



SCSEC/JUNE/08

NORTH EAST ENGLAND COMPETITIVENESS PROGRAMME 2007-13

MEETING OF THE PROGRAMME MONITORING COMMITTEE: 19 JUNE 2008

Attendees	Role	Sector
Jonathan Blackie	(Chair)	Government Office North East
Pat Ritchie	(Member)	One NorthEast
Jonathan Denness	(Observer)	European Commission
Ieva Zalite	(Observer)	European Commission
Femi Ojumu	(Observer)	DCLG
Adelle Rowe	(Member)	Environment/Sustainability
Roger Mould	(Alternate)	Voluntary Sector
Tony Sarginson	(Alternate)	Private Sector
Kevin Rowan	(Member)	TUC (also observer for ESF
Laura Woods	(Alternate)	Higher Education
Bob Ward	(Alternate)	Local Authority (Durham)
Cllr Jim Smith	(Alternate)	Local Authority (Northumberland)
John Hamilton	(Observer)	Local Authority (Northumberland)
John Lowther	(Alternate)	Local Authority (Tees Valley)
Cllr Bryan Charlton	(Member)	Local Authority (Tyne & Wear)
Gordon Bell	(Observer)	Local Authority (Tyne & Wear)
Peter Smith	(Observer)	Government Office North East
Neil Robertson	(Observer)	Government Office North East
Lesley Calder	(Secretariat)	One NorthEast
Iain Derrick	(Secretariat)	One NorthEast
Raffaella Ebani	(Secretariat)	One NorthEast
Susan Kennedy	(Minutes)	One NorthEast
Sarah Collyer	(Minutes)	One NorthEast

Apologies

Margaret Wightman	Voluntary Sector
Cllr Neil Foster	Durham
Cllr Bob Cook	Tees Valley
Cllr Ian Lindley	Northumberland
Helen Pickering	Higher Education
Mark Thrumble	Further Education
Ranjana Bell	Equality and Diversity
John Cuthbert	Private Sector

AGENDA ITEM 1. WELCOME AND APOLOGIES

The Chair welcomed members to the second meeting of the Programme Monitoring Committee and advised members of apologies received from:

- Margaret Wightman (Voluntary Sector) – Roger Mould deputised.
- John Cuthbert (Private Sector) – Tony Sarginson deputised.
- Helen Pickering (Higher Education) – Laura Woods deputised.
- Ranjana Bell (Equality and Diversity) – No substitute.
- Mark Thrumble (Further Education) – No substitute.
- Cllr Ian Lindley (Northumberland) – Cllr Jim Smith deputised.
- Cllr Neil Foster (Durham) –Bob Ward deputised.
- Cllr Bob Cook (Tees Valley) -John Lowther deputised

AGENDA ITEM 2. MINUTES FROM PREVIOUS MEETING

The minutes of the previous meeting were formally approved by the Committee. The Secretariat reported progress against the action points identified within the minutes, the Committee noted that all action points are complete or in-hand.

The Chair confirmed that the PMC representative for the Trade Union Congress (Kevin Rowan) will act as a liaison point between the ERDF and Regional ESF Committee. The Committee noted that liaison between the Rural Development Programme for England (RDPE) North East regional committee and the PMC will be facilitated by the RDPE Programme Manager (post under recruitment). The Secretariat will confirm following appointment and extend an invitation to the next and subsequent PMC meetings

The representative for Government Office North East welcomed the roles of ERDF and ESF representatives in providing linkages between their respective committees as a helpful mechanism for reducing duplication and ensuring that demarcation between the various EU programmes operating within the region is managed effectively.

AGENDA ITEM 3. PROGRESS REPORT FROM THE PROGRAMME EXECUTIVE GROUP

1) Delivery Framework

The Secretariat thanked the Programme Monitoring Committee for the constructive discussion surrounding the Delivery Framework at its previous meeting. Following the PMC in February, the Programme Executive Group (PEG) was tasked with addressing the concerns raised by PMC members and the EU Commission regarding the proposed

commissioning routes, including issues of competition and transparency in the allocation of resources.

The points raised by PMC members were subsequently taken into account in revisions to the Delivery Framework and agreed by PEG at its meeting on 3rd April 2008. Further negotiations were held with EU Commission (DG Regio) representatives and the Secretariat (acting on behalf of regional partners).

The European Commission representatives confirmed that they were satisfied with the outcome of these discussions, acknowledging that key issues were now reflected in the Delivery Framework for example:

- a reduction in the percentage of ERDF investment to be allocated through non-competitive selection; and,
- a more open and competitive commissioning process for the Innovation Connectors.

The PMC noted that the revised Delivery Framework was accepted by the Commission in early April 2008.

2) Progress on Commissioning

The Secretariat updated the PMC on the progress of the current open call for Priorities 1 (innovation) and 2 (business support and enterprise), and also on the plans for a limited call on Innovation Connectors in July 2008. The following issues were raised through discussion:

- The Secretariat advised that it had received 7 Expressions of Interest (EOIs) under the open call to date. It was anticipated that further EOIs will come forward closer to the end date of the call in July. The Secretariat reported that following an assessment of the likely volumes of Expressions of Interest it is anticipated that Expressions of Interest submitted will exceed the £15m indicative allocation for each Priority. The PMC agreed that the Programme Executive Group will take this into account when considering the scale and extent of future calls at its next meeting (23rd July), with the Secretariat reporting upon options available, including consideration of:
 - Prudent management of over-programming;
 - The potential for the limited call for Innovation Connectors to absorb overspend in Priority 1;
 - A second open call for Priority 2 planned later in the year.
- The Secretariat informed PMC that in developing the limited call for Innovation Connectors an investment planning approach would be adopted. Each Connector will be required to submit an investment plan which will demonstrate how it meets requirements in three key areas: physical regeneration; support for technology and innovation; and community engagement.

- The PMC noted that One NorthEast has commissioned a piece of work examining issues surrounding the Innovation Connectors. Given the varying natures of the Innovation Connectors, a common approach to community engagement across the Connectors may not be practical. The Secretariat will report to PEG on any related practical recommendations emerging from the research which will then inform the commissioning documents due to be released as part of the limited call in late July.

The PMC noted that the Programme Executive Group (PEG) has endorsed a proposal to allow projects with some retrospective expenditure to come forward in the limited call against the Innovation Connectors. The issue of retrospection will be managed by the Secretariat on a case by case basis in conjunction with PEG.

3) Disadvantaged areas

The Secretariat reported that it had reached agreement on the process and methodology for identifying disadvantaged areas in each of the four sub regions across the North East. This informed the finalisation of the Commissioning Document for Priorities 1 and 2 and will be used in monitoring Programme outputs. Agreement was reached following negotiations with sub-regional partners taking into account factors such as: availability of match funding, existing LEGL areas, the index of multiple deprivation 2007; and, the ability to complement funding streams such as the Working Neighbourhoods Fund.

4) Technical Assistance

The Technical Assistance Strategy was presented and approved at the meeting of the Programme Monitoring Committee 15 February 2008. PMC was informed that as agreed a sub group to oversee the day to day management of Technical Assistance has been established, reporting to the Programme Executive Group.

5) Audit of One NorthEast

The Secretariat reported on the recent audit of One NorthEast's structures and processes for managing ERDF undertaken by the Department for Communities and Local Government (DCLG) Internal Audit Service (IAS). The audit resulted in an 'unqualified' assessment and subsequent reports received from IAS found that there are no significant issues of concern. The Agency is one of only two RDAs nationally to secure this rating.

This positive outcome followed a year-long process of devising clear, transparent systems and processes within the RDA and followed detailed negotiations with the European Commission to ensure that the Agency proposals were fully compliant with EU regulatory and audit requirements.

The Secretariat noted the constructive discussions held between the Agency and the EU Commission on this issue and the guidance received

from DG Regio officials in finalising compliant structures and processes, in particular regarding the separation of functions required.

6) One NorthEast as Final Beneficiary

In accordance with agreed process set out in the ERDF Delivery Framework the Secretariat will inform PMC of projects at selection and approval stage where One NorthEast will act as a Final Beneficiary of ERDF investment. Currently these are:

- Design Centre for The North
- Manufacturing Advisory Service/North East Productivity Alliance (MAS/NEPA)

PMC was informed that this forms a standing agenda item for PEG, and that PEG receives detailed presentations and papers in respect of all projects where One NorthEast acts as final beneficiary of ERDF funds

AGENDA ITEM 4. ANNUAL IMPLEMENTATION REPORT

1) The Annual Implementation Report for the North East England ERDF Competitiveness Programme 2007-13

The PMC was asked to formally endorse the Annual Implementation Report (AIR) for the 2007-13 Programme. The report follows a template provided the European Commission and covers the calendar year January to December 2007.

The European Commission representative thanked the Secretariat for the draft report and broadly welcomed its content. The following points were raised by Ieva Zalite (DG Regio) to be taken into account before final submission. The Secretariat undertook to revise the document in the light of Commission comments, the issues highlighted were:

- To ensure that any reference to information and publicity activity should include a reference to arrangements for the publication of the list of beneficiaries, names of operations and the amount of public funding allocated (including where applicable the electronic address at which such data can be found).
- To ensure that future Annual Implementation Reports include examples and publicity measures for the Operational Programme, as well as good practice in information and publicity when implementing the agreed Communications Plan. Reference should be made to the fact that no relevant information can be supplied in relation to the Communications Plan for 2007 reporting purposes, however, full information will be provided in the 2008 Annual Implementation Report.
- The AIR should make reference to planned interventions from the European Investment Bank in relation to JEREMIE initiative.

The PMC endorsed the AIR and tasked the Secretariat with revising the document to take into account points made by the Commission. The Chair thanked the Secretariat on a comprehensive report.

Agreed: *The PMC endorsed the draft report, subject to the amendments above, for submission to DCLG.*

Action 1: Secretariat to make amendments to the Annual Implementation Report and submit to DCLG.

2) Lessons Learned from the Objective 2 Programme 2000- 06

The Programme Monitoring Committee received a presentation from Government Office North East (GONE) outlining the key achievements from the 2000-06 Programme, potential risks in managing ERDF, and potential strategies to be employed in the management of those risks.

The Chair thanked GONE for sharing the lessons learned from the 2000-06 Objective 2 Programme, and invited further comment from Jonathan Denness (Acting Head of Unit for the UK and Ireland, DG Regio). In response he emphasised that:

- Previous risks to past ERDF programmes have included an inconsistency between the expectations of relevant Managing Authorities and the European Commission, specifically in relation to the seriousness with which the Commission takes the decommitment of funds if N+2 targets are not achieved. The Commission reinforced the point that if funds are not spent then they will be lost to regions.
- The PMC should note the importance of compliance with European Commission regulations, in particular competent record keeping and monitoring. PMC members should be in no doubt that in cases where projects have an inadequate audit trail then ERDF funding will be 'clawed-back.' PMC was reminded that failure by the RDA, acting as intermediate body, to ensure compliance with monitoring and audit requirements can lead to the suspension of payments.
- However, whereas the Commission is keen to reinforce the need to compliance, the Commission to also keen to stress that Programmes need not be risk averse in terms of substance; innovation should be encouraged within programmes. However, risk should be managed in terms of compliance, record keeping and effective monitoring.
- The PMC was reminded of its role ensuring that risks associated with compliance are managed effectively by One NorthEast on its behalf.

During discussion it was also noted that:

- Organisations may be deterred from applying for ERDF funding due to the perception that audit and monitoring requirements are onerous and complicated. Intermediary bodies (such as the Northern Business Forum) could act as an interface, translating risks and encouraging organisations to move forward with ERDF funding.
- PMC was reassured that in all its commissioning and publicity material, One NorthEast is clearly setting out what is expected from project proposers in relation to audit / monitoring requirements.

- The European Commission representatives were reminded that when there are numerous rounds of audit, it is important that problems are picked up early in the process (rather than at a final audit) and that consistent messages regarding eligibility and compliance are given by authorities at regional, national and European level.
- The PMC noted that whereas it is confident that the risks associated with N+2 are being mitigated by One NorthEast, further information on the progress towards N+2 targets should be provided at each PMC to ensure that members are able to hold One NorthEast to account in its role as Intermediate Body, monitor progress and manage risks effectively.
- The PMC was advised that One NorthEast is seeking to build on lessons learned in previous programmes and is acutely aware of the risks associated with implementation, compliance and audit. One NorthEast will ensure that potential proposers are aware of the obligations / requirements associated with the receipt of ERDF funding. For example, the agreed selection, appraisal and approval processes incorporate compliance and audit obligations.

The European Commission representatives thanked members for organising their visit to the Digital City Innovation Connector on 18th June 2008, and noted that Connectors such as Science City and Digital City have the potential to be world class projects. They also noted the effort of the UK regions to lead on the Growth and Jobs Agenda through their ERDF Programmes.

Action 2: Secretariat to ensure that commissioning documents are clear in terms of project compliance and audit requirements.

Action 3: Secretariat to provide PMC with further information on progress towards N+2 targets at future meetings.

AGENDA ITEM 5.¹ PRESENTATION ON FINANCIAL INSTRUMENTS

The Programme Monitoring Committee received a presentation from Assistant Chief Executive (Resources) from One NorthEast on the Financial Instruments, and the proposed role of the JEREMIE initiative in the ERDF Programme. The PMC welcomed the presentation and the Chair invited comment and scrutiny of the proposals.

In discussion the following issues were considered by PMC Members:

- Due to market failure there is an estimated funding gap of £2m - £3m for finance initiatives. Although the level of private sector activity is increasing, the region is still not attracting venture capitalists and there is a continuing market failure that would justify public sector intervention.
- In order to ensure that JEREMIE related activity remains eligible and compliant, the Agency reported that PMC members can be reassured that the need to address compliance issues is built into financial

¹ Communications update was listed as Item 5 on the agenda but was moved to the end of the meeting.

instruments from the outset. Governance structures, procurement processes and business models all need to be in place 'up front' before approval to proceed can be received from bodies such as:

- the Department for Business, Enterprise and Regulatory Reform (BERR);
 - One North East Board;
 - The North East England ERDF Competitiveness Programme 2007-13, Programme Monitoring Committee.
- The JEREMIE instrument would incorporate Community Development Fund Initiatives (CDFI's) and Social Enterprise as part of the product portfolio.
- The PMC noted that investment is widely recognised as a key regional priority within the Regional Economic Strategy and 2007-13 ERDF Operational Programme
- The PMC agreed that in their view there is proven market failure (and also market imperfection) that justifies intervention utilising ERDF / public funding. However, whereas the potential benefits of the JEREMIE approach were widely accepted by Members there was an acknowledgement that further detail is needed on JEREMIE to assess whether this represents a preferred instrument. The Secretariat undertook to report back to PMC regarding the progress of negotiations between regional partners, CLG / BERR and European Commission on the establishment of a North East JEREMIE instrument.
- The Commission representative also commented on the difficulty of accurate sizing of the fund given the current economic climate. Further detailed comments on JEREMIE are to be sent to the Secretariat in due course as part of the negotiating process.
- Other points of detail made in relation the presentation concerned clarification that the proposed funding package relates to ERDF only rather than ESF, and secondly, that references to capital funding during the presentation refers in fact to investment capital, which is classified as revenue in ERDF regulations.

ACTION POINT 4: Secretariat to report to PMC on progress of JEREMIE negotiations.

AGENDA ITEM 6. COMMUNICATIONS UPDATE

The PMC noted that the Communications Plan has been submitted and approved by the European Commission.

AGENDA ITEM 7. ANY OTHER BUSINESS

It was agreed that Digital City in Teesside will host the next meeting of the Programme Monitoring Committee on 22nd October 2008. Subject to diary commitments, the meeting will be moved from 11am to 10am.