusing only on latest statistics. NISRA has advised extensively on the selection of indicators, the methodology relating to the development of targets and the establishment of baseline figures. NISRA look forward to seeing a clear and logical progression from needs through to desired results through to actions to achieve these in the next iteration of the operational programme drafting.
7. The ESF Managing Authority is focusing on Thematic Objectives 8, 9 and 10 through addressing the core problem of the labour market. Given the size of the financial allocation and alternative Northern Ireland resources being used to intervene in broader social issues (including poverty reduction and tackling social exclusion through the Social Investment Fund and Delivering Social Change framework and addressing health inequalities through Making Life Better - a Whole System Framework for Public Health 2013-2023), the ex-ante evaluators agree with the Managing Authorities decision to focus funds on the labour market.
8. RSM McClure Watters (Consulting) have been carrying out the ex ante evaluation for the EAFRD 2014-2020 Northern Ireland Programme and this process is on-going. The Evaluators are content that the overarching aims of the draft RDP are consistent with the objectives set out in the EU 2020 document. The SWOT analyses are divided up by the 6 EU Priorities for Rural Development and as a result present a clear and logical basis for development of actions in the RDP to integrate the environment, climate change mitigation, adaptation and innovation as required.
9. During the various stages of the process the Evaluators have made suggestions in the following areas:

- Lessons from past interventions should be articulated and that key learning points used to improve the RDP currently under development;
- Further detail to explain the rationale for the allocation of funding under each Measure to be included;
- Further information which demonstrates that DARD have adequate human resource and administration capacity for the 2014-2020 programme;
- Inclusion of a section on forms of support to justify the range of forms selected and evidence that alternatives have been considered and dismissed for good reason;
- Further information in detailing actual demand for programmes under the Measures; and
- Ensure that tourism based innovations are commensurate with the National Tourism Policy.

10. Further analysis is taking place at this time on the draft final version of the programme.

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 (ARTICLE 15 (1) (A) (III) CPR)

Thematic Objective	Main Results
(1) strengthening research, technological development and innovation	• Increased investment levels in research, development and innovation to assist Northern Ireland to become one of the UK's leading high-growth, knowledge-based regions This will be supported by increasing Northern Ireland BERD as a % of GVA (ERDF) • Increase uptake of new innovative agricultural technologies and techniques (EAFRD)
(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 support an increase in the number of high growth SMEs in Northern Ireland (ERDF) • To support the growth of SMEs by contributing to increased employment in Northern Ireland micro and small enterprises[478] (ERDF, EAFRD) • Investment in farm infrastructure, buildings and machinery which improves the competitiveness, efficiency and sustainability of agriculture (EAFRD) • Investment in processing businesses to improve competitiveness and integrated the food supply chain (EAFRD) • Increase in profitability of aquaculture and fisheries production whilst implementing CFP and CMO reforms and achieving improved environmental status. Measured by degree of compliance and monitoring economic performance (EMFF) • Maintenance or increase in the number of Full Time Employees in supported enterprises (EMFF) • Sustainable fleet restructuring and modernisation to meet CFP reform and MSFD obligations whilst remaining viable (EMFF) • Increase in diversification in coastal areas (EMFF)
(4) supporting the shift towards a low-carbon economy in all sectors	• Decreased greenhouse gas emissions (ERDF) • Number of hectares of forest land under management to foster carbon sequestration (EAFRD) • Number of hectares of new woodland created (EAFRD) • Growth of services in coastal areas in support of the offshore renewable sector (EMFF) • Increased energy efficiency by businesses throughout the fisheries and aquaculture sectors (EMFF)

[478] Small Enterprises are those employing 10 – 49 people. Micro Enterprises are those employing 0 – 9 people.

Thematic Objective	Main Results

(6) environment / resource efficiency	• Implement agri-environment, woodland and forestry schemes to enhance and improve biodiversity, soil and water quality (EAFRD)
	• Number of hectares of agricultural land under management contracts contributing:
	  ○ Biodiversity
	  ○ Water management
	  ○ Improving soil management and or preventing soil erosion (EAFRD)
	• Fishing sector compliance with, landing obligation targets (EMFF)
	• Fishing and aquaculture compliance with relevant MSFD requirements and management plans for Marine Protected Areas (EMFF)
	• Reduction in impact of aquaculture on the environment and water resources (EMFF)

(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) • Increase opportunities for disadvantaged groups with the greatest difficulties in accessing the labour market (ESF) • Adequate supply of suitably skilled and qualified labour for the fisheries and aquaculture sectors (EMFF) • Implementation of local development strategies that increase non-fishing employment in coastal areas (EMFF)
(9) promoting social inclusion, combating poverty and any discrimination;	• Improved social inclusion through increasing employability and reducing economic inactivity (ESF) • Increase the percentage of the rural population benefiting from new or improved basic services (EAFRD) • Sustained reduction in poverty and associated issues across all ages (ESF) • 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)
(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) • Support higher-level skills for priority economic sectors (ESF) • Number of people participating in training in the agri-food industry and rural areas. • (EAFRD) • 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 FORESEEN FOR CLIMATE CHANGE OBJECTIVES (ARTICLE 15 (1) (A) (IV) CPR)

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).

	ERDF (€)	ESF (€)	EAFRD (€)[479]	TOTAL (€)
Strengthening research, technological development and innovation	113,485,234	0	1,197,000	**114,682,234**
Enhancing access to and exploitation of ICT	0	0	0	**0**
Enhancing the competitiveness of SMEs, the agricultural sector and the fisheries and aquaculture sector	140,840,469	0	13,315,296	**154,155,765**
Supporting the shift towards a low-carbon economy in all sectors	46,608,000	0	11,634,098	**58,242,098**
Climate change	0	0	85,081,689	**85,081,689**
Preserving and protecting the Environment and promoting resource efficiency	0	0	85,081,689	**85,081,689**
Promoting sustainable transport and removing bottlenecks in key network infrastructures	0	0	0	**0**

[479] EAFRD allocations in this table include voluntary modulation.

Promoting sustainable and quality Employment and Labour mobility	0	77,009,551	0	**77,009,551**
Promoting social inclusion, combating poverty and any discrimination	0	60,000,000	23,511,963	**83,511,963**
Investing in education, training, vocational training for skills and lifelong learning	0	65,263,243	4,151,548	**69,414,791**
Enhancing institutional capacity of public authorities and stakeholders and an efficient public administration.	0	0	0	**0**
Technical Assistance	12,321,185	8,305,547	4,451,806	**25,078,538**
TOTAL	**313,254,888**	**210,578,341**	**228,425,088**	**752,258,317**

1. The minimum requirements of 30% EAFRD spending on environment/climate-related measures will be met through a number of the programme's measures. Management of natural resources to improve biodiversity and to mitigate climate change will remain a high priority through the agri-environment programme. It is proposed 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. Support will be targeted 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 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, 3, 5, 6 and 10 (EAFRD Priorities 1-5). Some schemes will suit the LEADER approach to delivery more than others and the new Rural Development Programme will consider carefully the correct method of delivery for each scheme.

1.5 The application of the horizontal principles referred to in Articles 5, 7 and 8 of the CPR and policy objectives for the implementation of the ESI Funds (Article 15 (1) (a) (v) CPR)

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 (Article 15 (1) (c) 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 (CPG) 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 Regulation and covers sectors where representative nominating bodies are well-established. In addition representatives from the European Commission (DGREGIO, 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 A).

5. As at June 2014, nine 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/de/index/finance/european-funding/content_-_european_funding-future-funding/consultative_partnership_group_on_eu_funding_2014-2021.htm

6. The outcome of CPG discussions have been generally supportive of the choices and rationale put forward in the 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 Cooperation 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.

Added Value of Partnership

12. The principle of partnership was central in developing a number of key documents that informed the strategic development of the ESI Programmes. Many of the partners involved in the development of the Programmes will continue their involvement through the implementation phase

Wider Consultation

13. In the early stages of Programme development DFP, as Member State, carried out an informal consultation exercise on the strategic direction that the Northern Ireland Executive should set for using future European Funding for which Northern Ireland might qualify in the period 2014-20.

14. To ensure a partnership approach, the public consultation periods for the ESF, EAFRD and ERDF Programmes overlapped, to provide partnership groups and consultees with the opportunity to compare the supports proposed for provision in

each of the Programmes and to identify areas of potential complementarity. Overall, the comments received in response to the public consultations endorsed the approaches being proposed. The programmes have continued to evolve following the consultation period, in close partnership with stakeholders.

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 embedded 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 positive promotion of equality (Section 75 of the Northern Ireland Act[480] and the Fair Employment and Treatment Order[481]).

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 established 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 2014-20 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. 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 for our work to mainstream gender equality and tackle gender inequalities.

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[480] Further details at: http://www.legislation.gov.uk/ukpga/1998/47/section/75
[481] Further details at: http://www.equalityni.org/archive/word/finalArt55270203.doc

More information on the Strategy can be found at the webpage[482].

7. 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.

8. The Commission's duties and functions are set out in the legislation for which we have responsibility.

9. 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[483]);
- 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[484]);
- 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[485]); 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[486]).

10. 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.

11. Under the umbrella of the EU Programme Monitoring Committee, an Equality Working Group covering the 2007 –13 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 2007-13 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.

12. 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;
- monitoring; and

[482] 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
[483] Further details at: http://www.equalityni.org/archive/word/Model_Fair_Employment_Monitoring_Questionnaire.doc
[484] Further details at: http://www.equalityni.org/archive/word/finalArt55270203.doc
[485] Further details at: http://www.equalityni.org/archive/pdf/FECoPFINALwebversion@09.07.pdf
[486] Further details at: http://www.equalityni.org/archive/word/Draft affirmative action plan.doc

- evaluation.

13. 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.
14. The Programme for Government (PfG) 2011-15 sets out our intention to deliver a range of measures to tackle social exclusion through the Delivering Social Change Framework.
15. 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.
16. The Executive is committed to addressing and removing those obstacles and to ensuring that people with disabilities have the same equality of opportunity and equality of treatment that those without a disability enjoy.
17. The Executive's 'A strategy to improve the lives of people with disabilities 2012-2015'[487] 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.
18. 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 disabled 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*[488] reinforces Northern Ireland's commitment to ensure that the principles of sustainability reach into all the activities of Government and that everyone is involved in achieving the objectives of the Sustainable Development Strategy.

2. Northern Ireland is committed to making the best use of its resources to support its priorities in these challenging times. It is more important than ever before to think and act innovatively; sustainability cannot become a 'cost', it has to be a benefit. Superior sustainability performance can lead to real economic benefits for everyone and

[487] Further details at: http://www.ofmdfmni.gov.uk/disability-strategy-2012-2015-revised-010313.doc
[488] Further details at: http://www.ofmdfmni.gov.uk/eisusdevstrategy.pdf

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. All operations in receipt of ESI funds will be required to abide by the ‘polluter pays’ principle.

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 Northern Ireland European Structural and Investment Funds have been screened for the need for a full Strategic Environment Assessment (SEA) and where appropriate a SEA has been procured. The findings of these SEAs have been subject to public consultation and will be reported in the relevant draft Operational Programme documents.

1.5.4 HORIZONTAL POLICY OBJECTIVES

1. In addition to the policies of equality, non-discrimination and sustainable development, the implementation of EU Funding Programmes in Northern Ireland shall pay particular attention to the Executive’s commitment to improving community relations and continuing the journey towards a more united and shared society, which was further articulated in the Together: Building a United Community Strategy published on 22 May 2013.

2. 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.

3. 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 2014-20 will contribute to Together: Building a United Community and be monitored for this purpose.

4. In the Programme for Government (PfG) 2011-15, 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.

5. 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 THE EFFECTIVE IMPLEMENTATION OF ESI FUNDS (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 (ARTICLE 15 (1) (B) (I) CPR)

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 2014-20 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 2014-20 programming round, there has been 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. 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.

5. 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 coordination 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.

6. 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.

7. Governance, implementation and delivery procedures and indicative allocations for this element of the programme have yet to be determined and are subject to the varying timetables and budgets for the included programmes. 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.

8. 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.

9. 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.

10. This enables the ESIF programmes to coordinate support with other European programmes and networks. For Northern Ireland these may include in particular:

- Horizon 2020;
- LIFE;
- ERASMUS+;
- COSME;
- Creative Europe; and
- EaSI.

11. The group will consider the complementarities and synergies possible with these instruments. For example, the EAFRD is expected to fund EIP groups which in turn may seek funding from the Horizon 2020 programme.

12. 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 2011-15 Programme for Government priorities. The Commission Task Force for Northern Ireland continues to operate for this purpose.

13. 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 2014/15 will include three thematic working groups:

- Economy (Promoting Economic Recovery and Growth);
- Social (Addressing Societal Challenges); and
- Environment (Protecting the Environment).

14. 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

15. Northern Ireland's proposals for delivery of Pillar 1 from 2015 have been developed along similar timescales to the proposals for the Rural Development Programme, allowing for complementarity between the two Pillars. This has ensured that Northern Ireland's proposals to support the farming industry, and wider rural development, have been designed in tandem to ensure the best package of support will be available to meet the needs of the region. Consultations on the proposals for both Pillar 1 and 2 were carried out in late 2013/early 2014 so that stakeholders could also consider the full CAP package.

16. Specific areas where there is complementarity between the two Pillars are:

- interim continuation of support for Less Favoured Areas (LFA).
- the design of the targeted support for young farmers under Pillar 2, which complements Pillar 1 support;
- ensuring maximal value is gained from greening payments under Pillar 1 by developing complementary commitments in the Agri-Environment Climate (AEC) scheme and ensuring there is no double funding; land managers are not paid for carrying out the same activity under the greening payment and under the AEC scheme; and
- cross compliance will be applied and enforced for relevant land management actions in the same way across both Pillars, and will provide additional environmental benefits for Pillar 2 through ensuring any agri-environment agreements go beyond this baseline.

2.2 THE INFORMATION REQUIRED FOR EX ANTE VERIFICATION OF COMPLIANCE WITH THE RULES ON ADDITIONALITY (ARTICLE 15 (1) (B) (II) CPR, 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 OF THE CPR AT NATIONAL LEVEL AND, IN THE EVENT THAT THE APPLICABLE EX-ANTE CONDITIONALITIES ARE NOT FULFILLED, OF THE ACTIONS TO BE TAKEN, THE BODIES RESPONSIBLE, AND THE TIMETABLE FOR IMPLEMENTATION OF THOSE ACTIONS (ARTICLE 15 (1) (B) (III) CPR)

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 (ARTICLE 15 (1) (B) (IV) 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 (Article 15 (1) (b) (v) CPR)

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. Community Led Local Development (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.
5. Technical Assistance within the programmes will be used by the Managing Authorities as the need arises to support actions for the preparation, management, monitoring, evaluation, information and communication, control and audit of the Programmes. Some activities likely to be supported include:

- The costs of new IT systems and eCohesion measures;
- Support for the programme monitoring committees, working groups and building the capacity of involved partners;
- Publicity measures, networks and events to communicate the benefits of the programmes to Northern Ireland; and
- Procuring external evaluations and studies.

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 on-going 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, such as unit cost methodologies to streamline administration for beneficiaries.
11. A full review of simplified cost options and delivery methods is being carried out to examine simplified delivery approaches offered by the EU Regulations. 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 2014-20 ERDF Programme.
12. Revised EU 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 in the summer of 2014, at which point we will work to integrate the findings into Programme delivery.

13. Other measures will be timetabled as follows:

Review of application forms	Part of Managing Authority dossier	2014-15
Audit procedures	Within proposed audit strategies	2015
Data exchange	Within planned e-cohesion measures	2015
Retention of documents	Part of Managing Authority dossier	2014-15

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. 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 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) TFEU AND RELEVANT COUNCIL RECOMMENDATIONS ADOPTED IN ACCORDANCE WITH ARTICLE 148(4) TFEU (ARTICLE 15 (1) (A) (I) CPR)

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[489]. 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.

Labour Market Analysis

3. Gibraltar has a base labour force of 21,519 workers[490]. The expansion of the private sector and the contraction of the public sector have created a mismatch of skills. Most of the workers released from the traditional public sector jobs, mainly the Ministry of Defence (MOD), are not equipped with the skills needed to find employment in the tourism, financial services and services sectors that have the potential to expand. As an example, the skills previously acquired in the MOD / ship-repair operations bear no relationship to those that are required in the above private sector activities.
4. This mismatch in skills is further aggravated by the impact of cross-border competition for employment in Gibraltar, particularly given the very high levels of unemployment found in the neighbouring countries, especially Morocco and the Spanish hinterland where, in the case of the latter, unemployment is among the highest in Europe. Morocco's unemployment for 2012 stood at 9.9%[491] of which 30% were under 25 year olds. Spain's unemployment for the same period stood at 26.02% of which 55% were under 25s[492].
5. Evidence of emerging skill shortages comes from the substantial proportion of construction workers in Gibraltar who originate from United Kingdom, Spain or Portugal, and the recruitment of specialists in other areas, particularly the finance sector and the gambling sector, from outside Gibraltar.
6. Large numbers of 'frontier workers' – an employee who is normally resident in Spain but is employed in Gibraltar – account for 29.9% of the local labour market. There is therefore great competition between 'frontier workers' and local residents to find employment in Gibraltar. It is not an option for residents of Gibraltar to try and find employment in Spain, given the levels of unemployment in the hinterland.
7. There is little labour mobility in Gibraltar given its physical size and its peripheral position at the southernmost tip of Europe. The need to have adequate training and re-training programmes to meet the skills needs of the labour market are essential. The re-training must include equipping the workforce with a wide range of skills and improved flexibility.
8. The labour market is subject to volatility, from causes outside Gibraltar's control. They include decisions made in London in respect of the size and make-up of the MOD establishment in Gibraltar, and the impact of the land frontier with Spain when frontier movements become 'less fluid'.

Employment

9. Total employee jobs in Gibraltar amounted to 21,519 in October 2012[493]; 23.19% in

[489] Exchange rate EUR 1.17/GBP 1
[490] HM Government of Gibraltar Statistics Office: 2012
[491] Tradingeconomics.com/ World Bank 2012
[492] Eurostat.ec.europa.eu
[493] HM Government of Gibraltar Statistics Office: 2012

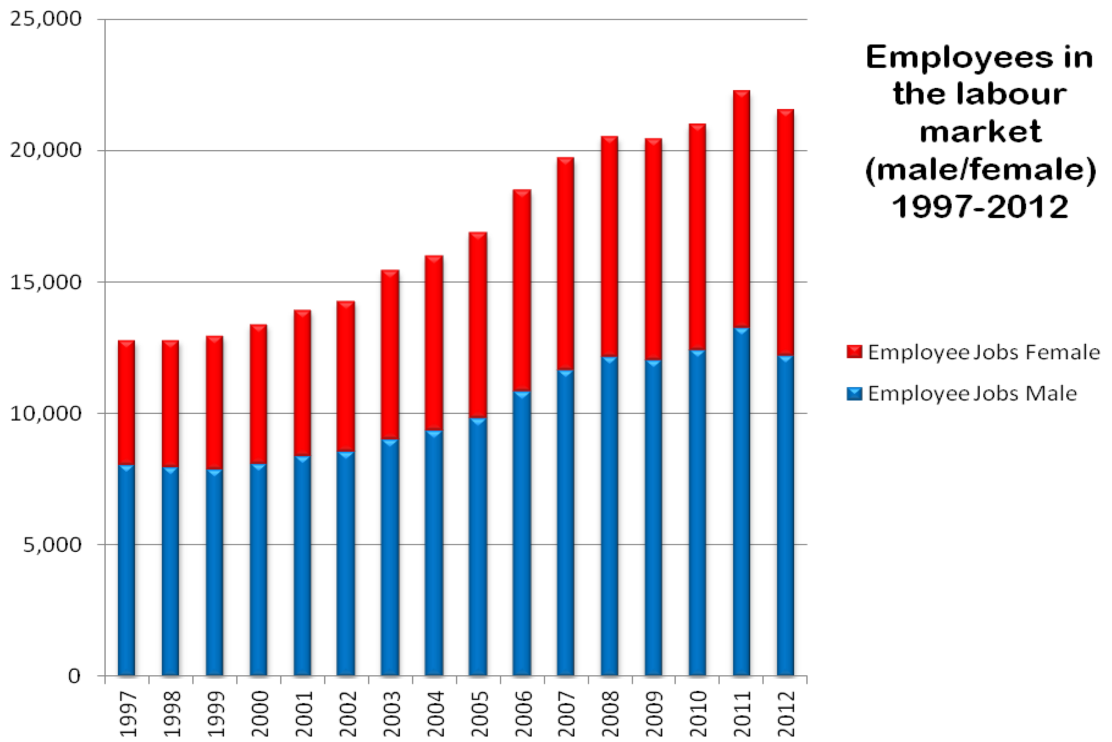
the public sector; 3.18% in the Ministry of Defence and 73.63% in the private sector. Employment is dominated by service activities, with manufacturing of only minimal significance (under 2%). The most important industry sectors are: the wholesale and retail trade, public administration and defence, construction, real estate, business activities, the gambling sector and financial intermediaries.

10. Between 1993 and 2002, the number of employee jobs fell sharply by 9% to 13,000 before growing to its current level. The most important fall was in construction as the 'boom' in this sector started to decrease. During this time, both financial and other services recorded growth, albeit on a very modest scale.

11. In 2012, the number of men in employment represented 56.49% as compared to women who represented 43.51% of the total workforce. This compares to 69% and 31% respectively, in 1990 and 58.1% and 41.9% in 2005. The total employee jobs decreased in 2012 by 3.3% (-728 jobs) as compared to 2011. The fall was driven by the decline in the Construction Industry (-48%). However, jobs in the service-providing industries continued to grow. The Other Services industry grew by 5.7%, the largest increase here was in the Gambling and Betting Activities sub-sector where jobs grew by 5%. Wholesale and Retail grew by 2.6%; Hotels and Restaurants by 3.2% and Financial Intermediation by 1.5%. The Public sector increased by 9.1%.

12. The frontier situation has also had significant impacts on levels of employment and investments in Gibraltar. It has clearly had some specific effects through its impacts on visitor numbers and expenditure.

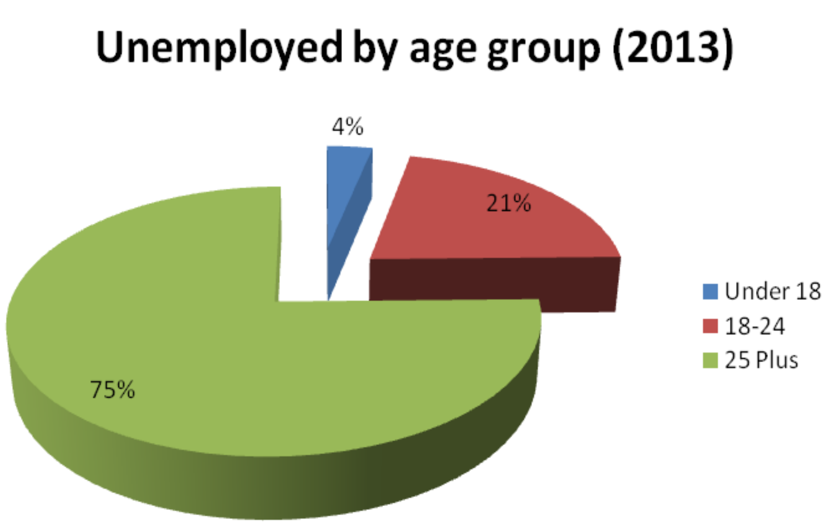
13. Labour market data, specifically the employment figures, suggest a continuous modest increase year on year. The employment rate in Gibraltar for 2012 is 70.62% - very close to the Europe 2020 employment target of 75%. What has to be taken into account is that 29.9% of these are what are classed as '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.



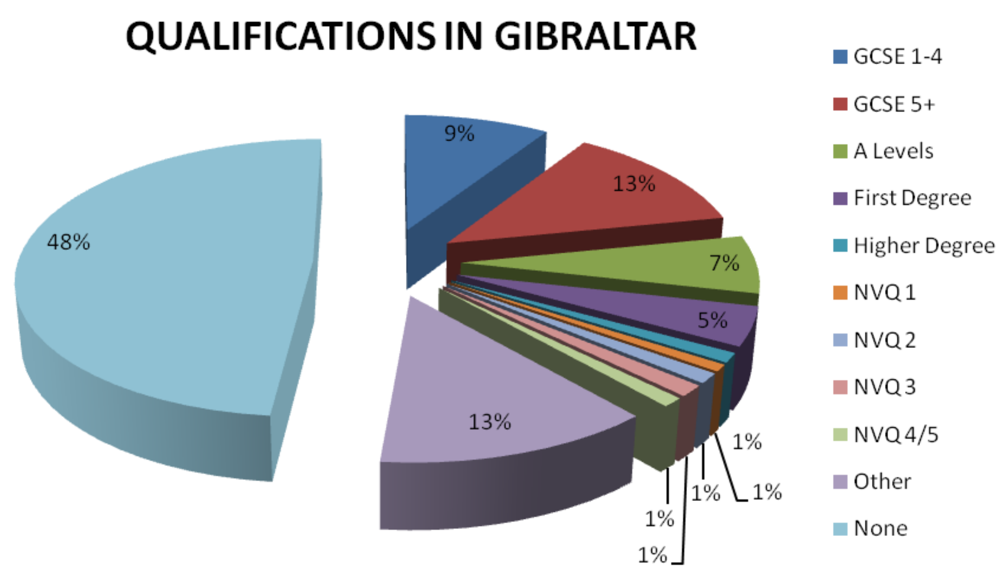
Activity rate for male and female workers

14. The total number of women who could be potentially active in the labour market is 9,340. The total number of women in employment as at October 2012 was 9,363 of which 2,605 were 'frontier workers'. Actual resident employment was 6,758. The activity rate for women is 72.36% (6,758 out of 9,340).
15. The total number of men who could be potentially active in the labour market is 12,102. The total number of men in employment as at October 2012 was 12,156 of which 3,820 were 'frontier workers'. Actual resident employment was 8,336. The activity rate for men is 68.88% (8,336 out of 12,102).
16. 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.
17. 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



18. 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.



19. 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 Europe 2020 target of 40%.
20. 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.
21. During the academic year 2012-13, 8pupils dropped out of school. They were all 15 year olds and they left to seek employment. This represented 0.169% of enrolled pupils.

Smart Growth

SME Competitiveness

22. Since the 1980s, 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.
23. SMEs represent 62% of the GDP and 77% of total employment and therefore provide a critical contribution to the economy.
24. 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.

25. 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; and
- **Diversification** in order to create new business opportunities locally or internationally.

26. Growth opportunities will result from the exploitation of niche markets; 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

27. Gibraltar has to produce all its energy. Currently the main source of production is 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.
28. Developmental needs required for Sustainable Growth include:

- **Low carbon economy:** reduce the reliance on fuel energy and energy consumption by incentivising the move to green and renewable energy sources.

29. Growth opportunities will include the development of alternate energy sources.

INCLUSIVE GROWTH

30. 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.
31. There are no significant poverty 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.
32. 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; and
- **Youth:** schemes required to combat youth unemployment.

33. 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 selection of key Thematic

Objectives

NEEDS	GROWTH POTENTIAL	THEMATIC OBJECTIVE
• Support for new ways of doing business. • Lack of financial support for business start-ups and expansions. • Support needed for the internationalisation and externalisation of businesses.	• Track record in growing the SME sector. • Increasing levels of entrepreneurship, particularly in women. • Increased interest by the private sector in the economy. • Building on the existing capacity of the workforce.	(3) Enhancing the competitiveness of SMEs, the agricultural sector (for the EAFRD) and the fisheries and aquaculture sector (for EMFF).
• Support required for the sustainable development of a low carbon economy & the delivery of climate change objectives.	• Excellent potential for the production of solar & wind power alternate energy sources.	(4) Supporting the shift towards a low-carbon economy in all sectors.
• Support required to assist access to the labour market for those farthest from it. • Assistance needed to combat unemployment. • Assistance needed for the upskilling of the workforce. • Support required to ensure that the appropriate skills are available in the local labour market.	• A more qualified labour force. • Improved employment opportunities for marginalised groups in particular for the youth.	(8) Promoting sustainable & quality employment and supporting labour mobility. (10) Investing in education, training & vocational training for skills and lifelong learning.

Experience of 2007-2013

34. 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.

35. 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.

36. 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 THE LATTER EVALUATION IS UNDERTAKEN BY THE MEMBER STATE AT ITS OWN INITIATIVE (ARTICLE 15 (1) (A) (II) CPR)[494]

1. In accordance with Article 55 of the Common Provisions Regulation, an ex ante evaluation for the 2014-20 ERDF and ESF Structural Funds Programmes for Gibraltar was undertaken. The main conclusions were:-

- 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 2014-10 is realistic, deliverable and in strict accordance with the Commission's requirements.
- The programmes will contribute to the EU's strategy of Smart, Sustainable & Inclusive Growth. There is furthermore a high degree of synergy between the Gibraltar Government's objectives and those of the Europe 2020 strategy. The OPs meet Gibraltar's requirements.
- The Thematic Objectives and Priority Axes set out in the OPs are appropriate. It is not recommended that the OPs should focus on any other possible Thematic Objective.
- In order for SMEs to maximise the opportunities offered by the OPs, the Gibraltar Government needs to invest in catalyst projects.
- There is internal coherence within the OPs. The OPs are also coherent with other EU-funded programmes in which Gibraltar participates.
- The financial allocations are consistent with the objectives set out in the Programmes. They should allow achievement of the results envisaged in the OPs.
- Appropriate wide-ranging consultations with social partners and interested parties were carried out by the EUPS in developing the OPs.
- 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.

[494] Not required for the EMFF pursuant to Article 14 (5) CPR.

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 (ARTICLE 15 (1) (A) (III) CPR)

1. As a result of the intervention logic that was carried out it has been agreed that both ERDF and ESF Programmes will be carried out under 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) and 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 all sectors.	• Increase the share of renewable energy as a % of total energy production (ERDF).
(8) Promoting sustainable & quality employment & supporting labour mobility. (10) Investing in education, training & vocational training for skills & lifelong learning.	• Increased number of inactive persons engaged in job searching (ESF). • Increased number of courses undertaken (ESF). • Increased number of training schemes for the youth and those requiring improved skills to be undertaken (ESF). • Increased numbers in education/ training schemes (ESF). • Increased number of persons gaining a qualification (ESF). • Increased number of persons in employment, including self employment (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 (ARTICLE 15 (1) (A) (IV) CPR)

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).

	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**

	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	2,324,071	**2,324,071**
11. Enhancing institutional capacity & an efficient public administration	0	0	**0**
Technical Assistance	226,800	193,200	**420,000**
TOTAL	**5,683,314**	**4,841,342**	**10,524,656**

1.5 THE APPLICATION OF THE HORIZONTAL PRINCIPLES REFERRED TO IN ARTICLES 5, 7 AND 8 OF THE CPR AND POLICY OBJECTIVES FOR THE IMPLEMENTATION OF THE ESI FUNDS (ARTICLE 15 (1) (A) (V) CPR)

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 (ARTICLE 15 (1) (C) CPR)

1.The Partnership Agreement 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 Gibraltar Federation of Small Businesses 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 OF 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 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 OF 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 Strategic Environmental Assessment 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. All ESI funded activities must abide by the environmental laws of Gibraltar and will therefore uphold the 'polluter pays' principle.
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 THE EFFECTIVE IMPLEMENTATION OF ESI FUNDS (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 (ARTICLE 15 (1) (B) (I) CPR)

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 2014-20 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 (Article 15 (1) (b) (ii) CPR, 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 of the CPR at national level and, in the event that the applicable ex-ante conditionalities are not fulfilled, of the actions to be taken, the bodies responsible, and the timetable for implementation of those actions (Article 15 (1) (b) (iii) CPR)

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 (Article 15 (1) (b) (iv) 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 (ARTICLE 15 (1) (B) (V) CPR)

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. Given Gibraltar's new role as the Managing Authority for ESF for the 2014-20 period a new IT system has been commissioned and should be in service by November 2014.

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 streamline 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 more areas of Structural Funding being IT based e.g. applications, claims, etc. will also be looked into.

This document/publication is also available on our website at https://www.gov.uk/government/policies/making-european-funding-work-better-for-the-uk-economy
Any enquiries regarding this publication should be sent to:

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URN BIS/14/755A

HM Government

UNITED KINGDOM PARTNERSHIP AGREEMENT

Annex A: List of Partners

13 August 2014

European Union
European Social Fund
Investing in jobs and skills

This project is part-financed by the European Union.

UK

No additional detail required. Sufficient detail is set out in the Partnership Agreement main document.

ENGLAND

Growth Programme Board Membership

DG REGIO, EMPLOI and AGRI (Commission Representatives)
Cornwall LEP Chair (LEP Representative)
Greater Manchester LEP Chair (LEP Representative)
South East LEP board member (LEP Representative)
Leicester LEP Chair (LEPs Representative)
Leader, Royal Borough of Kensington & Chelsea (Local Authority Representative)
Leader, Birmingham City Council (Local Authority Representative)
Cabinet member, Cumbria County Council and South Lakeland District Council (Local Authority Representative)
Deputy Mayor for Business and Enterprise (Greater London Authority Representative)
Vice-Chancellor, Coventry University (Universities Representative)
Principal and Chief Executive, Doncaster College (FE colleges Representative)
Head, Organisation and Services Department, Trades Union Congress (Trades Union Representative)
Chief Executive, NCVO (Voluntary & Community sector Representative)
Director of Policy & External Affairs British Chambers of Commerce (Business Representative)
Chair for Local Government Policy, FSB (Business Representative)
CEO, Tees Valley Rural Community Council (Rural and Farming Network Representative)
Chief Executive, Avon Wildlife Trust (Local Nature Partnerships Representative)
Chair, North Northamptonshire LAG (LEADER Groups Representative)
Head of EU and International Policy, Government Equalities Office (Equalities interests Representative)

EAFRD PMC Membership

ACRE
Country Land & Business Association (CLA)
Campaign to Protect Rural England (CPRE)
Dept Business, Innovation and Skills (BIS)
English Heritage
Environment Agency
Food and Drink Federation
Heritage Link
Local Government Association
English National Parks Authorities Assoc.
NFU
RSPB
Wildlife and Countryside Link

Broader Consultees include:

Local Enterprise Partnerships
Local Enterprise Partnership Network
Local Authorities
Local Government Association

Universities and Universities UK
Further Education Colleges
Higher Education Funding Council for England
NESTA
Research institutions
Skills Funding Agency
Job Centre Plus
Individual Businesses
British Chambers of Commerce
Federation of Small Businesses
High Street Banks
Other Business Representative Organisations
Trade Unions Congress
Other Employer Representative Organisations
European Investment Bank
Environment Agency
Local Nature Partnerships
English Heritage
Natural England
National Park Authorities
Forestry Commission
Rural Farming Network
National Council for Voluntary Organisations
Equality and Diversity Groups
Civil Society Interest Networks
Royal Society for the Preservation of Birds
Big Lottery
Other Voluntary and Community Sector Organisations
National Housing Federation
National Health Service
Princes Trust
The Shaw Trust
Local Action Groups
Housing Associations
Credit Unions
National Housing Federation
Department for Communities and Local Government
Department for Business, Innovation and Skills
Department for Transport
Department for Work and Pensions
Department for Environment, Food and Rural Affairs
Department of Energy and Climate Change
Cabinet Office
Technology Strategy Board
Government Equalities Office
UKTI
Other Government Departments and Agencies

SCOTLAND

Aberdeen City Council
Aberdeenshire Council
Angus Council
Archaeology Scotland
Argentix Ltd

Argyll and Bute Council
Big Lottery
British Red Cross
Children in Scotland
City of Edinburgh Council
Clydebank College
Coatbridge College
Comhairle nan Eilean Siar
Community Energy Scotland
Confor
Convention for Scottish Local Authorities
Directorate for Chief Medical Officer and Public Health
Director of Public Health
Dundee City Council
Dumfries and Galloway Council
East Ayrshire Council
East Dunbartonshire Council
East Lothian Council
East of Scotland European Consortium
Edinburgh CPP
Equality and Human Rights Commission
Fife Council
Financial Skills Partnership on behalf of JSSC group
Forth Valley and Lomond LEADER
Glasgow City Council
Highlands and Islands Enterprise
Highlands & Islands European Partnership
The Highland Council
Industrial Communities Alliance Scotland
James Hutton Institute
John Wheatley College
Link Group
Bakka
Moray Firth Media Trust
Moving on Employment Project Ltd
Edinburgh Napier University
NHS Ayrshire and Arran
NHS Fife
NHS Grampian
NHS Highland
North Ayrshire Council
North Lanarkshire Council
Orkney Blide Trust
Orkney Islands Council
Perth and Kinross Council
Peter Ross
Plunkett Scotland
Queen Margaret University
Railfuture
Renfrewshire Council
Scottish Trades Union Congress
The Action Group
The Princes Trust
The Wise Group
University of the Highlands & Islands

University of Strathclyde
Shetland Islands Council
South Ayrshire Council
South Lanarkshire College
South Lanarkshire Council
Scottish Qualifications Authority
Stirling Council
Royal National Institute of Blind People (RNIB) in Scotland
Scottish Council for Development and Industry
Scottish Chambers of Commerce
Scottish Community Alliance
Scottish Opencast Communities Alliance
Scottish out of School Care Network
Scottish Council of Voluntary Organisations (SCVO)
Scottish Enterprise
Scottish Environment Protection Agency
Scottish Further and Higher Education Funding Council (SFC)
Scottish Natural Heritage
Skills Development Scotland
South of Scotland Alliance
The Royal Society for the Protection of Birds (Scotland)
Visit Scotland
Voluntary Action Scotland
Voluntary Arts Scotland
West Fife Enterprise Ltd
West Lothian Council
West of Scotland European Forum
Woodland Trust Scotland
West of Scotland Colleges Partnership (WoSCOP)

WALES

MINISTERIAL ADVISORY GROUP ON EUROPEAN PROGRAMMES 2014-20

Partners:
- British Telecom (private sector)
- Cogitamus (private sector)
- Equality and Human Rights Commission (equalities)
- Swansea Council for Voluntary Service (third sector)
- Swansea University (higher education)
- Torfaen County Borough Council (local government)
- Plus representatives from key Welsh Government spending departments

EUROPEAN PROGRAMMES PARTNERSHIP FORUM (2014-20)

Partners:
- Bangor Mussel Producers Ltd (fisheries / private sector)
- Barsby Associates (Institute of Directors)
- British Telecom (private sector)
- CBI Wales (employers organisation)
- Cardiff University (higher education)
- Equality and Human Rights Commission (equalities)
- Forestry Commissioner for Wales (environment / rural)
- Grahame Guilford & Co Ltd (private sector)

- Gower College (further education)
- Job Centre Plus (employment)
- National Institute for Continuing Adult Education (education)
- National Trust (rural / environment)
- Rhondda Cynon Taff County Borough Council (local government)
- Swansea University (higher education)
- Torfaen County Borough Council (local government)
- Wales Commissioner for Sustainable Futures (environment)
- Wales Co-operative Centre (third sector)
- Wales Council for Voluntary Action (third sector)
- Wales TUC (workers organisation)
- Welsh farmers (agricultural)
- Welsh Local Government association (local government)
- Working Links (employment)
- Plus representatives from key Welsh Government spending departments

POST 2013 WORKSTREAMS

Operational Programmes Work stream

Partners:

- Anglesey County Council CBI Wales (employers organisation)
- Cardiff County Council (higher education)
- Chwarae Teg (third sector)
- Countryside Council for Wales (rural / environment)
- Cynnal Cymru-Sustain Wales (environmental / sustainability)
- EEF Cymru (manufacturers' organisation)
- Higher Education Funding Council for Wales (higher education)
- Job Centre Plus (employment)
- Rhondda Cynon Taff County Borough Council (local government)
- Swansea University (higher education)
- RSPB Cymru (environment and countryside)
- Wales Co-operative Centre (third sector)
- Wales Council for Voluntary Action (third sector)

Delivery and Compliance Work stream

Partners:

- Arts Council of Wales (arts)
- Bridgend County Borough Council (local government)
- Countryside Council for Wales (rural)
- Gower College (further education)
- Rhondda Cynon Taff County Borough Council (local government)
- Swansea University (higher education)
- Wales Council for Voluntary Action (third sector)

Monitoring and Evaluation Work stream

Partners:

- Bridgend County Borough Council (local government)
- Countryside Council for Wales (rural / environment)
- London Economics (private sector consultancy)
- Monmouthshire County Council (local government)

- National Trust (rural / environment)
- Swansea University (higher education)
- Wales Council for Voluntary Action (third sector)
- Welsh Local Government association (local government)

Territorial Co-operation Work stream

Partners:
- Cardiff Metropolitan University (higher education)
- Denbighshire County Council (local government)
- Menter a Busnes (economic development)
- Liz Mills (private sector consultancy)
- Natural Resources Wales (environment)
- Powys County Council (local government)
- Swansea University (higher education)
- Wales Arts International (arts)
- Wales Council for Voluntary Action (third sector)

RURAL DEVELOPMENT PLAN 2014-20 ADVISORY GROUP

Partners:
- APL Services (consulting engineers)
- Carmarthenshire County Council (local government)
- Country Land and Business Association (rural)
- Food and Farming Sector Panel (WG appointed external group)
- Hybu Cig Cymru (Meat Promotion Wales)
- Lantra (rural)
- Menter Môn (Anglesey enterprise agency)
- Wales Commissioner for Sustainable Futures (environment)
- Wales Council for Voluntary Action (third sector)
- Welsh farmers (agricultural)

Rural Development Plan Working Groups

Competitiveness of Agriculture, Food Chain and SMEs

This is a specialist internal working group. External partners include:

- Countryside Council for Wales (rural / environment)
- Natural Resources Wales (environment)
- Wavehill (consultants)
- Also, representatives from key Welsh Government departments, including those with responsibility for Climate Change, Energy Water & Flood; Employability and Skills; Health Protection; Office of the Chief Veterinary Officer; and Waste Strategy.

Agri-Environment Climate and Forestry

This is a specialist internal working group. External partners include:

- Countryside Council for Wales (rural / environment)
- Natural Resources Wales (environment)

- Also, representatives from key Welsh Government departments, including those with responsibility for Biotechnology & Plant Health; Energy, Water and Flood, Organic Farming; and Sustainable Land Management.

Social Inclusion, Poverty reduction & Economic Development

This is a specialist internal working group. Welsh Government representatives include those with responsibility for Broadband; Communities; Energy; Farming Connect; Food; Innovation; Regeneration; and Transport.

NORTHERN IRELAND

Council for Nature Conservation and Countryside (CNCC) (Environment Representative)
Equality Commission for Northern Ireland (Equality Representative)
Colleges Northern Ireland (Education Representative)
Queens University (Research Representative)
University of Ulster (Research Representative)
Northern Ireland Council for Voluntary Action (Voluntary & Community Representative)
Northern Ireland Council for Voluntary Action (2) (Voluntary & Community Representative)
Institute of Directors Northern Ireland (Business Representative)
Northern Ireland Chamber of Commerce (Business Representative)
Confederation of British Industry Northern Ireland (Energy Representative)
Ulster Farmers Union (Agri-Rural Representative)
Irish Congress of Trade Unions (Trade Union Representatives)
Alliance Party (Local Government Representative)
Democratic Unionist Party (Local Government Representative)
Ulster Unionist Party (Local Government Representative)
Sinn Fein (Local Government Representative)
Social Democratic & Labour Party (Local Government Representative)

GIBRALTAR

No additional detail required. Sufficient detail is set out in the Partnership Agreement main document.