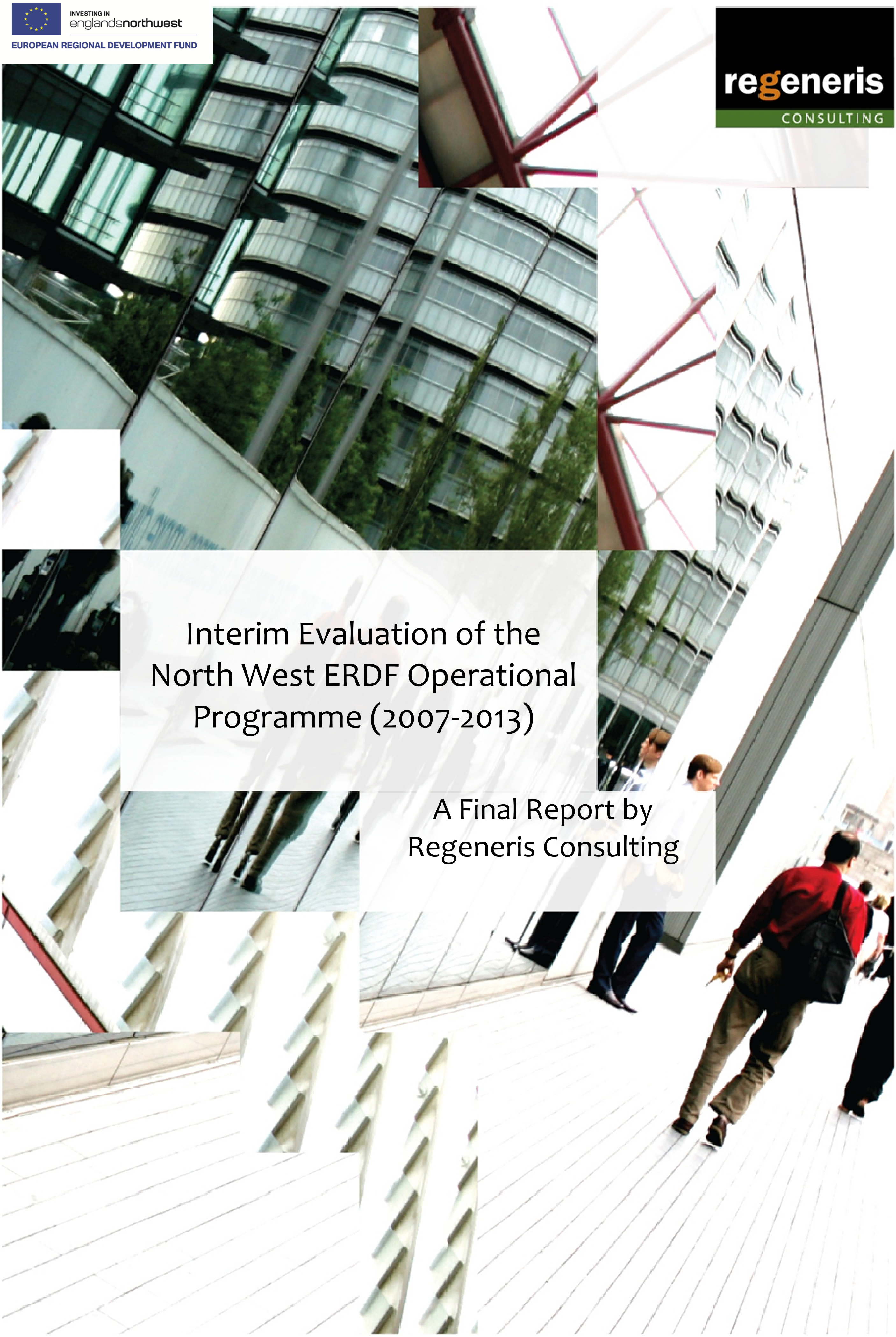


# Interim Evaluation of the North West ERDF Operational Programme (2007-2013)

A Final Report by Regeneris Consulting

INVESTING IN englandsnorthwest

EUROPEAN REGIONAL DEVELOPMENT FUND

regeneris CONSULTING

NWDA

# Interim Evaluation of the North West ERDF Operational Programme (2007-2013)

November 2010

**Regeneris Consulting Ltd**

One Ashley Road

Altrincham, Cheshire

WA14 2DT

Tel: 0161 926 9214

Web: www.regeneris.co.uk

# Contents

# Glossary of Acronyms

AA –Action Area
AGMA – The Association of Greater Manchester Authorities
BIS – The Department for Business Innovation and Skills
BREEAM – Building Research Establishment (BRE) Environmental Assessment Method
BREW - Building Resource Efficiency programme
BSSP – Business Support Simplification Programme
CBRE – CB Richard Ellis
CCT – Cross-Cutting Theme
CEEQUAL – Civil Engineering Environmental Quality Assessment & Award Scheme
CMM – Contract Monitoring Manager
CNE – Commission for the New Economy
COEBP – Centre of Excellence for Biopharmaceuticals
CPRG – Central Project Review Group
CFO – Chief Financial Officer
(D)CLG – Department for Communities and Local Government
CSR – Comprehensive Spending Review (October 2010)
D&A – Development and Appraisal
E&D – Equality and Diversity
EC – European Commission
EIB – European Investment Bank
EIPA – European Institute for Public Administration
EoI –Expression of Interest
EPE – European Programme Executive
ERDF – European Regional Development Fund
ESF – European Social Fund
EU –European Union
FE – Further Education
FMAS – Future Manufacturing Advisory Service
GDP – Gross Domestic Product
GO – Government Office
GRAND – Grants for Research & Development
GVA – Gross Value Added
HEI – Higher Educational Institution
HEIF - Higher Education Innovation Fund
HMRC – Her Majesty's Revenue and Customs
ICT – Information and Communication Technology
IEF – Impact Evaluation Framework
IF – Investment Framework
ILO – International Labour Organisation
ISIS – Infolab's Strategic Innovation Support Programme
JEREMIE – Joint European Resources for Micro to Medium Enterprises
JESSICA – Joint European Support for Sustainable Investment in City Areas
JSA – Job Seekers Allowance
KTP – Knowledge Transfer Partnerships
LEP – Local Enterprise Partnership
M&E – Monitoring and Evaluation
MCIS – Management Control and Information System
MEC – Media Enterprise Centre

MOSI – Manchester Museum of Science and Industry
MPISC – Merseyside Phasing-in Sub Committee
NGA – Next Generation Access Broadband
N+2 – a European Commission requirement stating that the annual budget allocations for any ERDF Operational Programme must be spent within two years of the year for which they were allocated
NWBF – North West Business Finance
NWDA – North West Development Agency
NWN – North West Network
NWOP or OP – North West Operational Programme
NWRIU – North West Regional Intelligence Unit
NWUA – North West Universities Association
ONS – Office for National Statistics
P1 – P4 – NWOP (See above) Priorities
PAV – Project and Verification Visit
PEV – Pre-Engagement Visit
PMC – Programme Management Committee
PMSC – Performance Monitoring Sub-Committee
PRG – Project Review Group
R&D – Research and Development
RDA – Regional Development Agency
RDPE – Rural Development Programme for England
RES – Regional Economic Strategy
RGF – Regional Growth Fund
RONW – Rest of the North West (i.e. excluding the Merseyside Phasing-in Area)
RSS – Regional Spatial Strategy
SCP – Sustainable Consumption and Production
SP – Single Programme
SME – Small or Medium sized Enterprise
SWRDA – South West Regional Development Agency
TA – Technical Assistance
TEA – The level of early stage entrepreneurial activity
TIC – Technology Innovation Centres
TIF – Tax Increment Financing
TLF – Transitional Loan Fund
TMP – The Mersey Partnership
UDF – Urban Development Fund
URC – Urban Regeneration Company
UKTI – UK Trade and Investment
VAT – Value Added Tax
VCLF – Venture Capital and Loan Fund
VCS – Voluntary and Community Sector
WAP – Working Age Population
WLR – West Lakes Renaissance
WNF – Working Neighbourhoods Fund
YF – Yorkshire Forward

# 1. Introduction

## Aims of the Evaluation

1.1 In July 2010, Regeneris Consulting was commissioned by NWDA to carry out an interim evaluation of the North West ERDF Operational Programme 2007-13. The evaluation will inform improvements to the delivery of activities at Priority and Programme levels, and help to guide future funding allocations made to the Programme. The main objectives of the evaluation are to assess and make recommendations on:

1) Whether and to what extent the Programme strategy and focus as set out in the NWOP is still relevant

2) The initial progress which the Programme is making towards achieving its objectives as set out in the NWOP

3) The extent to which the Cross Cutting Themes are influencing best practice in project design, development and implementation

4) The quality and effectiveness of the Programme's implementation and management, including the governance and committee structure.

## Programme Overview

1.2 The North West region was allocated a total of €756m in ERDF support under the Competitiveness strand of the EU's Structural Funds for the period 2007-13. At the exchange rates when the Programme began, this figure was worth £522m. However, with a weakening Pound against the Euro, the estimated figure now used by the EPE is 20% higher at £626m. Out of the total Programme funding, 41% is ring-fenced for Merseyside as a phasing-in region, reflecting its previous access to Objective 1 Programme funding.

1.3 The Programme is broken down into five Priority Areas, of which the first four are the main delivery Priorities and the fifth comprises technical assistance to support delivery:

- Priority 1: Stimulating Enterprise & Supporting Growth in Target Sectors & Markets
- Priority 2: Exploiting Innovation & Knowledge
- Priority 3: Creating the Conditions for Sustainable Growth
- Priority 4: Growing & Accessing Employment
- Priority 5: Technical Assistance.

1.4 Across the five priorities, the Programme has a number of headline impact targets:

- Support the creation of 26,700 net additional new jobs by 2015
- Support the creation of £1,170m additional annual GVA by 2015
- Support a 25% reduction in additional $CO_2$ emissions generated by the NWOP.

## Structure of the Evaluation Report

1.5 The evaluation has involved a range of desk-based research & analysis and fieldwork, including:

- **Data review and analysis**, using information from the Programme's management information systems
- **Review of the changing socio-economic conditions**
- **Consultations with members of the EPE**
- **Strategic stakeholder consultations** with members of the PMC, PMSC, MPISC, CLG and the EC (see Appendix B)
- **Project reviews,** involving detailed consultations with project deliverers (see Appendix C).

1.6 The Sections of the evaluation report are set out in such a way as to correspond to the four key evaluation objectives set out above and are summarised in the table below. The table sets out the section title and description, which of the four evaluation objectives it relates to, and the key elements of the evaluation work that informed the section's findings.

| Section | Evaluation Objectives Covered | Elements of Work that Informed this Chapter |
|---|---|---|
| **2. The Programme Strategy**. In which the relevance of the Programme and strategy as set out in NWOP is reviewed against changes in the socio-economic context of the region. | 1 | Review of Changing Socio-economic Conditions, Stakeholder Consultations. |
| **3 – 8. Progress against Objectives**. In which overall progress against spend and output / result targets is reviewed at Programme, Priority and Action Area level. Includes projected impacts of NWOP. | 2 | Data Review, EPE and Stakeholder Consultations, Project Reviews. |
| **9. Cross-Cutting Themes**. In which the influence and impact that the CCTs are having on the Programme is reviewed. | 3 | EPE and Stakeholder Consultations, Project Reviews. |
| **10. Programme Governance, Management and Systems**. In which the quality and effectiveness of Programme governance structures, management by the EPE and Programme systems and processes is reviewed. | 4 | EPE and Stakeholder Consultations, Project Reviews, Data Review. |
| **11. Recommendations**. In which overall recommendations are made for improving Programme delivery and impact. | All | All desk-based and fieldwork. |

1.7 The evaluation has drawn on the best available data about progress to date in spending and committing ERDF, and in the performance of the Programme in terms of its outputs and results. However, a combination of problems associated with integrating the national Management Control and Information System (MCIS) for ERDF and systems used by the NWDA's EPE to manage and monitor the Programme means that a number of caveats have to be applied to the data and analysis presented in the report:

- All the tables and charts on spend, outputs and results in this report are based on MCIS data we were supplied with at the end of August 2010. However, the analysis for the overall Programme, individual priorities and Action Areas has had to be supplemented by material relating to projects that may have been contracted for (i.e. gone live), withdrawn or entered the project pipeline since MCIS was updated. Wherever possible, the report seeks to highlight where this has significant effects on spend, commitments of funding or achievements. However, the report reflects the inherent uncertainties about the current status of some projects. This has proved to be a particular issue for Priority 3.
- This problem is also compounded by the contractual position of a number of projects. Project reviews carried out for the evaluation have indicated that several projects are in the process or have recently completed contract variations which may include adjustments to spend and outputs. Where this process has not been completed, the MCIS data show the original rather than the most up to date position, and this will have some bearing on the analysis of the Programme.
- Furthermore there is considerable uncertainty about projects classified in MCIS as "committed", where there are match funding issues and they are unlikely to proceed as planned.

1.8 **In summary, the position on spend, outputs and results is a particularly fast moving picture at present. Much of our analysis is based on a snap-shot as of the end of August 2010, which is already out of date**.

1.9 The delivery of the NWOP is taking place over a period when the North West economy has felt the effects of a deep recession and now faces what is expected to be an extended spell of cuts in public sector funding, with significant impacts on the availability of ERDF match funding. The evaluation is able to go some way to setting the scene for the future economic and policy landscape in which the Programme will be delivered. However, current uncertainty about the likely direction of ERDF governance and management, together with a lack of clarity about public policy priorities, mean that it is both difficult to make specific recommendations about how remaining NWOP funds should be allocated and how Programme governance and management arrangements should proceed in advance of further clarification of the future match funding position. The evaluation report has dealt with this problem in two ways:

- We have generated a number of different scenarios based on assumptions about the depth and breadth of potential match funding cuts to show how Programme expenditure, outputs, results and impacts may be affected. This provides the evaluation with a range of possible outcomes that the Programme may need to consider in determining its strategy for future allocations of ERDF. Clearly, the picture is expected to become clearer after the October Comprehensive Spending Review. However, we cannot be certain about how quickly the Programme will be able to establish what potential sources of match will be available to it, and the time-bound nature of the NWOP means there are risks in delaying decisions about future funding allocations.

- In the absence of guidance about the UK's approach to the management of ERDF, recommendations about governance, management, systems and processes have been restricted to dealing with those issues that have emerged from the review and which need to be addressed regardless of future structures. We have also provided a set of guiding principles for governance, management and the future operation of the NWOP for partners in the North West to reflect on and take forward as they see fit. These may need to be fleshed out as the evaluation process moves towards a conclusion, scheduled for November 2010.

# 2. Programme Strategy Assessment

2.1 Delivery of the North West Operational Programme is taking place at a time of significant change in the UK economy and in a political climate in which public sector funding is likely to be cut over a sustained period. In light of these changes, it is important that the evaluation establishes whether and to what extent the Programme strategy and focus as set out in the NWOP is still relevant to the socio-economic circumstances of the region and is consistent with the wider range of strategies which are important for the region.

2.2 This section sets out to assess the robustness and continued relevance of the NWOP strategy. It addresses several key evaluation questions including:

- How have the opportunities and needs of the region changed, and how well configured is the Programme to meet them? In what ways does the strategy need to be changed?
- What are key needs and challenges resulting from the recession, emerging cuts in public sector expenditure and changing government policy? How can these be overcome?
- Does the strategy and focus of the Programme need to be adjusted to reflect the significant change in economic conditions, the strengths and assets of the NW and a rapidly evolving policy and funding landscape?

2.3 While the evaluation is concerned with the extent to which policy and funding changes have had an impact on the NWOP strategy, the evaluation has also set out to establish how the Programme has responded. With the Coalition Government's policies on economic development and ERDF still to emerge, it is important to understand how well geared up the strategy is to adapt to further changes.

## Background to the NWOP

2.4 The formal guidelines for the new round of cohesion programmes were issued by the European Commission (EC) in July 2005[1]. These set out the broad principles for the new round of Structural Funds across the EU. The UK Government issued a draft framework for Structural Funds Programmes in the UK for consultation in February 2006[2]. At this stage there were no agreed allocations for ERDF or ESF by region.

2.5 In the summer of 2006, the process of preparing an Operational Plan for the ERDF Competitiveness Programme started in earnest in the North West. The first step was the creation of a North West Operational Programme Steering Committee (OPSC). This drew on representatives from across the region both geographically and in terms of economic and social partners. It was chaired by GONW, who at the time were responsible for the management of both ERDF and ESF programmes in the region. The OPSC commissioned consultancy support in preparing the NWOP and also a separate Ex-Ante Appraisal and Sustainability Appraisal of the NWOP as it developed.

[1] Cohesion Policy in Support of Growth and Jobs: Community Strategic Guidelines, 2007-2013

[2] National Strategic Reference Framework EU Structural Funds Programmes: 2007-2013

2.6 The NWOP was developed using the then Regional Economic Strategy (RES) as the main structure around which to develop the programme. There was much discussion on how the Merseyside Phasing-in area should be treated. Eventually, after some debate it was decided by the OPSC not to have a separate programme for Merseyside. During the summer and autumn of 2006 various drafts were prepared and considerable consultation took place. In October 2006, the Government published the UK's final National Strategic Reference Framework for EU Structural Funds Programmes, setting out the UK's high-level priorities for Structural Funds spending from 2007 to 2013 and indicative annual allocations of funding for each Programme by region. This document also confirmed the proposed role of Regional Development Agencies (RDAs) as the joint Managing Authority for ERDF in England (with CLG).

2.7 In November 2006 a full draft of the NWOP was submitted to the European Commission (DG Regio). Comments were received back from the Commission in January 2010. The NWOP was revised in the light of these and other comments. A further draft was submitted to the EC via CLG in April 2007 for approval. During the summer and early autumn 2007 there was further refinement of the NWOP especially around the financial tables and the quantification of the programme in discussion with the EC. This work also involved the development of indicative allocations of resources within Priorities between the various Action Areas.

2.8 The final version of the NWOP was submitted via CLG to the EC in November 2007. The NWOP was formally approved by the EC on the 17th December 2007. As we note later in the report the preparation of the NWOP took place against an economic and funding climate which was very different from that of 2010.

2.9 There was considerable discussion between the EC, CLG and RDAs collectively over this period about how RDAs would work as managing bodies. The EC had some reservations, especially about the separation of roles between the NWDA as applicant and as programme managers. During this period the NWDA also started gearing up for its new role as programming management body. Also during this period a series of indicative allocations for each Action Area within the four Priority Axes were developed and endorsed. These were never formally part of the NWOP itself. The structure of the final NWOP is as set out below.

### The Northwest ERDF Programme

**The Vision**

*"A dynamic, sustainable international economy which competes on the basis of knowledge, advanced technology and an excellent quality of life for all".*

| PRIORITY 1 – Stimulating Enterprise and Supporting Growth in Target Sectors and Markets | PRIORITY 2 – Exploiting Innovation and Knowledge | PRIORITY 3 – Creating the Conditions for Sustainable Growth | PRIORITY 4 – Growing and Accessing Employment |
|---|---|---|---|
| **ACTION AREA 1 – 1** Developing high value new enterprise | **ACTION AREA 2 - 1** Exploiting the science and R&D base of the region | **ACTION AREA 3 – 1** Exploiting the economic potential of major gateways in Merseyside | **ACTION AREA 4 – 1** Stimulate enterprise in disadvantaged communities and under-represented groups |
| **ACTION AREA 1 – 2** Developing higher added-value activity in target regional sectors | **ACTION AREA 2 - 2** Encouraging innovation to improve productivity in all companies | **ACTION AREA 3 – 2** Developing high quality sites and premises of regional importance | **ACTION AREA 4 – 2** Supporting linkages to key employment areas |
| **ACTION AREA 1 – 3** Increasing sustainable consumption and production | | **ACTION AREA 3 – 3** Supporting the improvement of the region's visitor offer and image | **ACTION AREA 4 - 3** Supporting employment creation for areas of regeneration need |

**PRIORITY 5 – Technical Assistance** (Supporting the Management of the Programme)

## Implementation of the NWOP

2.10 There were three main steps involved in gearing up for the implementation of the NWOP. These were:

- The formal set up of the Programme's governance structures. The PMC met as a shadow PMC in the autumn of 2007, but the first formal meeting was in January 2008. In addition the Programme & Monitoring Sub-Committee (PMSC) and the Merseyside Phasing in Sub-Committee (MPISC) were also set up.
- The recruitment of the European Programme Executive (EPE) team and development of its own systems etc.
- The development of a series of Investment Frameworks that were created for each Action Area and were designed to set out what the programme would be buying and how it would buy the activity set out in the NWOP. The work on these Investment Frameworks was led by the NWDA with the explicit intention of, in most cases, ensuring a close alignment with the Regional Economic Strategy and close fit with

the NWDA's own investment programmes.

2.11 The purpose of the Investment Frameworks was to lead to more of a commissioning approach than with previous programmes, with the aim of encouraging larger and more impactful projects. Each investment framework set out the key objectives and types of activities to be supported (under a series often of separate strands), or in some cases the specific geographical areas that would be eligible for funding (as in the case of Action Areas 3.2 and 4.3). They also described how projects would be procured under each strand of activity. The Investment Frameworks were developed during the late autumn 2007 and then refined in 2008. They have acted as key tools in how the programme has been managed and projects selected, and have been periodically updated.

2.12 In 2008 as soon as the programme had officially started, there was a period where the NWDA EPE sought Expressions of Interest (EoIs) for a number of Action Areas whilst the Investment Frameworks were being finalised. This led in 2008 to a considerable number of EoIs being submitted, many of which were not in alignment with the Investment Frameworks (especially in AA4.3). Two notable features of the overall implementation of the NWOP were the decision to develop two global financial instruments:

- The Venture Capital and Loan Fund (VCLF) where a regional holding fund was created. This is funded via ERDF allocations across Priorities 1 and 2 of the NWOP.

- The North West Urban Investment Fund (NWUIF) to help support urban development projects in England's Northwest developed under the JESSICA[3] initiative, funded by ERDF from Priorities 3 and 4 of the NWOP.

## The changing socio-economic context

### Recent Overall Regional Economic Performance

2.13 The NWOP was finalised in 2007, based on an analysis largely carried out in 2006 based on data up to 2005 to 2006. The NWOP was therefore prepared at a time when the UK and North West's economy were approaching, as we know now, the end of a decade and half of continual economic growth. 2007 marked the start of a period of almost unprecedented economic contraction globally, nationally and in the region.

2.14 The UK and North West economies entered recession at the beginning of 2008, in other words just as the Programme was starting to be implemented (see Figure 2-1, which is for the UK as this is the most up to date data available[4]). The first manifestation of the recession was the credit crunch which started towards the end of 2007 and led to an immediate impact of the property and construction sectors, then on bank lending to businesses before the recession spread across the whole economy.

2.15 The timing of the development of the NWOP is important in that it was underpinned by the

[3] Joint European Support for Sustainable Investment in City Areas. This is a new financial instrument created by the European Commission in conjunction with the European Investment Bank

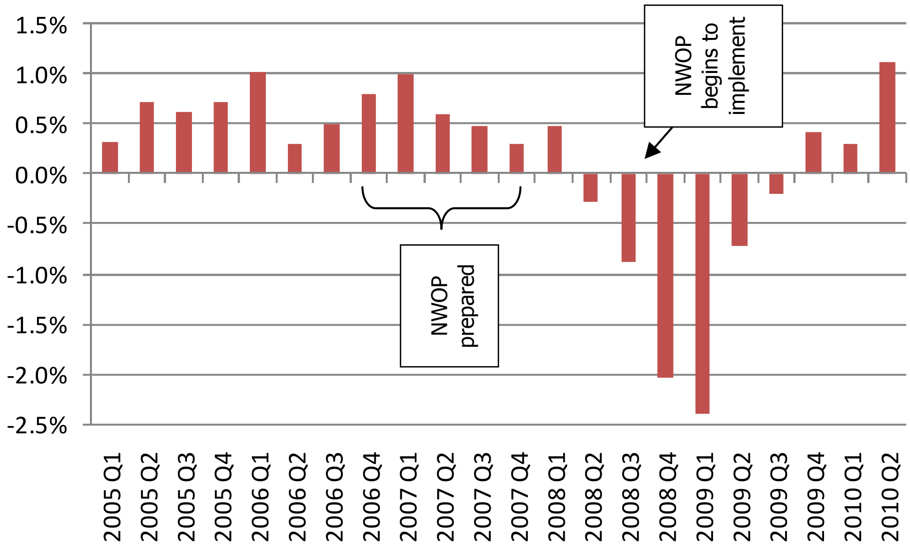
[4] Estimates produced for the North West Regional Economic Forecasting Panel show a similar pattern for the North West, albeit with a slightly smaller fall in GDP in 2009 than the UK ("*Business Forecasts North West, Spring 2010*" NWRIU)

assumption of continued economic growth and related conditions (such as property and business investment levels). This impacted on:

- Assumptions about the willingness and ability of businesses to get involved in programmes of investment (as opposed to short term survival concerns) [*affecting Priorities 1 and 2 in particular*]
- Assumptions about the likely interest in enterprise and business start-ups and the availability of bank finance to do this
- Assumptions about the scope for private development interest, activity and investment in major property sites) [*affecting Priorities 3 (AA3.2) and 4 (AA4.3) in particular*].

2.16 It is important to point out that the essentially longer term aspirations of the NWOP to transform the region's economic competitiveness and so broad orientation of the Programme are not affected by the recession. Indeed, it is arguable that some of the apparent improvement in regional and local area economic competitiveness over the period 1999 to 2006, referred to in the NWOP, may have been as a result of the major increase in public sector investment and public service provision that benefitted the region, although this was a not a sustainable boost in regional growth.

**Figure 2-1: UK Real GDP Growth, 2006 to 2010**




Source: Office for National Statistics

## Key Implications of the Recent Recession and Economic Changes

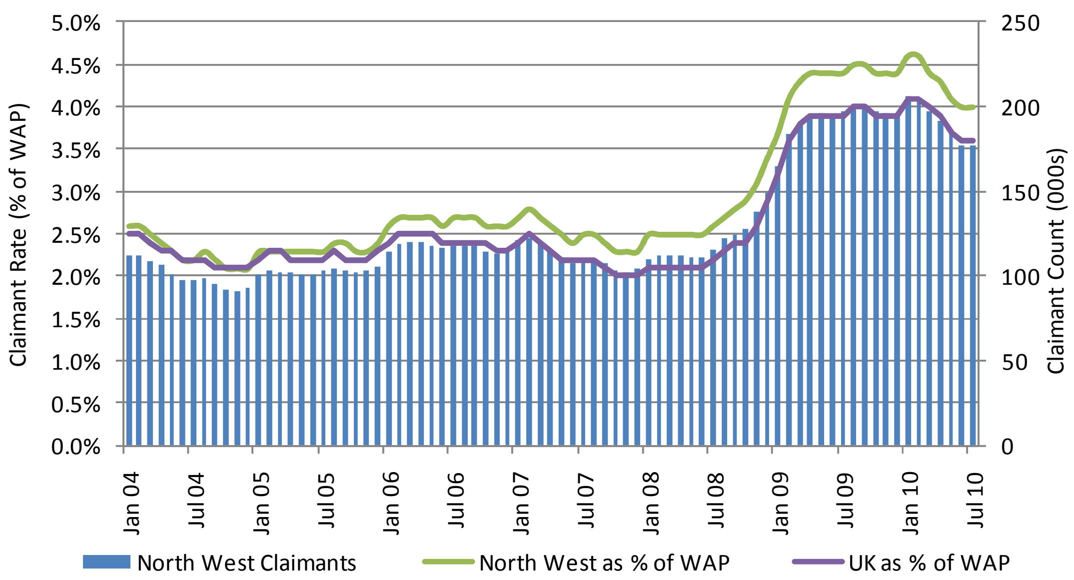
2.17 The most significant issues which emerge from our data analysis are the impact of the recession and credit crunch on:

- The labour market
- The property market
- Business start-up, growth and survival rates and finance
- Impact of the global recession and depreciation of sterling on exporting.

## Changes in the Labour Market

2.18 At the time of preparing the NWOP, the main concern was with the remaining pockets (large in places) of areas with low employment rates and the need to spread prosperity more widely across the region. This was the rationale for the spatial focus of Priority 4. However, since 2007 there has been significant increase in numbers of unemployed people across the region, particularly since autumn 2008. The absolute number of JSA claimants rose from 125,000 in September 2008 to a peak of 205,000 in January 2010. Those registered as unemployed under the ILO definition (jobless people able and wanting to work and actively seeking employment) rose from 5.9% of the working age population to 8.6% from 2007 to 2009, the gap with the national position expanding from 0.5 percentage points to 1.0. On top of this, a quarter of firms surveyed in the National Employer Skills Survey 2009 said that they had reduced their headcount over the course of a year with just 8% increasing in size although smaller businesses have faced the least pressure to cut staff levels. This has significant implications for the net contribution of the Programme to the creation and safeguarding of jobs in the region. The pattern of worsening in the labour market situation has not, however, fundamentally altered the previous distribution of areas with the worst concentrations of worklessness.

**Figure 2-2: JSA Claimants as a % of Working Age Population, July 2004 to July 2010**

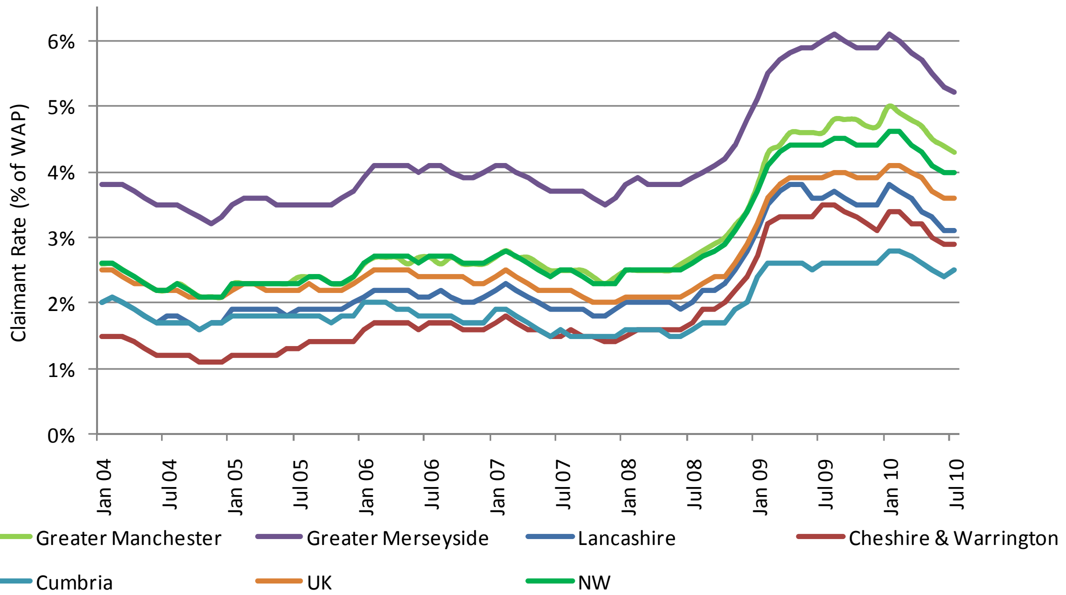



**Source**: ONS, NOMIS, Claimant Count.
**Note**: WAP= Working Age Population

2.19 Standing at 5.2% of the working age population, Greater Merseyside had the highest rate of out of work benefit claimants in the region in July 2010, reinforcing the case for continued ring-fencing of additional funds for the sub-region. Greater Manchester has the next highest rate at 4.3% with areas outside of the large urban conurbations displaying consistently lower rates; Lancashire, Cheshire and Warrington and Cumbria registering 3.1%, 2.9% and 2.5% respectively. Starting from the highest level Greater Merseyside has seen the lowest proportional increase in the number of claimants at 40% (+14,200) from June 2008 to July 2010 compared to 71% (+30,800) in Greater Manchester and 85% (+7,500) in Cheshire and Warrington. However, as the analysis of spending cuts above suggests, Greater Merseyside could be set to suffer disproportionately as a result of looming public sector job losses.

2.20 The diversity in trends and current position highlights the requirement for the Programme's continuation of geographically targeted labour market interventions on top of the need to cushion vast job losses by increasing access to job opportunities for those out of work.

**Figure 2-3: Sub-Regional Job Seekers Allowance Claimants as a Proportion of the Working Age Population**




Source: ONS, NOMIS, Claimant Count, July 2010.

2.21 Data from the Annual Population Survey on the official unemployment rate provides a similar picture. Greater Merseyside has the lowest employment rate of at 64% but has seen its rate decline at a slower rate than has been the case for Greater Manchester and Cheshire and Warrington (-1.6 percentage points versus -4.0 and -3.3 respectively). Again, the employment rate is highest in the urban areas; Cheshire and Warrington and (72.8%) and Cumbria (73.5%) having the largest percentage of its working age population currently in employment.

**Table 2-1: Employment Rate, 2004 to 2010 Quarter 1 (%)**

| | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | Year to March 2010 | % points change 2007 to 2010 |
|---|---|---|---|---|---|---|---|---|
| UK | 72.4 | 72.5 | 72.4 | 72.4 | 72.1 | 70.6 | 70.2 | -2.2 |
| **NW** | **70.6** | **70.6** | **70.6** | **70.4** | **69.3** | **68.1** | **67.8** | **-2.6** |
| Greater Manchester | 70.5 | 70.0 | 70.7 | 69.7 | 68.5 | 67.0 | 66.5 | -3.2 |
| Greater Merseyside | 66.0 | 66.5 | 66.2 | 66.6 | 64.7 | 64.4 | 64.4 | -2.2 |
| Lancashire | 71.1 | 71.4 | 70.9 | 71.2 | 70.0 | 68.9 | 69.5 | -1.7 |
| Cheshire & Warrington | 76.1 | 75.8 | 75.4 | 75.7 | 75.2 | 73.0 | 72.8 | -2.9 |
| Cumbria | 73.5 | 73.7 | 73.7 | 73.9 | 75.6 | 74.2 | 73.5 | -0.4 |

Source: ONS, NOMIS, Annual Population Survey and Labour Force Survey, © Crown Copyright
Note: Data covers the annual average for the stated year

2.22 The Index of Vulnerability produced by Experian ranks the 324 local authorities across

England in terms of their resilience to economic shocks[5]. A quarter (25.6%) of the regions 39 districts fall into the 10% most vulnerable nationally, almost half (46.2%) into top 20% and the majority (82.1%) into the 50% most vulnerable. Barrow-in-Furness, Tameside and Burnley fair the worst, falling into the 5% most vulnerable nationally.

### Recent changes in the Property and Development Market

2.23 The sector that felt the most immediate effect of the credit crunch and entered recession first was that part of the property and the construction/development industry linked to private development. During 2008 and 2009 the increased public sector capital spend and support did, to some extent, help offset the impact. However, there has been a fundamental re-orientation of the commercial property sector, impacting on development. The value of housing (important to cross-subsidise mixed use developments) and of commercial buildings has fallen rapidly, many developers and development schemes have gone into receiverships and development activity has been reduced to a trickle. The ability of property values to help fund development in the more difficult sites and locations has been especially impaired.

2.24 The recession has also had a profound effect on the property market; development and transactions both tumbling soon after the credit crisis hit:

- The number of major applications being processed collapsed nationwide in the third quarter of 2009 falling 78.1% in just one month[6]. This was mirrored across the board in the North West sub-regions, the decline ranging from 76.7% in Cheshire and Warrington to 78.9% in Greater Manchester.
- National office market take-up was 29% below the 10 year average in 2009, though there was some sign of improvement in 2010 Q1. Office rental values also fell; by 16.9% from the peak of the market in March 2008 to the end of Q1 2010 but are expected to recover gradually as private sector job growth picks up[7].
- Somewhat more resilient, the Northern regions' share of total take-up rose to 16% in 2009 compared to a 10 year average of 14%. The major North West markets have fared relatively well; Manchester city centre recording take-up 3.1% below the recent average and Liverpool city centre seeing take-up of 21.4% above the 10 year average in 2009. However, the latter figure was dominated by a few large deals and represents a recovery from 2008 when take-up dropped 40% below the annual average[8].

[5] The index is based on four areas of socioeconomic performance and a range of indicators; Business (including the presence of vulnerable, resilient and high growth sectors, business start-up and self-employment rates, export levels, insolvency rates and employment density), Community (including life expectancy, vulnerability of individuals to long-term unemployment and loss of income, and multiple deprivation), People (including skills and qualifications levels and earnings) and Place (including house prices, crime and availability of employment space).

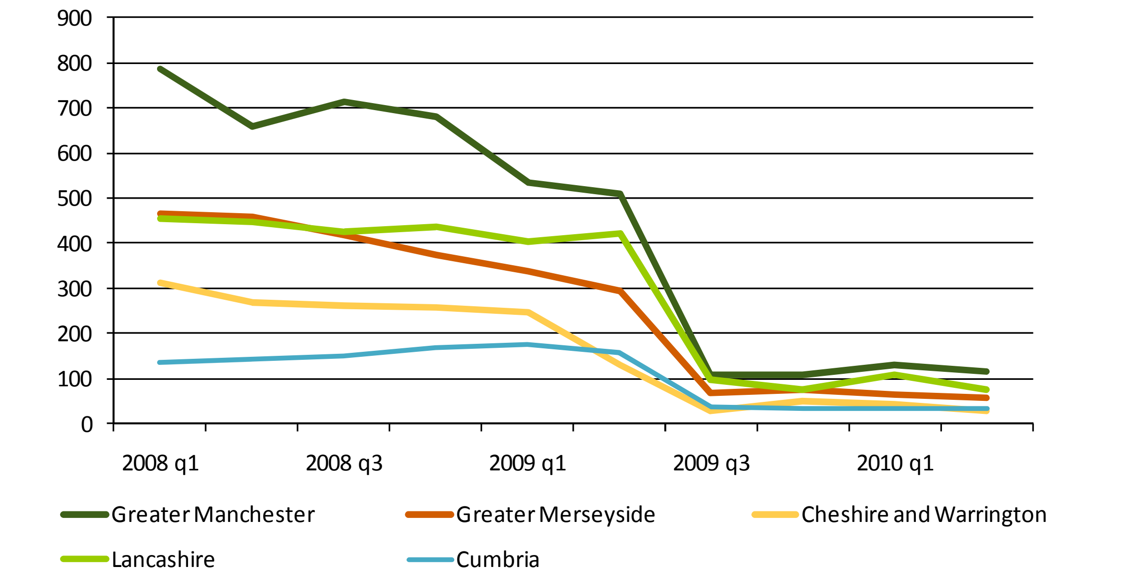
[6] Major residential planning applications are those incorporating 10 or more dwellings or across 0.5 hectares while other applications are those exceeding 1,000m² of floor space or across 1.0 hectares

[7] Lambert Smith Hampton, National Office Report 2010

[8] CB Richard Ellis. Liverpool and Manchester Office Market View Reports, H2 2009.

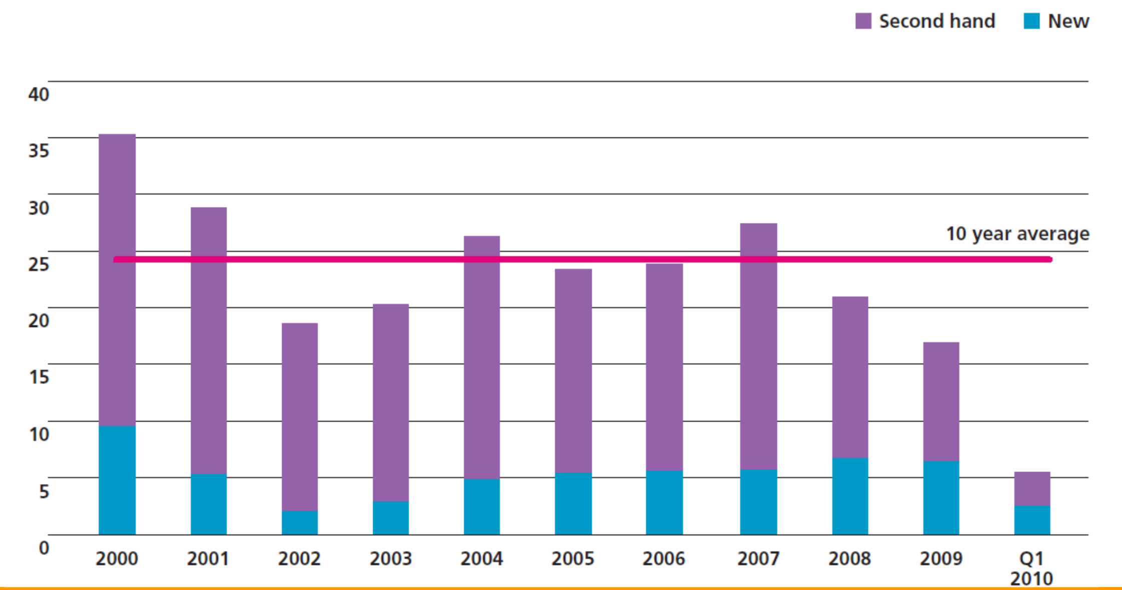
2.25 Residential prices grew in real terms nationally by 130% between January 2000 and February 2008, then dropped 16.8% to April 2009 and have shown a recovery of 9.8% up to August 2010. This matched the fall of 16.8% experienced in the North West between April 2008 and June 2009. The recovery in the region has been less strong to date at 3.2% although this may be due to a characteristic lag in regional trends behind the national picture which is typically driven in the first instance by developments in London and the South East[9].

**Figure 2-4: Major Planning Applications, 2009 Q1 to 2010 Q2**




**Source**: DCLG Planning Applications

**Figure 2-5: National Office Market Take-up, 2000 to Q1 2010**




**Source**: Lambert Smith Hampton, National Office Report 2010

[9] Land Registry House Price Data.

2.26 The construction industry has seen a major decline in fortunes as a result of the credit crisis and subsequent impact on property markets. Total orders fell 27% in 2008 (versus 18% in England) having risen substantially from 2000 (130% versus 82% nationally). However, there are signs that activity has levelled off, a reduction of just 3.6% recorded in 2009. Nonetheless, a reduction in output of 18% (-£2.36bn) was recorded for the sector in 2009 compared to 14% nationally[10]. If the construction industry is to emerge from recent difficulty in a stronger position, measures must continue to be taken to improve the competitiveness of the sector in the region and to prepare companies for changes in legislation regarding sustainable building practice.

**Figure 2-6: New Construction Orders, 2000 to 2009 North West**


**Source**: ONS Construction Statistics Annual 2010.
**Note**: new work incorporates construction of infrastructure, private industrial and commercial and public construction orders

## Business start-up, growth and survival rates

2.27 The number of business starts has fallen relative to working age population by 3.2% from 2006/7 to 2009/10. However, this is in the context of the 8.1% fall across the UK. Business failure rates rose significantly between 2007 and mid 2009, although evidence from Experian's monthly Insolvency and Distress Survey suggests that failure rates have slowed markedly from summer 2009 and the situation has continued to improve in the first half of 2010. However this issue is symptomatic of an environment which has become much more challenging for businesses during the early stages of the NWOP. In turn, this will have implications for business start-up, survival rates and job creation associated with Programme activity.

[10] ONS Construction Statistics Annual 2010.

2.28 The Beta Model[11] provides an up to date picture of business starts and failures across the full business population (i.e. incorporating those businesses that fall below the VAT threshold of £70,000 annual turnover and which are not captured by the National Statistics VAT records). The effect of the recession is yet to be seen in the data; the North West's business density rising 1.1 percentage points moving into 2009/10. There was a 1.0 percentage point decline in the business start-up rate in the region though this cannot be considered significant within a dataset displaying fluctuating trends over the longer-term.

2.29 However one sign that businesses in the region have struggled to survive the recession is the marked increase in the proportion of loans to businesses that have been written-off, rising from 0.28% in September 2008 to 1.33% in June 2010[12]. The North West has failed to close the gap on key enterprise indicators since the Programme start date. Growth in the business stock, start-up rates and GVA per head all remained in a similar position in 2008 to 2003/4. While this data pre-dates the recession, it is likely that when the latest data is published it will indicate that the region's businesses will have been disproportionately affected by the recession and that the gap on the UK will persist over the short-term.

2.30 The level of early stage entrepreneurial activity (TEA) in the North West was 4.9% in 2009, broadly similar to level the year previous and below the level for the UK as a whole of 5.8%[13]. Though the gap with other UK regions is narrow, the North West stands tenth in the UK on this important indicator.

### Business Investment

2.31 There has been some sign that businesses have been becoming less willing to invest in the skills development of staff. The proportion of the working age population receiving job related training at some point 13 weeks prior to being surveyed as part of the Annual Population Survey has fallen 2.7 percentage points regionally from 2004/5 to 2009/10 to stand at 18.2%[14]. This is a trend mirrored nationally and has occurred over the long-term rather than being an effect arising out of the recession. The fall in investment has been strongest in the manufacturing and professional and private service sectors; 4.5 and 4.9 percentage point falls occurring from 2004/5 compared to 1.7 in the public sector.

2.32 Within the region there is some variation in the decline over the period; Lancashire registering a 0.3 percentage point decline and Cumbria and Lancashire seeing a rise of 1.5 and 2.8 percentage points moving into 2009/10.

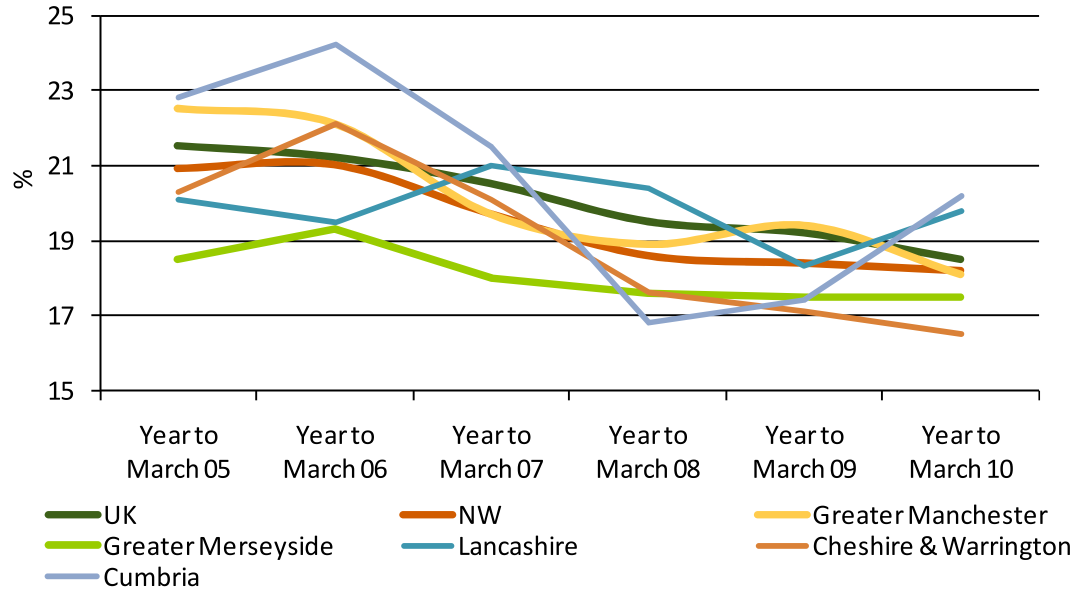
[11] www.betamodel.com

[12] Bank of England Lending Trends, September 2010.

[13] Global Entrepreneur Monitor UK: North West Summary 2009.

[14] Data covers the year to March, Annual Population Survey, ONS, Nomis

**Figure 2-7: Proportion of the Working Age Population Receiving Job Related Training in the Last 13 Weeks**




Source: ONS

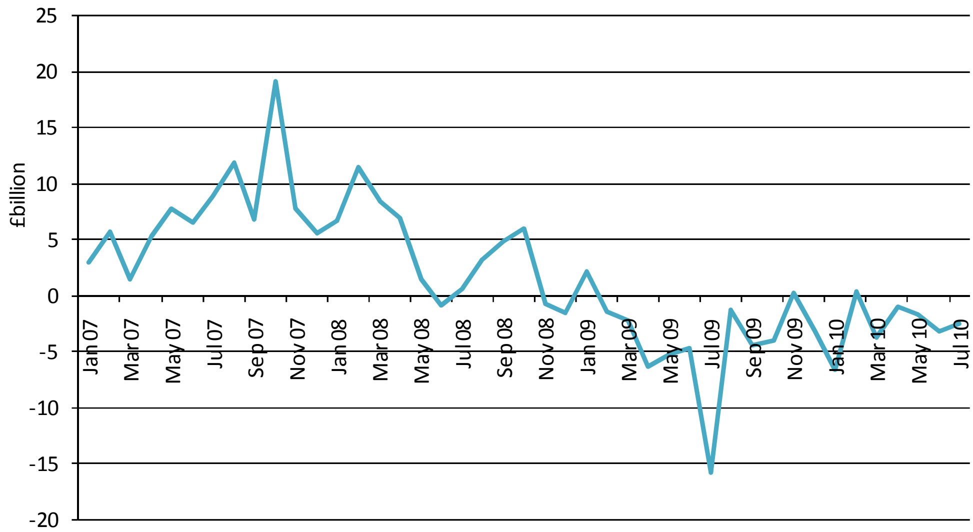
## Innovation

2.33 The region's businesses overall display an appetite for innovation, investing 14.8% more than the national average per head on R&D (although this is based on the stellar performance of a small number of companies in a small number of sectors). However, public spend and spend by HEIs in this area lags behind England as whole and the gap has shown little sign of improving. As a result total spend on R&D stands 1.6% behind the national figure. Furthermore, the proportion of employment in R&D is slightly below the England average. The number of patent applications filed has dropped by 11.1% from 2004 to 2009 and though the decline has been larger across England at 16.3% a gap of 28.5% remains. The performance of Priority 2 of the Programme in facilitating and embedding innovation in the region's businesses and in encouraging strong links with HEIs will therefore have an important role to play in creating an environment where ideas can be commercialized and added value for the region created.

## Access to Business Finance

2.34 Access to finance is an on-going challenge for businesses across the country. It is a particular issue for SMEs which were already often affected by the gap in provision of investment and loans that stems from the risk and information costs associated with investing in smaller businesses. Regional data on bank finance is not widely available but the national picture provided by Bank of England statistics gives a clear indication of the scale of decline in lending to UK businesses. From January 2009 to July 2010 lending to UK businesses has been negative. Net loans have dropped from a peak of £19.1bn in October 2007 to -£15.8bn in July 2009 and rising to a monthly average of -£2.6bn since, as efforts made by the government to stimulate bank lending took effect and interest rates fell from 7.6% in mid 2007 to an average of 2.3% running from January 2009 to July 2010 with the Bank of England base rate[15] remaining at an all time low of 0.5%[16].

**Figure 2-8: Net Lending to UK Businesses**




**Source**: Bank of England Lending Trends, September 2010

2.35 However there are signs in survey evidence that there has been some recent improvement in credit supply:

- The Bank of England Quarterly Credit Conditions Survey (2010 Q3) reports that there have been quarterly increases in lending to the corporate sector from 2009 Q1 following six consecutive quarters of decline. However, the expectation is that availability will not increase in Q4.
- The Deloitte CFO Survey (2010 Q2)[17] found a rise in the proportion of businesses that see bank borrowing as attractive an option; up to the scale that it was at in early 2008 and before the financial crisis took hold. This partly reflects an improvement in borrowing conditions with businesses perceiving credit as more widely available and at its lowest reported cost since 2007 Q3.

2.36 Nonetheless the ongoing constraints on business finance presented above places additional emphasis upon the ability of the Programme to provide finance through its VCLF activity and to create the conditions for future business growth.

[15] The rate at which the Bank of England charges banks for secured loans

[16] Effective rate of interest and Net Loans; Bank of England Lending Trends, September 2010

[17] July 2010

### Export Performance

2.37 One consequence of the reduction in UK economic performance and change in credit conditions has been a marked depreciation in the value of sterling compared to other major currencies (the dollar and Euro in particular). In principle this has and will provide a strong boost to the opportunities for export sectors (manufacturing and service sector invisible exports such as tourism, education, transport and business services). Indeed, in terms of visible exports (manufactured goods) the North West had the best performance of any UK region in 2009. However, although UK (and so North West) exporters saw a 20% fall in the effective value of sterling during 2008, this coincided with a general drop off in world trade and economic activity especially in the region's main export markets (North America and Europe), so although in relative terms the region did well, in absolute terms there was a fall in the value of exports.

2.38 The export of goods from the North West rose by £3.9bn (2.4% pa[18]) from 2000 to 2008 to stand at a total of £22.5bn[19]. However, in 2009 the real value of exports of goods fell by £1.2bn (5.4%) as the effects of the global recession took hold (this fall was also reflected in figures for the UK as a whole). However in every region outside of the North West in 2009, the real value of exports dropped to a larger degree; from between 8% in the South East to 24% in the West Midlands suggesting that while global recession has hit the whole of the UK, the region's exporters may be better protected than elsewhere[20].

## Future Regional Economic Prospects

2.39 Although the UK and the North West economies have now emerged from the recession, growth is weak and many economic forecasters are not sanguine about the growth prospects over the next couple of years. As we shall see later, there are particular reasons for concern about the North West's short/medium term growth prospects.

2.40 The North West Regional Forecasting Panel produced longer term forecasts for the regional economy to 2030 in March 2010 presenting the prospect of weak performance and slow recovery to 2015 (1.7% pa economic growth versus 2.0% nationally) giving way to stronger growth in the longer term (2.2% pa versus 2.5%). The forecasts suggest a number of other changes across key economic indicators:

- The North West will make some progress in closing the GVA growth gap (to 0.2 percentage points behind the UK) in the medium-term but is forecast to fail to close the gap significantly further in the longer-term
- Productivity growth will improve above that seen between 2000 and 2008 resulting early on from efficiency savings in delivering public services. However once the long-term trend is re-established and as sector change progresses the economy toward higher value activity, the gap with the UK will continue at 0.1% pa.

[18] Compound annual growth rate

[19] All figures given in 2005 constant prices to remove the effect of inflation. i.e. in real terms

[20] All data from HMRC Trade Statistics

- Total employment performance is likely to be very sluggish in the medium term and is unlikely to reach 2009 levels until 2015, with subsequently longer term growth of 6% in total predicted by 2030. Employment growth is fragile in the face of short-term spending cuts and although there are expectations that it will be balanced by private sector growth in financial and business services in particular despite recent losses.

**Table 2-2: Summary of the North West Regional Economic Forecasting Panel's Central Long-Term Growth Forecast, March 2010 (Figures are given as growth per annum)**

| | 2009-15 | | | 2015-30 | | |
|---|---|---|---|---|---|---|
| | North West (%) | UK (%) | NW Gap with UK (pp pa) | North West (%) | UK (%) | NW Gap with UK (pp pa) |
| Population | 0.2 | 0.5 | -0.3 | 0.3 | 0.6 | -0.3 |
| Working Age Population | 0.1 | 0.5 | -0.4 | 0.0 | 0.4 | -0.4 |
| Employment | 0.1 | 0.2 | -0.1 | 0.4 | 0.5 | -0.2 |
| GVA Per Worker | 1.6 | 1.8 | -0.1 | 1.8 | 2.0 | -0.2 |
| GVA | 1.7 | 2.0 | -0.2 | 2.2 | 2.5 | -0.3 |
| GVA Per Head | 1.5 | 1.4 | 0.1 | 1.9 | 1.9 | -0.1 |

**Source**: North West Regional Economic Forecasting Panel (NWRIU) March 2010; Cambridge Econometrics

## Future and current impact of the contraction of the public sector

2.41 There is a clear prospect of further job losses reflecting the vulnerable position of the North West (and certain parts of the region) to public spending cuts and their effect on employment in both the public and private sector. Although employment within the public sector grew by 2% between 1998 and 2008 - the lowest growth rate outside of London and the South East - more than a quarter (28%) of all employees (848,500) and a fifth of the North West's output is accounted for by the public sector, the fourth and fifth highest levels respectively of all the English regions and 2 percentage points above the national average in both cases[21].

2.42 This relative over-dependence on the public sector masks very significant intra-regional differences, with the percentage of jobs in the public sector rising to nearly 40% in areas such as Liverpool, Sefton, Blackpool, Wirral and Lancaster. These Merseyside and Lancashire districts are likely to be particularly exposed as public sector spending cuts take effect.

2.43 The public sector also spends approximately £5bn on goods and services regionally (the largest beneficiary being business services) and on average a person in the North West is the beneficiary of £8,800 of identifiable expenditure from the public sector, compared with an average of £7,800 per head in England as a whole[22]. Nonetheless, there may be opportunities such as the planned public sector relocations and investment in green jobs from which the North West could stand to gain.

[21] Experian, March 2010. 'Public Sector in the North West'. Working Paper 1.

[22] SQW Consulting (2009) *Presentation to The Northwest Regional Economic Forecasting Panel* and Commission for the New Economy (2010) *Public Sector Employment in Greater Manchester: Overview and Implications*.

2.44 The June 2010 analysis undertaken by the Work Foundation estimated that job losses brought about by the upcoming cuts in public expenditure could total 750,000, leaving employment levels below the pre-recession position. Based on the Work Foundation's recent study of the implications of spending cuts[23], it is estimated that the North West may see one of the largest net reductions in employment in absolute terms of any English region, amounting to a net loss of 65,000 jobs from 2008-09 to 2013-14. This would represent a 2.2% reduction in total employment over the period, due in large part to job losses resulting from spending cuts equal to 2.8% of its current employment level.

**Table 2-3: Regional Variation in Predicted Employment Growth and Decline from 2008/9 to 2013/14**

| 000s Jobs | Employment Growth Potential | Employment Decline During the Recession | Share of Spending Cuts | Net Employment Change 2008/09-2013/14 | Net Change as % of Total 2008 Employment |
|---|---|---|---|---|---|
| North East | 8 | 14 | 33 | -40 | -3.8% |
| **North West** | **58** | **38** | **85** | **-65** | **-2.2%** |
| Yorkshire & Humber | 93 | 42 | 64 | -13 | -0.6% |
| East Midlands | 117 | 54 | 51 | 13 | -0.7% |
| West Midlands | 129 | 73 | 64 | -8 | -0.4% |
| East of England | 212 | 68 | 61 | 83 | 3.5% |
| London | 310 | 68 | 94 | 149 | 3.6% |
| South East | 352 | 100 | 96 | 155 | 4.1% |
| South West | 145 | 79 | 65 | 2 | 0.1% |
| Wales | 31 | 58 | 39 | -66 | -5.6% |
| Scotland | -12 | 124 | 73 | -209 | -8.7% |
| **Great Britain** | 1444 | 718 | 726 | 0 | **0.0%** |

**Source**: Work Foundation (June 2010). 'The Jobs Gap: A Statement from the Work Foundation'

## Overall Conclusions

2.45 This analysis points to the following key effects from the recession and its aftermath:

- The sector that felt the most immediate effect of the credit crunch and entered recession first was the property and the construction/development industry linked to private development. The ability of property values to help fund development in the more difficult sites and locations has been especially impaired. As we shall see, this has impacted on the ability to progress property schemes in Priorities 3 and 4 that lead directly to the creation of new floorspace.
- The environment became much more challenging for businesses during 2008 and 2009. There is evidence of falling business start-up rates, reduced survival rates and falling business investment. Many firms have focussed on survival. This environment is not conducive for investment and take up of business support aimed at improving longer term competitiveness.
- A major issue for SMEs since the effective start of the downturn has been access to finance as banks became increasingly unable or unwilling to lend to SMEs and credit terms became more onerous.
- There is some evidence that North West businesses have been able to respond to the opportunities offered by Sterling's effective 20% devaluation since 2007, with a

[23] "The Jobs Gap: A Statement from The Work Foundation", Ian Brinkley, Charles Levy, Katy Morris, June 2010

relatively positive export performance from the region in spite of the recessions in the region's main export markets. This suggests that a stronger emphasis on preparing firms for exporting is important going forward.

- All parts of the region have suffered from the recession, even formerly very buoyant local economies. However, in absolute terms the recession has impacted on those locations which already had weaker economies, suggesting that the focus in Priority 4 remains relevant.
- The most recent longer-term forecasts suggest that the region will continue to struggle to make up any ground on the UK as a whole and that, in relative terms, it will see the GVA gap widen. This re-enforces the need to focus on investments to improve regional competitiveness.
- The region is also relatively vulnerable to the forthcoming reductions in public sector expenditure (both via benefit reductions and reductions in public investment and services expenditure). This conclusion is not uniform across the region and perhaps the biggest issue is the extent to which certain localities are particularly vulnerable to reduction in the public sector.

## The Changing Policy Context

2.46 The North West Operational Programme was developed in a policy and funding context which was, in important respects, more favourable for the strategic priorities set by the partners in the North West than the current context. Strong economic performance in the UK over the course of the 2000s had helped to ensure a reasonably stable supply of public sector match funding, while national policies on enterprise, innovation, the low carbon economy and infrastructure investment showed a strong degree of alignment with the objectives set for EU regional policy.

2.47 However, when the UK entered a deep economic recession in 2008, the policy and funding landscape for ERDF began to change significantly as rising unemployment and business failure rates created pressure for publicly funded measures to respond to the recession. This period of flux for the NWOP has continued with the change of UK Government in 2010 and the start of what is expected to be a lengthy period of austerity in public policy.

### Policies Impacting on Programme Design & Delivery

2.48 In the period immediately leading up to the NWOP and since the launch of the Programme, a number of important policy and funding changes altered the landscape in which ERDF operated and the opportunities available to the Programme. The most of notable of these included:

- **European Union's Lisbon Agenda**: a key driver for the ERDF competitiveness programmes which brought about greater focus on developing competitive and dynamic knowledge-based economies which has naturally led to greater strategic and investment focus on business support and innovation. ERDF programmes across the EU, including the NWOP, were required to demonstrate strong fit to the Lisbon criteria.
- **European Union's Economic Recovery Programme**: issued in 2008, it led (among other initiatives) to agreement that a proportion of ERDF programme funding could be allocated to activities which responded to recessionary conditions (eg. weakness

or failure of commercial property markets). This enabled investments to be made in housing, public realm and land remediation.

- **Europe 2020 strategy**: Launched in 2010, the Europe 2020 strategy was intended to inject new momentum into the Lisbon agenda and to reflect the growing priority attached to climate change and lower carbon emissions. Ambitious targets are set for employment, R&D, climate change, education and social inclusion, with ERDF programmes seen as having a contribution to make to achieving them. Europe 2020 reinforces the EU's emphasis on innovation, employment and lower economic activity, and it is likely that the remaining period of the 2007-13 programmes and any successor arrangements will need to be strongly aligned with the strategy.

- **The environmental agenda**: a series of low carbon policy initiatives which saw a growing focus on the commercial opportunities tied up in the shift towards a low carbon economy. In the UK, these included the Low Carbon Industrial Strategy and Transition Plan, the Building a Low Carbon Economy initiative and measures such as the UK Environmental Fund transition strategy which was seen as a potential source of match funding.

- **Business Support Simplification Process:** the BSSP ran in parallel to the design of the NWOP but was able to influence the range of initiatives and services proposed under Priorities 1 and 2 in particular. The Solutions for Business portfolio as it became, not only set the parameters on the range of products to be supported, it also dictated how they should be contracted (i.e. often regionally), branded and marketed to clients. It has played an important role in the type of business support activity which has emerged during the Programme.

- **Development of Multi-Area Agreements**: which provided local stakeholders with a framework against which to set sub-regional priorities for economic development and focused mainly on employability issues with some emphasis on enterprise stimulation and support. This was one of a series of initiatives which helped to establish a clearer set of economic development and regeneration priorities for particular localities in the North West.

- **Introduction of Working Neighbourhoods Fund**: focused on local areas with the highest concentrations of worklessness and lowest levels of skills and enterprise and offers a potentially important source of match funding for stimulating enterprise in the region's most deprived communities. WNF is being discontinued in March 2011.

- **Innovation Nation**: the UK Government's White Paper set out a broad framework of themes for UK innovation challenge and the need for UK business to invest more, engage with knowledge more and become better at integrating innovation into the management of their businesses. The Higher Ambitions proposals (2009) to strengthen higher education reinforced this policy drive to better harness the knowledge base to the needs of the UK economy (higher skills, more innovative enterprises).

- **Equalities Act:** this key piece of legislation required equality to be treated as an integral consideration in mainstream policy formulation, workforce issues and service design and delivery and accords closely with the Equality and Diversity CCT's objectives.

2.49 To a significant extent, the North West's contribution to delivering these policies has been set out in a range of strategies and initiatives under the umbrella of the Regional Economic

Strategy. The RES was pivotal to the setting of the NWOP's aims and objectives, and has played a decisive part in shaping the investments made by ERDF over the period between 2008 and 2010. Although there were shifts in the policy landscape between 2008 and 2010, these did not require substantive changes to be made to the NWOP strategy. Where responses to the recession were necessary, the Programme was able to respond through existing activities supported (eg. the Transitional Loan Fund).

## Policy Changes Following 2010 General Election

2.50 Clearly the change of government earlier this year has brought about a huge and very immediate change in the economic development landscape. Although it is too early to assess the full ramifications of these changes, it is clear that the institutional backdrop and match funding context are going to change very quickly and that there will be further policy changes forthcoming downstream. At the time of writing the Coalition Government has pledged itself to a progressive approach to cuts which includes endeavouring to support areas dependent upon public sector employment to make the shift towards private employment and to re-balance the UK economy away from a dependency on the financial sector.

2.51 However, the more radical changes to regional economic development policy and organisational arrangements emerging from the Conservative-Liberal Democrat Coalition Government since it came into office in May 2010 are likely have significant implications for the management, funding and delivery of the remainder of the ERDF Programme. Whilst the full scale of public spending cuts will not become clear until the October 2010 Comprehensive Spending Review, the overall pot of potential match funding will be much reduced. In addition, the Government has confirmed that Single Pot cannot now be used as match funding for any project yet to be contracted.

2.52 Significant changes in the institutional landscape for economic development and regeneration are already taking effect. A central pillar of the Coalition Government's plans is the removal of the regional tier of economic development and spatial planning, and a much greater focus on sub-regional and local decision-making. The key policy changes likely to affect the NWOP and their potential impacts are summarised in Table 2-4 below. This reflects the position as outlined in the recent White Paper "*Local growth: realising every place's potential*" [24] and also various announcements made by the Coalition Government at and since the Comprehensive Spending Review announcements at the end of October 2010.

[24] See http://www.bis.gov.uk/assets/biscore/corporate/docs/l/pu1068%20-%20local%20growth.pdf

**Table 2-4: Key Policy Changes Since the 2010 General Election**

| Theme | Policy Initiatives | Relevance to NWOP | Potential Impacts on NWOP |
|---|---|---|---|
| **Abolition of Regional Development Agencies** | RDAs to be abolished by March 2012. Some powers expected to be handed over to Local Enterprise Partnerships, while others assumed by central government. | Fundamentally affects RDAs' role as the principal source of match funding and as the overall Programme management authority. Also loss of regional strategic guidance and insight which has shaped the OP and investments. | Creates considerable uncertainty over the future arrangements for managing the OP and securing match funding. Possibility that some funding will come from Regional Growth Fund (RGF), but not clear yet. |
| **Abolition of Government Offices** | Government Offices (GO) will be abolished, by the end of the current financial year. | GOs responsible for overseeing European Social Fund, and coordination of future activities by DWP may make alignment with ERDF more difficult. | Impact not as substantial for NWOP as abolition of RDAs but questions over new arrangements for managing ESF and how it is aligned with ERDF in the NWOP. |
| **Creation of Local Enterprise Partnerships** | New or modified public-private partnerships of local authorities, partner organisations and businesses to be created and then endorsed/approved by Government. Four have already been approved in the North West covering all parts of the region except Lancashire. | Clear expectations that LEPs may play a significant role in the future decision-making processes of the NWOP (eg. on the PMC). However, LEPs will be receiving no direct funding from central government and although they may possibly take on some existing RDA assets. They are therefore unlikely to provide a significant source of match funding in themselves, and they are likely to be substantially less resourced than RDAs. | Much would depend on the LEPs which form in the North West. White Paper is clear that the main driver of policy on business innovation and knowledge transfer will be BIS and TSB, not LEPs. However, LEPs encouraged to get involved in local enterprise and business support activity, even though they will receive no direct central government funding. |
| **New arrangements for the delivery of business support** | BIS to take in-house (or via arms length bodies such as UK:TI and TSB) future design and coordination of Lisbon type business support (sectors, innovation, trade and inward investment etc). Business Link to be replaced by national call centre and web site. | Uncertainty about future funding and organisation of existing regional schemes, especially where contract is with and the majority of match funding comes from the NWDA. | Threat to the continuation of major regional projects, although they could continue providing central government makes match funding available and is prepared to novate existing contracts from the NWDA (such as for the Manufacturing Advisory Service). |

**Source**: Regeneris Consulting

2.53 In the North West another important development has been the creation of the Regional Transition Team, under the auspices of the Regional Leaders Board, to help manage the process of transition with the abolition of the NWDA and GONW. The Transition Team comprises a number of key Local Authority Chief Executives from across the North West plus other high level private and public sector colleagues. It is working to:

- support individual sub-regions in bringing forward their own detailed proposals for the creation of LEPs; and
- prepare a Transition Plan to support the implementation of new arrangements as soon as circumstances permit.

2.54 The Transition Team has set up a Transition Board to consider the regional response to the future of ERDF (and ESF and RDPE).

2.55 Clearly, the newly created Local Enterprise Partnerships will need to play an important role in future Programme governance and could also play an important role in organising new programmes of activity and identifying projects that can be funded by ERDF. The management and governance of the Programme will need to take account of future arrangements for the way economic development and business support are organised nationally, regionally and locally as these are firmed up.

2.56 It is clear that the recession and the policy changes it has triggered represent the most significant challenge to the NWOP Programme and its ability to meet its original objectives and targets. Despite signs that employment is beginning to recover, the regional economy still faces very challenging conditions. Most notably, low business and consumer confidence and continuing tight lending conditions, which will make the objectives and targets for increasing rates of enterprise particularly difficult to achieve. The impending public spending cuts are likely to exacerbate these challenges.

2.57 Investment in R&D and rates of innovation are likely to have suffered during the recession as businesses have focused their efforts on survival rather than expansion. The strength of the recovery will determine the extent to which this trend is reversed and businesses begin to invest in R&D and exploit new technologies and processes. However the very challenging conditions which firms continue to face at the moment may make it harder to get local businesses to make major investments and to engage firms in programmes and projects, especially where the payback (i.e. financial return) may take some time to emerge.

2.58 Reducing carbon emissions and improving environmental standards may have slipped down SMEs list of priorities during the recession. However these appear to be important policy priorities for the new Coalition Government, which should provide the support necessary to help achieve these targets and objectives. Likewise, equality and diversity is likely to remain an important theme for policy and the Programme, although the public spending cuts are expected to have a disproportionate impact on key groups such as women and disabled workers which may also present challenges for achieving these targets.

2.59 The recent changes to government policy are likely to have a major impact on the management and delivery of the NWOP. In particular, the abolition of RDAs and the creation of LEPs raise a number of questions about the future management of the Programme and the potential sources of match funding. The White Paper states that final decisions on future management of ERDF programmes will be announced in the 2011

Budget. The White Paper also makes it clear that there will be no central government funding for the operation of LEPs nor will any programme of activity be managed by LEPs.

2.60 The Programme may therefore have to look increasingly to central government sources for potential match funding. There are two main sources. The new **Regional Growth Fund** (RGF) represents an important potential source. A total of £1.4bn has been allocated for the three years 2011/12 to 2013/14 (with roughly equal amounts in each year), it is a mixture of current and capital funding. The first round of funding will be for £250m and will be allocated on the basis of bids by January 2011. The White Paper encourages the "alignment" of RGF and ERDF, but with no practical suggestions on how this is to be achieved. There is no earmarked allocation for any region or type of activity.

- The twin objectives of RGF are: (1) Contribution to growth; and (2) Rebalancing the economy - supporting in particular "*those areas and communities that are currently dependent on the public sector make the transition to sustainable private sector-led growth and prosperity*". There is strong emphasis on the need for the bids to the RGF to be led by the private sector and indeed to directly support additional private sector investment. The key metric for value for money will be public sector cost per **net additional private sector sustainable job.**

- On the face of it the North West should be well placed to access RGF on the basis of need and dependency on the public sector. There are many possible activities that could be funded by RGF from direct investment by businesses, to infrastructure project and even housing. There is therefore no guarantee that RGF will become available for projects as a source of ERDF match. However, it could be a valuable source of match for projects across all Priorities. As a ball-park figure if the region's bidders were successful pro-rata to the region's share of all likely public sector jobs losses in England then around £200m might become available. However, there is no guarantee that this will be the case.

2.61 The second source of funding will be national **BIS investment streams**. There have been some announcements about future funding, including the proposal to support via £200m a network of "elite Technology and Innovation Centres". The Technology Strategy Board (TSB). The White Paper also mentions support for a series of Growth Hubs for specialist business support, but there are no details as yet on these.

2.62 The North West's decision to develop both JEREMIE and JESSICA at an early stage in the Programme should also be considered as a significant change in the funding landscape for the North West. JESSICA is expected to provide an evergreen fund to support further investments in key regeneration projects, while JEREMIE should significantly boost the supply of venture capital finance for businesses in the region over the long term. In both cases, the funds will play an important part in levering in a substantial amount of private and other public sector investment underpinned by ERDF, the European Investment Bank and NWDA funding. They have the potential to make a significant contribution to the delivery of future economic development and regeneration priorities in the North West, and more specifically to the priorities of the NWOP.

## Robustness and Relevance of the NWOP Strategy

2.63 The overriding message about the NWOP strategy from this evaluation is that it has had both the depth and flexibility to adapt to change without having to be significantly modified. Clearly, the scale and breadth of the Programme has helped in this respect. With 4 substantive Priorities for funding, 11 Action Areas and multiple strands, the Programme offers ample scope to shift the focus of activity where policy or funding imperatives demand it. A summary assessment of how the Programme has responded to its changing context is set out in Table 2-5 below.

2.64 The assessment of the changes that have affected the NWOP have been extensively tested with consultees to the evaluation. Throughout our fieldwork we have asked consultees for their views on the robustness and continued relevance of the strategy. Although there is clearly some uncertainty about its future fit and relevance in the changed economic development landscape, several clear messages have emerged about the NWOP strategy:

- **Strategic objectives continued to be relevant in the face of recession:** The NWOP was relevant to the long term challenges facing the North West economy: although the recession and the budgetary cutbacks have dramatically altered the investment opportunities facing the Programme the need to restructure the North West economy onto a more competitive footing remains, with the headline objectives and priorities continuing to be as relevant as ever. Although the context of rising unemployment, stagnating start-up rates and falling investment will make it harder for the Programme to achieve its goals, those goals remain valid.
- **Programme and partners have proved adaptable to change:** There is sufficient flexibility and room for interpretation and innovation in the design of the Programme to allow partners to shift the tactical and investment focus of the Programme in response to changing conditions in the economy. Following the EU's Economic Recovery Plan, the Programme was able to issue a call for proposals which opened the door on housing (energy efficiency measures) public realm investments and land remediation initiatives. This led to a series of investments or proposed investments in different locations within the region, although their relevance to the specific challenges presented by the recession is unclear. The transitional loan fund was also re-engineered to respond to the recession.

**Table 2-5: Summary of Actual and Emerging Contextual Changes and Impacts on NWOP Strategy**

| **Key Contextual Changes** | **Impact On NWOP Strategy** | **Programme Strategy Response** |
|---|---|---|
| Banking crisis in 2008/09 had immediate impact on availability of business finance | Puts pressure on Programme to contribute to North West's response to bridging measures to fill critical gaps in provision of business finance. | Programme design enabled transitional and interim loan funds to be developed prior to contracting for VCLF |
| Rising unemployment and business failure rates with falling enterprise and job creation levels | Affects output and results across P1-P4, with most pronounced effects where strategic expected to generate highest numbers of jobs and enterprises. | Recognition that safeguarding jobs and businesses likely to have stronger emphasis in short term |
| Business support simplification and Solutions for Business implemented | Introduces national requirements for promotion and delivery business support activity in the North West, and imposes constraints on types of project that can be delivered. Biggest impacts in Priority 1 and Priority 2. | Strategic approach focused on larger scale, region wide projects has limited |
| Sustained downturn in commercial property market | Biggest impacts on NWOP objectives to develop employment and enterprise sites and premises (P3 and P4), with investors harder to secure | Additional funding for public realm and land remediation through specific calls. Partners may need to consider modifying approach to strategic sites to support investment where commercial prospects are strongest |
| Significant change in Euro-Sterling exchange rate during early part of NWOP | In effect, increases ERDF resources available to UK and creates additional headroom in Programme allocations. | Agreement to apply NWOP+20% to establish financial allocations for Programme and each Priority. Additional calls for projects (eg.. housing, public realm, land remediation) take advantage of headroom. |
| Cuts in Single Programme funding with winding down of NWDA | Emerging impact across Programme, with funding cuts to existing projects and probable freeze on pipeline projects matched with SP. Biggest impacts in Priority 1 and Priority 2 where proportion of SP match is highest. | Still to emerge, but means flexibility of strategy will need to be exploited to secure match and ERDF commitments where available |
| Vulnerability of region's employment base to public sector funding cuts | Impacts still to emerge but will have biggest effects in localities with highest proportion of public sector employment. | Programme built in provision to invest in employment creation in disadvantaged areas (eg.. AA4.1) and this may need to be called upon as cuts take effect |

Source: Regeneris Consulting

- **Strategic objectives are relevant for the long term:** While there have clearly been short term pressures associated with the recession and with emerging policy changes, there is a strongly held view that the priorities identified in the strategy remain essential to the North West's future economic prosperity. For example, emphasis on the transition of the region's economy towards higher value and knowledge intensive commercial activity is recognised as being critical to its future international competitiveness. By the same token, it is also accepted that the North West needs to create jobs over a period when unemployment is expected to remain a problem. On both counts, the strategy provides the necessary hooks for action – through Priority 1 and 2 in the case of higher value economic activity, and through Priorities 3 and 4 for broader measures to create employment. The challenge, as the evaluation's analysis of progress indicates, is to deliver projects which are able to generate significant numbers of new jobs.

- **A need for stronger emphasis on low carbon economy:** The Programme strategy (particularly Action Area 1.3) is recognised as offering partners considerable scope to encourage moves towards lower carbon economic activity and more sustainable patterns of production and consumption. As the additional energy efficiency in housing and public realm calls for projects have illustrated, if there is appetite amongst partners for action the Programme has been flexible enough to enable action to be taken. The broader concern is that there has been a gap between strategic commitments and project activity, with the recession appearing (in some cases) to have shifted commercial focus to short term survival rather than longer term resource efficiency or carbon reduction measures.

- **Loss of focus on community economic development:** Although there is no consensus on this issue, several consultees suggested that the Programme strategy is weak on community economic development. To some extent, this reflects a policy shift at EU level, since the competitiveness programmes were intended to prioritise enterprise, innovation and knowledge in line with the Lisbon agenda and did not provide for this type of activity in the regulations. However, it is clear that a number of partners see this as a gap in the NWOP strategy which is failing to address the problems faced by particular localities and communities in the North West.

- **No consensus on reallocation of resources or the strategic changes:** While the evaluation has heard a slightly stronger preference to invest in Priorities 1 and 2, there is by no means a consensus on this question. The North West's economy continues to be hampered by the need to upgrade its infrastructure (eg. employment sites, transport infrastructure, living environments) and there are strong views about the extent to which ERDF should be used to achieve this. At the same time, there are also strongly held views that the North West should be accelerating the pace at which it is seeking to move business activity up the value chain through product and process innovation, higher skilled employees etc. However, there is no clarity about how much ERDF resource should be reallocated and where the Programme's strategic focus should be directed.

2.65 The review of the NWOP strategy **has concluded that there are no strong grounds for fundamental changes to be made**. The key task for partners will be to determine if and how the emphasis of activity should shift over the period through to 2015 when the Programme is expected to complete its expenditure. At a time when neither the Government's preferred approach to managing ERDF nor the future provision of match funding are clear, the best approach for the North West may be to wait until the picture becomes clearer. The signs are that with major reductions in the availability of public sector match funding, the flexibility and breadth of the Programme is likely to be an advantage.

# 3. Overall Progress of the Programme

3.1 The evaluation has sought to build the fullest possible picture of the current position on Programme spend, outputs and results. Understanding and explaining the progress that has been made to date and highlighting where the strengths and weaknesses of Programme delivery lie is crucial for the evaluation to inform future Programme activity and financial allocations. This chapter presents an overview of overall Programme performance to date and forecast progress (with the following chapters dealing with progress on each of the five Programme priorities).

3.2 The key evaluation questions addressed in this assessment of progress are:

- What progress is being made in using the ERDF resources of the Programme and how much resources are left (headroom) in the NWOP?
- What progress is being made towards achieving target for gross outputs and for results?
- What progress is being made towards achieving targets for impact?

## Progress on overall Programme Expenditure

3.3 The NWOP was allocated a total of €756m over its lifetime out of the total UK allocation of Structural Fund resources. At the time of developing the NWOP, this was worth around £521m; however the subsequent exchange rate changes have increased the value of the ERDF in sterling terms by 20% to £626m. Partners have, to date, understandably been concerned that the NWOP should make good progress in spending and committing resources so that it meets its N+2 targets.

3.4 The following charts set out the achieved and profiled spend in all projects that were recorded on MCIS up to the end of August 2010. This is broken down by Priority for the whole Programme, then individually for Merseyside and the Rest of the North West. Finally, a breakdown of progress on expenditure is shown down to Action Area level across the Programme. In each chart, a similar format is used to show progress. The total ERDF resource allocation of each Priority or Action Area is represented as a column, which is broken down as follows:

- The bottom block represents the defrayed spend of contracted projects
- The second block up represents the profiled future spend of contracted projects
- The third block up represents profiled future spend of committed projects (those at legal stage which have received full investment approval).

  **Note: overall committed spend by the programme is the sum total of actual spend, contracted future spend and committed spend at legal stage**

- The fourth block up represents the profiled future spend of pipeline projects (those at either Development and Appraisal or Concept stages).

3.5 Beyond these, there will then be one further block, which will be either of the following:

- A block which represents the **theoretical** <u>headroom within the allocation</u> to that

Priority or Action Area

OR

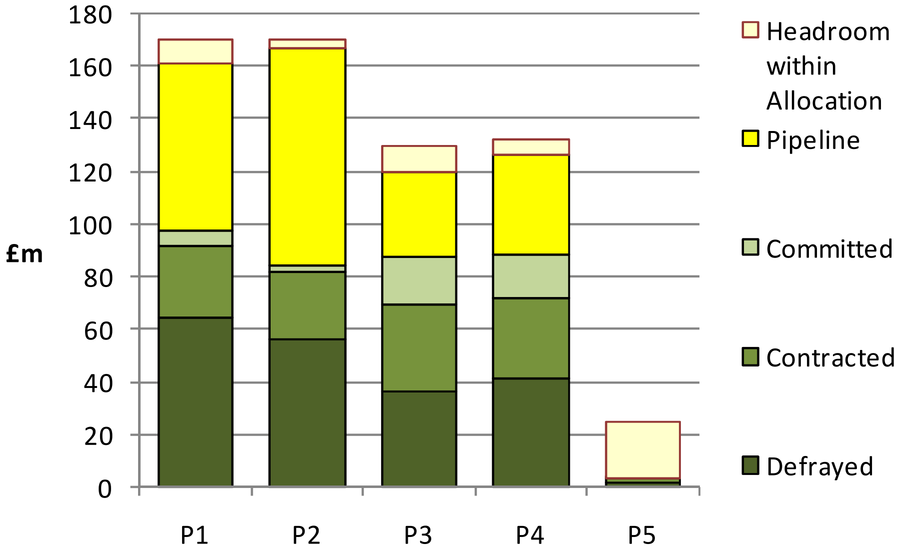
- A block which represents an amount of pipeline and/or committed spend that is over and above the allocation within that Priority or Action Area. Where this is the case, there will be a note below the chart to specify whether this over-commitment is in pipeline or committed projects.

3.6 Note: we use the term "headroom" assuming that the ERDF associated with projects in the pipeline is likely to come to fruition. If it does not then the headroom is simply the total ERDF that is uncommitted.

## Total Programme Expenditure

3.7 Figure 3-1 shows a promising level of progress across the Programme with the four main priorities all close to their total allocations with all committed and pipeline spend taken into account. According to the August MCIS data, total committed spend across all priorities **stood at just over £360 million** by the end of August 2010. The progress in defrayed spend in the four main priorities largely reflects spend from the VCLF project (in Priorities 1 and 2) and the JESSICA project (in Priorities 3 and 4). While the committed and pipeline figures for each of these four priorities also looks strong, there are currently uncertainties about the future availability of match funding which may increase headroom across all priorities. The Priority with the lowest proportion of actual or profiled spend is Priority 5, which has significant headroom of around 87% (£21.5m) of its overall allocated spend.

**Figure 3-1: Progress on Total Programme Expenditure (end of August 2010)**



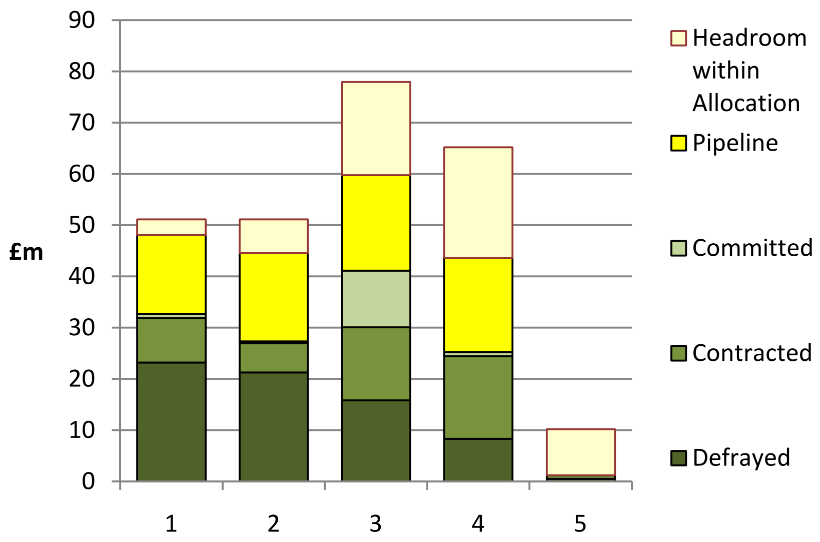

**Source**: MCIS Data from the EPE, end of August 2010
**Note**: "headroom" assumes all pipeline projects proceed

## Progress on ERDF Spend and Commitment in Merseyside

3.8 Figure 3-2, covering just the expenditure progress for Merseyside, shows a slightly different picture to that of the overall Programme, reflecting its greater weighting on Priorities 3 and 4. In Priorities 1 and 2, spend on VCLF accounts for a greater proportion of progress to the Merseyside spend allocation than for the Programme as a whole. As such, 64% (£32.7m) of the Priority 1 allocation and 53% (£27.3m) of the Priority 2 allocation are already committed, with the majority of these amounts already defrayed.

3.9 The greater weighting on Priorities 3 and 4 in Merseyside however means that the impact of the successful defrayment of expenditure from JESSICA is smaller than for the Programme as a whole. Around 53% (£41.2m) of allocated spend has been committed under Priority 3 and 39% (£25.3m) of allocated spend has been committed under Priority 4.

**Figure 3-2: Merseyside Expenditure and Commitment (end of August 2010)**

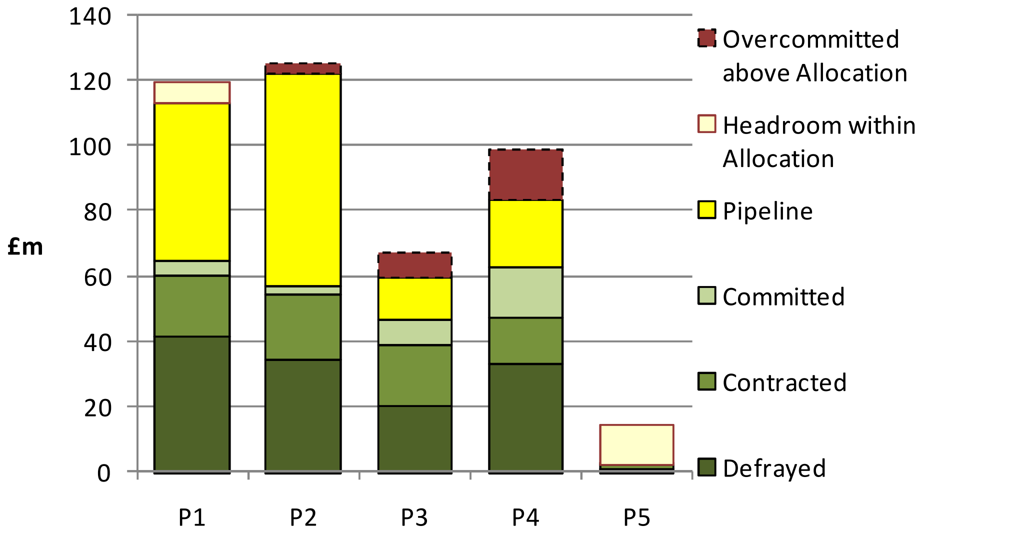



**Source**: MCIS Data from the EPE, end of August 2010
**Note**: "headroom" assumes all pipeline projects proceed

## Progress on ERDF Spend and Commitment in the Rest of the North West

3.10 Progress in the Rest of the North West area is stronger than that for Merseyside, with the set of committed and pipeline projects potentially taking three of the four main priorities over their full allocations. With the strength of the set of committed and pipeline projects in Priorities 3 and 4, this area looks strongly on course to achieve spend targets in these priorities, even given reductions in potential match funding sources in the coming years. At the end of August 2010 a total of 90% (£46.6m) of the Priority 3 spend target and 94% (£62.8m) of the Priority 4 spend target had already been committed.

**Figure 3-3: Progress on Rest of the North West Expenditure and Commitment (end of August 2010)**



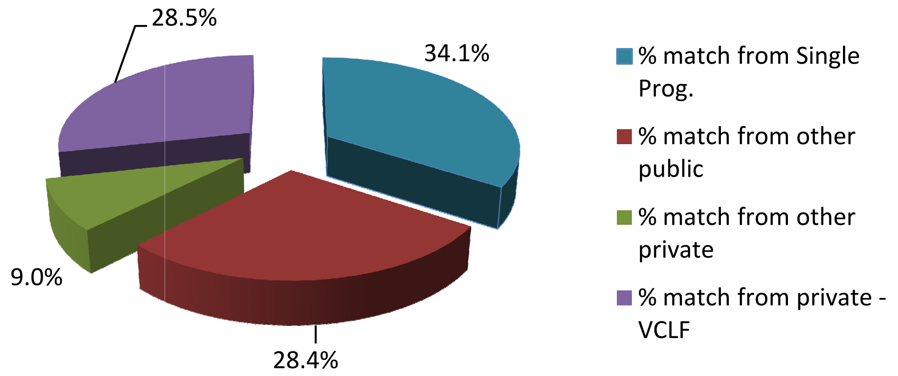

**Source**: MCIS Data from the EPE, end of August 2010.
**Note**: "headroom" or "over-commitment" assumes all pipeline projects proceed as planned

3.11 The Rest of the North West area has a greater weighting on Priorities 1 and 2 however than the Merseyside area, and overall performance is slightly less strong in these two Priorities, than it is for 3 and 4. At the end of August 54% (£64.8m) of Priority 1 and 48% (£57.0m) of Priority 2 spend had been committed. While the chart shows a strong pipeline of projects in Priorities 1 and 2, uncertainties about future sources of match funding for these projects may result in a larger amount of headroom than is suggested by the spend data.

## Match Funding

3.12 Figure 3-4 below shows a breakdown of the sources of match funding for all contracted projects for which this information was available (c. 85% of all contracted projects). The majority of match funding has been from public sector sources (62.5% of all match), and in particular from Single Programme funding from NWDA (34.1% of all match). A very significant 37.5% however has come from private sector sources, though this is significantly skewed by the private match going into VCLF, which accounts for three quarters of the private sector match in this analysis. The match funding analysis is broken down to individual Priority areas and analysed further in the Priority sections in subsequent chapter.

**Figure 3-4: All Priorities – Match Funding**




**Source**: MCIS Data from the EPE, end of August 2010.

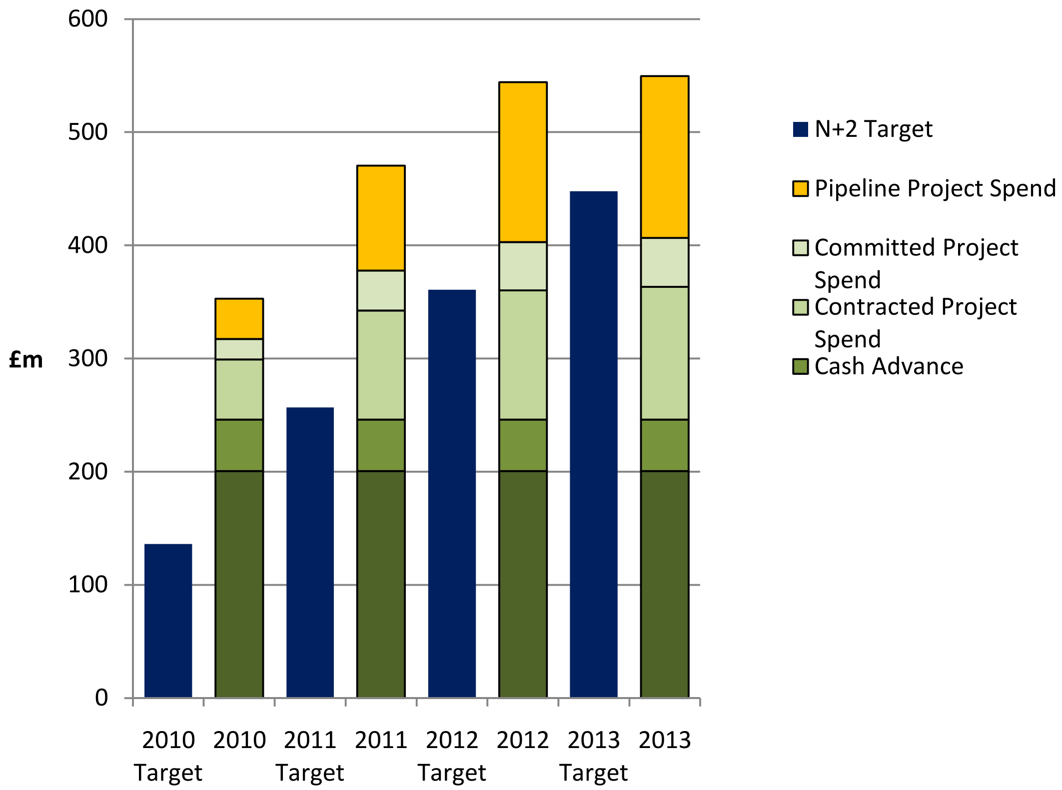
## N+2 Target Progress

3.13 Using the spend profiles of all projects at committed or pipeline stage, Figure 3-5 shows how the Programme is performing against N+2 targets to be achieved in each year from 2010 to 2013, based on the current position. The figure shows that with the spend defrayed to date and the cash advance amount that counts towards the N+2 target, the Programme has already exceeded the target to be achieved in 2010, and is already 96% of the way towards achieving the target for 2011. With the profiled spend in already contracted projects; there should be little difficulty in achieving the target for 2011.

3.14 Current spend and the cash advance would take the Programme 68% of the way towards the target for 2012, and with profiled spend in contracted projects this alone would be very close to seeing the Programme achieve the target for 2012. Overall therefore, this looks to be a fairly reassuring picture on N+2 targets, and allows the Programme an amount of breathing space during its transition to new management arrangements and adjusting to the new public sector funding regimes over the next year, without an immediate threat of failing to hit N+2 targets.

3.15 Clearly, the 2012 and particularly the 2013 targets remain challenging, and it will be important for the Programme to continue to monitor delivery on spend targets by contracted projects, and continue to support the development of committed, pipeline and new projects going forward, in a tougher climate for securing match funding.

**Figure 3-5: NWOP, N+2 Target Analysis**




**Source**: MCIS Data from the EPE, end of August 2010.

## Lisbon Compliance

3.16 It is a key requirement of the NWOP, as indeed other ERDF Competitiveness Programmes, that it is so-called "Lisbon compliant". What this means is that at least 75% of the ERDF resources must be spent on activities which are regarded as Lisbon compliant. In practice there are 86 codes for different activities, each of which is classified as compliant or non-compliant. As far as the NWOP is concerned the main activities which are not Lisbon compliant are most forms of infrastructure, work associated with the natural environment, with tourism infrastructure and with land and property (site remediation, public realm and premises – so in effect the ERDF allocated to JESSICA[25]) and all technical assistance. When the NWOP was developed and the financial tables calculated because of the proposed mix of activities the programme was always very close to the limit in terms of the amount of non-Lisbon compliant activity (24.2%, when the limit would be 25%).

3.17 The EPE monitor spend and commitment against the Lisbon codes and their latest report (October 2010 based on MCIS data) suggests that the programme's spend to data is running at 78.6% Lisbon compliant.

[25] In carrying out the Lisbon compliance assessment it was assumed that 25% of AA3.1 would be spent on the Lisbon compliant activity of "Promotion of clean urban transport"; 55% of AA3.2 would be spent on Lisbon compliant activity, especially "RT&D infrastructure and centres of competence in a specific technology"; and 50% of AA4.3 would be spent on the Lisbon compliant activity

3.18 The practical implication of the original design of the programme and subsequent ERDF spend and commitment is that there is almost no scope to increase spend on activities which are not Lisbon compliant over and above what was originally assumed. Indeed, given the actual types of projects supported to date in Priorities 3 and 4 there is a possible danger that the Programme will not hit its Lisbon compliance targets.

## How much headroom is actually left in the NWOP?

3.19 As part of the evaluation and in order to inform thinking about what future changes might be made to the programme, we have attempted to assess the amount of likely headroom that will be left. By headroom here we mean ERDF resources which are not committed and are available to invest over the rest of the programme period.

3.20 Carrying out this assessment has proved challenging as there is a significant degree of uncertainty and a rapidly changing picture. The data from MCIS at the end of August 2010 that much of this report was based on is already now out of date. The picture is changing rapidly both because of the normal process of projects working their way through the system, but also due to the uncertainties about public sector match funding. This is shown by the following:

- According to the MCIS data we have been given, by the end of August 2010 there was £361m of ERDF that had been "approved" - that is ERDF that had been disbursed, was contracted (legally committed) and approved but not legally committed.

- However, according to the reports produced by the EPE for the PMSC in October 2010, by the end of September 2010 this figure had risen to £419m of ERDF (see Table 3-7). Leaving around £211m of ERDF unallocated.

3.21 We have carried out our own exercise to assess the likely level of headroom overall and by Priority and Action Area (noting that the allocations for Action Areas were always indicative only). This is based on the information from MCIS provided for the end of August 2010, coupled with updates on project approvals from the EPE during September. This exercise is focused on the likelihood of new, as yet not approved projects, proceeding.

3.22 In addition there is the issue of whether existing projects, particularly revenue funded projects, are likely to face a reduction in scale and ERDF needed as a result of match funding reductions. The EPE has been going through a process of assessing the impact of reductions in Single Pot for ERDF match funding for projects that have already been approved and contracted. At this stage the outcome from this process is not finalised at it depends on the ability of projects to find alternative sources of match funding. Our understanding is that based on the situation as of mid October 2010 at worst there could be a reduction in ERDF commitment of around £20m (or less than 5% of all ERDF now committed/approved) but that the reduction could be lower than this. We have not been provided with this detailed information and so are not aware of which projects or Priorities/Action Areas are most affected. However, our expectation is that Priorities 1 and 2 will be most affected. The EPE have also approached all ERDF funded projects that do not have Single Pot match to check whether their situation has changed, the results of this exercise are not yet complete.

3.23 Our assessment is summarised in Table 3-9. The key conclusions from this exercise are as follows:

- At a global level the NWOP has made good progress in terms of commitments. By the end of September, the EPE reports suggest that the overall headroom left was just over £200m. These figures from the EPE are in line with our estimates of "worst case" headroom (See Colum C in Table 3-9).

- These figures do not take on board the possible loss of commitment from some approved projects that relied on Single Pot as match. However, as noted above the EPE's exercise suggests that this loss may be at the most of the order of £20m.

- At the end of September 2010 there was around £112m of ERDF potentially in projects in the D&A process according to the EPE figures – or around half of the total uncommitted ERDF. Of course there is no guarantee that these will proceed to approval and may fall by the way side either because of delivery/value for money issues or due to lack of match funding.

- This pipeline is particularly significant in Priorities 2 and 3 and relates to a number of significant capital projects, some of which we understand required NWDA Single Pot match and are unlikely to proceed. We therefore are very cautious about how likely is the current pipeline to proceed to approval.

- We have focused on the global position below. However, there are significant differences as between Merseyside and the Rest of the North West. Generally the level of committed ERDF is lower relative to the resources in Merseyside and higher for the Rest of the North West. This is as might be expected given that the scale of resources relative to demand is far lower in the rest of the North West. This position is especially true in Priorities 3 and 4 where the proportion of the ERDF allocation that is committed in the rest of the North West is far higher than in Merseyside (as of end of August for Priority 3 the respective proportions were 90% and 53% and for Priority 3, 94% and 39%) (see Table 3-10).

3.24 The above analysis might be taken to read that a significant level of uncommitted ERDF is in some way a bad thing. We are certainly not suggesting this is the case. So long as the NWOP meets its N+2 targets, then headroom provides the opportunity to fund additional impactful projects. Our conclusion priority by priority is summarised in Table 3-1 below.

| Table 3-1: Overview of ERDF Commitment (end September 2010) | | | | | | | |
|---|---|---|---|---|---|---|---|
| Priority | Amount and % of original allocation[(1)] | | | | | | SCALE OF HEADROOM (and so likely need to find further sources of match funding and additional projects) |
| | Uncommitted | | Pipeline | | Theoretical "headroom" | | |
| | £ms | % | £ms | % | £ms | % | |
| Priority 1 | £43 | 25% | £19 | 11% | £25 | 15% | **MEDIUM**, likely to see further commitments soon (especially in AA 1.3 around housing projects) |
| Priority 2 | £76 | 45% | £61 | 36% | £15 | 9% | **HIGH**, highest uncommitted proportion so very reliant on pipeline. We have some concerns about the fundability of some of the large projects in the D&A process (in AA2.1) |
| Priority 3[(2)] | £29 | 22% | £27 | 21% | £2 | 2% | **LOW/MEDIUM**, we have concerns about the fundability of many of the D&A projects (in AA3.2 and AA3.3) |
| Priority 4 | £38 | 29% | £5 | 4% | £33 | 25% | **HIGH in Merseyside** (low in RONW) significant uncommitted and limited in pipeline at present |
| Priority 5 | £20 | 82% | £0 | 2% | £20 | 80% | **HIGH**, significant uncommitted, but resource needs to be retained for management of Programme through to 2016 |

**Note**: (1) PMSC paper from EPE 19th October 2010; (2) there has recently been £6m of ERDF approved for the Everyman and Playhouse theatres in Action Area 3.3 in Merseyside that is included in the pipeline figure. This would reduce the uncommitted ERDF for P3 to 18% and the pipeline to 16%

## Overall Progress on Outputs and Results

3.25 The NWOP has a series of targets for outputs and results both overall, for each Priority and separately for Merseyside and the rest of the North West. These targets were based on the detailed quantification work carried out during 2007 prior to the Programme being approved by the EC[26]. During 2008 some further work was carried out by Regeneris Consulting for the NWDA to review these targets and ensure they were internally consistent between Action Areas and Priorities.

3.26 The development of outputs, results and associated impact targets for any programme well in advance of its implementation is necessarily not an exact science. It is important to stress the caveats with this process as, inevitably, such an ex-ante process of quantification has its limitations:

- First, different types of activity and intervention will have different ultimate impacts. The quantification took place prior to the precise packages of interventions being finalised during the process of developing the Investment Frameworks and indeed subsequent to the completion of the Investment Frameworks. The quantification was therefore based on very initial assumptions about the types of activities that would take place in each priority and Action Area. So for instance the assumptions made about the unit cost of each business assist had to be made before decisions were made about the degree of intensity of interventions.

[26] This work essentiality took an assumed mix of activities in each Action Area, then applied unit costs to these to determine what outputs and then results would be bought by the programme, before converting these to net additional jobs and GVA via a series of assumptions.

- Second, the assumptions made about possible unit costs were based on historic experience and inevitably will differ under the NWOP depending on the precise package of interventions supported and the economic context. So for instance the assumed balance between jobs created and safeguarded took place in the context of a then very benign climate for growth.

3.27 Figure 3-6 sets out progress of the overall Programme against a selection of headline output and result targets. The chart sets out progress for all approved projects, breaking down the analysis by outputs and results achieved, contracted for and committed (i.e. at a post approval legal stage). We have had to rely on the MCIS data here and we are aware from the project reviews and speaking to the EPE that there are four important issues here:

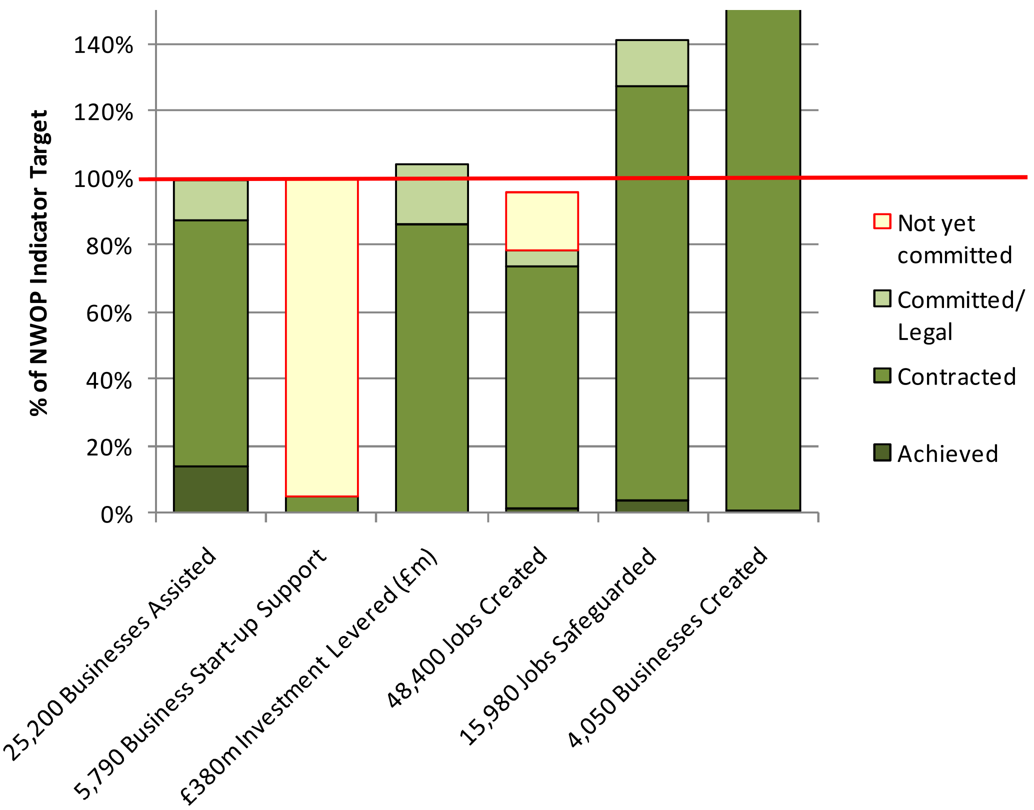
- First, there is, unfortunately, a significant time lag between projects achieving outputs and in many cases this data being entered on MCIS. This is because if there are any queries about the claim then the outputs and results information for that project are not entered. There are projects we know are achieving significant outputs but these have not yet been captured on MCIS (for instance the business support projects in AA1.1 and AA4.1).

- Second, the data entered on MCIS from project claims has thrown up some obvious anomalies (such as values which were supposed to be entered as £ms being entered as £s). We have not been able to carry out a full data cleaning exercise.

- Third, for some projects there are anomalies between the contracted results and outputs targets (so no business start up outputs contracted but business created results targets). Generally, the MCIS data appears more reliable for contracted results information.

- Fourth, during the roll-out of the programme an issue arose in the definition of results for jobs created and safeguarded in relation to physical property and tourism projects (essentially affecting Priorities 3 and 4). In short the current evidence required for verification does not allow the jobs accommodated in a new property development to be counted either as jobs created or safeguarded. Many projects have contracted jobs results targets which according to the letter for the definition may not be possible to prove they have been delivered.

**Figure 3-6: Progress on Programme Headline Targets**




**Source**: MCIS Data from the EPE, end of August 2010.
**Note**: The *Investment levered* indicator excludes the achieved figure for the TATE Liverpool project and the committed figure for the Innovation Centre III project due to data inaccuracies.

3.28 The first three columns show headline **output indicators** and show variable levels of Programme performance.

- *Businesses Assisted to Improve Performance* is the strongest of the three having achieved 14% (3,600) and contracted for a further 73% (18,500) of the 25,200 business assists target. A further 12% (3,000) are associated with committed projects at post-approval legal stage, taking the total to 99% of the target for this indicator for committed ERDF projects.
- The data highlights that the *Business Start-up Support* output is significantly lagging, with only 5% (300) of the 5,790 target having been contracted, with around 95% of the target still uncommitted. However, as we note above this situation is misleading simply because some key projects have not recorded these outputs to date and they have been not been entered as contracted outputs when there are associated results (businesses created).
- The MCIS data show no *Public and Private Investment Levered* recorded as achieved at the end of August 2010. However, 86% (£327m) of the £380m target is contracted to be achieved and a further £275m is planned in committed projects, which would take the total to 159% of the target for this indicator.

3.29 The second set of three columns show the **headline result indicators** for the Programme.

Each shows limited progress in achieved results, though this is to be expected given the time lag involved in generating results from project outputs. In each case, the contracted results look relatively strong.

- Only 1% (600) of the *Jobs Created* result indicator has been reported as having been achieved to date, with a further 73% (35,100) contracted, out of the 48,400 target. A further 4% (2,150) is linked to committed projects at post approval legal stage, with 4% connected to pipeline projects at D&A stage. This leaves around 17% remaining to achieve the programme target.
- The performance on *Jobs Safeguarded* is rather better: 4% (600) target indicator have been achieved to date, with a further 123% (19,700) contracted, taking the total significantly above the 16,000 target for the Programme. A further 14% (2,200) jobs safeguarded are connected to committed projects at the post-approval legal stage. The programme appears set to comfortably exceed its target for this indicator, reflecting a tendency for the projects to have greater success in safeguarding jobs than creating them in recessionary economic conditions.
- Around 1% (35) of the *Businesses Created* indicator has been achieved to date[27], but a further 176% (7,100) have been contracted for, taking the total significantly above the 4,050 target for the Programme.

3.30 As noted above, there is a looming issue for the NWOP in terms of an inconsistency between the assumptions behind the quantification process (linked to land and property projects) and the current position as we understand it in terms of what jobs can actually be claimed (or at least verified). The contracted jobs created for Priorities 3 and 4 are reliant on the overall figures for the JESSICA fund (7,300 in total). These were contracted not taking account of this definitional issue above.

## Overall Progress on Programme Impacts

### Original Objectives for Impact in the Operational Programme

3.31 The overall objectives for the economic impact[28] of the Programme as set out in the NWOP are summarised in Table 3-2. The targets for impact were of course to be achieved right at the very end of the Programme period (effectively 2015). It should also be noted that the targets for GVA were expressed as the annual GVA impact of interventions by 2013 to 2015, not the cumulative increase in GVA over a defined period. Merseyside accounted for just under 40% of the overall targets. Other points to note include:

- The assumptions made about the relationship between gross outputs and impacts (i.e. effects of deadweight, leakage, displacement etc) were based on past experience stretching back to the 1990s and based on a relatively limited evidence base.
- Assumptions had to be made about the degree of private match funding or leverage in areas of the Programme exercise where this was most relevant (land and property

[27] However, we understand this is an example of the delays in MCIS data as in Priority 4 there have been several thousands of businesses start ups supported

[28] Additional targets were prepared for the offsetting reductions in $CO_2$ as a result of positive efforts in the NWOP to reduce the carbon footprint of economic activity, these are not covered here

and VCLF). These assumptions were made in advance of detailed design and delivery.

**Table 3-2: NWOP Economic Impact Objectives**

| Type of Target | Indicator | P1 | P 2 | P3 | P4 | Total | Total Merseyside | Total RoNW |
|---|---|---|---|---|---|---|---|---|
| Results | Gross jobs created (No) | 19,900 | 13,200 | 8,500 | 6,800 | 48,400 | 17,900 | 30,500 |
| Results | Gross jobs safeguarded (No) | 4,100 | 5,200 | 3,600 | 2,900 | 15,800 | 6,200 | 9,600 |
| Results | Total Gross jobs created and safeguarded (No) | 24,000 | 18,400 | 12,100 | 9,700 | 64,200 | 24,100 | 46,300 |
| Impact | Net additional GVA (annual) (£m) | £360 | £470 | £150 | £190 | £1,170 | £430 | £740 |
| Impact | Net additional employment (created and safeguarded) | 8,400 | 8,600 | 4,600 | 4,700 | 26,300 | 10,000 | 16,300 |

**Source**: NWOP
**Note**: gross jobs created and safeguarded included those associated with provision of new property

3.32 In carrying out the quantification, the assumed level of outputs "bought" by the Programme were highly sensitive to the unit cost assumptions (for instance in relation to unit costs of businesses assisted). In short, the estimates of global impact were probably more robust than estimates of any particular outputs.

3.33 The quantification process was based on the assumed sterling value of ERDF in 2007, based on the then exchange rate of £0.67 to €1. Since then there has been a 20% effective increase in the sterling value of the Programme due to the depreciation of sterling. Since the quantification exercise was carried out there has been the development of an evidence base in the North West and in other regions on the impact of different forms of intervention[29]. As important, the balance and shape of interventions is now clearer.

## How to Assess the Progress the Programme has made?

3.34 We have attempted to assess the progress that has been made towards the Programmes' impact targets. In doing this we had hoped to draw on a number of sources: project level impact evaluations; our project reviews; other evaluation work on similar projects; and monitoring information. Of these sources, we have established that there is no useful project level impact evaluation work (this is not surprising given the relative early days of most projects) and the project reviews have been useful in understanding the likely trajectory of the projects in terms of outputs but not impact.

3.35 We have therefore had to rely to a large extent on a detailed analysis of the project level monitoring and contracting information, combined with other recent synthesis of evaluation evidence from across the UK applied to what we know about the projects that are contracted to deliver. We have carried out an analysis that relies on the achieved and forecast/contracted job results (gross jobs created or safeguarded) as a way of assessing the

[29] "*Impact of RDA spending – National Report*", PwC for DBERR (now BIS), March 2009; the additionality implications of this and other work were then drawn out in a review for BIS "*Research to improve the assessment of additionality*", Occasional Paper No.1, Cambridge Economic Associates for BIS, October 2009

likely impact that will be delivered by the NWOP (see Appendix A for more detail).

3.36 There a number of key points to emphasise in carrying out this kind of analysis:

- First, the analysis relies very heavily on the forecast gross jobs to be delivered by projects. The number of gross jobs reported by projects and actually recorded on MCIS is, to date, very modest indeed. Overall, it is just 2% of the global NWOP target (see below). However, as noted above in part we understand that this is because of the delay between projects submitting claims and data entry which cannot happen until all issues have been resolved on the claims.

**Table 3-3: Progress in Achieving Gross Jobs Created and Safeguarded, September 2010**

| | Total | Merseyside | RoNW |
|---|---|---|---|
| Overall NWOP Target | 64,200 | 24,100 | 40,100 |
| Achieved to date | 1,280 | 220 | 1,060 |
| % of target | 2.0% | 0.9% | 2.6% |

Source: Based on reported jobs created and safeguarded outputs and spend to date from MCIS provided by the EPE end of August 2010

- It is important to stress that in every ERDF programme we have evaluated, there is always a significant lag between actual spend, delivery of outputs and then final impact – most noticeably in the case of capital projects but also now in the case of the two major strands of JESSICA and VCLF[30]. We would not be unduly concerned about the slow rate of progress on delivery of jobs at this stage if we were confident that all key projects were on track.

- Second, the assumed likely progress that will be achieved by the ERDF investment is most sensitive to the ability of projects to complete their planned delivery and achieved their contracted outputs and results (if already contracted) or to actually start (if at D&A stage or in the pipeline). These considerations are the paramount determinant of likely total impact. Considerations of gross to net adjustment and additionality are relatively minor considerations compared to this uncertainty.

- Third, the forecast job outputs (and so our modelling of overall GVA impacts) are extremely dependent on the successful delivery (of job outputs) from a small number of medium to large projects or intervention areas (for instance VLCF, JESSICA and some of the region-wide business support programmes). This depends on the projects being able to proceed as planned both in terms of match funding, but also in terms of the delivery of job outputs per £1 of ERDF/public sector match. As we note below, we have doubts about the realism of some of the forecast jobs targets for some projects.

[30] Where although the expenditure has been defrayed to the relevant funds it has not actually been spent on any project activity to date

**Table 3-4: Overall Summary of Outputs and Results Progress for Priorities 1-4**

| | Priority 1 | Priority 2 | Priority 3 | Priority 4 |
|---|---|---|---|---|
| Outputs and Results | • On track to achieve **business assists and start up support** targets<br>• Progress on **jobs safeguarded** stronger than **jobs created**, attributed to recession impacts<br>• Limited progress on **business creation,** but picking up through High Growth Business Support project (HGBS)<br>• On track to meet or exceed targets for net additional jobs and GVA | • On track to achieve **business collaborations** target<br>• **Jobs created** target will be challenging, although on track to significantly exceed jobs safeguarded target<br>• **Businesses created** target proving difficult, with few projects committing to deliver substantial new businesses<br>• Likely to be strong performance on net additional jobs/GVA targets, reflecting higher value business activity | • Strong position on contracted for **private sector leverage** and **brownfield remediation** and **new floorspace** targets<br>• **Day and overnight visitor** outputs set to far exceed target, but may be methodological issues in verifying progress<br>• Just under 50% committed for **jobs created** target and 5% for jobs safeguarded. NWOP may be unable to claim indirect jobs although this needs to be clarified | • Should comfortably exceed **private sector leverage** target<br>• **Brownfield** target 50% contracted for (largely JESSICA)<br>• **Day and overnight visitor** outputs set to far exceed target, but may be methodological issues in verifying progress<br>• On track to exceed **job creation/safeguarded** targets but will depend on whether NWOP can claim indirect jobs<br>• On track to exceed **businesses created** target |
| Key Issues | • Substantial majority of outputs, results and impacts generated by a small number of projects (HGBS, VCLF) to achieve key outputs, results and impacts<br>• Recession has led to difficulties in securing new jobs and businesses, with emphasis on safeguarding activity during downturn | • Heavy reliance on FMAS and VCLF projects to deliver jobs and businesses created targets<br>• Some difficulties engaging full range of NW universities<br>• Longer term returns from innovation projects also present challenges to delivery of output/results targets | • Significant majority of outputs and results rest with JESSICA and small number of larger projects<br>• Recession has badly affected commercial property market and therefore economic impact generating activity (eg. occupied business premises) | • Heavily reliant on JESSICA to achieve key targets<br>• Recession's impacts on commercial property market limited economic impact generating activity to date<br>• Limited progress in AA4.1 and ESF overlap issues in AA4.2 point to need to revise Action Areas/Investment Frameworks |
| Key Changes in Context | • National policy and funding landscape for business support uncertain, but opportunities through RGF and potential for LEPs to take more responsibility for high growth business support<br>• National & EU policy on low carbon economy present opportunities for more activity in this area | • Future match funding challenges, with TICs and TSB likely to be key initiatives for programme<br>• Loss of RDAs may compromise focus on commercialisation agenda, and will need to be maintained by programme | • Demand for gap funding likely to rise post recession, but little headroom for NW outside Merseyside<br>• Some potential to harness RGF as match for future capital investment<br>• LEPs may take on additional responsibility for providing locations for business | • P4 likely to be well aligned to focus of Regional Growth Fund. Shift of approach in P4 to packages of capital and revenue measures could tackle areas of NW worst affected by public sector funding cuts<br>• Opportunities for LEPs to assemble packages of private and public sector funding to support future P4 |



regeneris CONSULTING

## What Progress has the Programme Made?

### Estimates of Impact Achieved to Date

3.37 The table below summarises the implication of our assessment of impact based on reported gross jobs created or safeguarded. On this basis, the NWOP has, to date, achieved around 2% of the target for impact. This impact has largely occurred in Priority 1 and largely just from three projects: High Growth Knowledge Business Start-Ups; Northwest Environmental Technologies & Services Cluster Development Programme; and the Enworks environmental support programme. There were no recorded job outputs and so estimated impacts for any projects in Priorities 3 and 4. We note that progress against targets has been slightly better in the Rest of the North West than in Merseyside. However, not too much should be read into these differences at this stage.

3.38 These figures look widely out of kilter with the ERDF invested figure (c. £200m); however this figure included the £128m of ERDF that has been invested in the VCLF and JESSICA funds that have not as yet starting investing in projects.

**Table 3-5: Estimates of NWOP Impacts Achieved to Date – based on results reported as achieved on MCIS at end of August 2010**

| Priority | North West Region overall | | | Merseyside | | | Rest of NW | | |
|---|---|---|---|---|---|---|---|---|---|
| | ERDF Invested (£m) | Net Additional Jobs Created and S'guarded | Annual GVA Impact (£m) | ERDF Invested (£m) | Net Additional Jobs Created and S'guarded | Annual GVA Impact (£m) | ERDF Invested (£m) | Net Additional Jobs Created and S'guarded | Annual GVA Impact (£m) |
| 1 | £65 | 580 | £23 | £23 | 90 | £4 | £42 | 490 | £20 |
| 2 | £56 | 50 | £2 | £21 | 20 | £1 | £35 | 30 | £1 |
| 3 | £36 | | | £16 | | | £20 | | |
| 4 | £42 | | | £8 | | | £33 | | |
| Total | £199 | 630 | £26 | £69 | 110 | £4 | £130 | 520 | £21 |
| % of target | | 2% | 2% | | 1% | 1% | | 3% | 3% |

**Source**: Regeneris Consulting analysis. Based on reported jobs created and safeguarded outputs and spend to date from MCIS provided by the EPE end of August 2010. See appendix for detailed methodology.

### Estimates of Potential Future Impacts

3.39 For the reasons set out above, estimating the future impacts of the NWOP is particularly difficult, because of the uncertainty about what will actually be delivered and spend amongst projects that are approved. We have carried out an estimate of potential impact based on three scenarios (see Table 3-6 below):

- Scenario A is based on the contracted jobs and applying the average gross to net ratios (i.e. net additionality) from the recent national review of the evidence[31] and an assumed £40,000 GVA per person employed for all jobs.

[31] "*Research to improve the assessment of additionality*", Occasional Paper No.1, Cambridge Economic Associates for BIS, October 2009. This research found that the average net additionality ratio was around 50% for most types of intervention.

- Scenario B is based on the contracted jobs, but applies lower net additionality ratios for interventions and a lower GVA per worker in some parts of the NWOP (largely AA4.1)[32].

- Scenario C is as Scenario B, but further assumes that on average the top 12 projects that are contracted to deliver jobs fall by 25% in their jobs created and safeguarded targets.

| **Table 3-6: Forecast Impact of Overall NWOP Targets for Approved Projects** | | | | | | |
|---|---|---|---|---|---|---|
| | Total Gross Jobs Created and Safeguarded | Share of target | Estimated Net additional jobs | Share of target | Estimated Net additional GVA (annual) | Share of target |
| Target | 64,200 | 100% | 26,300 | 100% | £1,170 | 100% |
| Contracted | 56,105 | 87% | 28,053 | 107% | £1,122 | 96% |
| **Scenario A - delivery as planned/forecast** | | | | | | |
| Contracted plus forecast from approved | 60,435 | 94% | 30,218 | 115% | £1,209 | 103% |
| Of which: | | | | | | |
| 6 largest projects in terms of jobs (excl VCLF and JESSICA) | 24,839 | 39% | 12,420 | 47% | £497 | 42% |
| VCLF | 14,000 | 22% | 7,000 | 27% | £280 | 24% |
| JESSICA | 7,300 | 11% | 3,650 | 14% | £146 | 12% |
| All of these | 46,139 | 72% | 23,070 | 88% | £923 | 79% |
| Next 6 largest (excl VCLF and JESSICA) | 3,717 | 6% | 1,859 | 7% | £74 | 6% |
| Remaining projects | 10,579 | 16% | 5,290 | 20% | £212 | 18% |
| **Scenario B – delivery as planned/forecast but lower net additionality** | | | | | | |
| Revised totals | 60,435 | 94% | 22,876 | 87% | £889 | 76% |
| **Scenario C – as Scenario B but also assuming the most significant projects only deliver 75% of forecast/contacted results** | | | | | | |
| Revised totals | 47,971 | 75% | 18,495 | 70% | £727 | 62% |

**Source**: Regeneris Consulting analysis. Based on reported jobs created and safeguarded outputs and spend to date from MCIS provided by the EPE end of August 2010. See appendix for detailed methodology.

3.40 There are several important messages from this analysis. On the face of it the Programme appears well on track to deliver the results and impacts as set out in the NWOP – **but only** if all the contracted outputs and the outputs in projects where there is ERDF commitment were to be delivered as forecast. Indeed, the analysis suggests that based on current contracted projects alone, the NWOP would be on track to hit its impact targets for both net additional jobs and GVA. It should be pointed out that the Programme's ERDF value in sterling has of course increased by 20% since the original targets were set.

3.41 However, this is a very big if for the reasons discussed below.

- First, it is highly likely that existing committed revenue funded projects will in many cases not be fully delivered as anticipated (especially the regional business support projects that have relied on NWDA Single Pot match).

[32] The assumptions are net additionality of 40% for all of the large projects considered (based on the lower end of the range of results from the national review of RDA projects) and 20% for the AA4.1 business start-up project and a lower GVA per worker of £25k for this project (based on the nature of jobs, this is the average for the retail sector in the North West in 2007)

- Second, we have concerns about the realism of the forecast job outputs (and so ultimate GVA impacts). This is compounded by the fact that, certainly for contracted projects, the NWOP is highly dependent on a small number of projects delivering a very large proportion of the impacts. Table 3-11 below shows the share of the most significant contracted projects in terms of delivery of jobs outputs and impacts. Some of these have, in our view, relatively low cost per job created/safeguarded figures that suggest either the project is being over ambitious in terms of gross jobs per £1 of ERDF, or that in reality there will be very low rates of net additionality for these projects. These 12 projects plus VCLF and JESSICA account for over 80% of the forecast impacts from the Programme so far.

- The national work carried out for RDAs/BIS by PwC came up with an average total public sector cost of £14,000 for business support projects and £63,000 for property/place based projects. There is no reason why the NWOP should not exceed these benchmarks (indeed we would expect it should), but they do provide a potential reality check for some of the forecast net impacts at a project level based on our calculations.

- Third, there are important parts of the Programme (most noticeably in Priorities 3 and 4) where much of the Programme spend and commitment to date has been on projects that will deliver limited impact. There is significant reliance on pipeline projects to deliver the target impacts. Many of these pipeline projects may not happen[33].

- Fourth, although the Programme overall appears to be well on track to achieve its impact targets there are significant variations by Priority, reflecting the degree of spend committed and type of project that have been supported. The degree of apparent "overachievement" in Priorities 1 and 4 in particular is obvious as is the "underachievement" in Priority 3.

## Conclusions

3.42 As the Programme currently stands, there are clear risks that it will not meet its key output and results targets, particularly for jobs and businesses created. In turn, this will affect the overall achievement of key Programme impacts (net additional GVA and net additional jobs). Three main points have emerged from our assessment of potential impacts.

- On the face of it, the Programme appears well on track to deliver its GVA and jobs impacts targets as set out in the NWOP – if all the contracted outputs and the outputs in projects where there is ERDF commitment were to be delivered as forecast.

- However, once match funding reductions and project withdrawals are taken into account, the actual picture is likely to be somewhat less positive. In a worst case scenario for match funding, impacts could fall to 60% of the currently projected totals. While much depends on the scale of the spending cuts to be announced in CSR 2010, it is probably realistic to expect double digit percentage reductions in match funding.

[33] However, it should be noted as is apparent from comparing Scenarios 2 and 3 that there are no forecast jobs outputs in the system from the £75m of ERDF earmarked for pipeline projects recorded on MCIS and hence they do not apparently contribute to impacts

- The Programme is heavily dependent on nine projects, including VCLF and JESSICA, to deliver around 70% of all forecast impacts. The job forecasts for several of these projects are extremely ambitious, as indeed are the associated implications for the net additional GVA and jobs impacts they will generate.

**Table 3-7: NWOP ERDF Commitment Update, 30th September 2010**

| Priority | Budget (20% above original) | Approved | | | Remaining Budget as of end of September '10 | | Pipeline (D&A stage) | Approved plus pipeline | Remaining Budget minus Pipeline |
|---|---|---|---|---|---|---|---|---|---|
| | | end September '10 | end August '10* | Increase | | | | | |
| | (£m) | (£m) | (£m) | (£m) | (£m) | % of allo-cation | (£m) | (£m) | (£m) |
| **P1** | £169.6 | £126.4 | £97.5 | £28.9 | £43.2 | 25% | £18.5 | £144.9 | £24.7 |
| **P2** | £169.6 | £93.9 | £84.3 | £9.6 | £75.7 | 45% | £60.9 | £154.8 | £14.8 |
| **P3** | £129.9 | £100.9 | £87.8 | £13.1 | £29.0 | 22% | £26.7 | £127.6 | £2.3 |
| **P4** | £131.8 | £93.6 | £88.1 | £5.5 | £38.2 | 29% | £5.4 | £99.0 | £32.8 |
| **P5** | £25.0 | £4.6 | £3.3 | £1.3 | £20.4 | 82% | £0.4 | £5.0 | £20.0 |
| **Totals** | **£625.9** | **£419.4** | **£361.0** | **£58.4** | **£206.5** | **33%** | **£111.9** | **£531.3** | **£94.6** |

**Source**: EPE report and for * MCIS data for end of August 2010

**Table 3-8: Summary Position in Terms of ERDF Commitments, end of September 2010**

| | **Total Programme Allocation** | **All spent or committed** | | | | **Unallocated** | |
|---|---|---|---|---|---|---|---|
| Action Area and Priority | **£ms** | **Total** | **Merseyside** | **RoNW** | ALL NWOP % of Allocation | £ms | % |
| 1.1 | £42.3 | £21.6 | £7.5 | £14.1 | 51% | £20.7 | 49% |
| 1.2 | £93.3 | £77.7 | £26.5 | £51.2 | 83% | £15.6 | 17% |
| 1.3 | £34.0 | £22.5 | £3.2 | £19.3 | 66% | £11.5 | 34% |
| All P1 | **£169.6** | **£121.8** | **£37.2** | **£84.6** | **72%** | **£47.8** | **28%** |
| 2.1 | £93.3 | £52.7 | £16.7 | £36.0 | 57% | £40.6 | 43% |
| 2.2 | £76.3 | £41.4 | £12.4 | £29.0 | 54% | £34.9 | 46% |
| All P2 | **£169.6** | **£94.2** | **£29.2** | **£65.0** | **56%** | **£75.4** | **44%** |
| 3.1 | £19.6 | £12.7 | £12.7 | | 65% | £6.9 | 35% |
| 3.2 | £81.8 | £63.2 | £34.8 | £28.4 | 77% | £18.6 | 23% |
| 3.3 | £28.5 | £23.7 | £11.7 | £12.0 | 83% | £4.8 | 17% |
| All P3 | **£129.9** | **£99.6** | **£59.2** | **£40.4** | **77%** | **£30.3** | **23%** |
| 4.1 | £13.0 | £8.7 | £4.3 | £4.4 | 67% | £4.3 | 33% |
| 4.2 | £26.4 | £4.5 | £2.5 | £2.0 | 17% | £21.9 | 83% |
| 4.3 | £92.4 | £80.7 | £34.5 | £46.2 | 87% | £11.7 | 13% |
| **All P4** | **£131.8** | **£94.0** | **£41.4** | **£52.6** | **71%** | **£37.8** | **29%** |
| All P5 | £25.0 | £4.6 | £1.8 | £2.8 | 18% | £20.4 | 82% |
| | | | | | | | |
| All NWOP | **£625.9** | **£414.1** | **£168.7** | **£245.4** | **66%** | **£211.8** | **34%** |

**Source:** PMSC paper from EPE 19th October 2010

**Table 3-9: Detailed Assessment of NWOP ERDF Headroom– all data as of end August 2010**

| **Priority/ Action Area** | Programme Allocation | All Defrayed/ spent | All Contracted | All Approved, not yet legally committed | All spent or committed | % of Allocation | Uncommitted | Pipeline - D&A | Other pipeline - at concept stage | *A. Notional headroom (less all D&A and other pipeline)* | *B. Notional headroom (less all D&A only)* | *C. Worst case headroom (1)* | Assumed % of D&A that moves to approval *(2)* |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 1.1 | **£42.3** | £28.2 | £0.5 | £0.0 | **£28.7** | 68% | £13.6 | £3.0 | £2.5 | £8.1 | £10.6 | £12.1 | 50% |
| 1.2 | **£93.3** | £33.7 | £16.8 | £5.5 | **£56.0** | 60% | £37.3 | £7.2 | £14.1 | £16.0 | £30.1 | £35.5 | 25% |
| 1.3 | **£34.0** | £3.1 | £9.8 | £0.0 | **£12.8** | 38% | £21.2 | £36.4 | £0.0 | -£15.3 | -£15.2 | -£6.1 | 75% |
| All Priority 1 | **£169.6** | £64.9 | £27.1 | £5.5 | **£97.5** | 57% | £72.1 | £46.6 | £16.6 | **£8.8** | **£25.5** | **£41.5** | |
| 2.1 | **£93.3** | £28.7 | £16.7 | £1.1 | **£46.4** | 50% | £46.9 | £57.6 | £22.9 | -£33.6 | -£10.7 | £41.1 | 10% |
| 2.2 | **£76.3** | £27.2 | £9.1 | £1.7 | **£37.9** | 50% | £38.4 | £1.6 | £0.0 | £36.8 | £36.8 | £37.6 | 50% |
| All Priority 2 | **£169.6** | £55.9 | £25.7 | £2.7 | **£84.3** | 50% | £85.3 | £59.2 | £22.9 | **£3.2** | **£26.1** | **£78.7** | |
| 3.1 | **£19.6** | £2.6 | £3.1 | £4.0 | **£9.7** | 49% | £9.9 | £1.6 | £3.1 | £5.2 | £8.3 | £8.3 | 100% |
| 3.2 | **£81.8** | £30.6 | £13.5 | £14.5 | **£58.7** | 72% | £23.1 | £12.9 | £3.0 | £7.2 | £10.2 | £19.9 | 25% |
| 3.3 | **£28.5** | £2.9 | £16.5 | £0.0 | **£19.4** | 68% | £9.1 | £11.0 | £0.0 | -£1.9 | -£1.9 | £6.3 | 25% |
| All Priority 3 | **£129.9** | £36.1 | £33.2 | £18.5 | **£87.8** | 68% | £42.1 | £25.5 | £6.1 | **£10.5** | **£16.6** | **£34.6** | |
| 4.1 | **£13.0** | £0.5 | £8.5 | £0.0 | **£9.0** | 69% | £4.0 | £0.7 | 0 | £3.4 | £3.3 | £3.3 | 100% |
| 4.2 | **£26.4** | £0.6 | £1.4 | £1.8 | **£3.9** | 15% | £22.5 | £0.1 | £9.3 | £13.2 | £22.4 | £22.4 | 100% |
| 4.3 | **£92.4** | £40.7 | £20.0 | £14.6 | **£75.3** | 81% | £17.1 | £11.6 | £16.8 | -£11.4 | £5.5 | £11.3 | 50% |
| All Priority 4 | **£131.8** | £41.8 | £29.9 | £16.4 | **£88.1** | 67% | £43.7 | £12.4 | £26.1 | **£5.3** | **£31.3** | **£37.1** | |
| Priority 5 | **£25.0** | £1.8 | £1.6 | £0.0 | **£3.3** | 13% | £21.7 | £0.4 | £0.0 | **£21.3** | **£21.3** | **£21.3** | 100% |
| All NWOP | **£625.9** | £200.4 | £117.5 | £43.1 | **£361.0** | 58% | £264.9 | £144.1 | £71.7 | **£49.1** | **£120.8** | **£213.1** | |

**Source**: MCIS data from EPE as of end of August 2010

**Note**: (1) Column C based on no pipeline progressing and only a proportion of projects at D&A stage progressing. (2) estimate by Regeneris Consulting based on assessment of potential match funding situation for projects at D&A as of end of August 2010

**Table 3-10: Comparison of ERDF Commitments between Merseyside and the Rest of the North West, end of September 2010**

| NWOP Priority | Rest of the North West | | | | Merseyside | | | | Merseyside share of all uncommitted ERDF |
|---|---|---|---|---|---|---|---|---|---|
| | Allocation £ms | All Committed £ms | Uncommitted £ms | % | Allocation £ms | All Committed £ms | Uncommitted £ms | % | |
| **P1** | £118.6 | £88.1 | £30.5 | 26% | £51.0 | £38.3 | £12.7 | 25% | 29% |
| **P2** | £118.6 | £56.8 | £61.8 | 52% | £51.0 | £37.2 | £13.8 | 27% | 18% |
| **P3** | £52.4 | £41.7 | £10.7 | 20% | £77.5 | £59.2 | £18.3 | 24% | 63% |
| **P4** | £66.8 | £52.0 | £14.8 | 22% | £65.0 | £41.7 | £23.3 | 36% | 61% |
| **P5** | £14.8 | £2.8 | £12.0 | 81% | £10.2 | £1.8 | £8.4 | 82% | 41% |
| **Totals** | **£371.2** | **£241.4** | **£129.8** | **35%** | **£254.7** | **£178.2** | **£76.5** | **30%** | **37%** |

**Source**: PMSC paper from EPE 19th October 2010

**Table 3-11: Contribution to forecast impact of all project contracted and forecast to deliver and over 500 gross jobs (created or safeguarded)**

| Project Name | AA | Total ERDF £ms | Gross jobs created and safeguarded | | Cost per job £000s | | Estimated net impacts | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | Total | Share of total for all NWOP approved projects | Total public sector cost | ERDF cost | Net additional jobs created and safeguarded | Total public sector cost per net additional job £000s | Net additional annual GVA £ms | Net GVA per £1 public sector cost |
| Business Start Up 2 | 4.1 | £8.40 | 12,096 | 20% | £3.0 | £0.7 | 6,012 | £6.0 | £234 | £6.5 |
| Future MAS | 2.2 | £8.51 | 7,350 | 12% | £2.8 | £1.2 | 3,653 | £5.7 | £142 | £6.9 |
| High Growth Knowledge Business Start-Up | 1.1 | £2.27 | 2,342 | 4% | £4.0 | £1.0 | 1,164 | £8.0 | £45 | £4.9 |
| NW Waste Technology Virtual Centre of Excellence II | 1.2 | £2.75 | 1,044 | 2% | £6.3 | £2.6 | 519 | £12.6 | £20 | £3.1 |
| Food & Drink Growth Programme | 1.2 | £4.07 | 1,035 | 2% | £7.8 | £3.9 | 514 | £15.7 | £20 | £2.5 |
| Environmental Business Support (ENWORKS) | 1.3 | £2.45 | 972 | 2% | £8.8 | £2.5 | 483 | £17.7 | £19 | £2.2 |
| Northwest Environmental Technologies & Services Cluster Development Programme (ETS) (Retrospection) | 1.2 | £1.01 | 743 | 1% | £5.5 | £1.4 | 369 | £11.0 | £14 | £3.5 |
| Liverpool City Region Inward Investment Programme | 1.2 | £1.60 | 700 | 1% | £4.6 | £2.3 | 348 | £9.2 | £14 | £4.2 |
| North West Construction Knowledge Hub | 1.3 | £3.00 | 600 | 1% | £12.0 | £5.0 | 298 | £24.2 | £12 | £1.6 |
| ISIS (InfoLab21's Strategic Innovation Support Programme) | 2.1 | £1.98 | 600 | 1% | £6.7 | £3.3 | 298 | £13.4 | £12 | £2.9 |
| The Sharp Project | 4.3 | £3.00 | 550 | 1% | £12.3 | £5.5 | 279 | £24.2 | £11 | £1.6 |
| Embedding Resource Efficiency in Key Sectors | 1.3 | £3.52 | 524 | 1% | £19.1 | £6.7 | 260 | £38.5 | £10 | £1.0 |
| All VCLF | | £77.39 | 14,000 | 23% | £5.6 | £5.5 | 6,958 | £11.2 | £271 | £3.5 |
| All JESSICA | | £50.50 | 7,300 | 12% | £13.9 | £6.9 | 3,708 | £27.3 | £144 | £1.4 |
| All Top 6 (excl VCLF/JESSICA) | | £28.44 | 24,839 | 41% | £3.6 | £1.1 | 12,345 | £7.2 | £481 | £5.4 |
| All Second 6 (excl VCLF/JESSICA) | | £14.10 | 3,717 | 6% | £9.5 | £3.8 | 1,853 | £19.0 | £72 | £2.0 |
| All inc VCLF and JESSICA | | **£170.43** | **49,856** | **82%** | **£6.1** | **£3.4** | **24,865** | **£12.2** | **£968** | **£3.2** |
| Share or NWOP total for all approved projects | | 48% | 82% | | | | | | | |

**Source**: Regeneris Consulting analysis. Based on reported jobs created and safeguarded outputs and spend to date from MCIS provided by the EPE end of August 2010. See appendix for detailed methodology.

# 4. Priority 1: Stimulating Enterprise and Supporting Growth

4.1 Priority 1 is the focus of the NWOP's investments to boost the North West's high growth SME base, support priority sectors of the economy and ensure that the region is geared up for new patterns of sustainable production and consumption. Three key activities were identified in the NWOP for Priority 1. These included:

- Encouraging the creation and development of new high growth businesses in high value markets, with high growth businesses defined by the growth of their turnover, payroll and or/export activity
- Develop existing strengths in high value priority sectors, with those identified by the RES a target for project activity
- Capitalising on the growth of new, sustainable market opportunities.

4.2 The structure of Priority 1 and its indicative allocations of ERDF were based on three Action Areas, set out in Table 4-1 below. This also shows the different strands of activity developed for the Investment Frameworks.

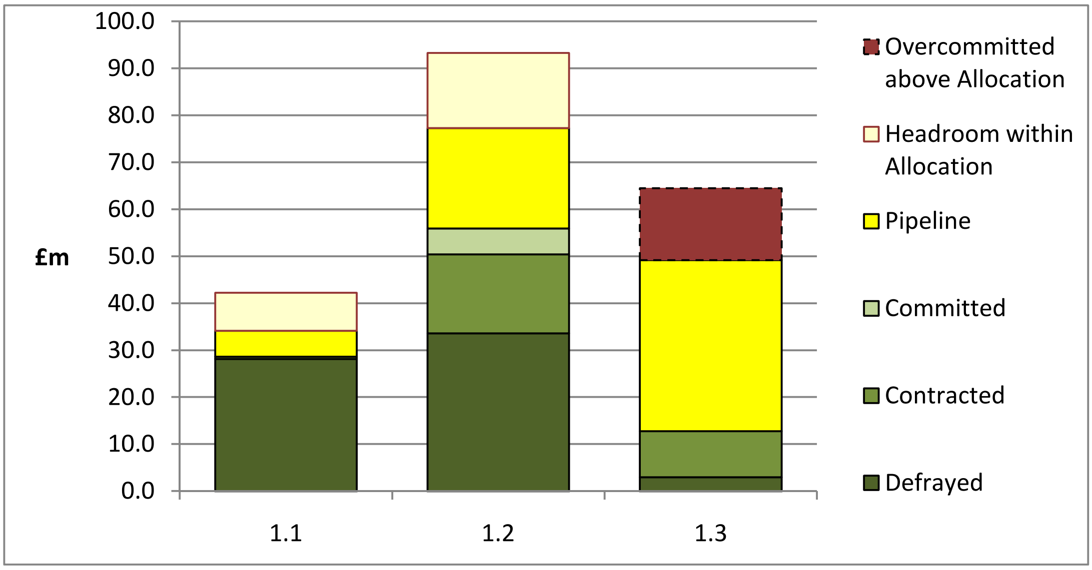
**Table 4-1: Priority 1 Activities By Action Area**

| Action Area 1.1 Developing High Value New Enterprise | Action Area 1.2 Developing higher added-value activity in target regional sectors | Action Area 1.3 Increasing sustainable consumption and production |
|---|---|---|
| • Strand 1: Expanding & Developing High Growth Business Support<br>• Strand 2: Supporting Enterprise Promotion Activity & Enterprising Behaviours<br>• Strand 3: Support for the Provision of Incubator Space for High Growth Start-Ups<br>• Strand 4: Support for the Enhancement of Incubator Services | • Strand 1: Regional Pan-Sector Internationalisation Support<br>• Strand 2: Regional Sector programmes<br>• Strand 3: Merseyside sub-regional priority sector support | • Strand 1 – Support for innovative approaches to changing culture and embedding sustainable behaviours and management practices<br>• Strand 2 – Support for improving Sustainable Consumption and Production (SCP) within key and enabling sectors<br>• Strand 3 – Support for Sustainable procurement<br>• Strand 4 – Expanding the development, demonstration and market development for low carbon technologies and processes in the NW<br>• Strand 5 – Supporting the installation and use of current low carbon/low-resource technology and processes |

## Expenditure in Priority 1

4.3 As indicates, progress on ERDF expenditure in Priority 1 has been mixed, with contracted for, committed and pipeline spending significantly further advanced in Action Areas 1.2 and 1.3 than in Action Area 1.1.

**Figure 4-1: Progress on ERDF Expenditure in Priority 1 (By Action Area)**




Source: MCIS Data from the EPE, end of August 2010.
Note: AA1.3 has an additional £15.3m committed that is above its indicative allocation

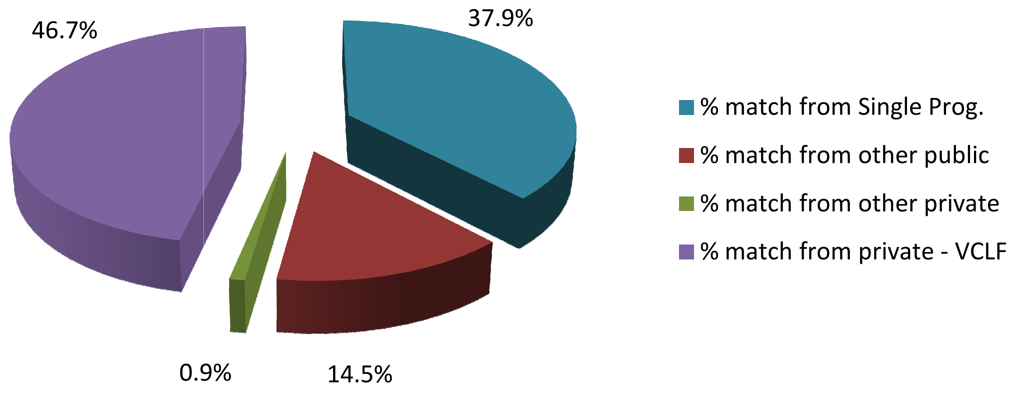
4.4 **Action Area 1.1.** Analysis of MCIS Programme expenditure data indicates that at the end of August £28.7 million (68%) of a total allocation of £42.3 million had been committed in AA1.1, with £28.2 million already defrayed. The overwhelming majority of actual spend to date (95%) is accounted for by the VCLF contract along with the series of transitional small business loan and transitional/interim loan funds which have operated as a bridge through the development of the VCLF. Adjustments to the expenditure recorded against the VCLF contract in AA1.1 mean that the position at the end of September stood at £21.6 million spent or committed (51% of allocation) and around £20.7 million not yet committed (49%).

4.5 **Action Area 1.2.** Allocations to the VCLF contracts and the range of transitional loan funds account for £26.8 million (around 80%) of total actual spend to date of £33.7 million. A further £16.8 million is contracted for, with further committed projects at post-approval legal stage totalling £5.5 million. The pipeline (D&A and Concept projects) stood at £21.3 million at the end of August, although it is understood that a project with a value of £3.5 million has now been allotted to a different Action Area (2.1). With adjustments to take account of the allocation of a larger proportion of the VCLF contract to AA1.2 , the position at the end of September stood at total commitment of £77.7 million (83%) with £15.6 million (17%) still to be committed.

4.6 **Action Area 1.3.** By the end of September, total commitments for AA1.3 stood at £22.5 million (66%) of the total allocation of £34 million. This represents a significant change over the position in August, when only £12 million had been contracted for. Much of this change reflects the Programme's approval of a suite of projects which responded to the Programme's call for housing projects issued in September 2009. By the end of September, projects totalling £7.3 million had entered the legal stage, with a further £5 million of project investment about to be approved.

4.7 The match funding position for Priority 1 is summarised in Figure 4-2 below. The break down for Priority 1 is heavily influenced by the VCLF contract, which accounts for around 47% of total match, and virtually all the private sector match so far identified. Single Programme match accounts for just under 40% of the total, while close to 15% originates from other public funding sources.

**Figure 4-2: Match Funding Summary for Live, Committed and Pipeline Projects, Priority 1**




Source: MCIS Data from the EPE, end of August 2010.

## The Delivery of Priority 1

4.8 Table 4-2 below summarises the key information about the implementation to date of Priority 2 and the activity that the NWOP has in the pipeline. The analysis makes it clear where it excludes or includes the VCLF allocations under Priority 2 and the series of transitional and interim loan funds that were put in place as a bridging measure until VCLF was agreed.

| Table 4-2: Priority 1 Activity Summary (End August 2010) | | | | |
|---|---|---|---|---|
| | **Action Area 1.1** | **Action Area 1.2** | **Action Area 1.3** | **Total P1** |
| Programme Allocation (current with NWOP + 20% assumption) | £42.3 million | £93.3 million | £34 million | £169.6 million |
| No of projects live and contracted (inc. VCLF & loan funds) | 11 | 25 | 7 | 43 |
| No. of projects live and contracted (exc. VCLF & loan funds) | 2 | 16 | 7 | 25 |
| No. of projects at D&A stage | 1 | 4 | 4 | 9 |
| No. of projects at Concept stage | 2 | 4 | 0 | 6 |
| No. closed post concept | NA | 11 | 2 | 13 |
| Projects rejected at EoI | 12 | 29 | 34 | 75 |
| Largest ERDF contribution for live projects (exc. VCLF and loan funds) | £2.2 million (High Growth Start Up) | £4.3 million (International Trade: Accessing New Markets) | £3.5 million (ENWORKS Embedding Resource Efficiency in Key Sectors) | |
| Smallest ERDF contribution for live projects (exc. VCLF and loan funds) | £0.6 million (HE Enterprise Champions) | £0.4 million (Medilink North West – Innovate to Grow) | £1 million (Low Carbon Market Development Programme) | |
| Average ERDF project value for live projects (exc. VCLF and loan funds) | £1.4 million | £2 million | £2.1 million | |
| Source: MCIS Data from the EPE, end of August 2010 | | | | |

4.9 Priority 1 is clearly tending to support larger ERDF projects, with average values ranging from £1.4 million in AA1.1 to £2.1 million in AA1.3. While Action Area 1.1 did not have a strong pipeline of projects at the end of August, the overall pattern of project development seems broadly in line with the allocations in P1, with 55% of funding allocated to AA1.2. Strong adherence to NWOP and Investment Framework criteria is underlined by the data on rejections and withdrawals, which show 75 projects to have been rejected at the EoI stage and 13 to have been closed after having reached the concept stage. The reasons for this are outlined elsewhere in this section.

4.10 Table 4-3 provides a summary of the project submissions by type of applicant for live, committed and pipeline projects in AA1.1

| Table 4-3: Type of Applicant, Action Area 1.1 | |
|---|---|
| **Applicant** | **Number of Projects** |
| NWDA | 1 |
| Other Public Sector | 2 |
| Higher Education Institutions | 2 |
| Third Sector | 1 |
| Business Finance Organisations (for VCLF and loan funds) | 9 |
| Source: MCIS Data from the EPE, end of August 2010. | |

4.11 The small number of applicants in AA1.1 reflects the design of the Investment Framework, which was based on limited and closed bidding across its 4 strands. It operates on the basis of the extension of existing regional high growth business support and enterprise promotion activity, with the NWDA earmarked as the project sponsor and developer for this element of the Action Area. Two strands of AA1.1 sought projects connected to the development of business incubator facilities, specifying that they should be either identified in sub-regional action plans (where capital investment was involved) or should be regional projects delivered by high growth and specialist incubation providers. In practice, this has meant a tightly defined set of principles for viable projects which, together with the difficulty of developing additional incubator facilities/service in a recessionary climate, is perceived to have limited the flow of projects.

4.12 As Table 4-4 shows, the range of project applicants in Action Area 1.2 has been much wider and this is consistent with the thrust of the Investment Framework which was designed to encourage submissions from a range of sectoral organisations across the North West.

| **Table 4-4: Type of Applicant, Action Area 1.2** | |
|---|---|
| **Applicant** | **Number of Projects** |
| Sector/cluster organisations | 9 |
| NWDA | 3 |
| Merseyside Sectoral Organisations | 3 |
| Higher Education Institutions | 3 |
| Other Public Sector | 3 |
| Private Sector | 2 |
| Source: MCIS Data from the EPE, end of August 2010. | |

4.13 The source of project activity in AA1.2 is also consistent with the approach set out in the Investment Framework. The NWDA accounts for three projects including the enhancement of the UKTI-NWDA programme to support external trading activity in the North West. Established sectoral organisations were expected to make a significant contribution to the development of ERDF projects, and the Programme has funded projects across the full spectrum of priority sectors for the region with the exception of business and professional services. A small number of other public and private sector applicants have come forward with projects which fit with the North West's sectoral priorities. The Investment Framework earmarked the visitor economy and maritime sectors for projects in the Merseyside phasing-in area and this has generated live projects.

4.14 The pattern of project activity for Action Area 1.3 is also in line with the Investment Framework, although a small number of projects have come forward to date.

| **Table 4-5: Type of Applicant, Action Area 1.3** | |
|---|---|
| **Applicant** | **Number of Projects** |
| Environmental Sector Organisation | 3 |
| NWDA | 2 |
| Higher Education Institutions | 2 |
| Private Sector | 1 |
| Other Public Sector | 1 |
| Source: MCIS Data from the EPE, end of August 2010. | |

4.15 The small number of projects and the comparatively narrow range of applicants thus far reflect an Investment Framework which was designed to operate primarily through either non-competitive or limited bidding. The Investment Framework was targeted at specific types of low carbon related project activity and, for the most part, at specific delivery organisations (eg. environmental sector organisations, HEIs, sustainability organisations). The market for products and services relating to sustainable consumption and production is still emerging, and the North West does not yet have a high density of public and private sector organisations operating in this area, which may also play some part in limiting the supply of projects in AA1.3. The evaluation has also heard clear messages about the difficulties of pushing SMEs to adopt stronger sustainability practices during a deep recession.

## Investment Fit and Gap Analysis

4.16 Table 4-6 below summarises the number of live/committed and pipeline projects for each Action Area. The analysis clearly shows that project activity is concentrated in a small number of strands across Priority 1, with sectoral organisations and their business support programmes dominating the take up of ERDF to date.

**Table 4-6: Priority 1 Projects By Action Area**

| | Committed Projects | Pipeline Projects |
|---|---|---|
| **Action Area 1.1** | | |
| Strand 1 High Growth Business Support | 1 | 0 |
| Strand 2 Enterprise Promotion | 1 | 1 |
| Strand 3 Incubator Space | 0 | 2 |
| Strand 4 Incubator Services | 0 | 1 |
| **Action Area 1.2** | | |
| Strand 1 Internationalisation Support | 1 | 0 |
| Strand 2 Regional Sector Programmes | 14 | 3+ |
| Strand 3 Merseyside Sector Support | 2 | 1 |
| **Action Area 1.3** | | |
| Strand 1 Sustainable Culture and Behaviours | 1 | 0 |
| Strand 2 Sustainable Consumption & Production | 3 | 1+ |
| Strand 3 Sustainable Procurement Support | 0 | 0 |
| Strand 4 Low Carbon Technology Development | 2 | 0 |
| Strand 5 Low Carbon Technology Use | 1 | 0 |

Source: MCIS Data from the EPE, end of August 2010.
Note: Table supplemented by further Information on pipeline projects based on EPE pipeline spreadsheet and discussion with EPE

4.17 The evaluation provides a summary of the full suite of committed and pipeline projects in Priority 1. However, a total of 11 live P1 projects were selected for more detailed review, with 10 eventually completed. The overall picture is of a strong fit between Priority 1 projects, the Investment Framework and the NWOP. However, the pattern of project development has been patchy, with take up in some Action Areas and strands proving to be much higher than others.

### Action Area 1.1 Developing High Value New Enterprise

4.18 The Programme has struggled to generate projects in Action Area 1.1 and launched a push for new projects by promoting an open call which finished at the end of September 2010. There is understood to have been a high fall out of projects between the Expression of Interest (EoI) and concept stage. The EPE's data shows that 12 projects have been rejected at EoI stage, with a potential ERDF value of £12.3 million.

4.19 **Strand 1** was designed to extend the existing provision of high growth business support in the North West and the contract for a large scale **High Growth Knowledge Start Up** project procured by the NWDA was signed in October 2008. This £10 million project with £2.2 million of ERDF was reviewed for the evaluation. Delivered by operator Winning Pitch, it is a strong fit with the objectives for Action Area 1.1, providing a high volume of business assists which are nevertheless targeted at companies which meet clearly defined criteria for high growth status. The project provides a combination of introductory advice, diagnostics and coaching (2 day assists) to pre-start and new start up SMEs which demonstrate the potential to be much higher GVA and employment generating than average. The project reports that it is on track to achieve its key targets for SMEs assisted and jobs created on completion in 2011, with the NWDA indicating that it is at 70% of its contracted for targets. It demonstrates a degree of additionality as a result of ERDF investment in that it is enabling the North West to deliver a significantly larger scale project than would otherwise be the case, although the nature of the services it provides to SMEs are similar to those available elsewhere in the public and private sector business support network.

4.20 Only one other project is live in Action Area 1.1. This is the **HE Enterprise Champions** project under **Strand 2** which provides support from the National Council for Graduate Entrepreneurship to universities to recruit and train enterprise specialists, and to develop collaborative networks with SMEs and other business support organisations. ERDF has enabled the capacity of the enterprise champions' network to be doubled in what originated as a Single Programme project. The project reports that it is on track to achieve targets for the creation of new jobs, new businesses and skills outputs, despite an economic climate which has seen graduates become more cautious about starting a business.

4.21 A key objective behind the current call for projects has been to fill the gap represented by **Strands 3 and 4**. There are understood to be four projects at concept stage in **Strands 3 and 4** currently seeking approval from the ERDF Programme. These projects include capital investment in sub-regional incubator facilities and revenue funding for business support services in those incubator facilities. However, the ability of potential projects to demonstrate additionality over and above provision in existing facilities together with tough economic conditions for the development of incubators have been key factors in the lack of approved projects in these two strands.

### Action Area 1.2 Developing higher added-value activity in target regional sectors

4.22 The volume of project activity in AA1.2 sharply contrasts with progress in AA1.1. **Strand 1** (support for internationalisation) was earmarked as non-competitive, enabling the Programme to enhance the NWDA's contract with UK Trade and Investment (UK:TI) to provide assistance to businesses to increase export trade in priority sectors and support activity to encourage new inward investment in the region. A £4.3 million ERDF project

(**International Trade: Accessing New Markets**) matched by £4.3 million of UK government funding has recently become live and will deliver the Solutions for Business product *Accessing International Markets* in the region, although the project is likely to be affected by match funding reductions.

4.23 **Strand 2** (sector programmes) has been a particularly important source of projects for Priority 1. This has to be attributed to the ERDF Programme having built upon a well established infrastructure of sectoral organisations and related programmes of business support. In this respect, a high level of demand would be expected and there do not appear to be significant gaps in provision.

4.24 Project reviews were carried out for six AA1.2 projects across several of the priority sectors targeted by the Investment Framework.

- The North West's **Aerospace Supply Chain Excellence Programme 2** builds on a successful phase 1 programme developed and delivered by the North West Aerospace Alliance. This £3.4 million ERDF project offers a highly structured and intensive suite of support (eg. with management and leadership skills and production processes) to a small number of SMEs which form part of the high value added, knowledge intensive aerospace sector in the region. It is a particularly good example of the type of activity that the AA1.2 Investment Framework sought to generate, being both highly specialised and strongly focused on supply chain development. A key feature of the project is the central involvement of the aerospace primes (BAE Systems, Airbus and Rolls Royce) in mentoring SME beneficiaries, strategic decision making and project governance. While the project is contracted to deliver a comparatively small number of assists, there is strong evidence to indicate that these will generate high returns in GVA and higher paid employment impacts.
- One of the larger projects in Priority 1 is the £4.2 million **Media Enterprise Centre** project developed by Salford City Council and the NWDA, matched with £3.7 million of Single Programme funding and a further £5 million of funding from other partners including Salford City Council. The project, which secures a lease of high specification business premises, represents the initial stage of developing a Media Enterprise Centre (MEC) based in MediaCity UK in Salford. It is expected to provide incubation space for creative and digital SMEs, a location for business support services to the sector and specialist facilities intended to underpin the development of new commercial strengths in high value digital content and gaming in the North West. The provision of a physical base for the MEC was seen as critical to a series of additional capital and revenue projects which were expected to come forward with Single Programme, ERDF and other public and private sector funding. It is understood that in light of Single Programme funding cuts, the MEC initiative is being adjusted and it will start to generate outputs, results and impacts for the Programme once space is occupied with SMEs and the associated facilities are in place.
- The University of Manchester's **Centre of Excellence for Biopharmaceuticals (COEBP)** is a £2.5 million **Strand 2** ERDF project matched with £1.7 million of Single Programme investment. This capital and revenue project harnesses ERDF to an initiative to create a nationally recognised centre of excellence for biopharmaceuticals. The project is a strong fit with AA1.2 and more widely with the NWOP, since it is targeted at a priority sector which is knowledge intensive and

where the North West has some research and commercial advantages over competitor regions. The project will provide a range of assistance to businesses to help them work with bio-pharmaceuticals, knowledge transfer resources to link academics to SMEs (eg. industrial placements) and specialist technology facilities. Key output and results targets for the project include business assists and jobs created, although it is still at an early stage of delivery.

- The £4 million **Food and Drink Growth Programme**, delivered by sectoral lead organisation Food North West, is another project in the series of ERDF revenue investments to support priority sectors in the region. The project provides an extensive range of technical and regulatory assistance to SMEs alongside advice about operating in a food and drink market where the North West's objective is to encourage higher value local production and retail.

- The £2.7 million (matched with £3.8 million of Single Programme funding) **North West Waste Technology Virtual Centre of Excellence** is another good example of the type of activity sought under Strand 2. Building on an initiative developed and funded by the NWDA and the Government's Building Resource Efficiency programme (BREW), the project provides a range of business support targeted at waste and recycling SMEs in the North West. In line with the approach specified in the Investment Framework, its objectives are to encourage business to collaborate, to bring businesses and academics together and to connect this sub-sector to wider sustainability activity in the region. Although it is still at a relatively early stage of delivery, the project expects to deliver more than 500 assists to SMEs which are expected to help to improve their performance.

- **Access to Finance** (£3.5 million total cost with 50% coming from ERDF) is one of two business support projects delivered by Business Link (the other being Innovation). The project has had to scale up its assists in order to be meet ERDF eligibility requirements. This has required a re-profiling of output commitments downwards to reflect the extra intensity which needed to be supplied, but it is not clear in many cases that businesses need or are able to absorb this longer form of assistance.

4.25 Strand 2 has also seen a substantial number of projects rejected at EoI (29) and concept stage (11). While there are a variety of reasons for this pattern, insufficient commitments to operate regionally, difficulties in meeting value for money tests (outputs per £ invested) and a tendency towards small scale ERDF projects have all been cited as important factors. Strand 2 is clearly seen as a good route to securing ERDF investment, but the Programme has had to be selective in dealing with a high volume of applications.

4.26 The Merseyside component of AA1.2 (**Strand 3**) is now regarded as being fully committed with three live projects totalling £5.2 million. These projects support Merseyside's specific sectoral priorities and include revenue funding to support the further development of the maritime sector and support to the tourism sector through The Mersey Partnership's visitor economy programme. In this respect, they are a clear and strong fit for Strand 3.

4.27 The £3.2 million ERDF **Sector Development for the Visitor Economy in the Liverpool City Region** matches TMP's investment in revenue funding to underpin its delivery of a wide range of assistance (eg. quality accreditation advice, networking opportunities, marketing support, research & intelligence) to SMEs operating in the broadly defined visitor economy in the sub-region. The strength of this approach lies in sectoral support residing with a single, key partnership organisation in Merseyside and TMP has an extensive membership base which readily enables it to selectively target its assistance. A key challenge for the project will be to strike a balance between the volume of business assists required under the ERDF Programme and the value of targeting support at the businesses whose performance and role in the city region make them drivers of the city region's visitor economy.

### Action Area 1.3 Increasing sustainable consumption and production

4.28 A lower volume of project activity has been generated in Action Area 1.3, reflecting the narrower focus of the Investment Framework. AA1.3 was designed to support the development of new commercial strengths for the North West in sustainable technologies and their application in business practice. By definition, this is an emerging market and the region has not yet achieved the density in the SME base that is typical of more mature sectors.

4.29 The AA1.3 Investment Framework was designated **Strand 1** (innovation) as non-competitive in the expectation that a culture change in approach to sustainable practices would emerge as a result of a regional umbrella programme. The £1m **Low Carbon Market Development Programme** delivered by sector organisation Envirolink fulfils this objective. There is a case for expanding the scale and scope of this type of activity given both the growing commercial importance of low carbon technologies and the environmental priority attached to reduced carbon emissions. However, there does not appear to be a pipeline of projects to achieve this.

4.30 **Strand 2** (Support for improving Sustainable Consumption and Production (SCP) within key and enabling sectors) has been the most productive for AA1.3, with three live projects, one of which has already been completed. The projects are a strong fit for the Investment Framework which sought activity to support moves to more sustainable consumption and production. The evaluation has reviewed three projects in Strand 2 which together present a balanced portfolio of specialist business support with an emphasis on extending the reach of this type of activity.

- The £3 million **North West Construction Knowledge Hub** project is delivered by the University of Salford's Centre for Construction Innovation. It works both to support business to become more environmentally efficient and to enable them to develop more sustainable production techniques, gearing them up to bid for the growing number of construction contracts which require the highest environmental standards. It is also a good example of the way that the Programme has encouraged the interface between academic expertise and the SME base. The tough conditions endured by the construction industry coupled with public sector funding cuts mean that safeguarding jobs (rather than creating significant numbers of new jobs) is the likelier outcome for the project.
- Two projects delivered by ENWORKS deliver advice to large numbers of the region's businesses about reducing environmental risks and capitalising on new market opportunities for environmental products and services. The £2.5 million **Environmental Business Support** project, completed in April 2010, enabled ENWORKS to provide a range of support from partner organisations and consultants to businesses in all sectors of the economy. The £3.5 million **Embedding Resource Efficiency in Key Sectors** project takes a different approach, funding new staff posts in priority sector organisations to engage with SMEs and ensure they are brokered on to providers of specialist environmental support where necessary.

- The recession is understood to have had a significant impact on the **Environmental Business Support** project, with companies focusing on action for short term survival rather than paying for longer term resource efficiency measures. In this climate it proved difficult to achieve the high volume of resource efficiency assists which the UK government tasked the NWDA (and other RDAs) to deliver. An economic climate that remains difficult and cuts in public sector funding (Single Programme, environmental programmes) will have an impact on scale and scope of the Resource Efficiency project.

4.31 It is not clear why projects have not come forward under **Strand 3** (procurement). However, there is clearly potential for overlap with activity identified elsewhere in AA1.3. A total of three projects have been identified in **Strands 4 and 5**, including the Carbon Reduction Capital Purchase Awards scheme and the Carbon Reduction Demonstrator Awards (capital investment) delivered by the NWDA. The **North West Eco-Innovation Programme** delivered by the University of Lancaster provides graduate placements and a range of specialist advice to businesses (design support, market advice, access to technology and supply chain advice). However, there are no further projects in the pipeline in these two strands, and a shortage of projects able to demonstrate the required value for money (volume of outputs per £ invested) together with their fit to the Lisbon criteria are understood to have been key factors here.

4.32 Overall, the flow of projects in Action Area 1.3 appears to have been limited by a number of factors:

- Tough criteria laid down in the Investment Framework (i.e. high impact on businesses, acceptable value for money in terms of outputs for ERDF investment, regional scope preferred). Of the 34 projects rejected at the EoI stage, 29 (85%) were sub-regional indicating that the NWDA has strongly adhered to its commitment to secure region-wide projects.
- Recessionary conditions which have made resource efficiency and low carbon investments a more difficult choice for SMEs, increasing the risk of low take up of support in some respects and potentially deterring applicants. While some projects have seen higher than expected demand for such support, several have highlighted low demand as a particular problem. Securing viable business start ups has proved to be especially challenging.
- The earmarking of AA1.3 funding for the North West's call for housing projects (see assessment below). This has absorbed much of the headroom that would have been left in AA1.3.

### Call for Housing Projects

4.33 A substantial part of the Priority 1 funding allocation has now been committed to a series of housing projects which emerged as the result of a special call opened in September 2009. The Programme's decision to proceed with the housing call was the result of a European Commission proposal which allow up to 4% of ERDF Programme resources to be devoted to domestic energy efficiency and renewable energy action as part of the European Economic Recovery Plan. In conjunction with this they proposed an amendment to the ERDF Regulation to allow support on these actions "in order to support social cohesion", leaving national Managing Authorities (the Department for Communities and Local Government in the case of the English programmes) to define eligible categories of housing. For the

Programme this provided maximum funding of £21 million.

4.34 The housing call was underpinned by detailed evidence commissioned by the NWDA in early 2009 which assessed the best options for the Programme and the most effective means to ensure that projects fitted the strategic objectives of the NWOP. A protracted process of negotiation followed the submission of concept proposals during 2009, with problems over the level of funding sought at EoI stage, the value for money represented by proposed investments in terms of the outputs/results to be generated and questions about the duplication of activities with national initiatives to encourage energy efficiency in housing (Feed in Tariffs and Renewable Heat Incentives).

4.35 There appear to have been two key challenges for the Programme which have required careful management by the EPE and partner organisations:

- To reach agreement on a budget for the projects within the ceiling set by the CLG agreement
- To ensure that the project proposals commit to levels of jobs created, businesses assisted and CO2 reductions that represent a contribution to Programme targets which is commensurate with the quantity of funding that is being sought.

4.36 The latest available data on the proposals have indicated a total budget of £21.1 million (£13.5 million for RONW, £7.6 million for Merseyside) across five projects. The budget has been split between four projects in AA1.3 (£20.1 million) and one project in AA2.1 (£0.9 million). The projects will deliver a combination of retrofitting of low carbon technologies to homes, measures to link houses to micro-generation technologies and the broader development of low carbon power generation and heating schemes.

4.37 The AA2.1 project now funds the development of a collaborative retrofitting network led by the University of Salford's Energy Hub, and is understood to have committed to the delivery of SME collaborations with the knowledge base that represents satisfactory value for money for an investment of just under £1 million.

4.38 The process of developing the projects has seen initial requests for funding scaled back, with projects apparently pushed to deliver higher outputs/results. The evaluation has highlighted a number of key points about the projects and their fit to the NWOP.

- In some respects, the projects are a good example of the Programme's ability to respond to new opportunities for project development. The North West recognises the need to up its game in the commercial development and use of energy efficiency technologies, as well as meeting its $CO_2$ reduction commitments, and the Programme strategy has been flexible enough to enable a regional response.
- The projects should make a contribution to improve the region's record on energy efficiency and lowering carbon emissions, and this should be measurable given the way that investments will be made in individual houses. The inclusion of provision for demonstrator projects could also have wider benefits if they encourage the adoption of energy efficiency technologies in housing schemes, although the focus of the projects is on retrofitting. In this respect, the project can be seen as a good fit with the region's aspirations for a lower carbon economy.
- The latest information provided about the approval of three of the projects (end September 2010) suggests that they are unlikely to deliver significant impacts in the

form of either jobs created or SME development. To this end, they will not meet the standard value for money criteria for Priority 1 projects. While there will be some benefits to SMEs involved in the supply of equipment and its installation, their potential impacts on the development of a supply chain would appear to be limited.

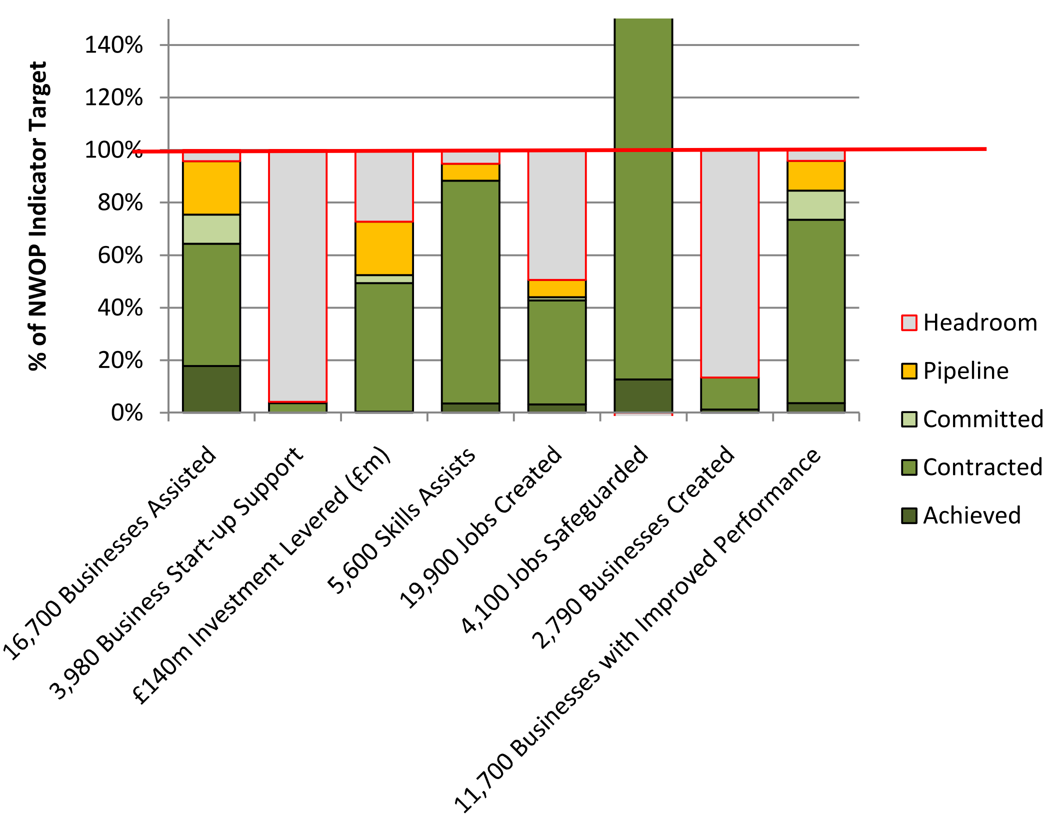
- Public sector funding cuts create some uncertainty about whether the engagement of these projects with the wider infrastructure of business support providers and specialist environmental sector bodies will be sustained over the long term.

4.39 While there are strong social policy grounds for improving the condition of social housing stock, the level of demand for this type of service in the private housing market is still to be established. In view of the need for the Programme to ensure that Priority 1 remains focused on job and business creation, there would not appear to be a good case for further investments of this kind.

## Outputs and Results Performance

4.40 Progress to date on key outputs and results for Priority 1 is summarised in Figure 4-3 below. The chart shows what has been achieved to date, what has been contracted for, what the commitment of ERDF investment is expected to buy in terms of outputs/results and the volume of outputs/results that Priority 1 will need to achieve to meet the Programme targets.

**Figure 4-3: Progress on Key Outputs and Results in Priority 1**




Source: MCIS Data from the EPE, end of August 2010.

4.41 This evaluation is able to present only an early assessment of outputs and results performance in P1, since many projects entered into contract in 2009 or 2010, and are still at an early stage of delivery. The picture presented below represents the outputs and results position at the end of August 2010.

- **Businesses assisted.** Priority 1 accounts for the majority 66% (16,700) of the NWOP's output target for business assists (25,200). At this juncture, MCIS data indicate that just under 3,000 have been achieved and a further 7,700 are contracted for. Around 7,500 (70%) of contracted for assists stem from four projects – High Growth Business Support (AA1.1), Access to Finance (AA1.2), Food and Drink Growth Programme (AA1.2) and the ENWORKS Environmental Business Support project (AA1.3). The Internationalisation of Trade project has recently gone live, and this will account for a further 1,700 assists.[34] With committed projects included, Priority 1 appears set to achieve its target for assists.

- **Business start up support.** The target of 3,980 for Priority 1 accounts for close to 70% of the total NWOP target (5,780) for this output. However, it is understood that the projects will not be reporting against this output target and the focus instead will be on businesses created. Both the **High Growth Start Up** project and the **VCLF** are expected to report on the creation of new SMEs, and the former has already reported actual progress (60 achieved at end of September 2010).

- **Investment Levered (£).** Private sector investment levered (£140 million) has been earmarked as a key target for P1, which accounts for around 37% of the overall Programme target of £380 million. Its inclusion in Priority 1 reflects the importance of building collaborative networks between the private and public sector, and the need for businesses to invest alongside the public sector to increase the impacts of support on individual enterprises. At present, only £0.6 million is reported as achieved. VCLF accounts for a substantial proportion (c. 66%) of the outputs already contracted for by the Programme, with the Aerospace Supply Chain Excellence Programme 2 and the Internationalisation of Trade project together accounting for a further 15%. Around £28 million is accounted for by committed or pipeline projects, and much will depend on the capacity of the housing projects (both Rest of the North West and Merseyside) to lever private sector investment. The MCIS data indicate headroom of around 27% for this output, and we would expect this figure to be higher when adjustment for match funding cuts are factored in.

- **Skills Assists.** The Programme has contracted for around 85% (4,750) of the Priority 1 target of 5,600 skills assists. The majority of these (c. 4,000) reside in two projects: **HE Enterprise Champions** and the **Food and Drink Growth programme.** Pipeline projects for the development of the Media Enterprise Centre and a second HE Enterprise Champions project should see Priority 1 come close to its target, although it is not clear to the evaluation what the implications will be of public sector funding cuts.

- **Jobs Created**. Priority 1 accounts for 19,900 (41%) of the Programme target of 48,400 jobs created. Progress to date has been limited with only 3% so far achieved. Contracted for projects account for around 40% of the target, although 70% of these results stem from the AA1.1 and 1.2 VCLF contracts and the High Growth Business Support project. There remains considerable headroom in this indicator (49%) of

[34] Internationalisation of Trade and ISTEP projects not yet shown as live on MCIS, so chart does not include them.

target and there is not yet a strong pipeline of projects to close the gap. Projects have flagged problems in achieving their job creation targets in recessionary conditions, and the P1 target may need to be adjusted to reflect the tendency for stronger performance in safeguarding jobs, albeit while the overall jobs created/safeguarded target is retained.

- **Jobs Safeguarded.** Projects are finding that their activities are having more success to date in safeguarding existing jobs during the recession, and this is confirmed in the results data. Priority 1 has achieved 13% (524) of its target of 4,100 but has contracted for 8,900 (more than double the target). Much of this is accounted for by the **VCLF** contracts (3,500) but there are significant contributions from projects including the **Aerospace Supply Chain Excellence Programme 2,** the **North West Waste Technology Virtual Centre** and the **Merseyside Visitor Economy Sector Development** project. The target for Priority 1 should be achieved with the existing suite of ERDF projects.

- **Businesses Created.** An ambitious target (2,790) for business creation has been set for P1. However, to date a small proportion (13%) has either been achieved or contracted for, and this almost entirely rests on the **VCLF** and **High Growth Business Start Up** contracts. As the situation stands, there is little to suggest that there are committed or pipeline projects that will deliver substantially towards this target. The evaluation has indicated that a combination of the recession's impacts on the region's ability to create new businesses and the focus of the Programme on priority sectors rather than a broader focus on enterprise starts across the economy helps to explain this position.

- **Businesses with Improved Performance.** Progress against this target is on track, reflecting the extent to which business assists will convert into direct benefits to SMEs' performance. The Programme has contracted for 70% of the target of 11,700, with contributions from a broad range of projects. A further 22% of the target is accounted for by committed projects, and the Priority 1 target should be achieved.

4.42 The overall picture for Priority 1 is one of limited progress to date in terms of actual achievements against key output and results targets, particularly businesses and jobs created. The recession has clearly had an effect on the types of impacts that projects are able to generate, shifting the focus towards sustaining the existing business base and employment rather than expanding it. It also reflects the comparatively early stage of delivery of many of the P1 projects. The considerable headroom remaining for these key targets, the low volume of outputs/results achieved so far and the limited pipeline of projects represent some risk to P1's capacity to deliver. Maintaining a focus on high impact projects (new jobs and new businesses) should be a priority for the Programme.

## The Geography of Priority 1

4.43 To date, the pattern of project activity in Priority 1 has been predominantly regional. As Table 4-7 below indicates, even in Action Areas where the Investment Frameworks offer scope for sub-regional projects, the numbers have been limited.

| Table 4-7: Geographic Breakdown of Priority 1 Projects (Including VCLF and associated loan funds) | | |
|---|---|---|
| | **Committed** | **Pipeline** |
| | **Action Area 1.1** | |
| Regional | 11 | 3 |
| Merseyside | 0 | 0 |
| Cheshire, Lancashire, Greater Manchester, Cumbria | 0 | 0 |
| | **Action Area 1.2** | |
| Regional | 24 | 1 |
| Merseyside | 2* | 2 |
| Cheshire, Lancashire, Greater Manchester, Cumbria | 0 | 1 |
| | **Action Area 1.3** | |
| Regional | 7 | 0 |
| Merseyside | 0 | 1 |
| Cheshire, Lancashire, Greater Manchester, Cumbria | 0 | 3 |
| Source: MCIS Data from the EPE, end of August 2010.<br>*Liverpool Institute for Vaccines Research project initially allocated to AA1.2 but now AA2.1 | | |

## Merseyside Phasing-In Area

4.44 The Merseyside phasing-in area was allocated 30% of ERDF resources in the North West Operational Programme, with the balance of resources reflecting the preference of Merseyside partners to allocate a larger share of resources than the Rest of the North West to Priorities 3 and 4. The analysis of Merseyside activity in Priority 1 has highlighted a number of key points.

- In Action Area 1.1, the High Growth Business Support project has delivered around 15% of business assists in Merseyside and reports being on track to achieve its target of 211 which is in line with the 84:16% split of resources for the RONW: Merseyside.

- Merseyside only projects operate in Action Area 1.2 in which the Investment Framework made provision for the support of priority sectors in the sub-region. Contracted for projects include Maritime Sector Development and Sector Development for the Visitor Economy. A third live project – the Liverpool Institute for Vaccines Research – was initially allocated to AA1.2 but now sits in AA2.1, being a better fit for Priority 2 activity. The evaluation has not highlighted any particular issues with the delivery of these projects.

- However, the evaluation has pointed to a broader issue about the distinction between Merseyside sectoral priorities and those of the North West as a whole. While North West wide projects have generally reported good progress on delivery in Merseyside, there is acknowledgement that the sectoral composition of the business base in the phasing-in area does have a bearing on the capacity of projects to achieve the outputs and results for which they have contracted. In some cases, projects report lower than expected demand which may be attributable to smaller numbers of businesses in priority sectors on Merseyside. However, in other projects demand has exceeded expectations and this is understood to reflect higher concentrations of businesses in those sectors. The message is that better use might be made by the Programme and by applicants of the substantial body of evidence generated about the Merseyside economy in setting project targets and financial allocations, and in the demand stimulation and client generation activity that is required.

- There is also recognition that the delivery of a specific Merseyside component in the development, delivery and reporting of business support projects adds a further layer of complexity to ERDF. A number of projects across the Programme have identified the need for Merseyside specific client generation as an issue, but it has not been highlighted as problem in Priority 1 and projects report good working arrangements with Merseyside partnership organisations. It is not clear that these requirements have imposed excessive or unsustainable additional costs on projects.
- A number of questions have been raised about arrangements for Priority 1 once the phasing-in period for Merseyside concludes at the end of 2010. Clearly, the Programme will need to ensure that projects continue to tap the potential of Merseyside SMEs to generate jobs and the capacity of the area to be a source of new enterprise activity.
- Programme data indicate that 16 Merseyside projects were rejected at the EoI stage, a majority of which were submitted in AA1.3 and sought ERDF for environmental schemes.

### Rest of the North West

4.45 There has been little project activity elsewhere in Priority 1 which is specific to a sub-region. No live sub-region only projects are identified by the Programme, while the only committed projects specific to a sub-region are those which originated in the housing call (AA1.3). It is not yet clear whether regional projects are having much bigger impacts in terms of businesses reached, jobs created/safeguarded etc. in particular localities, although we would expect there to be enterprise hot spots where projects are delivering higher levels of activity and producing stronger results. Evidence from the project reviews suggests that projects are generally ensuring good coverage across the region.

**Table 4-8: Key Point Summary for Priority 1**

| | Action Area 1.1 | Action Area 1.2 | Action Area 1.3 |
|---|---|---|---|
| Spend | • 51% committed and little pipeline to absorb remaining headroom | • 83% committed but limited pipeline to absorb remaining allocations | • 66% committed but position changing rapidly as housing project approved. Spend position influenced by housing projects (£19 million) |
| Key Outputs/Results | • **Businesses assisted and start up support:** On track to achieve assist target with 7,700 already contracted for. Start up support target on track, but understood that projects have not been reporting yet against indicator. Heavy reliance on 4 projects to achieve targets.<br>• **Jobs Created and Safeguarded:** Mixed picture, with 40% of jobs created target contracted for but 49% uncommitted. Progress stronger on safeguarded, with contracted for projects set to significantly exceed target. High Growth BS project and VCLF account for 70% of contracted job creation target.<br>• **Businesses Created:** Heavily reliant on VCLF and High Growth BS project, with only 13% contracted at end August 2010. Little in pipeline to speed up progress towards target, and recessionary conditions making it challenging to generate new enterprises. | | |
| Impacts | • Programme appears on track to exceed targets for net additional jobs created/safeguarded and GVA impacts. Heavily dependent on VCLF and High Growth BS projects, with ENworks, NW Waste Technology, Food and Drink Growth Programme. and NW ETS projects making substantial contributions | | |
| Practical Delivery Issues | • Commitment to NWDA as key project developer and to regional solutions imposed tight criteria for new projects, and new call opened up in mid 2010<br>• BSSP restrictions and difficulties in securing projects of regional scale and which deliver high jobs/businesses created impacts has limited flow of suitable projects<br>• Limited supply of appropriate incubator projects, with scale and additionality seen as key problems | • Role of established network of sector bodies has helped ensure strong flow of projects<br>Focus on priority sectors has helped provide clarity to Investment Framework, while breadth of priority sectors has enabled broad range of activity to secure ERDF investment | • Tough criteria for returns on investment (jobs & business formation) seen to have limited inflow of projects<br>• Housing projects will absorb substantial resource but deliver low returns in form of jobs/businesses created for investment<br>• Recession has had impact on SME capacity to fund introduction of new environmental technologies (and therefore demand for support) |
| Key Changes in Context | • Regional Growth Fund has potential to provide source of match for larger scale, high growth projects.<br>• National and EU policy commitments to strengthen development and take up of low carbon technologies present opportunities for more activity in this area, although match funding sources uncertain.<br>• Policy context for trade and inward investment promotion has changed, but export led growth will be critical to UK's economic recovery, and programme will need to maintain resource to invest in future support (eg. with UK:TI).<br>• Loss of single programme funding will create difficult conditions for continuing activities of sector development bodies<br>• LEPs expected to take on greater responsibility for supporting high growth business (eg. growth hubs) although detail on mechanisms and funding still to emerge | | |

## Implications for Priority 1

4.46 The role of P1 will continue to be critical in enabling the Programme to achieve significant economic impacts for the North West in the form of new jobs and businesses, and higher value added commercial activity. The analysis of P1 has pointed to a number of implications for the future activity in this area by the Programme:

- **Maintaining the Focus on Priority Sectors?** Emphasis on priority sectors has been a feature of P1 but given the changing policy context and uncertainties about the future public funding of support to businesses, there is a case for considering whether P1 should broaden its focus on sectors (chiefly in AA1.2). However, on balance the definition of priority sectors currently used is probably broad enough that relatively little business activity in high value activity is excluded from eligibility for ERDF support. There may be a need to consider if the sectors align with opportunities coming from a national level.

- **A need to consider reallocating resources earmarked for incubator facilities.** There has been little ERDF investment to date in incubator projects, reflecting tightly drawn criteria to ensure additionality and regional impact, together with the challenges of developing viable incubator projects during a period of recession. While there is a reasonable case to continue to seek projects which provide premises and revenue support to high growth and knowledge intensive businesses, this type of investment may be better suited to Priority 2 where it might form part of a broader package to encourage innovative SMEs to emerge and grow linked to HEIs.

- **A need to respond to the impacts of public sector funding cuts.** Of some concern to the Programme will be its capacity to generate new, large scale projects to support the formation of high growth and high value businesses in the face of the loss of any new Single Programme match together with the radical policy changes to the funding and delivery of business support.

- **Need to focus on high impact Projects:** The Programme needs to maintain a focus on projects which deliver against the jobs and GVA targets for Priority 1. The targets for P1 are ambitious but consistent with a programme that sets out to strengthen the competitiveness of the North West economy. Despite pressures to commit funding, the NWOP needs to resist investing where the returns in terms of jobs and GVA will be limited for the value of the funds invested.

- **Need for a further push on low carbon technologies:** While there has been project activity in AA1.3, there has been little investment to date which will help the NW to develop commercial strengths in low carbon technologies within its SME base. The programme will need to think creatively about how encourage a stronger flow of potential projects in this area, including the possibility of a new open call.

# 5. Priority 2: Exploiting Innovation and Knowledge

5.1 The key purpose of Priority 2 is to improve the performance of the North West's SMEs by increasing rates of innovation and the take up of support from the region's knowledge base. The rationale for Priority 2 centred both on evidence of the region's business base underperforming in terms of innovation compared to other UK and EU regions, and the thrust of UK economic policy which connects improvements in productivity and economic growth to the generation and exploitation of innovation.

5.2 The NWOP identified a series of key activities for Priority 2 as follows:

- Facilitating businesses to shift into higher value activities, by increasing innovation through better use of IT, greater foresight and leadership and more effective exploitation of intellectual property
- Extending the market reach of businesses so they can improve their competitive edge outside of the North West through better management, commitment to innovation and increased focus on international trade
- Improving access to the region's R&D base and Higher Education Institutions to ensure a strong supply of higher value commercially viable ideas leading to new products, new processes and new customers and markets.

5.3 There are 2 Action Areas (2.1 and 2.2) in Priority 2. Action area 2.1 focuses on R&D, NW Science Council activities and the engagement of Higher Education Institutions (HEIs) with businesses. Action Area 2.2 provides for a suite of activities to enable businesses to access support for innovation. The Investment Frameworks are configured as follows:

**Table 5-1: Priority 2 Activities By Action Area**

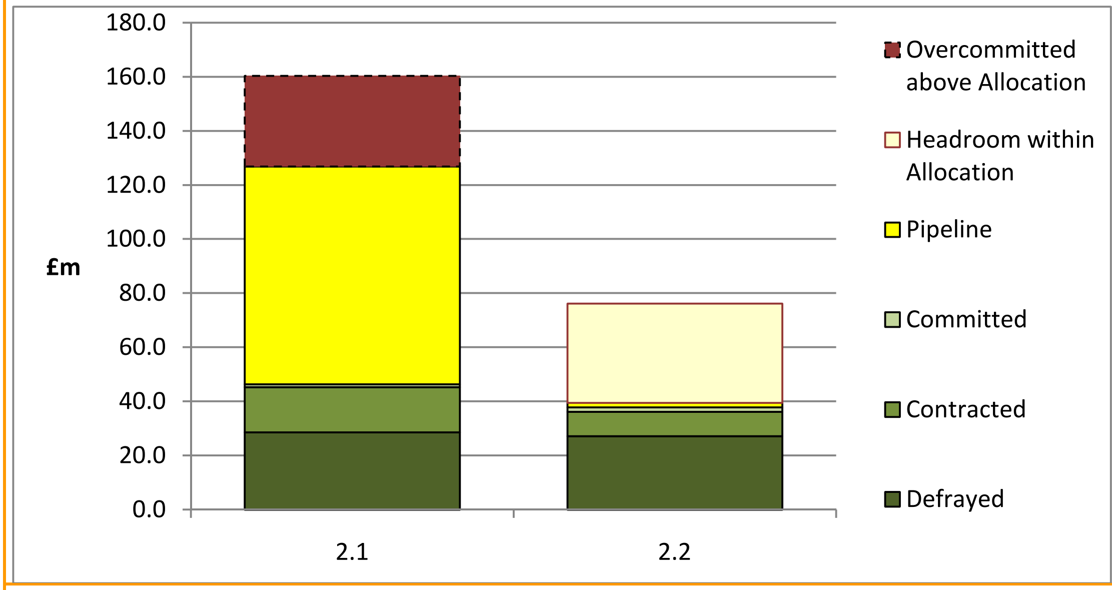
| Action Area 2.1: Exploiting the Science and R&D Base | Action 2.2 Encouraging Innovation to Improve Productivity in All Companies |
|---|---|
| • Strand 1 - Grant for Research & Development (GRAND)<br>• Strand 2 - Science Council Initiatives<br>• Strand 3 - Business –HE/FE Collaborative Working<br>• Strand 4 - Knowledge Transfer Partnerships+ (KTPs+)<br>• Strand 5 - HEI Specific Schemes<br>• VCLF support for R&D and innovation | • Strand 1: Innovation Brokerage<br>• Strand 2: Manufacturing Advisory Service/ Agenda for Change<br>• Strand 3: Knowledge to Innovate<br>• Strand 4: Other Advice Services<br>• VCLF support for R&D and innovation |

Source: NWOP

## ERDF Expenditure in Priority 2

5.4 Overall progress in Priority 2 has been mixed, with a sharp contrast in the volume of activity between the two Action Areas. Figure 5-1 shows the progress of spend in the two Action Areas based on MCIS data for the end of August 2010.

**Figure 5-1: Progress on Expenditure in Priority 2**




Source: MCIS Data from the EPE, end of August 2010.
Note: AA2.1 has an additional £10.7m committed and £22.9m in the pipeline above its indicative allocation [35]

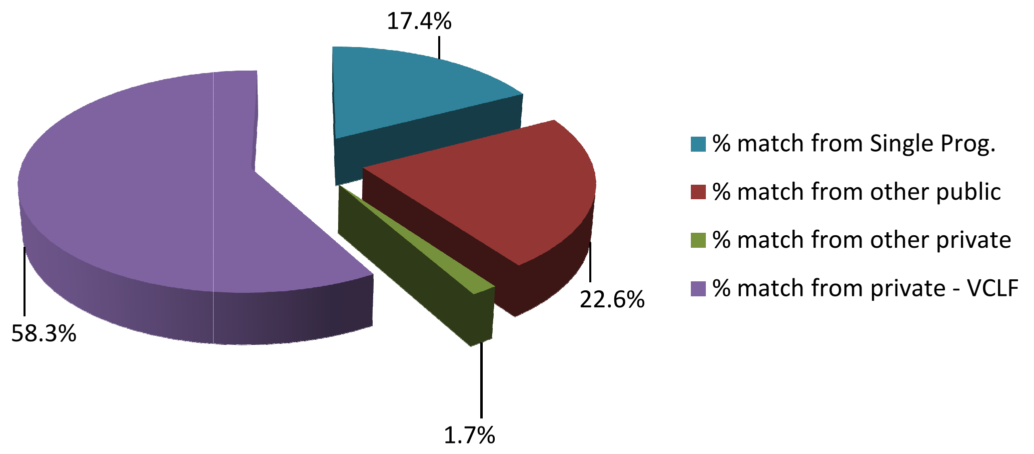
5.5 **Action Area 2.1** – Around £46 million 50% of the AA2.1 allocation of £93.3 million had been committed by the end of August 2010, with data for September showing that total commitment had risen to £52.7 million (57%). The August MCIS data suggest that the Programme had a project pipeline which would take it over the full allocation. However, this is largely accounted for by inclusion in the data of the NGA Broadband project with an indicative value of £50 million on MCIS at the end of August. If this project is excluded, then uncommitted funding stands at around £40.6 million (43%). The Programme has responded with an open call for projects and it is understood that at least eight concept proposals have been received.

5.6 **Action Area 2.2** – From a total allocation of £76.3 million, to date a total of £37.9 million (c.50% had been committed by the end of August according to MCIS, with £41.4 of total commitments (54%) by the end of September. There is clearly considerable headroom in AA2.2, with around £35 million (46%) still to be committed and a pipeline of only £1.6 million at the end of August. AA2.2 has also been the subject of an open call scheduled to close in October 2010.

5.7 The overall match funding position in Priority 2 is set out in Figure 5-2 below, which shows how Priority 2 live, committed and pipeline projects are matched by Single Programme, other public sector and private sector funding. With the VCLF included, around 60% of ERDF funding in Priority 2 is matched by private sector funds. Single Programme funding accounts for around 17%, while just under 23% is accounted for by other public sector sources, principally the HEIs, and the Technology Strategy Board (TSB). Compared to Priority 1, this means that a smaller proportion of project activity appears to be immediately vulnerable to modifications required by reductions in the availability of Single Programme match.

[35] The most recent data on programme commitments include a further £27 million of projects at D&A or EoI stage which were not included in the MCIS data analysed in this section of the evaluation report.

**Figure 5-2: Match Funding Summary for Live, Committed and Pipeline Projects, Priority 2**




Source: MCIS Data from the EPE, end of August 2010.

## Delivering Priority 2

5.8 Table 5-2 below summarises the key information about the implementation to date of Priority 2 and the activity that the NWOP has in the pipeline. The analysis makes it clear where it excludes or includes the VCLF allocations under Priority 2 and the series of transitional and interim loan funds that were put in place as a bridging measure until VCLF was agreed.

**Table 5-2: Summary of Priority 2 Activity**

| | Action Area 2.1 | Action Area 2.2 | Priority 2 Total |
|---|---|---|---|
| Programme Allocation (current with NWOP + 20% assumption) | £93.3 million | £76.3 million | £169.6 million |
| No. of projects live /contracted (inc. VCLF & loan funds) | 22 | 11 | 33 |
| No. of projects live/contracted (exc. VCLF & loan funds) | 13 | 2 | 15 |
| No. of projects at post-approval legal stage | 1 | 1 | 2 |
| No. of projects at D&A stage | 6 | 1 | 7 |
| No. of pipeline projects (Concept or EoI) | 5 | 0 | 5 |
| No. of withdrawals at concept | 21 | 4 | 25 |
| Projects rejected at EoI | 16 | 17 | 33 |
| Largest ERDF contribution (exc. VCLF and loan funds) | £3.8 million – Unite with Business, UCLAN | £8.5 million – FMAS | |
| Smallest ERDF contribution (exc. VCLF and loan funds) | £0.38 million - IDEAS @Daresbury | £1.65 million – Enhancing BL Innovation Service | |
| Average ERDF project value for live projects (exc. VCLF and loan funds) | £1,757,683 | £5,071,977 | £2,199,589 |

Source: MCIS Data from the EPE, end of August 2010

5.9 Table 5-3 provides a summary of the project submissions by type of applicant for live, committed and pipeline projects.

| Table 5-3: Type of Applicant, Action Area 2.1 | |
|---|---|
| **Applicant** | **Number of Projects** |
| HEI | 12 |
| NWDA | 2 |
| Business Finance Bodies (for VCLF and loan funds) | 9 |
| Public sector (Technology Strategy Board) | 1 |
| Source: MCIS Data from the EPE, end of August 2010 | |

5.10 In the main, the applicants for Action Area 2.1 projects are HEIs which is consistent with the selection processes outlined in the Investment Framework. However, only five of the region's 16 higher education institutions have live ERDF projects, although a further four have projects in the pipeline (D&A stage or concept). The NWDA and TSB were explicitly earmarked in the Investment Framework as the applicants for the R&D grants scheme, the University Vouchers scheme (both NWDA) and the Knowledge Transfer Partnerships initiative (TSB). There are understood to be collaborative projects in which several universities are collaborating (eg.. North West Virtual Engineering Centre), although this is not the general pattern of activity.

5.11 To date, project activity in Action Area 2.2 has been comparatively limited as Table 5-4 shows.

| Table 5-4: Type of Applicant, Action Area 2.2 | |
|---|---|
| Business Link | 1 |
| NWDA | 3 |
| Business Finance Bodies (for VCLF and loan funds) | 9 |
| HEIs (North West Universities Association) | 1 |
| Public sector (Elevate) | 1 |
| Source: MCIS Data from the EPE, end of August 2010 | |

5.12 The Programme has contracted for a key project in Strand 1 (Enhancement of Business Link's Specialist Innovation Brokerage Service), with NWDA as the lead applicant. The non-competitive selection process for Strand 1 reflects the Investment Framework which stipulated that Business Link was required to be the route to market for all business support brokerage, in line with the business support simplification process. Strand 2 was designed explicitly for the continuation of the North West's Manufacturing Advisory Service (Future MAS) and the procurement of the supplier for this £8.5 million ERDF project, The Manufacturing Institute, was completed in Autumn 2009.

## Investment Fit and Gap Analysis

5.13 Table 5-5 summarises the number of projects in each strand for Action Areas 2.1 and 2.2, including projects at an early concept stage which did not appear on MCIS at the end of August.

| Table 5-5: Priority 2 Projects By Action Area | | |
|---|---|---|
| | **Action Area 2.1** | |
| | **Committed Projects** | **Pipeline*** |
| Strand 1 Grant for R&D | 1 | 0 |
| Strand 2 NW Science Council initiatives | 3 | 4 |

| | | |
|---|---|---|
| Strand 3 Business HE/FE Collaborative Working | 1 | 2 |
| Strand 4 Knowledge Transfer Partnerships | 1 | 0 |
| Strand 5 HEI Specific Schemes | 12 | 7+* |
| **Action Area 2.2** | | |
| Strand 1 Innovation Brokerage | 1 | 0 |
| Strand 2 Manufacturing Advisory Service/Agenda for Change | 1 | 0 |
| Strand 3 Knowledge to Innovate | 0** | 0 |
| Strand 4 Other Advice Services | 0 | 5+* |
| Source: MCIS Data from the EPE, end of August 2010<br>* Includes recently submitted concepts not yet listed on MCIS<br>**One project had reached legal stage but has been withdrawn | | |

5.14 The evaluation has considered the full range of project activity in Priority 2 and the processes through which these projects have come forward. Additionally, a total of six projects – four in Action Area 2.1 and two in Action Area 2.2 were reviewed as part of the evaluation process. Overall, projects show a strong fit with both the NWOP and the Investment Frameworks. This has been attributed to the extent to which the Investment Frameworks specify the type of project, preferred delivery partners and method of procurement in each strand.

### Action Area 2.1 Exploiting Science and R&D

5.15 The Programme benefited from a substantial flow of projects under AA2.1 in its early stages, driven by the open call and a strong flow of EoIs and full applications from HEIs and by moves to develop projects under the non competitive Strands 1, 3 and 4 (Innovation Vouchers Scheme, Knowledge Transfer Partnerships, extension of Business Link innovation brokerage service).

5.16 **Strand 1** (Grants for Research and Development). There is not expected to be additional project activity in **Strand 1** which contained provision only for the non-competitive extension of the national Grants for Research and Development project delivered by the Business Link service. The project provided grants to SMEs of between £5,000 and £500,000, including specific grants to support the adoption of carbon reducing technologies. Cuts in Single Programme match funding mean that the scheme is now closed for new applications.

5.17 **Strand 2** (Science Council initiatives). This has generated projects through a process informed by the North West Science Council and the fit between projects and the North West Science Strategy. It has focused on projects which connect technological expertise residing in the region's universities to its business base. The evaluation reviewed two projects in Strand 2 – **Knowledge Exchange in Laser Engineering** (£882,000 ERDF) and the **North West Virtual Engineering Centre** (£2.5 million), both led by the University of Liverpool. These are very good examples of the type of activity which AA2.1 was aimed at. They make the technology and academic expertise of HEIs available to North West SMEs, draw other universities into collaborative networks and focus on the region's commercial strengths in advanced engineering. The North West Virtual Engineering Centre has included capital investment in a physical centre which includes educational space, although the project is designed to operate across the North West.

5.18 There is potential for **Strand 2** to be a further source of projects in the remaining period of the NWOP. This is likely to be dependent on both the future work of North West Science Council which is currently reviewing its strategic priorities, and emerging changes in national funding and policy for science. A number of projects are in the pipeline which would commit further ERDF investment to specialist research centres in the region.

5.19 **Strand 3** (Collaborative Working). Activity in this strand has centred on the development and potentially the extension of the **North West's innovation vouchers scheme.** This project was reviewed for the evaluation and allocates vouchers (£3,000 or £7,000) to SMEs that want to engage with HEIs and other knowledge providers for the first time. The project operates through a straightforward website based application process run by the NWDA. Two Business Link advisers are contracted to support SMEs who have secured vouchers to develop projects, approach HEIs/knowledge providers and enter into project work. The project accounts for the majority (88%) of Priority 2's target of 1,000 businesses collaborating with the knowledge base. With around one year of the project remaining it has achieved 772 collaborations and may well exceed its target.

5.20 **Strand 3** was earmarked in the Investment Framework for the innovation vouchers project, and there were not expected to be a wider range of additional projects from alternative sources. A phase 2 Innovation Vouchers project has been submitted in Action Area 2.2, although it is not clear to the evaluation whether it will be affected by the reduction of Single Programme match funding.

5.21 **Strand 4** (Knowledge Transfer Partnerships). This strand was targeted at the extension of the national Knowledge Transfer Partnerships scheme developed by TSB, and this project was commissioned during 2009. The investment framework did not provide for further project activity beyond the national scheme. However, given cuts in Single Programme match funding, more use may need to be made of the TSB's funds in future as a key source of match for this range of activity.

5.22 **Strand 5**. This strand has operated as a catch all for Priority 2 and 14 projects are now either live or at an advanced stage in the pipeline. A wide range of universities (7) now have either live projects or projects in the pipeline. These projects have a strong fit with the investment framework, building on the strengths of the region's science and technology base and delivering activities which link university facilities and expertise to the region's SME base.

5.23 The evaluation reviewed one project in Strand 5: **Infolab's Strategic Innovation Support Programme (ISIS).** Run by the University of Lancaster's Infolab, the project originated as one of several regional pilots to deliver the ICT component of the Solutions for Business, driven by the Department for Business, Innovation and Skills (BIS). The project delivers a range of ICT support to SMEs in the region, with the university's skilled graduates providing advice and project support to companies to strengthen their uptake and use of ICT. The project is contracted to deliver a wide range of outputs and results including business assists (270), jobs created (100) and jobs safeguarded (500).

### Action Area 2.2 Encouraging Innovation to Improve Productivity in All Companies

5.24 There has been a more limited flow of project activity to date in AA2.2.

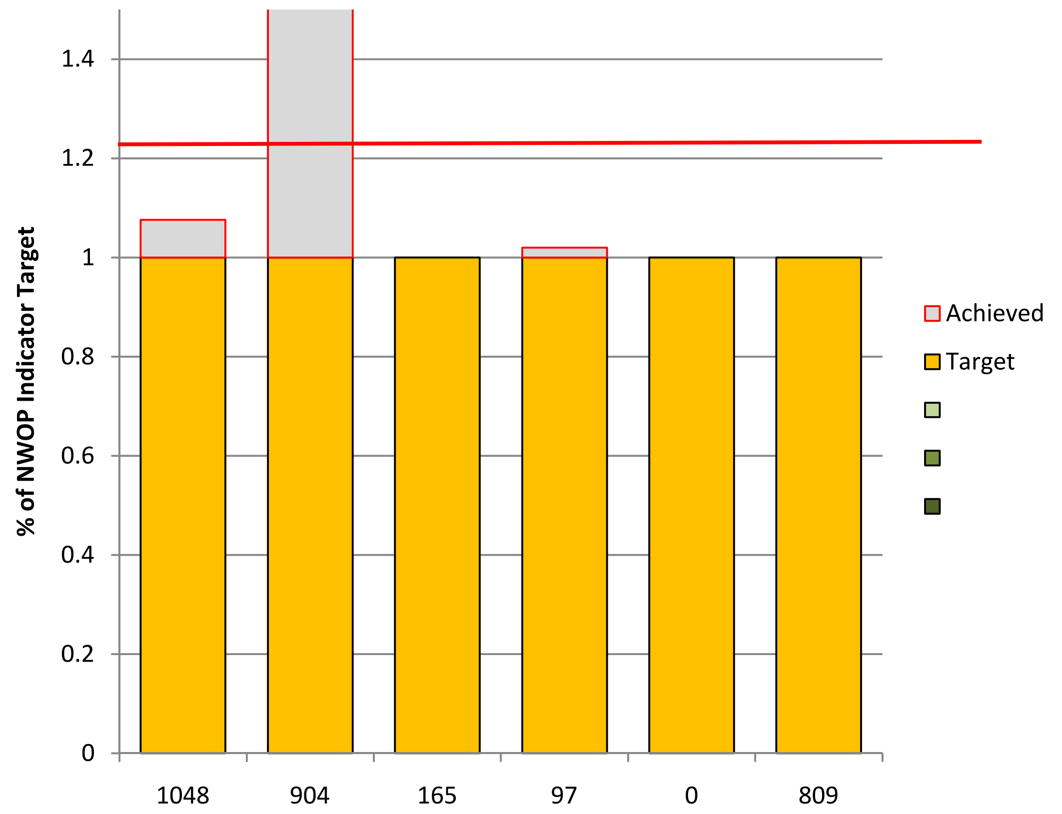
- **Strand 1** activity centres on the **extension of Business Link's specialist innovation brokerage** service, and this project went live in 2009. The project was reviewed for the evaluation and it offers a strong fit with both the Action Area and the NWOP. The ERDF component of the project has provided Business Link with additional capacity to build on its existing innovation advisory service. Innovation specialists with commercial backgrounds are located around the region, and work intensively with SMEs to address a wide range of business process and performance requirements through brokerage to providers across the North West (eg. adoption of low carbon technologies, innovation vouchers and HEI connections, export market specialists).
- The Future Manufacturing Advisory Service (FMAS) (**Strand 2**) was contracted for in Autumn 2009 and represents one of the biggest ERDF and Single Programme investments in the North West with a total contract value of £8.5 million (£7.6 million in the rest of the NW and £0.85 million for Merseyside). The project offers a high volume and intensive suite of support to manufacturing businesses across the region, building on an existing and successful service delivered by The Manufacturing Institute which had operated since 2005. It is by far the largest potential contributor of outputs and results to Priority 2, contracted to deliver 5,400 business assists, 2,400 jobs created and 4,400 jobs safeguarded. Its fit to AA2.2 is clear cut, since it provides packages of support to manufacturing SMEs with an emphasis on project work designed to achieve productivity improvements and product/process innovation. However, the reduced availability of Single Programme match funding means that the scale and scope of FMAS is likely to be modified, and its output and results contribution may be adjusted accordingly. In addition, we consider the results targets for jobs for this project to be highly ambitious given the tough economic conditions faced by manufacturing businesses.
- The regional Knowledge to Innovate project (**Strand 3**) with the NWDA as the lead applicant had entered the legal process prior to contract. This was designed into the Investment Framework to extend existing provision in the region. However, the withdrawal of Single Programme match funding means that this project will not proceed and the Programme is now looking at alternative provision.
- **Strand 4** has proved to be particularly challenging for the NWOP, since the Investment Framework did not specify in detail what types of activity and delivery organisation were expected to come forward. It is understood that there are now a number of projects in the pipeline (concept stage) which have responded to a new, open call issued in July 2010.

## Priority 2 Outputs and Results

5.25 Progress to date on key outputs for Priority 2 is summarised in Figure 5-3 below which shows what has been achieved to date, what has been contracted for, what the commitment of ERDF investment is expected to buy in terms of outputs and the volume of outputs that Priority 2 will need to achieve to meet its target.

5.26 The picture of outputs and results in Priority 2 is still emerging, reflecting the relatively early stage of delivery of many of the projects and current uncertainties about how match funding may affect the scale and scope of projects.

**Figure 5-3: Progress on Key Outputs and Results in Priority 2**




Source: MCIS Data from the EPE, end of August 2010

- **Businesses assisted -** A total of 584 business assists have been reported to date, around 7% of the target of 7,700. The Programme has already contracted for a further 10,500 business assists, which would far exceed the target. However, around 9,200 of these (c.85%) are accounted for by four projects including FMAS, the Business Link innovation brokerage service, Unite for Business, and the Chester Innovation Economy Centre.

- **Businesses collaborating with the knowledge base -** Progress on businesses collaborating with the knowledge base has been stronger, with 773 already claimed against a target of 1,000. This is largely accounted for by the Innovation Vouchers project which has seen high levels of demand from SMEs (Action Area 2.1). With other projects including FMAS, ISIS and other university led schemes contributing, the Programme is well set to achieve and exceed this target.

- **Jobs created -** No progress has been reported so far on jobs created, although the Programme has contracted for around 50% (6,728) of its target of 13,200. However, just over 5,900 (88%) of these contracted for results are accounted for by the VCLF (2,100) and FMAS (2,200). Knowledge to Innovate was contracted to deliver a further 350. Projects report a difficult economic climate for the creation of new jobs by SMEs, with greater emphasis on safeguarding employment (see below).

- **Jobs safeguarded –** The MCIS data to the end of August 2010 show little progress against this indicator, with 105 achieved against a target of 5,200 and contracted for projects expected to deliver well in excess of the target. However, the project reviews have suggested more success so far in safeguarding existing jobs than creating new employment. Over 10,500 jobs safeguarded have been contracted for, more than double the target for Priority 2. Here too, FMAS and the VCLF account for the overwhelming majority of these contracted for results and there are not yet high volume generating projects in the pipeline.
- **Businesses created –** The MCIS data to the end of August do not indicate that progress has been made against this indicator. A total of only 65 businesses created have been contracted for, around 20% of the target of 310 for Priority 2. It is not clear that projects currently in the pipeline will contribute towards the effort to reach this target, and it is understood to be difficult to secure commitments from research driven projects to create new businesses when there is a element of uncertainty and risk about the potential outcomes of investments, as well as an apparent tendency to work with established SMEs (rather than potential entrepreneurs).
- **Businesses with improved performance –** A total of 6,286 have been contracted for, comfortably exceeding the target of 5,400 for this result. As yet, no achieved results have been reported. Around 4,700 (75%) of this total is accounted for by projects including FMAS, the Business Link innovation brokerage service and Unite with Business.

5.27 The overall position for outputs and results in Priority 2 is that the volumes actually achieved to date are very low. Many projects are still in the early stages of delivery, while a number of projects are understood to be reprofiling outputs in response to either funding changes or issues with the reporting of activities they are delivering. The position on outputs for committed projects appears positive for four out of the six key indicators. However, there is a significant shortfall in both jobs created and businesses created, with the Programme having only contracted for or committed to a proportion of its target. The evaluation has not seen evidence of projects in the pipeline that will deliver high volumes of outputs to enable it to meet these targets.

## The Geography of Priority 2

5.28 The range of activity delivered in Priority 2 is overwhelmingly regional, consistent with the intent and direction of the NWOP and Investment Frameworks for AA2.1 and 2.2. This is shown in Table 5-6 below which includes VCLF and related loan fund projects.

| Table 5-6: Geographic Breakdown of Priority 2 Projects (Including VCLF and associated loan funds) | | |
|---|---|---|
| | **Committed** | **Pipeline** |
| **Action Area 2.1** | | |
| Regional | 16 | 7 |
| Merseyside | 2 | 1 |
| Cheshire, Lancashire, Greater Manchester | 4 | 0 |
| **Action Area 2.2** | | |
| Regional | 11 | 10 |
| Merseyside | 0 | 3 |
| Cheshire, Lancashire, Greater Manchester | 0 | 1 |
| Source: MCIS Data from the EPE, end of August 2010 | | |

## Merseyside Phasing In Area

5.29 Requirements for the allocation of ERDF resources for activity in Merseyside vary from strand to strand across Priority 2. The project reviews have suggested that specific allocations of resources to support activity on Merseyside have been built into the project design and approval process, and that an appropriate set of associated targets have been set for outputs and results. It has been suggested that this ring-fencing approach has not necessarily been consistent with the particular characteristics of Merseyside's SME base, and that the Programme may in some instances have benefited from drawing more extensively on evidence about the business base in the area, the locations of businesses, size of SMEs etc. to guide contracts. However, it has also been recognised that this may create additional delays in the approval and contracting process, and much would be dependent on the depth and quality of the data available which is understood to vary.

5.30 The evaluation has found a mixed picture of delivery in Priority 2. Some projects have seen levels of demand and take up of services which exceed the levels provided for in contracts. For example, the Business Link innovation service project indicates that around 23% of adviser resource has been spent to date on Merseyside, 3 percentage points higher than the contract figure. Other projects have pointed to lower levels of demand and take up, while some Merseyside partners have indicated that projects need to do more to market their services and stimulate demand in the area. Key factors suggested here are a combination of the availability of a good range of free and subsidised business support services in the Merseyside area (i.e. competition for ERDF projects), an SME base whose sectoral characteristics are different to those of other areas of the North West and apparently lower levels of innovation ready businesses in the area, although it is beyond the scope of this evaluation to test these assertions.

## Rest of the North West

5.31 The evaluation has highlighted two other key issues in the geographical coverage of Priority 2.

- **HEI locations and project beneficiary coverage.** A broad range of HEIs in different areas of the North West are delivering projects in Priority 2. The project reviews have suggested that some HEIs have faced challenges in extending their reach out to the wider North West, with higher levels of demand and take up from SMEs in their locality reflecting both geographical proximity and established connections they may have with a particular HEI.

- **Variations in HEIs' propensity to develop projects.** Some HEIs have been significantly more active than others in developing projects for ERDF funding, and this has had some geographical impacts on the source activity in Priority 2 and potentially on delivery to SME beneficiaries. This pattern has been attributed to differences in corporate approaches to ERDF, with a number of HEIs being reluctant to seek funding for a range of reasons outlined below. How far these effects are reflected in the locations of project beneficiaries is an issue which should be addressed in the final Programme evaluation.

| **Table 5-7: Key Point Summary for Priority 2** | | |
|---|---|---|
| | **Action Area 2.1** | **Action Area 2.2** |
| Spend (end September) | • 57% committed, but potential for underspend. | • 54% committed but little in pipeline to absorb headroom. |
| Key Outputs/Results | • **Business assists and collaborations with knowledge base:** On track to achieve or exceed targets, although dependence on small number of projects.<br>• **Jobs created and safeguarded:** 50% of jobs created target contracted for, but very dependent on FMAS and VCLF and not clear that there pipeline of high job creating projects to secure remaining 50%. Jobs safeguarded contracted for will far exceed target, although little achieved to date.<br>• **Businesses created:** Only 20% contracted for and evaluation has highlighted issues with projects being able to commit to creating new SMEs as a result of research and innovation activity during recessionary conditions. | |
| Impacts | On track for strong performance on net additional jobs created and safeguarded, and around 75% of GVA target. This reflects higher value returns from investment in innovation activity. However, much dependent on large projects (FMAS and VCLF). | |
| Practical Delivery Issues | • Good flow of projects from several of region's universities, with more understood to be in the pipeline.<br>• Difficulties for some universities to engage with NWOP and develop projects resulting from past experiences with ineligible expenditure and outstanding issues about overheads.<br>• Tricky balance to strike between HEI-SME projects with region wide coverage and recognition that HEIs tend to have better developed links with SMEs in area around university.<br>• Longer term returns and higher risks associated with commercial innovation activity mean greater difficulty in delivering outputs, results and impacts within 3 year timescales of projects | • Business support simplification and NWDA's commitment to regional projects has set tight parameters for project development, limiting flow of projects and scope for sub-regional and local activity<br>• Lack of clarity in Investment Framework ('other services') has limited inflow of commercial innovation support projects. Potential for overlap with AA1.1, AA1.2, AA2.1. |
| Key Changes in Context | • Future match funding challenging, but CSR results will not hit HEI research as hard as other areas. Technology Strategy Board expected to be a key source of investment in research, while HEIF (HEI-commercial connections) to be reformed, although with potentially reduced funding<br>• Technology Innovation Centres earmarked in CSR for £200 million funding to strengthen research-commercial links, and programme should be considering how to harness ERDF investment to any new investment in TICs in NW<br>• Government policy points to very limited role for Local Enterprise Partnerships on innovation and commercialisation of research, with emphasis on national coordination and funding decisions<br>• Single programme funding has focused on commercialisation agenda, and risk that winding down of SP may compromise focus on this agenda<br>• Potential for national government (BIS) to take on highest performing research and commercial innovation initiatives, and programme may need to align itself to national approach | |

## Implications for Priority 2

5.32 Priority 2 has to continue to be seen as a key driver of the NWOP's progress in improving the competitiveness of the North West. The analysis has pointed to a number of implications for the future role of P2 and for the programme's approach to generating project activity in this area.

- **Continued Difficulties for HEIs in engaging with ERDF.** There is a clear message from the evaluation about difficulties that the region's HEIs continue to face in engaging with ERDF. They include specific problems in dealing with the requirements for the costing of overheads in projects, past experience with the clawback of ERDF and broader perceptions about the complexity of ERDF. Although there has been a good flow of projects from HEIs, the upshot is that their potential to deliver activity in Priority 2 has not yet been realised. It is understood that additional HEI projects are in the pipeline, but a number of universities appear not to be submitting or intending to submit new projects (eg. University of Manchester). Some relaxation of the criterion for projects to demonstrate region wide delivery may need to be considered, although it will continue to be vital to avoid any duplication of project activity on a local footing.

- **Problems in achieving key outputs and results (jobs created, businesses created).** Short term job and business creation is less familiar territory for HEIs than other public and private sector business support providers, while innovation support and knowledge transfer tend to be associated with longer term benefits, often following a lengthy process of development, intellectual property rights etc. With public sector funding cuts putting further pressure on investment in the commercialisation of research, this points towards a need to maintain or repeat calls for projects (as per July-October 2010 call for AA2.1 strand 3 and 4 projects).

- **Related difficulties with value for money in project appraisal.** It is understood that value for money has been a key factor in the rejection of a significant proportion of projects that have been rejected at concept stage in Priority 2. In this respect, the cost per job or business created for these proposed investments by ERDF is exceeding the Programme's benchmarks (£25k per job created, 7 businesses created per £1m of ERDF investment). Given longer lead in times for innovation to generate commercial returns and the higher risks involved, the flow of activity in this area may also reflect some degree of reluctance on the part of applicants to commit to targets they view as being difficult to achieve. Programme benchmark figures may need to be reduced to reflect this.

- **Imperative to identify future match funding sources:** Given the key contribution which P2 has in enabling the Programme to deliver innovation, enterprise and jobs, early action which gears up the NW to benefit from a changed funding and policy picture in which the Technology Innovation Centres, the Technology Strategy Board and national priorities for the commercialisation of research are likely to be central. For example, as detail about the TICs becomes clearer, the Programme should ensure that ERDF is earmarked as match for any bids that are developed.

# 6. Priority 3: Creating the Conditions for Sustainable Growth

6.1 Priority 3 focuses on providing the conditions to support the region's aspirations for sustainable economic growth (as set out in the Regional Economic Strategy) by undertaking regionally significant investments. The original intention of the Operational Programme was twofold:

- To provide the infrastructure, including sites and premises for SMEs, necessary for economic growth in targeted locations in the region. In Merseyside only, it supports access to and exploitation of key transport gateways.
- To enhance the region's cultural and visitor offer in support of the development of sustainable tourism.

6.2 The three Action Areas within this Priority focus on both regional activity and initiatives specific to Merseyside. The key focus of AA3.1 is on exploiting the economic potential of key transport gateways in the Merseyside sub-region (this was possible due to Merseyside's Phasing-in status). AA3.2 is orientated at developing the supply of high quality sites and premises across the region; while AA3.3 is focussed on improving the North West's visitor offer and image. The structure of the Investment Frameworks is as follows:

**Table 6-1: Priority 3 Activities By Action Area**

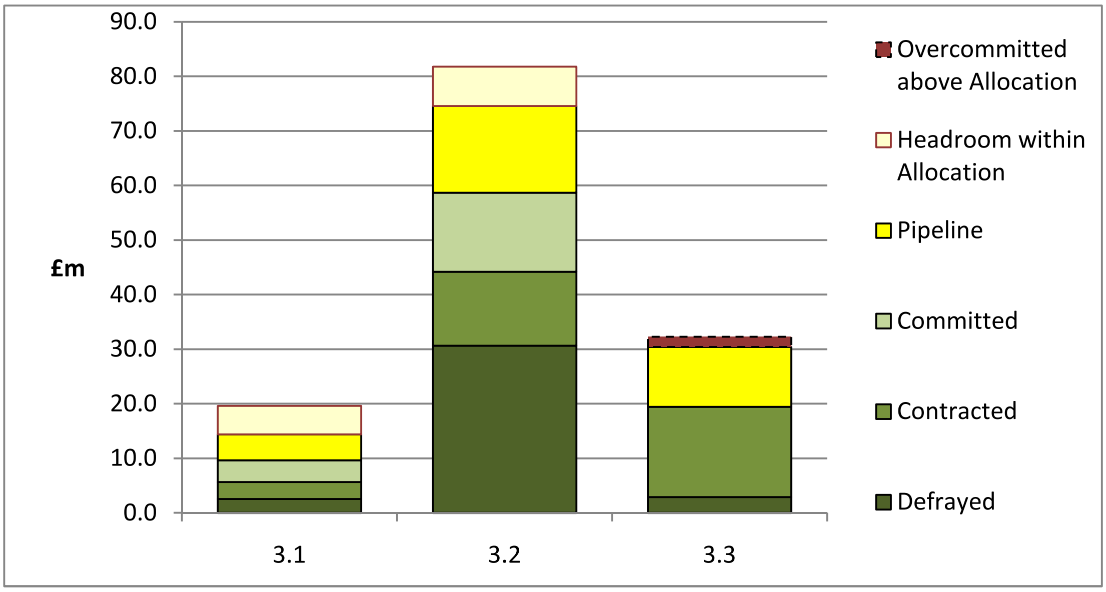
| **Action Area 3.1: Exploiting economic potential of gateways in Merseyside** | **Action Area 3.2: Developing high quality sites and premises of regional importance.** | **Action Area 3.3: Supporting the improvement of the region's visitor offer and image.** |
|---|---|---|
| Strand 1: Access to the city centre<br>Strand 2: Access to Mersey ports<br>Strand 3: Access to Liverpool John Lennon Airport | No specific strands but a focus on 16 of the RES strategic sites, as well as the 15 identified additional regionally significant sites | Strand 1: Development of cultural infrastructure<br>Strand 2: Protection and development of natural heritage<br>Strand 3: Other investment in firms |

Source: NWOP

## ERDF Expenditure in Priority 3

6.3 ERDF funding under this Priority is split 60% Merseyside and 40% Rest of the North West, reflecting Merseyside partners' well established infrastructure development programme backed over a long period of time by ERDF. Overall progress in Priority 3 has been mixed. Figure 6-1 shows the progress of spend in the 3 Action Areas based on MCIS data.

**Figure 6-1: Progress on Expenditure in Priority 3**




Source: MCIS Data from the EPE, end of August 2010
Note: AA3.3 has an additional £1.9m committed that is above its indicative allocation

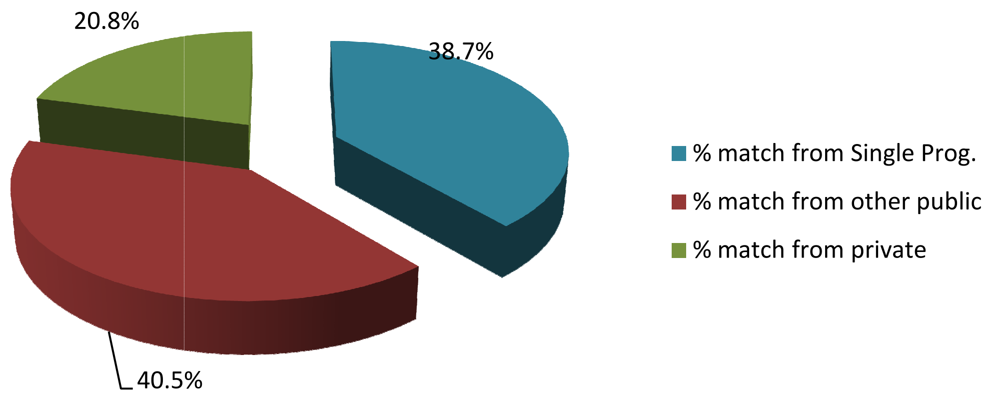
- **Action Area 3.1 (Total Allocation £19.6m):** By the end of September, total commitments had reached £12.7 million (65%) leaving uncommitted funding of £6.9 million (35%). This reflects the strong flow of transport infrastructure projects which have come forward from Merseyside. It is understood that the total allocation will be adjusted to £17.3 million from October 2010 since there is little scope to bring forward more projects of this type given that the Programme has already invested in the key projects earmarked by Merseytravel and Merseyside partners.
- **Action Area 3.2 (Total Allocation £81.8m):** At the end of August the MCIS data showed commitments totalling £58.7 million (72%) of the allocation to projects and a project pipeline totalling £15.9 million. By the end of September, commitments had increased to £63.2 million (77%) leaving uncommitted funding of £18.6 million. Data for the end of August suggested a pipeline of projects (D&A and Concept) totalling £15.8 million which would absorb much of the remaining headroom in AA3.2. However it is neither clear how many of these pipeline projects will be subject to funding cuts, nor the scale of any cuts they face.
- **Action Area 3.3 (Total Allocation £28.5m):** The MCIS data shows project commitments at £19.4 million or 68% of the total allocation at the end of August 2010 with a pipeline of £11 million (38%) at D&A stage. By the end of September, total commitments stood at £23.7 million (83%), leaving uncommitted funding of £4.8 million. It is not clear whether the pipeline of projects at D&A stage will be affected by cuts in public sector funding. However, on paper there is potential for over-commitment of ERDF in AA3.3. It is understood that the additional headroom created by reducing the allocation to AA3.1 will be allocated to AA3.3 to enable pipeline projects to be funded.

6.4 The overall match funding position in Priority 3 (Figure 6-2) shows how P3 committed and pipeline projects are matched by Single Programme, other public sector and private sector funding.

6.5 JESSICA has been excluded from this analysis as MCIS has no record of the Single Programme match for this project. On this basis just over 38% of all match funding requirements are tied to the Single Programme, while over 40% are from other public sources. If JESSICA was included, the share of Single Programme match funding would rise considerably due to the £25m of Single Programme funding involved.

## Delivering Priority 3

**Figure 6-2: Priority 3 Match Funding**




Source: MCIS Data from the EPE, end of August 2010

6.6 The Action Areas within Priority 3 each had distinctive approaches to project calls.

- AA3.1 was designed to be subject to an open call. However due to its nature and alignment with strategic priorities in Merseyside only a small number of organisations could in practice apply for project funding.
- AA3.2 was also an open call, but there were some initial concerns about whether the volume of projects required would materialise. Due to the poor economic and property market conditions there were specific calls for public realm and land remediation projects, despite concerns over their ability to deliver jobs and business creation outputs and results to the programme.
- AA3.3 is focussed on the visitor economy. As such sub-regional destination management organisations (tourist boards) have, with local authority partners and the NWDA's tourism team, played an important role in prioritising projects for funding in line with strategies for developing their visitor economies.

6.7 Table 6-2 below summarises the key information about the implementation to date of Priority 3 and the activity that the NWOP has in the pipeline. Most of the analysis includes JESSICA allocations under Priority 3 (with the exception of average project costs).

| Table 6-2: Priority 3 Summary | | | | |
|---|---|---|---|---|
| | Action Area 3.1 | Action Area 3.2 | Action Area 3.3 | Priority 3 Total |
| Programme Allocation (original) | | | | £108 million |
| Programme Allocation (current with NWOP + 20% assumption) | £19.6 million | £81.8 million | £28.5 million | £129.9 million |
| No. of live/ contracted projects | 8 | 11 (inc. JESSICA) | 13 | 32 |
| No. of projects at legal stage (i.e. post approval) | 1 | 8 | 0 | 9 |
| No. of projects at D&A stage | 2 | 7 | 6 | 15 |
| No. of pipeline projects (Concept or EoI) | 1 | 1 | 3 | 4 |
| No. of withdrawals at concept | 2 | 15 | 31 | 48 |
| Projects rejected at EoI | | 41 | 62 | 103 |
| Largest ERDF contribution | Pier Head Landing Stage (£3.98m) | St Pauls Square (£4.64m) [JESSICA project cost £25.25m] | Partners for Tourism Growth (£5.97m) | |
| Smallest ERDF contribution | Liverpool City Centre Underground (£0.42k) | Estuary Commerce Park (£0.99k | Green Transport Plans (£0.37m) | |
| Average ERDF project cost | £1.4m | Exc. JESSICA £4.8m | £1.7m | |
| Source: MCIS Data from the EPE, end of August 2010 | | | | |

6.8 Priority 3 is clearly tending to support larger ERDF projects, with an average size of around £1.5 million in AA3.1 and AA3.3, rising to £4.8 million in AA3.2.

- **Action Area 3.1** has broadly met the expectations of the investment framework and Merseyside partners' aspirations to support transport/gateway projects in the sub-region. This Action Area accounts for a quarter of all P3 projects funded, but because of the lower value of these investments only 15% of all spend.
- **Action Area 3.2** accounts for over 60% of all P3 project spend, but just over a third of all funded projects. These commitments are heavily influenced by the contract for JESSICA, as well as investments in sites and premises which are typically higher in value.
- **Action Area 3.3** accounts for over a fifth of all P3 spend and approximately 40% of all funded projects. This Action Area combines relatively large investments (eg. £5.9m for Partners for Tourism Growth) with a number of small to medium sized projects. Over 100 projects were rejected across P3 at the EOI stage, while over 45 projects were withdrawn at the concept stage. The data show an extensive array of projects aimed at public realm and infrastructure improvements, sub-regional marketing initiatives and enhancements to visitor attractions. The message is one of

a very high level of demand for ERDF support, but with the programme having to adopt a strict approach to the approval of projects given the limited resources available.

6.9 Table 6-3 provides a summary of project submissions by type of applicant for live, committed and pipeline projects for AA 3.1. Given the specific remit of AA3.1, it has understandably focused on Liverpool City Council & Merseytravel in line with expectations in the Investment Framework.

| **Table 6-3: Type of Applicant, Action Area 3.1** | |
|---|---|
| **Applicant** | **Number of Projects** |
| Local Authority | 2 |
| Merseytravel | 10 |
| Source: MCIS Data from the EPE, end of August 2010 | |

6.10 Project activity under Action Area 3.2 has been more widely spread, with the NWDA and URC/quasi-public bodies accounting for approximately 46% of all applicants; this is in line with expectations given that NWDA, URCs and other partnership bodies have taken the lead in stimulating investment in to key regional sites across the North West. There were also five private sector applicants under this Action Area with a focus on sites and premises development (eg. £4.6m to MUSE and the English Cities Fund for St Paul's Square).

| **Table 6-4: Type of Applicant, Action Area 3.2** | |
|---|---|
| **Applicant** | **Number of Projects** |
| NWDA | 2 |
| URC/other Quasi-public body | 10 |
| Local Authorities | 9 |
| Private Sector | 5 |
| Source: MCIS Data from the EPE, end of August 2010 | |

6.11 Action Area 3.3 has seen just under half of its applications come from museum or other culture-related organisations, consistent with Investment Frameworks which sought to strengthen the region's cultural infrastructure (among other priorities). These applications have covered a wide range of investments across Merseyside and the rest of the region. While in some circumstances these organisations are likely to have had local authority or URC/quasi-public body support; local authorities and other such bodies have also applied directly for visitor-related projects across the region (eg. Cumbria Tourism, Carlisle Council, Wyre Council).

| **Table 6-5: Type of Applicant, Action Area 3.3** | |
|---|---|
| **Applicant** | **Number of Projects** |
| Museum/Cultural Organisation | 8 |
| URC/other Quasi-public body | 3 |
| Local Authorities | 4 |
| HEI | 1 |
| Private body | 1 |
| Source: MCIS Data from the EPE, end of August 2010 | |

## Investment Fit and Gap Analysis for Priority 3

6.12 The evaluation has considered the full range of project activity in Priority 3 and the processes through which these projects have come forward. In total nine projects were reviewed across this Priority area. These projects were split across each Action Area as follows:

- AA3.1: Two projects - Hall Lane Strategic Gateway and Merseytravel Corridors (several similar projects reviewed as one).
- AA3.2: Four projects – JESSICA, Manchester Central, Liverpool Lime Street, and St Paul's Square in Liverpool.
- AA3.3: Four projects – Museum of Liverpool, Regional Marketing, Partners for Tourism Growth, and Lowther Castle and Gardens.

6.13 Overall, projects in this Priority show a good or strong fit with both the NWOP and the Investment Frameworks. This can be attributed to the specification of project and preferred delivery partners in the Investment Frameworks. The alignment with RES and NWOP objectives is clear in many of these projects, with NWOP investments complementing other investments in the region, supported by both the public but also the private sector.

## Action Area 3.1

6.14 The projects reviewed and funded within this Action Area fit well with the Investment Framework to exploit the economic potential of gateways in Merseyside, as well as playing a role in helping to create the conditions for sustainable growth. The projects funded include:

- Strategic transport corridors to improve accessibility for buses to the city centre from key locations and to the airport (as well as other traffic management benefits)
- The Hall Lane strategic gateway, a project aligned to the improvements proposed for Edge Lane that create a radically improved access to this key gateway to Liverpool City Centre
- City centre underground improvements
- A cycle strategy for Liverpool
- Pier Head landing stage.

6.15 These projects are a good fit for the Investment Framework, and reflect the priority that Merseyside has attached to the improvements of Liverpool city centre transport and visitor infrastructure. They form part of a long term approach to the development of infrastructure which has built on activity funded in previous European Union programmes, and which is consistent with an area which has lagged behind the EU average in terms of prosperity over a long period of time.

6.16 However, the evaluation indicates that the range of projects funded under AA3.1 would be expected to provide comparatively little immediate direct contribution to key results targets for Priority 3 (particularly jobs created, business created etc). For example, there is clearly job creating potential in activities which increase visitor spend, and visitor attractions which see increased visitor numbers and spend may take on additional staff. However, much of the effect of increased visitor spend across a wider area is indirect and is difficult to measure or attribute. Similarly, the effects of improvements to transport infrastructure may be a factor in the more efficient movement of people to and from work, business to business contact etc., but beyond construction employment and staffing of services, their job creating effects are also indirect.

## Action Area 3.2

6.17 In contributing to the delivery of conditions for sustainable growth this Action Area's overall objective is to drive up regional competitiveness through focussed support on the delivery of strategic sites. When the NWOP was developed there was some concern over the cross-over of activity between this Action Area and AA4.3. Investments in Action Area 3.2 are focussed on those strategic sites (and supplementary strategic sites) that regional partners agree offer the greatest opportunity to delivering economic change in the region. The focus for AA4.3 has been on delivering sites and premises in areas of regeneration need.

6.18 This Action Area receives the largest share of investment and is expected to make a major contribution to P3's outputs and results targets. The range of projects funded includes:

- Public realm activity at employment sites and transport hubs
- Business and science park investments
- JESSICA
- Commercial office developments
- Site and premises infrastructure/remediation.

6.19 Given the adverse economic and property market conditions which prevailed since 2007, the pace of relevant projects coming forward was initially slow. The EPE's subsequent decision to encourage large numbers of public realm and land remediation projects has increased the flow of projects coming forward. Such projects can be important building blocks in a longer term development strategy for locations, but these types of projects are likely to deliver limited economic outputs during the Programme period. Time lags between the development of sites and premises and the start of commercial activity in those premises mean that job creation tends to occur over the longer term. During recessionary conditions, the prospects for securing significant new job and business creation has clearly been adversely affected where new developments have come forward.

6.20 In reviewing the projects which have been funded it is evident that the key urban areas within Merseyside and Greater Manchester have received a significant number of the investments. However, science and innovation related projects have not received a significant level of support from the Action Area so far. While the economic climate and property market have played a fundamental role in this, investments in science and innovation related property activity would have a stronger resonance with the Investment Framework's objective for driving up regional competitiveness and GVA.

6.21 Discussions with the EPE about the latest position in AA3.2 suggest that it is now over-committed. However, it is highly likely that this position will change as the situation with public sector match funding for some projects starts to become clearer. One possible outcome is that there could be a position where there is still some additional headroom within AA3.2 to deliver additional projects.

## Action Area 3.3

6.22 This Action Area caused some concern in the region when the Operational Programme was established as it is not compliant with the Lisbon Agenda. The purpose of its inclusion was to support the improvement of the region's visitor offer and image, reflecting the priority attached by the region to the further development of its visitor economy. To this end, the projects supported within this Action Area appear to fit well with the Investment Framework. The focus of the framework was to support cultural infrastructure; to protect and develop natural heritage; and support investment in firms or organisations linked to events post Capital of Culture 2008. Investments have focussed on:

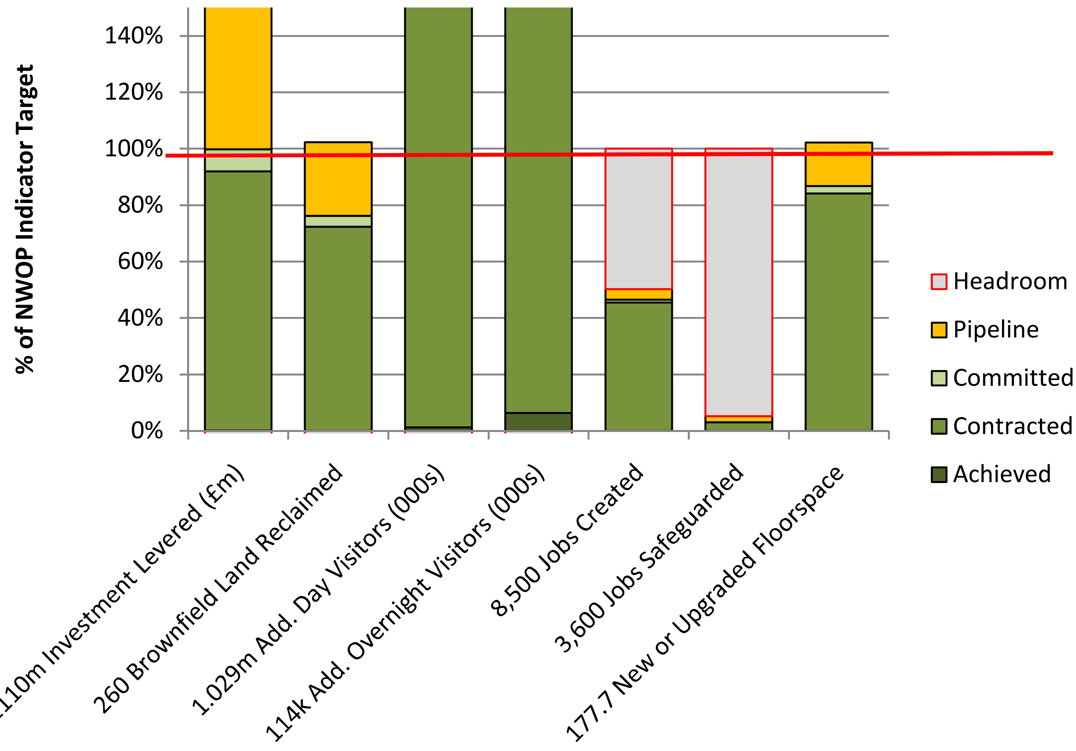
- Museums of regional importance (eg. Tate, Museum of Liverpool, MOSI)
- Support for large events (eg. the Liverpool Biennial)
- Marketing activity and sector development (eg. Regional Marketing, Partners for Tourism Growth)
- Investments in visitor attractions (eg. Jodrell Bank, Cleveleys Promenade, Lowther Castle and Gardens).

6.23 It is understood that AA3.3 will be overcommitted if three projects at the D&A stage were to secure approval. Given that match funding may be more difficult to secure for such projects in the face of public sector funding cuts, there is potential that this position could alter over the next year. Although most investments have a strong strategic fit with the Investment Framework, many of the projects have focussed on enhancing existing attractions and infrastructure. Any resources which do become available in AA3.3 should focus on projects with the greatest potential to deliver economic impact in the form of new jobs and businesses.

## Priority 3 Outputs and Results

6.24 The picture of outputs and results in Priority 3 is still emerging. Many of the projects are at an early stage of delivery making it difficult to come to any clear conclusions about the effect of the recession and the downturn in the property market, as well as current uncertainties of the effect that match funding cuts may have on the scale and scope of projects.

**Figure 6-3: Progress on Key Outputs and Results in Priority 3**




Source: MCIS Data from the EPE, end of August 2010
Note: Removed TATE reported actual output / result figures for investment levered, and day and overnight visitor figures

- **Private Investment Levered:** The MCIS data indicate that no outputs had been reported at the end of August 2010. Approximately £101m of leveraged investment has been contracted to date (92% of target), with a further £8.5 million committed (8% of target). The majority of this is generated by Action Area 3.2 and includes JESSICA (£50m of the overall target) along with investments in a range of sites and premises. Clearly if all projects come to fruition this output target will be comfortably exceeded. However, some projects may face match funding issues which could have an impact on their ability to deliver against leverage targets. At the end of August 2010, pipeline projects (D&A stage) had the potential to add a further £60-70 million to the total.

- **Brownfield Land Reclaimed:** MICS does not yet report outputs achieved. The August 2010 data indicated that over 188 HA (more than 50%) of this target (260Ha) has been contracted, with a further 4% committed in projects at legal stage. However, just under half of the contracted reclaimed brownfield land is dependent upon JESSICA (123Ha). There are some clear concerns across the region as to whether this target is achievable, given the recession and the current economic climate which significantly reduced commercial interest in the development of new sites. It should also be noted that just under a fifth of the overall target (54Ha) is accounted for by Lowther Castle project (AA3.3) while the Roman Maryport project, which is still at the D&A stage, accounts for 58Ha of the committed target. In short, the future progress and overall achievement of this target is largely dependent on the success of just a few projects.

- **Additional Day and Overnight visitors:** While there has been some early progress in achieving day visitors, the MCIS data for the end of August 2010 indicate that there has been no progress in achieving increases in the number of overnight visitors. This is largely due to the timing of delivery and the gestation period for the outputs to be achieved. Given the level of contracted outputs which far exceed the targets (476% for day visitors, 1839% for overnight stays), it is reasonable to assume that the target should be substantially exceeded. However, the position will only become clearer once many of the projects commence delivery and start to report on their progress. Some methodological problems in the attribution of day and overnight stays to ERDF and other forms of investment have also been highlighted.
- **Jobs Created and Safeguarded:** Priority 3 has a target of 8,500 jobs to be created. At the end of August 2010 the MCIS data indicates commitments amounting to 47% of the target leaving a significant gap to be bridged. The position is significantly worse for safeguarded jobs where the MCIS data indicate that 95% of the target is as yet uncommitted. While JESSICA is contracted to deliver 3,650 new jobs, the project is not yet operational and is unlikely to deliver significant numbers of new jobs until the later stages of the Programme. The jobs created and safeguarded results targets would also appear to be particularly challenging to achieve given the current economic climate, and the amount of investment which has been focussed in AA3.2 on public realm and remediation activity which has limited or no direct effect on jobs.
- **New or Upgraded Floorspace:** Priority 3 has a target result of 177,700$m^2$ of new or upgraded floorspace. In contrast to the picture on jobs created and safeguarded, the MCIS data for August 2010 indicate that 87% of this target will be met by committed projects with a further 15% in the pipeline in projects at D&A stage. However, more than 120,000$m^2$ (close to 70%) of the total already committed is dependent upon JESSICA. As with other outputs and results with a heavy focus on JESSICA (73,500$m^2$ alone in Merseyside), and which rely on successful investments in sites and premises and in securing match funding, this is likely to be a stretching target to achieve.

6.25 The volume of outputs achieved to date in Priority 3 is very low. Many projects are still in the early stages of delivery and there is a reliance on JESSICA to deliver a considerable proportion of outputs and results. This reliance is of particular concern given the current state of the property market and the scale of outputs and results which are required by the end of the Programme period. Nevertheless, five out of the seven indicators are in a reasonably positive position with targets forecast to be met through either commitment or contract. Priority 3 is significantly under-committed for its job created or safeguarded results, even when JESSICA is included. While economic conditions will continue to play a part in dampening down the job results, those projects which have been contracted, or which are committed to, will struggle to generate the scale of job results originally envisaged by the Investment Framework and the NWOP.

6.26 Of greater concern is our understanding that jobs outputs and results which indirectly stem from investments in sites and premises cannot be counted for ERDF purposes. This points to the Programme having set and contracted for targets which will not formally be included amongst its achievements. This issue is one which partners will need to clarify with the European Commission at the earliest opportunity, since it is likely to result in both changes to contracts and to the target and value for money framework for the Programme.

**Table 6-6: Key Point Summary for Priority 3**

| | Action Area 3.1 | Action Area 3.2 | Action Area 3.3 |
|---|---|---|---|
| Spend | • 65% committed | • Large proportion 77% committed | • Large proportion at 83% committed, with new Everyman approval now nearly all committed |
| Key Outputs/Results | • **Private sector leverage:** Around 92% already contracted for and on paper set to exceed target. Little achieved to date.<br>• **Brownfield land reclaimed**: 50% contracted for but little achieved to date. Heavily dependent on small number of projects.<br>• **Additional day and overnight visitors:** Contracted for targets far exceed Programme target, but likely to be methodological issues with verifying progress.<br>• **Jobs created and safeguarded:** Only 47% committed for jobs created, and 5% for safeguarded. Heavily dependent on JESSICA and small number of projects. Programme may be unable to claim jobs from site and premises development if they are indirect result of investment.<br>• **New or Upgraded Floorspace:** Appears well placed to achieve or exceed target with 87% already committed. However, much will depend on commercial property market picking up. | | |
| Impacts | • Scenarios point to around 50% of target for net additional jobs created/safeguarded and 61% of GVA target. Potential for shortfall, and heavily reliant on JESSICA to deliver P3 impacts. | | |
| Practical Delivery Issues | • Advantages in working with well established plans for priority infrastructure investments on Merseyside<br>• Merseytravel has been key applicant for AA3.1, reflecting Investment Framework | • Strong demand for investment after slow start, with AA3.2 badly affected by recession and impact on property market<br>• Has proved difficult to move sites and premises forward having committed to projects, and therefore to secure economic impact (jobs, businesses etc)<br>• Majority of investment has been urban Liverpool and Manchester. Little remaining headroom for investment in the rest of the North West. | • Strong demand for investment in tourism facilities and services has been a feature.<br>• NWOP's ability to work with an established infrastructure of tourism bodies has been beneficial to progress |
| Key Context Changes | • Likely to be increased demand for gap funding for land and property schemes as UK commercial property market moves out of recession, although likely to focus on locations with stronger commercial prospects for investors given limited future public funding.<br>• Progress on Local Enterprise Partnership initiative will put additional onus on localities to maximise impact of existing land and property assets, and support businesses by providing appropriate locations<br>• Some potential to harness ERDF to Regional Growth Fund for remaining allocation of capital investment . | | |

## Implications for Priority 3

6.27 Analysis of Priority 3 has pointed to a number of implications for future activity in this area of the Programme.

- **A need for clarity on the rules regarding ERDF outputs and results for land and property investments**. At present there is an inconsistency between the way the targets for the Programme were developed, the contracted results for some projects and the national guidance on how jobs created and safeguarded can be verified. . Verification criteria for these jobs will either need to be relaxed by the EU, or Programme targets redefined in a way which permit the counting of indirect jobs.
- **A challenging task to achieve jobs targets**. Subject to clarification of the eligibility of indirect jobs associated with P3, the Programme faces a challenging task if it is to achieve its targets. Recessionary conditions have limited the potential to secure swift investment in sites and premises, and any remaining headroom allocations in P3 will need to be targeted at investments which will generate high impacts, ideally in the form of new employment and business activity.
- **Reliance on JESSICA to deliver**. JESSICA has received over £25m of ERDF as part of AA3.2. While it has yet to start its delivery stage, the outputs for brownfield land remediated, private sector investment levered, jobs created, and new or upgraded floorspace have all been pro-rated from the Investment Framework targets. As JESSICA is unlikely to start to invest in projects until at least early 2011, it is unlikely that outputs will begin to be seen from these projects for some time. This puts additional pressure on the Programme to commit to activity that delivers jobs and business results.
- **Potentially important impacts from the squeeze on public-sector match-funding**. Reductions in the future availability of public sector match funding are potentially significant for projects at the concept or D&A stage in P3, and the Programme should assume that there may be a little additional headroom. Clear criteria should be identified to ensure that any remaining funding is allocated to activity where the strongest case exists for investment (i.e. where the returns are highest) and that these investments are as far as possible Lisbon compliant.
- **Under-commitment in AA3.1**. This Action Area has an unallocated resource of just over £4.5m according to the latest MCIS information, which must be spent in Merseyside over the remainder of the Programme period. While some pre-concept projects have already been identified, there does not appear to be a strong pipeline of projects coming forward from partners in Merseyside offering a strong fit with the objectives of the Investment Framework, and which will significantly contribute to key output and result targets.
- **Not enough emphasis on science and innovation**. It is clear from reviewing the projects which have been supported to date that science and innovation projects (which are most appropriate to AA3.2) and more broadly Lisbon compliant investments have not generally materialised so far. Low demand and investor appetite stopped these projects from coming forward more quickly. However, there is little headroom (even if some projects do fall by the wayside) given the investment to date in other activities (eg. commercial developments, public realm).

# 7. Priority 4: Growing & Accessing Employment

7.1 Priority 4 is focused on ensuring that the economic successes delivered by the Programme are shared and that economic exclusion is tackled across the region. It was envisaged that this priority, in conjunction with other Programmes operating across the region and in areas of regeneration need, would focus on creating employment which is accessible to areas of disadvantage, and helping residents in these areas access economic opportunity as employees or via self-employment.

7.2 The rationale which under-pins this priority within the Programme is two-fold:

- There was a need to better link job growth in the region to areas and groups where there is a need to increase economic participation; and
- The region suffers from significant concentrations of worklessness, yet many districts where this worklessness is concentrated are within or close to areas of job growth.

7.3 Priority 4 has also been a key source of ERDF funding for the JESSICA project. This reflects its role in delivering sites and premises together with the creation of employment opportunities which benefit areas of disadvantage, as opposed to the over-arching emphasis given to strategic employment sites of regional importance in AA3.2.

7.4 There are three Action Areas identified as part of Priority 4, each with an Investment Framework setting out the scope of activity supported. The following table sets out the Action Areas and the strands of activity supported.

**Table 7-1: Priority 4 Activities By Action Area**

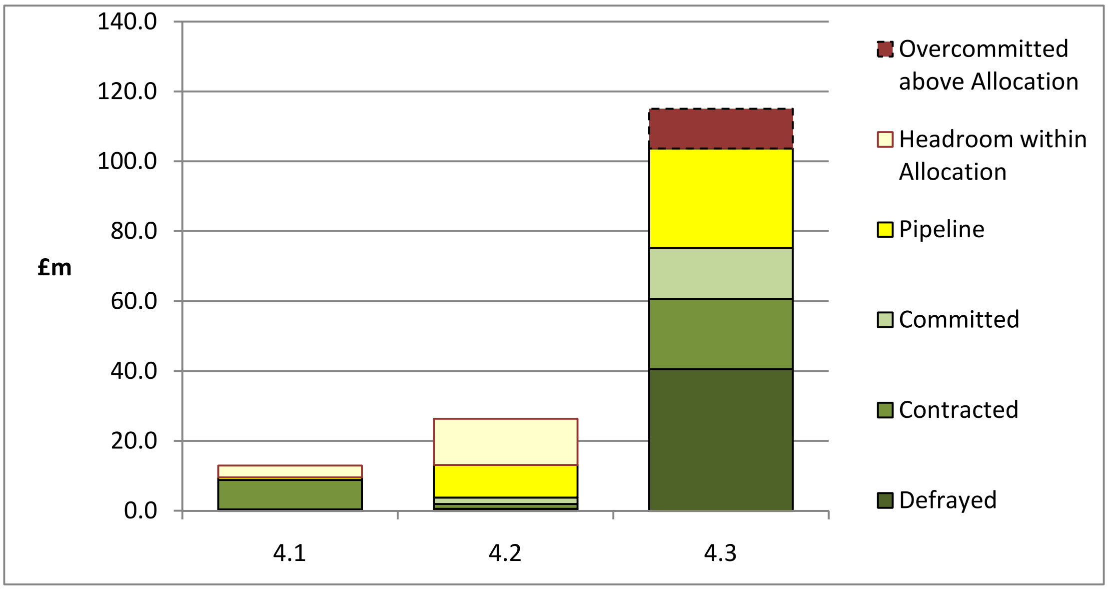
| Action Area 4.1: Stimulate enterprise in disadvantaged communities and under-represented groups | Action Area 4.2: Supporting linkages to key employment areas | Action Area 4.3: Supporting employment creation for areas of regeneration need |
|---|---|---|
| Strand 1: Enterprise stimulation in disadvantaged communities<br>Strand 2: Practical support for those people wishing to start new businesses and businesses in the start-up phase<br>Strand 3: Support for start-up social enterprises | Strand 1: Linking people to employment<br>Strand 2: Transport linkages to employment | Strand 1: Support for development of employment sites in target areas<br>Strand 2: Support for integrated projects, which through physical investment will directly support. |

Source: NWOP

## ERDF Expenditure in Priority 4

7.5 Priority 4 has a total ERDF allocation of £132m which is split evenly between Merseyside (50%) and the Rest of the North West (50%). Figure 7-1 shows the progress of spend in the 3 Action Areas based on MCIS data at the end of August 2010.

**Figure 7-1: Progress on Expenditure in Priority 4**



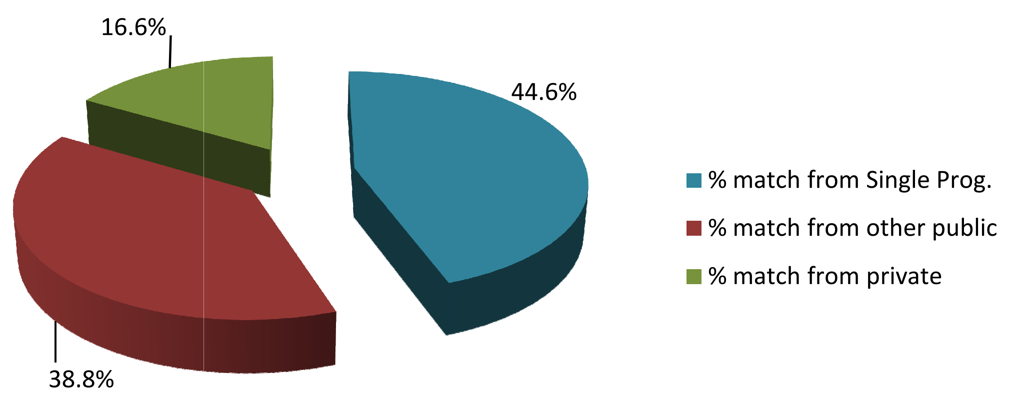

Note: AA 4.3 has an additional £11.4m in the pipeline above its indicative allocation
Source: MCIS Data from the EPE, end of August 2010

- **AA4.1 (Total Allocation £13m):** A total of £8.7million (67%) had been committed at the end of September 2010. A total of £4.3 million remained to be committed. Investments have been made in two projects – the large scale Business Start-Up Support Phase 2 (£8.4m) and the Social Enterprise Networking & Collaboration project (£0.3m). The business start-up project has received significant NWDA Single Programme funding support of £27.7m. Data provided by the EPE suggest that only one project is now in the pipeline at D&A stage with a value of £0.25 million.
- **Action Area 4.2 (Total Allocation £26.4m):** The MCIS data for the end of August show commitments of £3.8 million (14%) on project activity to develop links to employment in the sub-regions, rising to only £4.5 million (17% of total allocation) by the end of September. A further £9.3 million has been identified in the pipeline although just over £9 million of this total is accounted for by one project at concept stage. This could leave headroom in AA4.2 of as much as £21.9 million. There are understood to have been some problems in identifying appropriate project activity for AA 4.2, particularly activity which has been assessed as being appropriate for ESF rather than ERDF.
- **Action Area 4.3 (Total Allocation £92.4m):** A substantial level of commitment has been made in AA4.3. By the end of August 2010, the MCIS data show commitments totalling £75.3 million (81% of total allocation) with £40.7 million already defrayed and a further £20 million contracted for. By the end of September, this had risen to £80.7 million (87%). This can largely be attributed to three projects – JESSICA (£25m), the investment in the Blackpool Leisure Assets project (£14m), and the Barrow Access Road (£4.9m). A further £28.5 million of project funding in the pipeline has also been identified, leaving this Action Area potentially over-committed by around £11m on paper. However, it is not clear what proportion of these pipeline commitments will be affected by single programme and other match funding cuts which may see significant reductions in ERDF or the withdrawal of

projects.

7.6 The overall match funding position in Priority 4 is set out below and shows how P4 live, committed and pipeline projects are matched by Single Programme, other public sector and private sector funding. JESSICA has been excluded from this analysis as MCIS has no record of the Single Programme match for this project. On this basis 44.6% of all match funding requirements are tied to the Single Programme and 38.8% are from other public sources. If JESSICA was included the share of Single Programme match funding would rise considerably due to £25m of Single Programme funding. While JESSICA Single Programme funding has been committed as match, there are some concerns over projects at the legal and D&A stage where Single Programme support has been secured (eg. Talbot Gateway), or where other public funding is sought (eg. Business Link or LEGI/WNF funding) for AA4.2 projects.

**Figure 7-2: Priority 4 Match Funding**




Source: MCIS Data from the EPE, end of August 2010

## Delivering Priority 4

7.7 Table 7-2 below summarises the key information about the implementation to date of Priority 4 and the activity that the NWOP has in the pipeline. The majority of the analysis includes JESSICA allocations under Priority 4 (except average project cost).

**Table 7-2: Priority 4 Summary**

| | Action Area 4.1 | Action Area 4.2 | Action Area 4.3 | Priority 4 Total |
|---|---|---|---|---|
| Programme Allocation (original) | | | | £110m |
| Programme Allocation (current with NWOP + 20% assumption) | £13m | £26.4m | £92.4m | £132m |
| No. of live/contracted projects | 2 | 2 | 14 | 18 |
| No. of projects at legal stage (i.e. post-approval) | 0 | 1 | 6 | 7 |
| No. of projects at D&A stage | 2 | 1 | 6 | 9 |
| No. of pipeline projects (Concept or EoI) | 0 | 2 | 14 | 16 |
| No. of withdrawals at concept | 0 | 4 | 86 | 90 |
| Projects rejected at EoI | 61 | 41 | 76 | 168 |
| Largest ERDF contribution | Business Start-up Phase 2 (£8.4m) | Merseyside Employment Links (£2.5m) | Excluding JESSICA, Blackpool Leisure Assets (£14.0m) | |
| Smallest ERDF contribution | Social Enterprise Networking & Collaboration (£0.3m) | Cheshire & Warrington Employment Links (£0.47m) | Oldham Road Public Realm (£0.16m) | |
| Average ERDF project cost | £4.36m (only 2 projects, skewed by Business Start-up project) | £1.5m (only 2 projects, skewed by Merseyside employment links project) | Excluding JESSICA £2.8m | |

Source: MCIS Data from the EPE, end of August 2010
Note: *Inc JESSICA

7.8 Priority 4 has made some significant ERDF investments across the region in all three Action Areas, although AA4.1 and AA4.3 have seen the largest single investments. Only two projects have been invested in from AA 4.1 - £8.4m in the business start-up project and £0.3 million in the Social Enterprise Networking and Collaboration project In AA4.3 large investments include £25m in JESSICA, infrastructure (eg. £14m for Blackpool Leisure Assets, and £4.9m for the Barrow Waterfront access road), as well as a range of small to medium size investments in public realm activity, which, when taken together, account for a modest amount of AA4.3 investment.

7.9 Both AA4.1 and AA4.3 had open call processes, while AA4.2 pursued a limited bid process. Action Area 4.2 required significant re-working due to concerns of its overlap with ESF activity. This is a key factor in the scale of withdrawals and rejections for this Action Area. The open call process used for AA4.3 led to a very competitive process with additional criteria required to assist in project selection. Due to the competitive nature of this Action

Area, and its over-commitment, it is currently closed to further bids.

7.10 Table 7-3 provides a summary of the project submissions by type of applicant for live, committed and pipeline projects for Action Area 4.1.

| **Table 7-3: Type of Applicant, Action Area 4.1** | |
|---|---|
| **Applicant** | **Number of Projects** |
| NWDA | 1 |
| Social Enterprise North West | 1 |
| Blacon Community Trust – Regenesis | 1 |
| Source: MCIS Data from the EPE, end of August 2010 | |

7.11 There are only two organisations currently delivering activity in AA4.1 (NWDA and Social Enterprise North West ). These projects, and the organisations delivering them, have a clear fit with the investment framework.

7.12 Table 7-4 shows the applicants for funded or committed activity for AA4.2. Similarly to AA4.1 the spread of organisations is relatively narrow, and reflects the type of activity supported in the Action Area. The employment links projects supported under AA4.2 are linked to similar activities typically undertaken by these organisations.

| **Table 7-4: Type of Applicant, Action Area 4.2** | |
|---|---|
| **Applicant** | **Number of Projects** |
| Local Authority | 1 |
| Sub-regional Partnership | 3 |
| Not for Profit | 1 |
| Source: MCIS Data from the EPE, end of August 2010 | |

7.13 Table 7-5 shows the applicants for funded or committed activity for AA4.3. The spread of applicants under this Action Area is wider given the emphasis on sites and premises projects. Local authorities and URC/other quasi-public bodies account for the majority of funding applications, followed by private sector developers.

| **Table 7-5: Type of Applicant, Action Area 4.3** | |
|---|---|
| **Applicant** | **Number of Projects** |
| Local Authority | 9 |
| NWDA | 2 |
| URC/other Quasi-public body | 12 |
| Voluntary and community organisations | 4 |
| Private Sector | 9 |
| Source: MCIS Data from the EPE, end of August 2010 | |

## Investment Fit and Gap Analysis for Priority 4

7.14 Across Priority 4, the evaluation found a generally strong fit with the objectives of the Investment Frameworks and a significant number of project applications were rejected at the EOI stage in part because of their failure to show a strong fit (168 in total for all 3 Action Areas) and demonstrate satisfactory returns on investment in the form of jobs or businesses created. Just under half of the rejected projects came under AA4.3, while a further 86 were rejected at the Concept stage.

7.15 The evaluation has considered the full range of project activity in Priority 4 and the processes through which these projects have come forward and reviewed six projects across the Action Areas as follows:

- AA4.1: 1 project – Business Start-up project Phase 2
- AA4.2: 1 project – Merseyside Employment Links
- AA4.3: 6 projects – Blackpool Leisure Assets, Maryport Business Centre, Barrow Waterfront Access Road, JESSICA, LCVS Business Development Centre, and Baltic Triangle Creative project.

7.16 Unfortunately it was not possible to undertake as planned a full project review for the Business Start-up project in AA4.1, or for the Blackpool Leisure Assets project in AA4.3.

### Action Area 4.1

7.17 This Action Area is different to AA1.1 (which has a focus on developing high value new enterprises) as its primary objective is to target self-employment and enterprise as a route out of worklessness, as well as support improved access to employment opportunities for people from under-performing groups/communities (which includes support for the development of social enterprises). To date only two projects have been contracted to deliver activity within this Action Area.

7.18 The two projects are the North West Business Start-up phase 2 project (£8.4m, with NWDA the applicant) and the Social Enterprise Networking and Collaboration project (£0.3m). The business start-up project is the dominant project within this Action Area in terms of total cost and contracted outputs. Taken together, these two projects account for approximately 70% of the Action Area's funding. Both projects have a strong fit with the objectives of the investment framework for this Action Area. There is a strong emphasis within these projects on the three core strands:

- Enterprise development in disadvantaged communities
- Practical support for those people wishing to start new businesses and businesses in the start-up phase
- Support for start-up social enterprise.

### Action Area 4.2

7.19 The purpose of this Action Area is to assist those who are workless to access employment opportunities and link areas of regeneration need to economic opportunities. This can be in peripheral areas of the region, as well as in disadvantaged communities located in close proximity to areas of employment growth. The original investment framework for this Action Area had to be significantly re-worked due to EC concerns over its overlap with ESF activity. Although the re-working led to the current framework, this change in emphasis is a key factor in the scale of withdrawals and rejections seen for this Action Area.

7.20 The investment framework is now focussed on the following strands of activity:

- Linking people to employers
- Transport linkages to employment
- Outreach and engagement.

7.21 As with AA4.1 only a limited number of projects have been contracted to date. The projects which have been contracted are Employment Links projects in Merseyside (£2.5m) and in Cheshire and Warrington (£0.47m). These projects are linked to other activity on-going in these areas which are aimed at supporting workless people back in to the labour market in various ways (including outreach, engagement, transport support, and in linking people to employment opportunities). As such, both of these projects have a good fit with the objectives of the AA4.2 investment framework. Similar projects are also in the pipeline for Greater Manchester and Cumbria.

7.22 However, despite the strong fit to the IF, there is considerable headroom in AA4.2 before it reaches its full funding allocation. Only 15% of the funding has been spent, contracted or committed on developing employment link projects in the sub-regions. Over £9m of support is currently in the pipeline (i.e. at Concept stage), but it is understood that withdrawal and resubmission of these projects is likely in light of changes to the Investment Framework to reduce the potential for overlap (and therefore ineligibility) with ESF type activities.

### Action Area 4.3

7.23 AA4.3's objective is to directly create employment opportunities for residents in, or close to, areas of regeneration need. These are typically areas where there are significant problems of worklessness. The Action Area has two key strands on which it supports activity. These are:

- Support for development of employment sites in target spatial areas
- Support for integrated projects, which through physical investment will directly support employment creation.

7.24 The range of activities which can be supported under this Action Area include employment site development, brownfield land reclamation and integrated projects for urban and rural regeneration. It would be fair to say that there has not been the flood of eligible projects offering good prospects of creating jobs for disadvantaged areas originally anticipated. This is for very similar reasons as in Action Area 3.2, with the effects of the recession on the commercial property market having significantly reduced commercial interest in the development of new sites and premises.

7.25 Currently, including JESSICA, 13 projects have been funded, with committed funding identified for a further 14 projects. The open call nature of this Action Area created a very competitive process, with additional criteria required to assess projects. Of those projects funded, and of the six projects reviewed, it is clear that looking across these there is relatively good fit with the objectives of this Action Area, even taking in to consideration the public realm activity. The support for the Blackpool Leisure Assets project in the Action Area stretched the boundaries of what had been envisaged in the Investment Framework. However, there appears to have been strong support for the project at the PMC. The fact that it was a tourism related project that could deliver job outputs in a disadvantaged area points to the case for taking a broader view of what might be supported in the future.

7.26 While there have been some significant investments to date which have accounted for the majority of the funding which has been spent (eg. JESSICA (£25m), the investment in the Blackpool Leisure Assets project (£14m), and the Barrow Access Road (£4.9m)), it is too early to measure what impact these projects are having on job creation targets for example – a key measure for AA4.3. While it appears that the Action Area is over-committed if pipeline projects are taken in to account, there are likely to be a number of projects which could fall by the wayside. With limited immediate job creation results from the initial Action Area investments, it will be important for projects which offer the greatest returns for these areas of regeneration need, in the short-medium term, to be selected for investment.

7.27 There have been two special calls for projects in Action Areas 3.2 and 4.3: one for "Public Realm" projects and one for "Land Remediation' and "Site Servicing". The call for expression of interest in both cases stated that "*To encourage private sector investment in the strategic sites and 'pump prime' investments in deprived areas and target communities, as defined in the NWOP and associated investment frameworks, it has been agreed to accept a limited number of applications that deliver....*" .

7.28 The public realm call was open in April 2009 and completed by the end of May 2009. The Land Remediation' and "Site Servicing call started later (July 2009) and was completed by September 2009. Both calls were relatively successful in that a significant number of projects came forward and have been approved – this is especially true for public realm (see Table 7-6).

**Table 7-6: Outcomes of Calls for Public Realm and Land Remediating and Site Servicing**

| Action Area | Public Realm Call | | Land Remediating and Site Servicing | |
|---|---|---|---|---|
| | Number approved | ERDF £ms | Number | ERDF £ms |
| AA3.2 | 9 | £13m | 0 | 0 |
| AA4.3 | 4 | £2.5m | 2 | £3.9 |

**Source**: EPE paper to PMSC 19th October 2010-11-04
**Note**: all figures include projects which were live and at legal stage

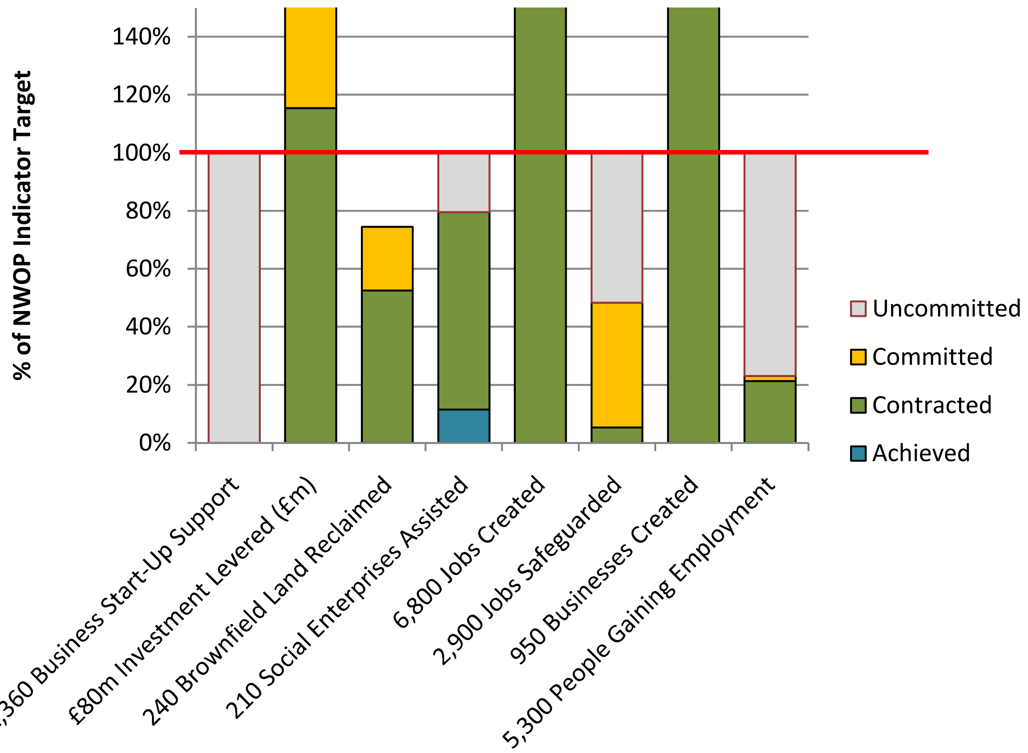
7.29 It is the case that both public realm investment and land reclamation are eligible activities under these Action Areas and the associated Investment Framework. However, it was envisaged when the NWOP was developed that these would be elements of a wider investment package leading to the unlocking of new site development. That is to say there would be some commercial development associated with the investment. The decision to invite stand-alone investments was, we understand, a pragmatic one in response to the property down-turn and so lack of developer willing or able to invest in site development and deliver new commercial or industrial floorspace. Neither types of investment are Lisbon compliant.

7.30 These investments did not have associated floorspace outputs or any job outputs. The potential to deliver these in the future case is more compelling for site servicing. In the case of public realm investments that are not linked to a particular development the economic benefit (although potentially real) may be rather more tenuous and diffuse.

## Priority 4 Outputs and Results

7.31 Progress to date on key outputs for Priority 4 is summarised in Figure 7-3 below. This shows what has been achieved to date, what has been contracted for, what the commitment of ERDF investment is expected to secure in terms of outputs and results, and the volume of outputs and results that P4 will need to achieve to meet its target.

**Figure 7-3: Progress on Key Outputs and Results in Priority 4**




Note: Removed brownfield land figure for WLR Barrow Access Road, as significantly out.
Source: MCIS Data from the EPE, end of August 2010

7.32 The key points are:

- **Business Start-up Support:** A target for 1,360 of business start-up support was set for P4. Only one project has been contracted to deliver these outputs (the Business Start-up project, Phase 2). It is understood that the contracted output for this project is still being agreed, but that it will substantially cover the target for start up support.

- **Investment Levered:** The target of £80m of leveraged investment has already been exceeded, with over £92 million contracted for and £50 million committed. A small number of projects account for just under £115m of this target: £50m is attributable to JESSICA, £44m to the Lewis's Central Village project in Liverpool, and £20m to the Burnley Bridge Business Park. This suggests that the target will be comfortably exceeded.

- **Brownfield Land Reclaimed:** A challenging target of 240Ha of remediated brownfield land was set for P4. Although no outputs are yet achieved according to the MCIS data to the end of August 2010, 126Ha are contracted for and a further 45 Ha are associated with committed projects. JESSICA accounts for around half of the total target but has yet to invest in any projects. It will be a tough challenge for pipeline projects to fulfil this target output given the current economic and property market conditions, although the position is likely to improve over the remainder of the Programme period as the commercial property market gathers momentum.

- **Social Enterprises Assisted:** According to the MCIS data the Social Enterprise Networking and Collaboration project is the only project contracted to deliver these outputs (167 in total), with 24 already achieved at the end of August. However, approximately a fifth of these outputs have not yet been committed and there does not appear to be a pipeline of projects in AA4.1 to address this.

- **Jobs Created and Safeguarded:** Priority 4 has set challenging targets for jobs created and safeguarded. However, the programme has contracted for job creation totals which far exceed the target of 6,800. These include 12,000 jobs under the business start-up project, with the EPE indicating that the project has already achieved 4,100. These are understood to be the jobs generated as sole traders are supported in starting up a new businesses, and the programme is shifting its focus to starts ups with the potential to create additional employment to ensure that the jobs created target is achieved. A further 3,650 jobs are contracted for with the JESSICA investment. A total of 1,400 jobs created and 1,000 safeguarded are associated with the Talbot Gateway project although its current status in terms of match funding is not clear. The jobs safeguarded target result for P4 appears significantly under-committed, even with the Talbot Gateway project included. The MCIS data suggest that the programme has 52% headroom against this result target.

- **Businesses Created:** The target result is to assist in the creation of 950 businesses. The business start-up support project is the only current project contracted to deliver against this result. The latest information from the EPE indicate that a total of 4,100 have so far been reported out a contracted target of 6,700. This is far in excess of the target for P4.

7.33 The volume of outputs achieved in P4 to date is very low. While many projects are still in the early stages of delivery, only a small number of social enterprises assists have so far been recorded. While some outputs and results have exceeded targets, or have relatively high levels of contracted or committed outputs and results, others are significantly under-committed (eg. jobs safeguarded). There is also a heavy reliance on a handful of projects to deliver a significant proportion of outputs and results (eg. JESSICA for jobs created, and brownfield land reclaimed; the Talbot Gateway project for jobs created and jobs safeguarded; and the business start-up project for business start-up support and businesses created).

| Table 7-7: Key Point Summary for Priority 4 | | | |
|---|---|---|---|
| | **Action Area 4.1** | **Action Area 4.2** | **Action Area 4.3** |
| Spend (end of September 2010) | • 67% committed, but largely in the large start-up project | • Just 17% committed, has been difficult to get projects up and running | • Largely all (84%) committed |
| Key Outputs/Results | • **Private sector leverage:** Target should be comfortably exceeded, with more than 100% already contracted for.<br>• **Brownfield land reclaimed**: 50% contracted but heavily dependent on JESSICA to meet a challenging target.<br>• **Additional day and overnight visitors:** Contracted for targets far exceed Programme target, but likely to be methodological issues with verifying progress.<br>• **Social enterprises created:** Dependent on one project to deliver c. 80% of target, with remainder not yet committed.<br>• **Jobs created and safeguarded:** Appears to be on track to far exceed jobs created target, with Business Start Up and JESSICA project contracted for more than 15,000 jobs. Under committed for jobs safeguarded target. Also risk that Programme may be unable to claim jobs from site and premises development if they are indirect result of investment.<br>• **Businesses created:** Only one project contracted to deliver, but reports that it will far exceed target. | | |
| Impacts | • On paper, should significantly exceed target for net additional jobs created/safeguarded and GVA generated. However, will depend on whether Programme can claim indirect job results. | | |
| Practical Delivery Issues | • Appears to have proved difficult to generate project activity in AA4.1, with few potential projects offering scope and value for money required by programme. | • Availability of alternative sources of funding (eg. LEGI) for this type of activity may have played a part in limiting inflow of projects. Limited supply of projects as Programme ran into difficulties over overlap with ESF | • In spite of recession, highly competitive Action Area with a number of high value investments having been made alongside JESSICA.<br>• Suite of public realm/land reclamation investments made as response to recession, although will deliver limited direct outputs/results to NWOP |
| Key Context Changes | • Changes in economic conditions have had biggest impact on P4. Design of Investment Frameworks assumed weaker performing areas could be linked to areas with high number of employment opportunities, but there are now fewer such economic motors in the region at present.<br>• Cuts in public sector funding with associated reduction in employment projected to have significant impact on already disadvantaged areas of NW<br>• Future P4 should be well aligned to objectives of Regional Growth Fund.<br>• Move to Local Enterprise Partnerships may create new opportunities to assemble packages of public and private sector investment in sites, premises and support services in disadvantaged areas. | | |

## Implications for Priority 4

7.34 Of the four main NWOP Priorities, P4 requires the most substantial rethink given the level of uncommitted resources and the significant changes in the policy and funding context that are taking place. The analysis has pointed to a number of implications for the Programme's future approach to P4.

- **Uncertainty over outputs and results for P4:** JESSICA has received over £25m under AA4.3. The proposed outputs for JESSICA have all been pro-rated from Investment Framework targets (eg. investment leveraged and jobs created) but the initiative is unlikely to start to invest in projects until at least early 2011, and economic impacts are likely to emerge only in the final period of the NWOP. Seen alongside the uncertainty about whether indirect jobs outputs/results are valid for ERDF purposes, this would seem to leave the Programme exposed without action both to clarify and potentially adjust its targets for P4.

- **Vulnerability to cuts in public-sector match-funding:** There are a number of projects across all Action Areas in P4 which are either at the concept or D&A stage, and which may face difficulties in securing match funding. This has implications both in the potential for additional headroom in P4 and the Programme's ability to generate projects which are capable of securing the requisite match. This points towards a strategy both to maximise the opportunities from packaging available capital and revenue funding for disadvantaged areas (i.e. across AA 4.1, 4.2 and 4.3) and which seeks to align remaining investment to the new public sector funding landscape (eg. with Regional Growth Fund).

- **Weak pipeline in AA4.1 reinforces need for a package approach to P4:** Despite a number of EoIs being received and rejected, AA4.1 has seen very few projects coming forward through Concept and D&A stage and appears to have a weak pipeline. With a substantial level of funding left to be allocated, this reinforces the case for adopting an approach to P4 which links AA4.1 type investments to 4.2 and 4.3, potentially as packages of activity to support job creation in disadvantaged areas.

# 8. Priority 5: Technical Assistance

8.1 Priority 5 allocates ERDF resources for the Programme's Technical Assistance (TA). The provision for the Programme to allocate up to 4% of its allocation to TA is laid out in Article 46 of the Structural Funds regulation. This enables the Programme to fund a range of activity relating to the management and administration of the Programme together with activities to reinforce capacity to implement the Programme.

8.2 The resources allocated to the management and delivery of the Programme cover:

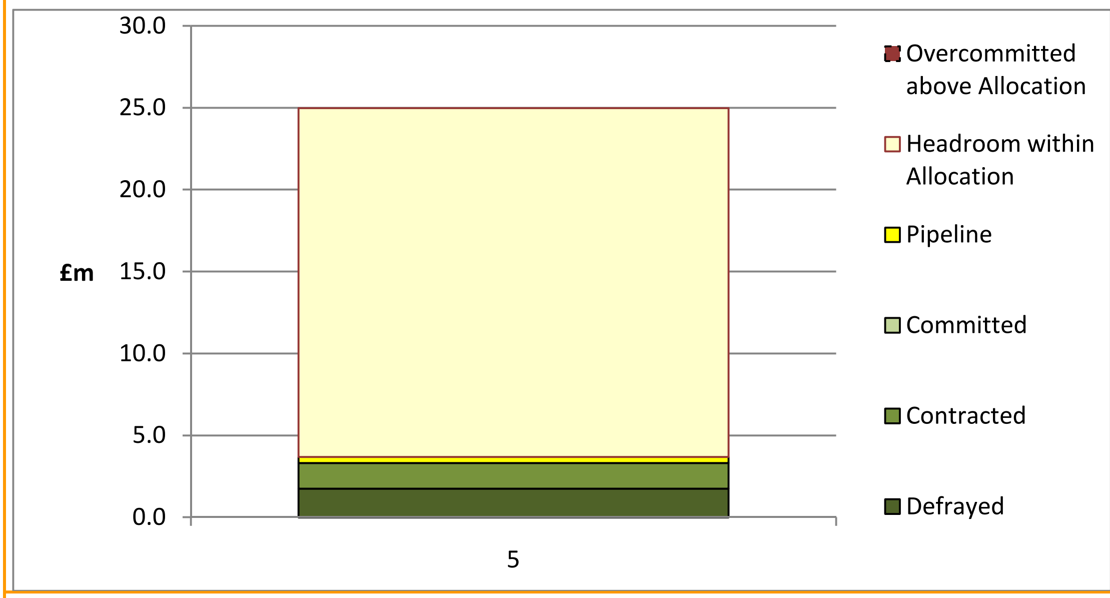
- Monitoring, evaluation and feasibility
- Communications
- Development of a core strategy
- Management and control systems
- Publicity and promotion.

8.3 Additionally, Priority 5 funding plays a key role in strengthening ERDF partnership activity across the North West. It provides funding to engage sub-regional organisations in providing assistance for the development of ERDF projects and to enable them to play a part in promoting the Programme to public and private sector interests. Similarly, TA funding is used to strengthen the capacity of the voluntary and community sector to access ERDF funding and engage with the NWOP.

## Expenditure in Priority 5

8.4 A summary of progress on expenditure in Priority 5 is given in Figure 8-1 below which shows actual, committed and pipeline spending together with the headroom remaining in Priority 5.

**Figure 8-1: Priority 5 Expenditure**

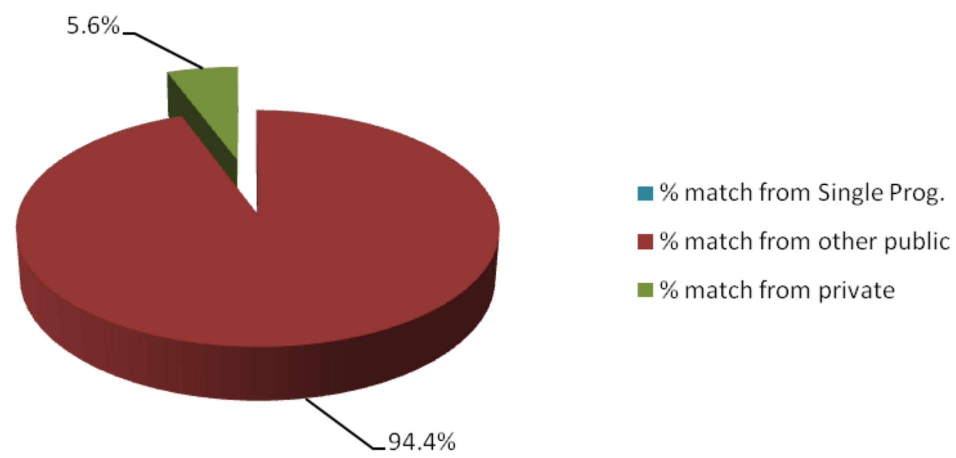



Source: MCIS Data from the EPE, end of August 2010

8.5 The MCIS data indicate that £1.8m has been claimed to date in Priority 5 with a further £1.6m contracted for leaving around 85% headroom (£21.3 million) of the £25 million allocated. However, more recent data provided by the EPE indicate that £4.6 million has been contracted for in total, and a further £0.37 million has been approved post concept with a project at D&A stage. This would suggest that the headroom in Priority 5 is closer to £20 million or 80% of the budget.

8.6 The match funding picture (Figure 8-2 below) for TA to date is dominated by funds from other public sources, principally the sub-regional partnerships and third sector organisations and universities (North West Universities Association), with just a small proportion contributed from the private sector.

**Figure 8-2: Priority 5 Match Funding**




Source: MCIS Data from the EPE, end of August 2010

## Delivering Priority 5

8.7 More than half (58%) of the value of live projects is accounted for by the Programme wide £2.7m technical assistance run by the NWDA. No projects have failed at concept or approval stage and none are currently in the pipeline. The lack of committed and contracted spend relative to what is available and absence of pipeline activity highlights a potential missed opportunity to capitalize on the opportunities for support, co-ordination and promotion of ERDF within this Priority.

| Table 8-1: Priority 5 Activity Summary | |
|---|---|
| Programme Allocation (current with NWOP + 20% assumption) | £25 million |
| No of projects funded | 11 |
| No. of projects at D&A or legal stage | 1 |
| No. of pipeline projects (Concept or EoI) | 0 |
| No. closed post concept | 0 |
| Projects rejected at EoI | 0 |
| Largest ERDF contribution for live projects (exc. VCLF and loan funds) | £2.7 million (NWDA TA) |
| Smallest ERDF contribution for live projects | £109,000 (Merseyside Third Sector Support) |
| Average ERDF project value for live projects | £462,900 |
| Source: MCIS and European Programmes Executive Data | |

8.8 Outside of the funding for Programme wide TA provided to the NWDA, funds have awarded sub-regional partnerships covering the five sub-regions and organisations representing the voluntary, community and university sectors across the region at an average project value of £0.21 million. At £0.59 million, the largest project is the TA allocation for The Mersey Partnership which supports ERDF activity across the phasing in area.

| Table 8-2: Type of Applicant, Priority 5 | |
|---|---|
| **Applicant** | **Number of Projects** |
| NWDA | 2 |
| Other Public Sector | 5 |
| Higher Education Institutions | 1 |
| Third Sector | 2 |
| Source: MCIS Data from the EPE, end of August 2010 | |

8.9 The evaluation has covered several components of Priority 5 activity, including some aspects of the European Programme Executive's work, support linked to CCTs and elements of the Programme's partnership activity. Two projects (**Greater Manchester TA** and **Third Sector Coordination)** were reviewed in more detail to give the evaluation a clearer understanding of the types of action delivered through TA and its function as part of the wider Programme.

8.10 **Greater Manchester Technical Assistance** (£0.24 million) is delivered by the Commission for the New Economy (CNE) and provides extensive ERDF support across the sub-region. This approach has capitalised on the benefits of considerable ERDF experience within Greater Manchester local authorities through the delivery of support during the 1994-99 ERDF programme, and the 2000-06 Objective 2 and ESF programmes. The activity delivered through this project has focussed on:

- Promoting investment and match funding opportunities
- Development and dissemination of best practice in partnership working for the sub-region
- Support throughout the project application and delivery cycle.

8.11 Investing in sub-regional capacity in this way helps both to strengthen project development structures and ensure in principle that relative newcomers to ERDF are guided through concerns (relating to the eligibility of activity, state aid problems etc). CNE has assisted a large number of projects from EoI to concept and a focus at the early stages of development appears to be generating projects with a clear strategy moving into delivery. The project is performing well against objectives and expansion of existing activity is being sought through a second phase which is progressing through the D&A stage. As the Programme moves forward into a period of greater uncertainty regarding matching funding and management arrangements, this sub-regional capacity is likely to be of significant value.

8.12 The **North West Network (NWN) TA** (£0.11 million) which links to an equivalent project delivered by The Merseyside Networks, offers the Programme a similarly comprehensive package of support to partners from the voluntary and community sector in the region. For a sector which is marked by both a considerable diversity of interests and tight funding constraints, the TA project has an important part to play in:

- Informing VCS representatives about the NWOP and opportunities to secure ERDF funding. The North West Network runs an easy to navigate website which provides a good, comprehensive guide to the 2007-13 Programme. Project outputs are measured in terms of attendance at meetings, numbers of workshops and other information events and ERDF newsletters published by the NWN
- Representing the interests of the VCS in the PMC, PMSC and MPISC by feeding in the views of beneficiaries and projects about the Programme
- Support for organisations and individuals developing ERDF projects, including an element of handholding applicants through the project development process.

8.13 It is understood that recipients of TA now meet regularly as a group across the region to cooperate in resolving problems relating to the delivery of TA projects and to provide a degree of coordination amongst sub-regional and third sector representatives. This element of collaborative activity in turn helps to reinforce the impact of ERDF funding on partnership development in the North West.

## Key Points

8.14 The assessment of progress in Priority 5 has highlighted a number of key points for the evaluation:

- **The importance of a good flow of information and processes to share Programme information.** Technical assistance projects make an important contribution to the process of disseminating information about the NWOP both to specific projects and more widely within sub-regions, VCS etc. The assessment of Programme systems, processes and communication has suggested a need to improve the flow of information from the EPE out into the region. While the quality of information from the EPE is recognised as having improved, there is a view that more should be done to raise the profile of the Programme and explain it to partners. The TA projects have a role to play here.
- **The value of guidance to projects at the earliest stage in their development.** The TA projects are a key resource in supporting early stage project development. However, the evaluation has heard views that sub-regional, local and third sector project applicants sometimes perceive themselves to be at a disadvantage compared to project developers within the NWDA. It has proved difficult to assess the extent of this problem, but the EPE may benefit from considering how it might strengthen its connections with TA organisations.
- **A lack of clarity about Priority 5 output and results targets.** The evaluation has

seen clear evidence of the range of TA outputs reported to the EPE and information about expenditure claims, although it was agreed with the European Commission not to have any formal indicators for P5. However, as a result it is more difficult to assess the performance of projects whose activities are not always straightforward to measure. In turn, this may result in a lack of clarity amongst projects about where the emphasis is expected to be in the delivery of TA.

- **Future focus on match funding.** TA projects are likely to face many of the same public funding restrictions as other ERDF projects. The evaluation has heard some concern that ERDF capacity in the region at large may be reduced as a result.

## VCLF

8.15 The North West Venture Capital and Loan Fund (referred to as The North West Fund) builds upon the experience of previous publicly funded Venture Capital and Loan Funds in the North West and has been developed in accordance with the JEREMIE Initiative. This initiative established in 2006, offers EU Member States, through their national or regional Managing Authorities, the opportunity to use part of their structural funds to finance SMEs through equity finance, loans or guarantees using a revolving umbrella fund.

8.16 The North West Fund will provide debt and equity funding to address identified constraints in the provision of access to finance in the North West. It will support the establishment and growth of SMEs and key sectors in the Region. The North West Fund has an initial investment value of £184.8 million, comprising of an ERDF grant of £92.4 million matched funded with an equal amount from a European Investment Bank (EIB) loan. The Fund will lever private sector support through the attraction of financial investors at the level of individual deals.

8.17 The North West Fund is the umbrella fund and is split into six separate sub-funds, each with its own fund manager:

- Development Capital (£45 million) – This sub-fund will provide expansion capital for SMEs. It will offer flexible equity and loan packages to support identified weaknesses in the market, and where possible will invest alongside other sources of private capital. Expansion capital structures can include equity, mezzanine capital and loan support. This fund will target a broad sector range and will seek to focus on the regional economic priority sectors. However, it will not invest in the sectors targeted by the priority sector sub-funds (see below).
- Venture Capital (£30 million) – This sub-fund will offer early stage finance to SMEs. This will include proof of concept, pre-start, start-up, seed capital, gap venture finance and venture capital funding, including follow-on investments. This sub-fund will have a broad sector range. Again it will focus on the regional economic priority sectors, but will not invest in the sectors targeted by the priority sector sub-funds.
- Business Loan (£35 million) – This sub-fund will offer loans of between £50,000 and £250,000 to SMEs. It will target growth businesses with actual or potential revenue streams, but whose investment and funding needs are not fully met by the banking sector and the Enterprise Finance Guarantee Scheme. The loan terms will require security, and may include a degree of personal security from the owners of the SME.
- Priority Sector Funds (Energy and Environmental £20m, Biomedical £25m and Digital/Creative £15m) - The three Priority Sector Funds will provide both venture

capital and development capital investment.

8.18 North West Business Finance (NWBF) has been established as a company limited by guarantee, independent of NWDA. NWBF is the holding fund and is responsible for appointing the Fund Managers to manage each of the six sub-funds. Each Manager will be tasked to identify and invest in businesses which meet the specific criteria applicable to its sub fund.

8.19 The North West Fund investment period will run until December 2015 with a realisation period through to December 2022. Once the EIB loan has been repaid, all returns will be held by North West Business Finance for reinvestment via a legacy fund. Therefore the North West Fund will operate as an evergreen fund.

## Progress in the North West – Development & Implementation of VCLF

8.20 VCLF has been an important and integral part of the Programme since its inception. An investment framework was developed for VCLF at the outset. Subsequently, work began on designing, securing the funding for and procuring the North West Fund. This process has been both lengthy and problematic, which is in part a reflection of the complexity of the arrangements for the fund.

8.21 Applying for and securing funding has been protracted and convoluted. The project submitted expressions of interest and concept forms as and when required. It was subject to a detailed appraisal by a member of EPE team. However, because of the size and nature of this project, an independent Green Book appraisal was also completed prior to appraisal by the EPE and the project was subsequently subject to a CPRG appraisal.

8.22 The project had to go through this appraisal process twice. Initially, the intended model consisted of one fund manager and a public sector holding fund. However, CPRG deemed this unacceptable as the EIB loan would sit on the Agency's balance sheet and would therefore impact upon subsequent grant funding. Therefore, the project was redesigned and now comprises multiple fund managers and a private sector holding fund. Because of the change in the model the scheme had to be reappraised

8.23 By the end of 2008, the procurement process for the fund manager was well underway. However, the redesign of the project meant this process was abandoned and the project team had to go through a second procurement process to identify managers for each of the six sub-funds. Along with a lengthy appraisal process, this served to delay the project.

8.24 The Fund is now one year behind schedule and it is in the final stages of set up. Currently, there are a number of complications which the project team are trying to address before the legal agreements can be signed and the fund managers can start to invest:

- Investment Operating Guidelines - The project team is currently finalising these guidelines. In so doing they are seeking advice on eligibility (i.e. providing a clear framework within which the funds can invest and be certain that these investments are eligible). NWBF has commissioned a consultant from EIPA to answer some specific questions and provide guidelines based upon current case law.
- Addressing the reduction in legacy funding – Over the past eight years, NWDA has

invested public sector funds in a number of regionally focused funds. As a part of this project, NWDA initially agreed to transfer to NWBF the returns received so far from these funds, together with all future returns generated from the underlying investment portfolios. These funds were to be used to finance initial management fees and the early net interest costs incurred in operating The North West Fund. Early returns are unlikely to meet these costs. However, given the significant budgetary cuts facing the public sector, NWDA is now intending to retain some of these legacy funds to plug the Agency's funding shortfall. Therefore, the Project Team is now applying for an additional capital grant from ERDF (c. £4.6m) to plug the funding gap which arises from the net interest costs. The EPE have decided to take this application to CLG for approval.

8.25 Otherwise the fund managers have everything in place ready to start investing. They have found new premises, made job offers to staff and have opportunities in the pipeline. The fund managers are just waiting for the legal documentation to be finalised and signed off.

8.26 Subject to the resolution of the above issues, the fund will make its first investments in October 2010.

## VCLF: Key Issues for the NWOP

### Tailoring the application and approval process

8.27 Our discussions have revealed frustrations with the process of application and appraisal for the North West Fund. The project was subject to the same ERDF Programme approval process as all other projects. It did not take into account the complexity of the project or the additional approvals the project had to acquire before proceeding. Also given that external specialist advisors were heavily involved in the design and procurement of the project, and an independent Green Book Appraisal was conducted, a small number of those consulted felt there may have been merit in appointing specialist advisors to support the application process and conduct the appraisal on behalf of the EPE.

### Achieving Outputs – A Programme Risk?

8.28 The Project Team agreed with the EPE that given the Investment Period is until 2015, outputs can be included up until 2017. By 2017 the North West Fund is expected to support 800 businesses, create or safeguard 14,000 gross jobs, lever in £92.4 million of private sector investment (in addition to the EIB match), create 200 new businesses and have a £600m GVA impact.

8.29 These targets have been estimated using benchmarks drawn from evaluations/studies of previous funds. They have subsequently been market tested by the fund managers bidding to operate funds. Prospective fund managers were required to estimate the outputs they would deliver across the different funds and the above figures fell within the range of outputs that those tendering felt they could achieve.

8.30 Unfortunately, due to the slippage in the start date, the investment period has been compressed, so funds will be expected to make £35 million of investment each year (compared to an average of £25million in previous programme rounds). This will alter the profile of outputs and will undoubtedly make the achievement of outputs/results within the agreed timeframe more challenging. However, the project team feel that this investment profile is achievable because of current market conditions and the fact that The North West Fund is less restricted than past funds in terms of size, geography and match.

8.31 In terms of the overall achievement of outputs, at this stage most are deemed realistic by the fund and the fund managers. However, the jobs created/safeguarded and businesses created targets are regarded as the most challenging. It will be possible to reach a more informed view once the Fund starts to invest and there is a clearer picture of deal flow and failure rates. Therefore, we would recommend that the Programme revisits this issue in October 2011. This should be incorporated into the first independent evaluation of the Fund which is planned to take place at the end of the first year.

### Programme Recognition of Future Impacts

8.32 The outputs/results do not capture the evergreen nature of the fund and therefore the outputs which will be achieved beyond the life of the ERDF Programme. As was highlighted for the JESSICA programme, it will be important to ensure these future impacts are monitored and built into future evaluation plans at both project and Programme level. The legacy fund will provide the region with a valuable asset in future years.

## JESSICA

8.33 JESSICA (Joint European Support for Sustainable Investment in City Areas) is a policy initiative of the European Commission. The Commission has enabled member states to now use some of their structural funds to make repayable investments in projects which form part of integrated sustainable plans in urban areas. The rationale for investing in these plans in urban areas is that they create a system of connected actions which, when combined, generate a lasting legacy. The Commission envisaged that JESSICA investments could take the form of equity, loans, and/or guarantees (eg. rental guarantees).

8.34 In brief, JESSICA was launched at the start of this current programme period with a view to providing the opportunities for managing authorities to[36]:

- Leverage additional resources for public and private partnerships and other projects for urban development;
- Contribute financial and managerial expertise from specialist institutions such as the European Investment Bank (EIB);
- Create stronger incentives for success by combining grants with other financial tools; and
- Ensure long term sustainability through the revolving character of the funds (i.e. potential reinvestment in new urban regeneration projects beyond the first investment. This flexibility is particularly important in areas of the EU where

[36] King Sturge (June 2009) – JESSICA Evaluation for the North West region

structural funding is likely to reduce considerably).

8.35 The key difference JESSICA offers in comparison to other, more traditional, operational programme investments is that the fund must make a **return on its investment**. The fund is not a grant giving body helping to fill funding/viability gaps on projects. While some grant supported schemes (particularly land and property investments) have profit sharing clauses included, or overage is sometimes paid, in the main, the return sought by the investor is measured in outputs and results generated. With JESSICA those same outputs and results are required for ERDF supported projects, but the fund seeks to recycle their original investment at a point down the line, and re-invest this money in future projects. These types of funds are often called evergreen funds and can provide an important funding legacy for regions.

## JESSICA: Progress in the North West – Development & Implementation

8.36 In December 2008 the NWDA proposed the launch of a regional JESSICA Fund. The scale of the fund, its composition and its structure were considered throughout 2009. Following these considerations the NWDA planned to develop a £100m fund including £50m of ERDF matched against £22m of NWDA Single Programme and £28m of NWDA land assets. The ERDF funding would be drawn from Action Areas 3.2 and 4.3 of the Operational Programme, both contributing £25m each.

8.37 However, to gain government approval for this proposal a considerable amount of work was required, particularly in the development of a strong business case for the fund, but also in undertaking extensive regional stakeholder engagement. The proposal was subject to a full Green Book appraisal in September 2009. This appraisal assessed the business case, including the value for money and the economic impact of the proposal[37]. The development of the business case was led by land and property professionals within the Agency and their consultants. This process required a comprehensive options analysis to be undertaken, as well as a considerable level of consultation with partners across the region. The European Programmes Team (EPE) was kept regularly informed on the progress of JESSICA and were also involved in the regional workshops which contributed to the development of the business case.

8.38 Following the approval of the Business Case by the Government it was necessary to draw down the £50m of ERDF funding by December 2009 in order to meet de-commitment targets for the Operational Programme. The funds were then placed in to an overarching regional Holding Fund, with the NWDA contracting the EIB to commercially manage this while further work was undertaken to establish the operational nature of the fund in the region, in particular the establishment of Urban Development Funds (UDFs are the funds which actually invest in projects directly). A steering group was established to support the project development process, while agreement was reached to establish two UDFs, one in Merseyside and one for the Rest of the North West (RONW), the EIB has subsequently managed the UDF procurement process.

8.39 As part of the process for securing £50m of ERDF funding, Programme outputs and results

[37] Ekos Ltd, September 2009

were apportioned to JESSICA on a pro-rata basis in relation to the scale of the investment. Table 8-3 shows the range and scale of ERDF outputs and results attributed to JESSICA. However, we understand that the project has until 2017 rather than 2015 to meet these targets. Nevertheless, these targets will be extremely challenging to achieve given the current economic and property market conditions.

**Table 8-3: Summary JESSICA Operational Programme Outputs & Results**

| | Sum of Private sector investment levered (£m) | Sum of Brownfield Land reclaimed and/or redeveloped (ha) | Sum of No. of gross jobs created | Sum of New or upgraded floorspace built/upgraded to BREEAM excellent or very good at current standards (sq m) |
|---|---|---|---|---|
| JESSICA (AA3.2) | 49.6 | 123 | 3,650 | 122,500 |
| JESSICA (AA4.3) | 49.6 | 123 | 3,650 | |
| **Total JESSICA Outputs and Results** | **99.2** | **246** | **7,300** | **122,500** |

Source: MCIS Data from the EPE, end of August 2010

8.40 The JESSICA regional Investment Board was also established in early 2010. This board included senior executives from the NWDA, the EPE, HCA, representatives from across the sub-regions, as well as three independent members. Its initial task was to approve the investment strategy for JESSICA. This largely reflected the strategic view of the RES, as well as ERDF action areas 4.3 and 3.2. This document provides the UDFs with an over-arching vision for the types of projects JESSICA ERDF funding can be used to support, including specified spatial locations and eligible activities. Essentially the investment strategy provides the ERDF investment parameters for the UDF investment managers, and it is largely based around existing ERDF investment frameworks for the Action Areas.

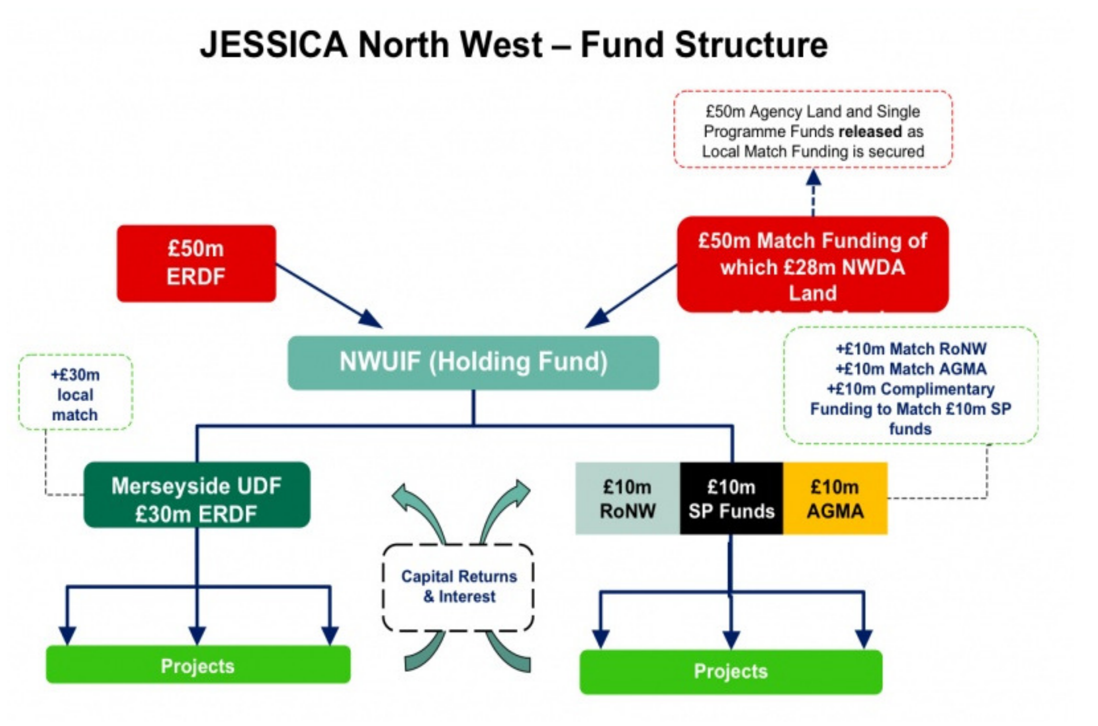
8.41 The UDF procurement process was launched in March 2010 and proposals were received from a number of consortiums. The bids selected to be developed in greater detail were:

- **RONW:** Manchester City Council and Lancashire County Council (representing AGMA and the three Shire areas of Cheshire, Cumbria and Lancashire) are co-chairs of this fund (Evergreen) which will be managed by CB Richard Ellis.
- **Merseyside:** A consortium made up of Igloo Regeneration with Aviva Investors Global Services, GVA Grimley, and Royal Bank of Canada Europe.

8.42 We understand that discussions are currently on-going between these parties, the EIB and the NWDA to work towards the signing of operational agreements in late 2010.

8.43 Figure 8-3 below provides an overview of the fund structure for JESSICA in the North West.

**Figure 8-3: North West JESSICA Fund Structure**




Source: CB Richard Ellis

8.44 The key points to note are:

- The Holding Fund is £100m in scale with a mix of ERDF (£50m), Single Programme (£22m) and NWDA land assets (£28m). The £50m ERDF is held by the Holding Fund and then transferred to the UDFs as a loan (£30m to Merseyside and £20m to RONW). The Holding Fund retains £40m – a mixture of Single Programme cash (£12m) and NWDA land assets. At this juncture only loans will be provided under JESSICA in the North West, equity and guarantees are not proposed. The RONW fund also receives £10m of NWDA Single Programme funding.

- The remaining funding (£12m) and land assets (£28m) held by the Holding Fund can be used flexibility. The NWDA retains discretion on how the £12m is spent, however it will not be used for UDF match funding. The NWDA land assets are used as a lever to build scale and critical mass for the UDFs. If UDFs have secured match funding at the project level this asset can be released back to NWDA. However, in some circumstances, the NWDA may consider transferring a land asset as an investment to a JESSICA project. However, this will be determined on a case by case basis.

- Each UDF is £30m in scale from ERDF or Single Programme funds, but will rise to a minimum of £60m once local match funding (including ERDF eligible funding) has been secured. UDF funds are likely to be much larger than this however, with the expectation that fund managers will significantly grow these funds as urban investment vehicles in these areas. The Evergreen RONW fund, for example, has already secured broad agreements from local authority pension funds to invest at the project level.

- Each UDF can invest in ERDF eligible projects in line with the criteria set out in the Action Area investment frameworks and the JESSICA investment strategy (although the RONW fund has some geographical allocations to adhere too with defined ERDF allocations to be spent in Greater Manchester, and others in the rest of the region). Investment managers will use ERDF funding as part of a wider package of investment in a project. The key difference to the existing grant regimes will be that these managers will seek a return on their investment in the future.

- The capital returns and interest accrued over the first ten years from the UDFs' ERDF investments will accrue back to the UDF level. After this period there is a return to the Holding Fund. These recycled funds will enable the UDF to re-invest the original ERDF funding back in to future projects. ERDF contractual obligations (eg. eligibility criteria) are only applicable in the first round of spending, leaving each UDF with the flexibility to invest in future projects as they see fit, and develop an on-going funding legacy for the Operational Programme in the region after it has ceased.

## JESSICA: Key Issues & Considerations for the NWOP

### The Timeline

8.45 There has clearly been a significant amount of work and effort involved in the establishment of JESSICA in the region since the original announcement at the end of 2008. However, the culmination of this process will be that the North West will be one of the only regions in the UK and in Europe to have successfully developed a JESSICA fund; a fund which will provide a legacy for the region.

8.46 While some of our consultees, who were not directly involved in the project development process, have expressed concerns at the length of time taken from announcement to fund establishment, the actual timeline for the project is now broadly back on its original course[38] following some earlier delays. However, it was inevitable that there would be some issues and delays to overcome, particularly with JESSICA being a new funding mechanism for partners in the region. Undoubtedly, there has been a significant learning curve for all involved.

### The Project Pipeline

8.47 While there was some initial testing of hypothetical eligible projects in the region at the JESSICA business planning stage, it is not clear to us, as evaluators, the true extent of the project pipeline for both UDFs (this is largely due to this information being commercially confidential). We have a broad view on the types of eligible investments which are likely to be made, based on our knowledge of projects in the region, as well as confirmation from involved parties that there are projects already being lined up for investment as 'quick wins'. Despite this reassurance on the pipeline of projects there is likely to be pressure on the UDFs to spend on ERDF eligible projects within the programme period (up to 2017), as well as a challenge to secure match funding within this difficult economic climate.

### Achieving Outputs from JESSICA – a Programme Risk

8.48 It is anticipated there will be some relatively quick wins for ERDF JESSICA investments in the two UDF areas. However, it is an inescapable fact that we are now half way through the

[38] King Sturge (June 2009) – JESSICA Evaluation for the North West region

operational programme period. There were some initial delays in the development and sign-off of the programme (which are well documented in other sections of this evaluation), but clearly there are already existing pressures being felt in other areas of the programme to achieve land and property related outputs and results. Therefore, while the £50m of ERDF funding has already been spent in the eyes of the programme, the biggest obstacle will be achieving the associated outputs and results.

8.49 Some consultees have concurred that the agreed output targets for Priority 3 and 4 were extremely challenging, even in a period of strong economic growth and stability. The significant downturn in investment activity, along with the recession, has made some of the target outputs and results appear difficult to achieve, and out of kilter with the prevailing economic conditions which the programme will be operating under in the short-medium term. As outlined earlier the outputs from P3 and P4 have been apportioned to the JESSICA projects on a pro-rata basis.

8.50 Consequently, a significant milestone to still pass is the signing of the operational agreements between the Holding Fund and the UDFs. The UDFs have not yet signed up to the ERDF output targets and results as they have concerns around the issue of claw-back and legal responsibility for targets which they had no input into agreeing. This issue could pose a potential delay to JESSICA investments, unless there is an agreement reached which eases the UDFs' concerns.

8.51 The NWDA and its partners are also having to address state aids rules to ensure that the notification requirements do not reduce the flexibility of the fund to invest ERDF. It is understood that the NWDA and other RDAs are currently in discussion with BIS to begin to prepare a UK wide state aid notification, in effect a block exemption.

### Programme Recognition of Future Impacts

8.52 JESSICA will be sustainable fund, with ERDF funding used in further rounds of investment after the programme has finished. JESSICA has the potential to be catalyst to support an on-going stream of investment opportunities for the North West region in the future. Its investments will not necessarily be short-term. The initial investments which JESSICA funding will support are most likely to be over a long-term period, with outputs and results accruing at a much later stage than the programme period. This timeline is likely to be exacerbated further with the economy still relatively fragile, and the investment community still risk averse. At present the Operational Programme is not structured in a way which allows a greater sense of recognition of this issue, or the added value which JESSICA has the potential to deliver in the region i.e. providing a much wider and sustainable economic impact beyond the next five years. It also does not recognise its potential to complement other funding mechanisms or sources such as Tax Increment Financing (TIF), or the Regional Growth Fund (RGF).

8.53 It will be critically important for the Programme to address this issue from this point on, and to develop a more flexible mechanism to capture the future impacts which ERDF investment may have in the region post-2015. The evaluation plans for the individual JESSICA investments could be a useful starting point to reflect these issues, while any future overarching Programme evaluation, or JESSICA evaluation, should seek to draw out these messages more clearly.

# 9. Cross-Cutting Themes

9.1 In this chapter we present our assessment of progress against the two Cross-Cutting Themes (CCTs) of Environmental Sustainability, and Equality and Diversity. All projects supported by the OP should aim to impact positively on one or both CCTs.[39] An early decision was taken by the evaluation steering group and evaluation team not to treat the CCTs in isolation. Although this chapter is dedicated to CCTs, our assessment of progress has been integrated into all the evaluation tasks. Project reviews, research tools, consultations and quantitative analysis have been configured in ways which directly address both CCTs.

9.2 This element of the evaluation has focussed on the extent to which NWDA and partners have and will embed CCTs in Programme and project activity. It also considers progress against targets, capacity to deliver the CCTs and the future direction of CCT-related work. The evaluation additionally sought to identify where examples of best practice in the delivery of CCTs might be emerging.

## Learning Lessons from Previous Programmes

9.3 There is a strong consensus that lessons have been learned from the region's previous ERDF programmes and other relevant activity. In fact, CCTs are one of the few areas where consultees agreed that activity has unquestionably improved since management transferred from the Government Office to NWDA. It is a measure of the robustness of the Programme strategy that stakeholders were so keen to learn and apply lessons from the previous NWOP and related activity. There are three particular points of note that have helped to drive progress on CCTs:

- **A new, target-driven focus on low carbon:** since the start of the previous NWOP, there has been a substantial shift both in thinking on low carbon and efforts to bring this into the mainstream. Examples include the application of BREEAM very good and excellent standards, CEEQUAL, waste water targets, the carbon calculator[40] and the addition of a Programme-wide target on $CO^2$ emissions.
- **Ready to deliver on CCTs from day one:** unlike the previous programme, the 2007-2013 Programme has had staff capacity, capability and processes in place from the start who have been involved from the start in the design and development and oversight of the Programme and investment proposals.
- **CCT managers embedded in the delivery organisation:** CCT Managers are based in and line-managed by Programme management authority (NWDA), rather than a third-party as was the case in the previous programme. This has allowed them to draw on additional expertise from the Equality & Diversity and Environmental Sustainability teams and to keep a close handle on the progress of RDA match-funded projects. These arrangements have helped the CCT Managers stay focussed on real-world delivery and not get bogged down in technicalities and compliance issues. They have also endeavoured to adopt a pragmatic approach to identifying

[39] According to the NWOP Guide to Applying for Funding and Running an ERDF Project, p23.

[40] NWDA's Carbon Calculator is a free online carbon foot-printing service joint funded by NWDA and ERDF Technical Assistance.

where to focus CCT effort and to acknowledge where CCTs are not that relevant or will not bring that much added value.

## Embedding CCTs in the Programme

9.4 The focus of the evaluation has been on the horizontal embedding of CCTs in the programme, meaning the extent to which they have been built into all funded project activity. However, the region has also sought to implement CCTs through their vertical integration into the Operational Programme. This is achieved through the setting of strategic objectives and funding priorities focused on environmental sustainability and, to a lesser extent, on E&D related issues such as action aimed at employment and enterprise opportunities in deprived communities.

### Programme strategy and objectives

9.5 There is a broad consensus that the CCTs have been reflected in the overall strategy and objectives of the NWOP and that they are most clearly embedded in AA1-3 (Increasing Sustainable Consumption and Production). The CCT managers are unequivocal in their view that Environmental Sustainability is better defined and quantified than Equality of Opportunity. This view has been consistently backed up by strategic consultees and project reviews. This is a common issue across ERDF programmes, and appears to reflect both the extent to which equality and diversity requirements have been mainstreamed into delivery organisations through statute and policy, and perceptions that there is a lack of definitive guidance at national and European level about the precise nature of CCT requirements.

9.6 Stakeholders are still seeking greater clarity on what the inclusion of CCTs as a core part of ERDF programmes aims to achieve and feel that still more could be done by the region. In particular, despite the low carbon agenda progressing in leaps and bounds both nationally and regionally since the previous programme, consultees suggest stakeholders could have been even bolder in asserting the vital role of the low carbon economy from both a moral and business competitiveness viewpoint. The North West is making headway in better gearing up to benefit from the commercial opportunities offered by the development of low carbon technologies. However, in common with other areas of the UK, keeping pace with a rapidly developing market and responding to an increasingly critical policy imperative present a powerful case for strengthening activity in this area.

### Priorities and Action Areas

9.7 While the key purpose of the programme's CCT activity is to horizontally integrate them through projects into all Priorities and Action Areas, the evaluation has highlighted a number of opportunities for the vertical integration of CCTs in specific Action Area, particularly for actions relating to environmental sustainability.

#### Priorities 1 and 2

9.8 The implementation of CCTs is playing out in different ways across the four main programme priorities. The inclusion of an Action Area (1.3) which is dedicated to sustainable consumption and production is seen as a positive development, and one with the potential to enable the North West to stand out for its approach to embedding environmental sustainability in an ERDF programme. However, it is still relatively early in the delivery of projects to assess the results of this type of investment, and there has been limited project activity to date in the sustainable procurement and consumption strands of AA1.3.

9.9 There are also clear benefits to the environmental sustainability CCT from ERDF investments through organisations which specialise in this area, underpinned by Investment Frameworks for P1 which include support to sectoral bodies. These benefits are most evident where the programme directly invests through Envirolink and Enworks as delivery organisations, with this approach designed into Action Area 1.2. However, there is also evidence that the programme is able to indirectly influence the take up of resource efficiency measures, low carbon technologies and other environmental measures by working with business support projects to promote referral to Envirolink, ENWORKS and other providers. The Business Link innovation brokerage project has operated in this way.

9.10 There are no comparable hooks in P1 and P2 for the implementation of the equality and diversity CCT. Many of the standard E&D requirements are now well integrated into delivery organisations in the public sector and voluntary/community sector (eg. new legislation on gender equality duty). A decision was taken to ensure that the 2007-13 programme did not impose an excessive number of E&D measurement requirements on projects, and the onus is on projects to ensure that their procurement, marketing, advisory activities etc. reflect E&D objectives.

### Priorities 3&4

9.11 The emphasis on capital investments in P3 and P4 provides a wider range of opportunities to embed environmental sustainability in the programme. Action Areas in P3 which earmark resources for transport infrastructure improvements and the development of new sites and premises offer considerable scope for ensuring that the North West continues to up its game on the reduction of carbon emissions. The programme has been underpinned in this respect by significant changes in policy thinking about how capital investments should embed higher environmental design standards, resource efficiency, waste water requirements and other related requirements.

9.12 However, the evaluation suggests that the CCT managers together with the wider NWDA team have sought to use the programme's substantial provision for capital build to push for investments that make significant improvements to the use of energy, waste and water efficiency, and that it has effectively harnessed policy to this type of investment (eg. through Sustainable Buildings Policy and now Policy for the Built Environment). The message has been that the programme has sought to encourage a move to more routinely include sustainable methods in capital build projects, using the CCTs as a mechanism to achieve this.

## Project design

9.13 The critical test of the effectiveness of the programme's approach to CCTs is the extent to which they have been embedded in ERDF projects. From the outset, the evaluation heard praise for the NWDA for the clear and accessible guidance it has provided on CCTs, in spite of what is perceived to be a continuing lack of clarity about aspects of national guidance. This view has been well supported by evidence at each stage of the project application process. The evaluation has been provided with the key guidance documents provided to projects, and this bears out the view that a comprehensive set of tools is available to enable CCTs to be designed into projects.

- Environmental Sustainability guidance: Guide to the online carbon calculator with examples of evidence, Report on energy efficiency and renewable energy in housing, and Green Travel Plan good practice, NWDA sustainable buildings policy & guidance note and links to the NW sustainability checklist.
- Guidance on Equality and Diversity comprises: Equality and diversity policy, ERDF equality guidance, and Equality Impact Assessment guidance. This provides a standard set of requirements and questions that each project has to consider.

9.14 The CCT guidance compares favourably with that produced in other English regions and is partly a result of new minimum requirements imposed on projects for Environmental Sustainability. The decision to integrate equality and diversity requirements into the new Sustainable Buildings Policy clearly further strengthens the range of tools that the Programme has available to pursue CCTs.

9.15 Many projects have clearly taken CCTs on board early in project design and have effectively integrated both equality and diversity and environmental sustainability. The CCT Managers have attempted to secure consistency and added value for both CCTs and have drawn on wider expertise and resources within NWDA to make progress. A common approach is applied to the appraisal of all projects at concept and D&A stage, with comments on CCTs fed through to the appraisers and project sponsors by CCT managers.

9.16 From the 38 projects reviewed for the evaluation, some consistent messages have emerged about the process of designing in the CCTs to projects:

- Recognition that the written guidance and support from CCT managers has been consistent through the project application process. If anything, the guidance is occasionally perceived as being too thorough, with some projects suggesting that it adds to the complexity of securing ERDF resources and that further practical support from the NWDA would be useful, although this clearly has resource implications for the team involved in advising on CCTs. The perceived complexity of CCT guidance is understood to be a common issue across ERDF programmes.
- A mixed picture in terms of changes that projects may have been required to make or sought to make in the development stage of projects. In some cases, projects have worked extensively with the CCT managers and NWDA specialists to respond to advice provided in the application process and conditions suggested on CCTs. In other cases, projects appear to have adopted a light touch approach to addressing CCT requirements in applications for ERDF. The evidence suggests that this is to some extent dependent on the appetite of the project to treat the CCTs as a set of requirements that will add significant value to their activities. Several projects have cited the benefits of engagement with NWDA project champions who emphasised the importance of CCTs and hand held the project through the development stage.
- A general need for project applications to give more considered regard to the treatment of CCTs in funding bids. While CCTs have clearly be an important feature in the development of some projects, in other cases review of applications suggests that evidence about the sustainability or E&D implications of proposed activity is not a priority in project development. Perceptions appear to remain that CCTs are necessarily appropriate for a project's activities, and this adds to the difficulty faced

by the programme in ensuring that CCTs are embedded into projects in ways which go beyond simply meeting minimal requirements.

- Recognition that the NWDA's commitment to monitor four equality strands is a positive development, but that quantifiable targets would have helped to sharpen the focus of projects on E&D requirements. The formal commitment to Equality Impact Assessments (EIAs) in the application process is welcomed, but there is not yet a process for following them up in the delivery of projects.
- A clear view about the benefits of having a toolbox for the environmental sustainability CCT (carbon calculator, green travel plan requirements, sustainable buildings policy, BREEAM standards). For example, a number of projects suggested that emphasis on BREEAM ratings had helped to focus minds on the costs and benefits of projects and in the process secure more cost effective approaches to ERDF investments.

9.17 The evaluation has heard broadly positive story about project design and the CCTs. The programme would appear to have achieved a reasonable balance between setting specific requirements for projects to follow and the need to avoid an excessive burden of detail in the application process.

## Project delivery & CCT reporting

### Delivery

9.18 The NWOP has been better informed by and equipped to deliver CCTs than previous programmes. While translating on paper commitments to CCTs into substantive delivery remains a challenging task in view of competing priorities for projects, there are positive messages about the way that a number of projects have approached their implementation. In particular, consultees have pointed to the speed with which the programme was able to get up and running on the CCTs, with the decision to have two specialists in place through the NWOP's development having played an important part here.

9.19 However, it is also clear that external drivers have been a significant contributory factor in the way that CCT requirements are being delivered. For example, legislative changes relating to low carbon, resource efficiency, water quality/waste water have increased the pressure on delivery organisations to take action on environmental sustainability. Similarly, new and stronger statutory obligations relating to equality and diversity have already been implemented in many of the organisations delivering ERDF projects. Together, these external factors have in important respects created a more favourable environment for the delivery of CCTs.

9.20 The 38 projects reviewed for the evaluation have highlighted a range of different approaches to the delivery of the CCTs, and there are a number of clear messages about the strengths and weaknesses of the Programme's approach.

- Examples of capital projects which have worked closely with the CCT managers to ensure that CCT commitments are met and exceeded as construction and fitting takes place. The Liverpool CVS Business Development Centre worked closely with the Sustainability CCT Manager as the project entered the delivery phase, adjusting its approach to heating to the building and in the process securing a higher BREEAM rating. The project has also been supported to develop an additional ERDF grant application to fund this investment.

- There is evidence that project delivery organisations have benefited from a number of training and guidance sessions run by the CCT managers. As a result of a disability awareness training session, one project highlighted connections it had made between an SME providing services for the visually impaired and SMEs developing technologies in a related area. While it is understood to be challenging to secure good attendance at such sessions, they are a practical indication of progress.

- There is only limited evidence that projects engaging with SMEs are using equality and diversity reporting requirements to inform the targeting of their ERDF activities. In some cases, projects have well established systems for segmenting and targeting beneficiaries through marketing and outreach work. In the majority of projects reviewed, beneficiary monitoring data is reported into the EPE but generally does not appear to be leading projects to refocus their services.

- There is little evidence that equality impact assessments, required as part of the project application process, are subsequently playing a significant part in shaping the delivery of projects.

- Expectations consistently expressed by projects that additional, more direct guidance post contract on the reporting of CCTs would have been welcomed. CCT managers are clearly visiting projects to discuss how CCTs can be better incorporated, and they are chasing projects that are not completing quarterly reporting requirements (eg. carbon calculator). However, the Programme has limited resources to provide comprehensive post-contract support (2 CCT Managers). While the challenge clearly becomes more substantial as the number of live projects increases, a reduction in the number of new projects and the work involved in the applications process should free up resource for monitoring activity.

- A view from some projects that they felt that they could be pushed to do more, although they have not been clear about what this would involve. In many of these cases, projects have indicated either that their organisations have either already implemented the necessary policies or do not feel that the CCTs are relevant to their project activity. For example, there was a tendency among Priority 2 projects reviewed to suggest that the specialised nature of the academic research-commercialisation funded by the Programme did not lend itself to the targeting of activity for equality and diversity purposes.

- Signs that the environmental sustainability CCT is helping to change the way that some organisations approach their work in this area. For example, implementation of the sustainable buildings policy is understood to be introducing new sustainability targets in building to organisations that have not previously had them in place. Use of the carbon calculator had also been a new development for several of the projects reviewed, although it was not clear that behaviours had changed significantly as a result of its use.

9.21 It is still relatively early in the delivery of projects to assess the bigger picture of CCT delivery. The Programme will need to ensure that it is able to work with projects to follow up commitments made at the application stage, and the resource implications of this are significant given the overall project load. However, this is important if focus is to be maintained by projects in view of pressures to achieve outputs and spend ERDF funding. Many delivery organisations also likely to be affected to some degree by public sector funding cuts, and this is likely to add further competing priorities to the CCT delivery process.

## Reporting

9.22 The evaluation has found that the data being generated by projects on their progress against CCT targets is both transparent and generally rigorous. All projects are required to report on CCTs, and they are provided with tools (eg. carbon calculator) designed to ensure that they are systematically feeding data into the Programme. The project reviews highlighted a number of points about experiences of the reporting process:

- A perception from several projects that the purpose of collecting CCT data is primarily for audit purposes.
- A general view that much of the reporting required is relatively straightforward, although some projects have indicated a desire for a little more guidance on the practical measurement of their progress on CCTs.
- Advantages for delivery organisations which already have tried and tested systems in place for reporting on CCTs. For example, Business Link has a thorough approach to the collection of data on its customer base which has helped it to deal with the equality and diversity monitoring requirements.

9.23 There is an evident risk to the Programme of the CCTs being regarded as little more than a tick box exercise by projects. This is an issue faced to some degree by all ERDF programmes, and is perhaps difficult to avoid given the importance of reporting to the implementation of CCTs. The critical factor is to ensure that reports of progress (eg. on the completion of a green travel plan) are then translated into action by projects. Pushing projects to provide the necessary data on carbon impacts etc. is clearly an important part of this. It might also be useful for the Programme to assemble good practice case studies of the impact that delivering CCTs has had on delivery organisations.

9.24 The project reviews have also highlighted significant variation in the ambition and extent of CCT targets included at contract. This varies by:

- **Priority/Action Area**: characterised by high ambition where vertical activity is geared towards the CCTs (eg. AA1-3 for environmental sustainability. For other Action Areas (eg. elements of Priority 2) there appear to have been fewer opportunities to pursue a more ambitious treatment of CCTs.
- **Type of activity**: eg. additional minimum requirements kick in for capital investments (including public realm) in excess of £500K. In practice, this covers an overwhelming majority of ERDF capital investment.
- **Individual CCT**: as a result of more stringent minimum requirements for Environmental Sustainability and a stronger consensus on the relationship between competitiveness and low carbon/ resource efficiency.

9.25 It has been difficult to build a picture from the project reviews of the quality of CCT data being provided by projects. Only a very small number of claims have been submitted to date, with a focus on spend rather than outputs, and relatively little beneficiary data has been received. Many beneficiaries also appear to be exercising their right to opt out of completing personal (age/ethnicity/disability) profiles for E&D purposes. This is understood to be a particular issue with business support projects, with SMEs and entrepreneurs often preferring not to categorise themselves into a particular group. Although this is permitted it places real constraints on the measurement of progress on Equality of Opportunity. Given that the Programme has specific commitments to promoting equality and diversity, partners should consider how to ensure that the maximum possible volume of data is being collected in ways which are not imposing excessive burdens on the projects. With the systematic collection of data on SMEs likely to be squeezed by public sector funding cuts, a bottom up approach to intelligence on the North West's business base will be increasingly important.

9.26 The evidence suggests that the Programme Monitoring Committee initially set out to maintain a strong focus on the monitoring of the programme's performance on CCTs, and there appears to have been a commitment to ensuring that it did not become a tick box exercise. However this agenda seems to some extent to have been overtaken by other priorities, particularly the N+2 spend targets, JESSICA and JEREMIE. As a result, there is a sense that CCTs moved onto the back burner after 2008. Consultations with stakeholders have confirmed that a small number of PMC, PMSC and MPISC members, together with the CCT managers and the EPE, have had to work hard to keep CCTs on the agenda.

9.27 We would expect the PMSC to be the group with the stronger focus on monitoring CCTs. Review of PMSC minutes suggests that the Committee received a number of papers early on in the Programme, but that this focus declined over time. There is a view from some members that gaps in the information about progress on CCTs have limited the PMSC's role in adding to the development of CCTs. As more projects come on stream and start to report into the Programme, we would probably expect the volume and quality of data available to members to improve.

## Meeting the CCT targets

### Sustainability

9.28 The framework of indicators for the sustainability CCT are set out in Table 9-1 below.

**Table 9-1: Environmental Sustainability Indicators**

| Indicators | Mandatory – ALL projects | Mandatory – All construction projects & major refurbishments ≥£500k | Mandatory – All business support projects | Optional |
|---|---|---|---|---|
| Carbon calculator | ✓ | | | |
| Green Travel Plan | ✓ | | | |
| Sustainable Procurement Plan | ✓ | | | |
| Sustainable Buildings Policy | | ✓ | | |
| Green Infrastructure | | | | ✓ |
| Number of environmental businesses supported | | | ✓ | |
| Number of environmental products supported | | | ✓ | |

9.29 The evaluation has been provided with a range of data about the Programme's progress towards CCT targets.

- **Carbon Reduction:** The Programme quickly moved to replace an excel based platform for recording projects' carbon emissions with an online carbon calculator tool. Any project over £500,000 in value is required to measure its carbon impacts providing an initial estimate and then quarterly actual totals. The calculator now provides the Programme with the ability to generate a wide range of reports across priorities, action areas and geographies. It is understood that at the end of September 2010 the carbon impact of the programme is 37,829 tonnes of $CO_2$. This is based on a combination of the carbon impacts of delivering projects, some data on the carbon emissions of businesses that have been supported by ERDF funds and composite data from returns relating to green travel plans and other elements of the key indicators for the CCT. It is recognised that the Programme has a difficult balance to strike between securing robust data on carbon emissions and the workload required for SMEs to monitor and report the carbon outputs they have generated as a result of ERDF support. However, progress is clearly being made in this area and work to improve the measurement of the Programme's overall carbon impacts is ongoing.

- **Sustainable Procurement & Green Travel Plans:** Projects over £500,000 in value are obliged to produce a sustainable procurement plan and green travel plan, and to report having done so. Their purpose is to set out what actions the project will take in these areas, with its progress in implementing them reported in quarter 4 monitoring returns. The indications are that these requirements are being met, and that they contribute to the ability of the Programme to build a picture of its carbon impacts.

- **Sustainable Buildings:** All capital projects over £500,000 are required to implement the NWDA's Policy for the Built Environment which includes a series of requirements for which projects are required to provide evidence throughout their delivery period. Among the key requirements are:

  - BREEAM excellent (new build)
  - BREEAM Very Good (refurbishment)
  - Energy Performance Certificate which works alongside the carbon calculator
  - Waste, through completion of site waste management plans and reports
  - Water efficiency, based on reports about how consumption and storage will be achieved
  - Considerate Constructors code

  The Programme is able to point to a number of successes including a the achievement of a high BREEAM rating for Liverpool's St Pauls Square Phase 4 project while WICED, currently under construction, has an estimated carbon improvement over building regulations of 43%. The CCT manager has responsibility for ensuring that these requirements are being fully met and evidenced by projects.

- **Green Infrastructure (GI)**: The Programme plans to measure contributions to green infrastructure (Hectares), and a scoring system is being developed to assess the impact of GI in the development.

9.30 It is understood that MCIS is geared only to record progress against the carbon indicator, and that this has presented difficulties producing a broader range of data on the progress of the environmental sustainability CCT (eg. waste impacts where these are being recorded).

### Equality and Diversity

9.31 As the situation currently stands, MCIS records only data on the Programme's target for its gender impacts (i.e. % of beneficiaries who are women). The North West is understood to be well on track to exceed this target. However, this narrow application of Equality of Opportunity is at odds with NWDA and partners' wider understanding and activity on age, gender, ethnicity and disability. NWDA's commitment to monitor these four equality strands is commended but this has not been matched with a set of quantifiable targets that projects would be expected to meet.

9.32 The fact that MCIS is only geared to recording data on gender contributes to the difficulties that the Programme faces in building a comprehensive picture of its impacts on equality and diversity. The monitoring requirements for ERDF demand a much more extensive range of data on the characteristics of beneficiaries, and this has the potential to provide a useful tool both to understand the distribution of impacts and to inform the way that services are designed and delivered.

9.33 It is clear from the evaluation that there is a very mixed picture on reporting by projects and of action to meet commitments identified or required at the contracting stage. The project reviews suggest that some projects are simply not collecting and reporting data, while others are doing so assiduously. The latter also tend to be the projects that are demonstrating a willingness to take action to improve E&D outcomes. While there may be opportunities through contract management to put additional pressure on projects to meet E&D monitoring requirements, the current system does not appear to lend itself to this process and this it may not be the best use of Programme management resources to try to achieve this in a comprehensive way across all projects.

9.34 With more than 200 projects already live, it would be difficult to retrospectively apply targets for E&D or to require stronger commitments to issues such as the provision of additional support to reach groups under-represented in the business base. However, the evaluation has seen a number of initiatives such as the Women's Business Standard and the Know Your Customer toolkit which could serve as a proxy indicator of progress, if business support projects were to commit to the standards they set or the approaches they recommend.

## Implications for CCTs

9.35 The analysis has highlighted a number of implications for the Programme's approach to the implementation of CCTs.

- **A continued need to ensure that projects give CCTs due regard both in the application and delivery process**. The evaluation has highlighted the difficulties faced by the Programme in ensuring that CCTs are treated as more than a tick box exercise by projects. The evidence suggests that this is being achieved by ensuring that projects are chased to provide the required evidence, and that the tools devised by the Programme's CCT managers provide a relatively straightforward means for projects to report their progress.
- **Implications for equality from public sector austerity measures.** As we enter into a

period of public sector austerity, which is likely to impact more profoundly upon the less well-off, the economic and social imperatives to strengthen equality are likely to become stronger in some respects. It has been clear since the Programme was first developed, and through the recession, that the environmental agenda is in fact a route to competitive growth rather than an externally imposed obligation.

- **Risks to the NWDA's expertise on CCTs.** The CCT Managers are well embedded in NWDA's Equality and Diversity and Environmental Sustainability teams, and their ability to tap into the additional expertise and resources on these teams has made an important contribution to CCT delivery. As the NWDA moves towards closure, there is a risk that reduced capacity in this area may start to have an impact on CCT activity.

- **Further opportunities for the Programme to invest in the environmental technologies sector.** The assessment of CCTs has reinforced the message that the North West should be seeking through the programme to capitalise on the growth of the environmental technologies sector, and this needs to go hand in hand with action to reduce or limit carbon emissions.

- **Continued challenges for CCTs from economic conditions.** It is clear from the evaluation that the testing financial conditions in which SMEs are operating means that improvements in approaches to environmental sustainability may not be an immediate priority. There is evidence that some SMEs have sought to cut costs by introducing new environmental technologies to reduce energy consumption, waste etc. However, the general message seems to be that implementing CCTs is more difficult when SMEs are faced with immediate pressures for survival. This adds further to the competing priorities faced by the Programme.

# 10. Programme Governance, Management and Systems

10.1 The launch of the 2007-13 North West Operational Programme was accompanied by new governance arrangements, with management of the Programme passing from the Government Office North West to the NWDA. The North West's large and complex ERDF Programme needs clear direction and strong management at the same time as requiring the wide ranging partnership activity that is a feature of the EU Structural Funds regulations. Understanding how well its governance and management arrangements have bedded in and the impact they are having on the delivery of the Programme is therefore an important task for the evaluation.

10.2 This section sets out our assessment of the quality and effectiveness of the NWOP's governance, management, systems and processes. It is set out under the following headings:

- **Programme Governance and Management** – Considers how effectively governance structures are working, relationships within and between the committees and the clarity of their roles and responsibilities in the Programme. Focuses on the effectiveness and efficiency of Programme management, including assessment of the impacts of the transition to new management arrangements in the 2007-13 Programme.
- **Systems and Processes –** Assesses the quality of Programme systems and processes including pre and post-contract support, monitoring/evaluation arrangements and the provision of management and performance information.

10.3 The emphasis throughout the section is on the strengths of the Programme's structures and processes and areas where a need for improvement has been identified.

## Programme Governance and Management

10.4 Nationally, the Department for Communities and Local Government (CLG) has overall responsibility for the ERDF 2007-2013 Programme. Responsibility for the NWOP has been delegated to the NWDA, and the EPE has been established within the NWDA to manage the Programme. This team is functionally separate from those parts of NWDA which are responsible for the development and delivery of projects.

10.5 However, in practice the NWDA has adopted an approach to ERDF which has sought to integrate ERDF with its broader responsibilities for the implementation of the North West Regional Economic Strategy and Single Programme funding. While this presents challenges given ERDF rules on the separation of functions in the management of Programmes, the NWDA has harnessed the resources and wider expertise within the Agency for the benefit of the ERDF Programme.

10.6 The challenge faced by the region in developing new governance and management arrangements should not be underestimated. There were important differences between the 2007-13 Programme and predecessors in the North West, in part reflecting changes in the EU's approach to ERDF and associated changes to a number of rules and regulations. The evaluation has heard a consistent and strong message about the scale of the task involved in the NWDA taking on responsibility for the management of the new Programme. While structures and systems were being put in place, pressure was already increasing to begin developing projects and allocating ERDF funding. The assessment of programme governance and management is as much about how the transition was managed as how the arrangements have worked in practice.

## Programme Governance Structures

10.7 At the start of the 2007-13 Programme, the North West made a decision to adopt a more streamlined approach to Programme governance arrangements compared with previous programmes. The aim was to reduce duplication between the activities of Programme decision making committees and the workload they imposed. It was felt that the key committees needed to have more sharply focused and manageable agendas, reducing the volume of meetings and limiting the scope for overlap. A summary of the committee structure, their key roles and responsibilities and the broad relationships between them is presented below.

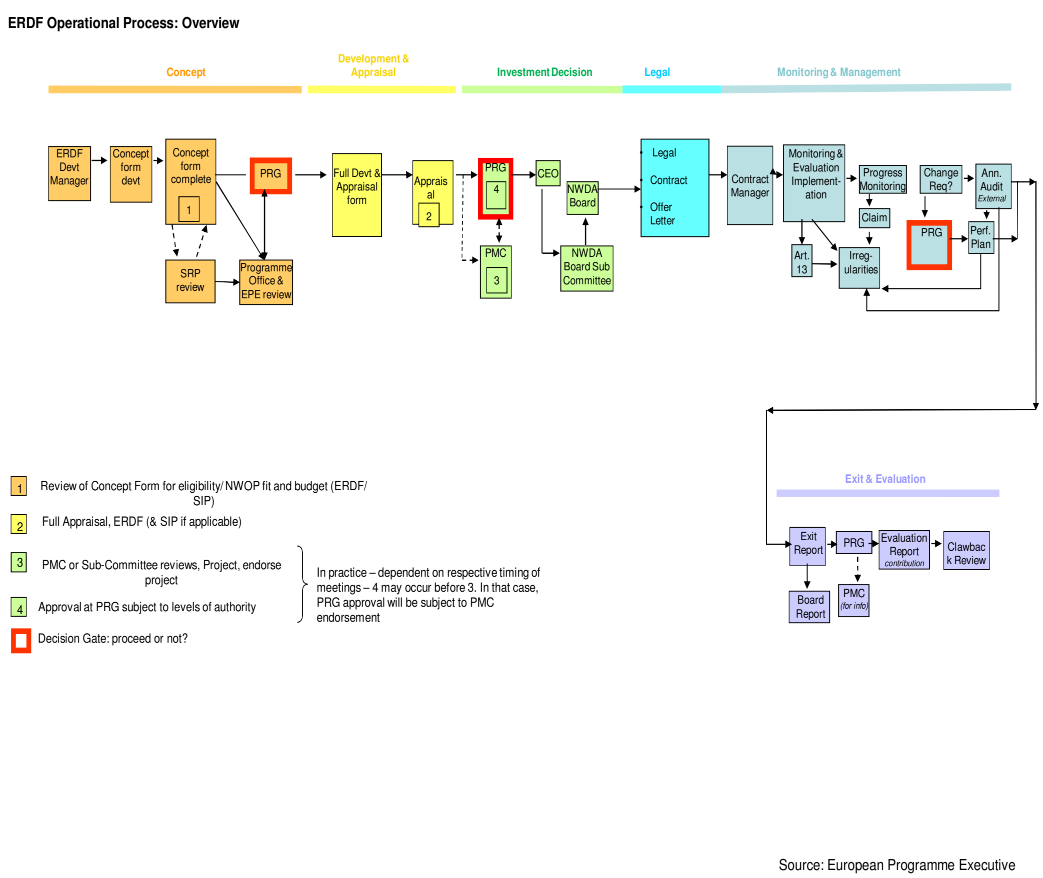
**Figure 10-1: Key Components of ERDF Programme Governance Structure**

| | |
|---|---|
| Programme Monitoring Committee | • Sets criteria for ERDF project selection and endorse regionally & sub-regionally significant projects<br>• Reviews performance and progress of NWOP and approve review reports<br>• Recommend adjustments to NWOP strategy and resources & advise on strategic direction<br>• Agree programme delivery mechanisms & communication/marketing strategy |
| Performance and Monitoring Sub-Committee | • Review and endorse smaller project applications and refer projects to PMC<br>• Review programme performance and progress (on more regular basis than PMC) & support collation and dissemination of management information<br>• Feed in views to PMC on Investment Frameworks and programme delivery mechanisms & escalate issues to PMC where necessary<br>• Advise on the implementation of CCTs |
| Merseyside Phasing-in Sub Committee | • Provide advice to PMC and EPE about further development of Investment Frameworks<br>• Review and endorse projects for the Phasing In Area and Halton<br>• Review programme progress and performance in the Phasing in Area and Halton, communicate views to PMSC and PMC and support dissemination of management information<br>• Advise on the implementation of the CCTs |
| NWDA Project Review Group | • Approve all project concepts up to £10 million total value through to full D&A stage<br>• Takes decisions on all project approval following appraisal (subject to financial limits)<br>• Refer approved projects to PMSC and PMC for endorsement<br>• Respond to PMSC and PMC comments on projects (eg. attachment of conditions) |
| NWDA Board and EU Sub-Group | • Approval of projects with value greater than £10 million (ERDF plus match funding)<br>• Reviews and endorses investment decisions taken by PRG |

Source: EPE

10.8 Programme governance requirements are set down in European Union regulations and the committees' terms of reference fully reflect this. However, the shift in responsibility for managing the Programme to the NWDA has made the relationship between the PMC, PMSC, MPISC and the NWDA's own ERDF decision making processes particularly important to the way that Programme governance and management operate. The key features of the NWDA decision making process, and the way these interact with the ERDF committees, are set out below.

**Figure 10-2: Programme Decision Making Processes (Summary)**




Source: EPE

10.9 The focus of the evaluation research has been on the effectiveness of the Programme's governance and management arrangements along with the clarity and transparency of the relationships between the key decision making and Programme monitoring mechanisms. This exercise has highlighted a number of consistent messages about the strengths of governance and management, together with a number of areas for improvement that the Programme needs to address.

## Strengths of Programme Governance Arrangements

10.10 Governance arrangements for NWOP have now settled down after a bedding in period during which there were inevitably difficulties as partners came to terms with the new Programme. The terms of reference for Programme governance structures appear straightforward and logical, and the composition of the different committees generally reflects the wide range of partner interests characteristic of a large and complex region.

The key strengths of these arrangements highlighted in the evaluation are:

- **Clear understanding of the terms of reference under which governance committees are operating.** Terms of reference for the PMC and PMSC are now generally well understood by members, and there has been no requirement to amend them substantially during the course of this Programme. This contrasts with the 2000-06 programme when significant changes had to be made in 2003 to reduce the number of regional and local committees that were operating and in doing so tackle the perceived complexity of the arrangements.

- **A reduction in the complexity of the committee structure.** There is broad recognition that the 2007-13 governance arrangements have reduced the complexity of the committee structure and, in some respects, led to more streamlined and focused decision making processes than had been the case in previous ERDF programmes.

- **In general, effective and improving administration of Programme committees**. The evaluation has heard clear messages that the administration of the committees has improved over the course of the Programme after a difficult settling in period. Several members have pointed to agendas now being better prepared and more timely than in the early stages of the Programme, and to higher quality reports that are circulated in preparation for meetings. If anything, some members have pointed to a need to reduce the volume of information that is now being provided.

- **Improvements in the quality of management information**. Some consultees involved in the committees have indicated that the quality of management information (Programme spend reports, outputs and results analysis) has also improved over time. In part, this appears to have been the result of the EPE having established a Task and Finish group to deal with this issue in 2009. Other consultees have suggested that higher quality summary outputs and results data would help inform the work of the committees (particularly the PMSC). It is understood that partners have now agreed that output and results data for those projects (c. 15) which make the biggest contribution to the Programme's performance will be routinely included as a standard item in meeting papers. In this respect, the EPE and partners seem to be working constructively to resolve issues of this type, while the need to find ways in which CLG's MCIS can produce more timely and better quality data on the Programme's performance is recognised by the EPE.

- **PMSC now operating effectively as a filter for PMC.** It is acknowledged by consultees that the PMSC is now operating in a manner which is helping to limit the amount of detailed material passed up to the PMC. In principle, this should give the PMC more scope to focus on strategic Programme issues.

- **North West PMSC and PMC have more extensive role in project sign off than other English regional ERDF programmes.** It is understood that the North West's decision to effectively require endorsement of all projects through the Committees goes beyond the involvement offered to Committees in other English regions.

- **Extensive partner representation on key committees.** Decisions on the membership of the PMC, PMSC and MPISC have clearly sought to engage and balance a wide range of partner interests. In some respects, this is a strength of the Programme since it has ensured that a cross section of geographic and sectoral representatives are involved in the Programme in a region notable for its size and diversity. However, there are drawbacks to this approach and these are outlined below.

## Areas for Improvement

10.11 Clearly, there has been a steep learning curve as partners adapted to new governance and management arrangements whilst entering the delivery phase of a new programme with different strategic objectives, priorities and funding. The challenge of building effective and efficient linkages between the NWDA and the region's governance committees has been particularly substantial in this respect. Partners have had to come to terms with both far reaching changes in organisational cultures from previous programmes and the process of learning that has been required amongst partners, particularly the NWDA. Consequently, the evaluation has highlighted a number of areas where the need for improvements is recognised by partners and acknowledged by the EPE.

10.12 **A need to further improve the quality of data on the Programme's output and results performance.** There is a clear view across the PMSC, PMC and MPISC memberships that more could still to be done to further improve the quality of data on output and results performance. The EPE has acknowledged that CLG's MCIS platform is not producing up to date performance data of the type required. For example, where changes are being negotiated on outputs and results with projects, current performance is not recorded on MCIS. Partners have responded by agreeing to review performance data for key projects at each meeting with the date supplied from another system. This set of issues is addressed in a recommendation below.

10.13 **Perceptions that PMC members should have a more extensive role in the project approval process.** There are clear differences of view amongst committee members about the role they should be playing in decision making about projects. Several members have suggested that the PMC is simply rubber stamping decisions taken by the NWDA, and that their role is largely a tick box exercise. Other members have come to understand the role of the PMC to be primarily advisory and strategic in nature, and have suggested that both the PMSC and PMC have been able to exercise influence over projects through review and comment on development and appraisal forms, and through the process of suggesting changes or attaching conditions to projects prior to contract. All projects are endorsed by the committees. Additionally, there is recognition amongst some consultees that the PMC has played an important role in setting selection criteria for projects, although again there is no consensus on this issue. Given the requirements of the ERDF regulations and the practicalities of a more deliberative approach to project approval (eg. speed of decision making) there would not appear to be scope to extend the committees' role in this way.

10.14 **Stronger lines of communication on how the NWDA has responded to PMSC inputs into project approval.** The PMSC is recognised by a number of members as playing a key role in endorsing projects, with more strategic and difficult issues being referred upwards to the PMC. However, some PMSC members have suggested that its influence over the project approval process feels in practice rather limited. A review of the complete set of PMSC minutes indicates that all but one project has received PMSC endorsement. Over time, it appears that the PMSC has attached an increasing number of conditions to projects, and that a report on how these conditions have been handled by the EPE and NWDA is provided at the following meeting. However, members raised concerns (January 2010) that the outcomes of this process were still not being adequately communicated to the PMSC. It is understood that the EPE has since agreed to provide a summary report to each meeting on how conditions have been met.

10.15 **Insufficient strategic focus at PMC meetings.** The composition of the PMC clearly reflects a large and geographically diverse region which is overseeing a substantial ERDF Programme. It is also consistent with the partnership principles of the ERDF EU Council regulation which stipulate that a full range of regional and local government, public and private sector and third sector partners should be involved in governance arrangements. However, several PMC members have observed that debate about the allocation of resources in different areas of the North West and disagreement amongst sub-regions and local authorities has sometimes obscured discussion about strategic Programme issues. Intense and difficult debate is perhaps inevitable in a committee on which such a wide range of interests are represented, and it is not clear how this issue can easily be addressed.

10.16 **Excessive attendance at PMC meetings.** Attendance at PMC meetings has fluctuated through the course of the Programme but the evaluation has heard consistently that there have been an excessive number of attendees at meetings (members, supporting officers, observers). The current membership stands at 29, but attendance over the 14 meetings for which minutes have been reviewed has reached 58 and has exceeded 40 on 7 occasions. Average attendance stands at 42. It has been suggested by a number of members that the volume of people attending reduces the ability of the committee to operate strategically, that local disagreements are likely to be more frequent given the range of interests involved and that this is a deterrent to private sector engagement.

10.17 **Insufficient input for some partner organisations.** While the breadth of the governance partnership has been commended by consultees, several have highlighted what are perceived to be important gaps. In particular, private sector engagement with the NWOP is regarded as being limited, a common issues in ERDF programmes. The format and content of PMC meetings exacerbates what is already complex and unfamiliar territory for the private sector. The Programme has benefited from the involvement of business representatives with a good understanding and track record of engagement with ERDF. As the Programme may need to secure much higher levels of private sector match in the future, there will perhaps be increased onus on partners to make Programme governance more business friendly. If additional private sector representation is required, working with representative organisations rather than potential members from individual businesses is likely to be the most effective approach.

### Merseyside Phasing-In Area

10.18 **Perceptions of insufficient input into the project approval process for MPISC members.** Partners on Merseyside have faced a substantial change with the move to a region-wide Programme after 12 years of Objective 1. The decision to establish a separate Phasing-in Sub-Committee for Merseyside is well understood and communication between it and the regional committees (PMSC and PMC) is now regarded as working reasonably well. Some Merseyside partners believe that the MPISC should have been tasked with a specific approval role for projects given the ring fencing of funding and the large capital projects which form part of infrastructure plans for the sub-region. However, others suggest that the MPISC's role should be to monitor progress and offer strategic advice to the Programme, indicating that the Technical Group which also operates on Merseyside does play an important role in the ERDF project development and endorsement process.

## Strengths of Programme Management Arrangements

10.19 The change in Programme management from Government Office North West to the NWDA represented a critical juncture on the handling of ERDF in the North West. The evaluation has heard a strong and clear message about the scale of the task involved and the intensive effort that has been required on the part of the EPE team, the NWDA and regional partners in coming to terms with new management arrangements. The evaluation has highlighted a number of strengths in the management of the North West Operational Programme including:

- **Strategic benefits from co-location.** The Programme has benefited from the co-location of the EPE with the NWDA in terms of the strong links it has enabled the NWOP to make between Single Programme funding, regional strategic priorities (in particular the Regional Economic Strategy) and ERDF funding. The Investment Frameworks for Priorities 1-4 were designed to reinforce the regional thrust of the Programme, and the evidence suggests that the NWDA has generally been able to hold this line in the first period of the Programme's implementation. This is best demonstrated by the number of larger scale, regional projects that have been funded to date. This connection has been underpinned by the NWDA's Project Review Group, the Agency's executive team and the NWDA Board & Board Sub-Committee play in ERDF decision making.
- **Embedding EPE team members within NWDA directorates.** The EPE's matrix management approach has, in effect, embedded some members of the EPE team within the NWDA's directorates, particularly the Economic Development directorate which has been a key project applicant across the Programme. In principle, this approach means that the NWDA has quickly been able to identify opportunities to secure additionality for Single Programme investments through the potential use of ERDF resources. Several consultees emphasised that there have indeed been positive impacts both in the project development capacity which the NWDA is able to offer to the ERDF Programme and the expertise that the wider NWDA team provides in the project development process.
- **Separation between European programme management and the NWDA as a key ERDF applicant.** While there have been challenges in maintaining an acceptable separation of functions between the EPE and the NWDA, the Programme is recognised by CLG and by external auditors to have achieved a reasonable balance. The European Programme Director now reports directly to the NWDA's Chief Executive, and this arrangement appears to help to ensure that the NWOP maintains its status as a distinct Programme with its own decision making regime. This level of seniority and the reporting lines involved have gone some way to putting clear blue water between the aims, objectives and delivery requirements of the ERDF Programme and the NWDA's wider remit.
- **Location of CCT managers within the NWDA.** A full assessment of the delivery of CCTs is provided in Section 5 of this report. However, the appointment of CCT managers within the NWDA is perceived to have put the Programme's delivery of CCTs on a much stronger footing than was the case with arrangements in previous programme. In the 2000-06 programme, CCT managers were located with the North West Regional Assembly (while the programme was managed through Government

Office North West) and consultees have suggested that the result was institutional separation which made it more difficult to integrate CCTs into ERDF activity.

10.20 The emerging picture is one of the NWOP having gained some benefits from the transfer of managing authority to the NWDA. These derive principally from the interface between the Programme and the organisation responsible for developing the Regional Economic Strategy and for investing Single Programme funding in the economic development and regeneration of the North West.

## Areas for Improvement

10.21 Adapting to new management arrangements has brought with it significant changes in organisational and management cultures, and the evaluation has heard a clear message that the scale and impact of these changes may have been underestimated by partners including the NWDA. Several areas for improvement in management arrangements have been highlighted in the evaluation:

- **Perceptions amongst some partners that the line is blurred between the NWDA as ERDF managing authority and the performance of its wider functions.** Despite endorsement of the separation of functions by CLG, the critical role that the PRG, NWDA Board and senior executive play in ERDF project approval appear to be fuelling perceptions amongst some partners that project developers outside of the Agency are at a disadvantage. To some extent, this issue reflects both the complexity of ERDF and the large volume of projects (200+) which are now on the books of the Programme. However, the withdrawal of future Single Programme funding will put new onus on the engagement of partners in the development of ERDF projects, and the Programme will need to consider how to best ensure that its decision making process is clearly understood.
- **Slow build of management capacity.** This has been a key challenge for the NWDA, with very few of the personnel previously involved in North West ERDF programmes having transferred to the EPE. Several consultees have suggested that there has been something akin to a 'collective loss of memory' across the region as years of local experience of operating with ERDF in the North West was not available to the new Programme. The recruitment of a new senior management team taking place at the same time as the development of new systems and processes together with a substantial inflow of project applications was taking place, also put considerable strain on the EPE and its partners. The speed with which the EPE was required to commit large amounts of ERDF in the early stages of the programme was also a key challenge. However, management capacity has been strengthened over the period since 2008, with the key personnel in post in the early part of 2009 and the senior EPE team having substantial experience of ERDF in their own right.
- **Structure of the European Programme Executive.** The evaluation has heard mixed views about the matrix approach to the management of ERDF within the NWDA. While embedding ERDF team members within NWDA teams has brought some benefits, this approach runs the risk of putting personnel at arm's length from the core EPE. It is not entirely clear what impact this has had on the workload and activity of EPE team members located around the Agency, but it appears to have made the process of separating Single Programme from ERDF activity more difficult.

## Systems and Processes

10.22 This section reviews the effectiveness and efficiency of Programme systems and processes, including:

- Marketing and Communications
- Project development, appraisal and contracting processes
- Post contract support and management
- Monitoring and evaluation arrangements
- Management information systems.

10.23 Each sub-section sets out broadly how the systems and processes should function, explores the strengths and weaknesses in these approaches, and identifies where problems have arisen. The analysis uses consultations with members of the EPE, wider stakeholders and project applicants to identify issues in the systems and processes, and the review has sought to avoid duplication with the more technical review of compliance of systems and processes, covered in the NWDA Independent Assurance Internal Audit Report update (June 2010).

### Marketing and Communications

10.24 The marketing and communications function enables: Programme opportunities to be promoted to potential project applicants; the EPE to fulfil EC requirements on promoting the Programme; and NWDA and the EPE to promote the positive impacts of the Programme to the region. The Programme has an annual communications plan, which particularly highlights the latter two elements as its core focus.

10.25 The EPE has one communications officer, embedded within the wider NWDA communications team, who has made significant progress in developing this area of work on behalf of the Programme. In support of the dedicated officer, the Priority Managers within the EPE take a lead in communications with key stakeholders linked to their Priority areas (eg.. when sending targeted information about new calls for proposals under certain Action Areas), and the CMMs and audit officers play a key role in monitoring compliance with publicity requirements (eg. use of EU logo on promotional materials etc).

10.26 To ensure that projects meet the EC requirements, a pack of branding and communications guidelines has been produced that is given to all projects at contracting stage, to ensure they are able to comply with Programme requirements. Projects in delivery phase on the whole appeared satisfied with the guidance received and some noted they had good relations with the EPE officer in this work. It was highlighted however, that it may be more useful to issue these guidelines at an earlier stage of project development, as projects often begin to plan promotional material prior to receiving full contract sign-off, which can lead to non-compliant materials produced.

10.27 The range of marketing and communications activity is wide, and includes a quarterly 'Boost' magazine with updates on Programme progress, quarterly sub-regional level briefings, a detailed and up-to-date website dedicated to the Programme, an annual showcase event for the Programme as well as Programme representation at a range of other events, a pocket-size introductory guide to the Programme, regular PR, and advertising on development site hoardings of ERDF-funded projects.

10.28 Feedback on the communications work from stakeholders and project applicants was relatively limited, reflecting few concerns with this element of the work. Where comments were made they were fairly mixed and subjective; some felt this Programme had a lower profile than the previous European programme, while others felt it had better and more positive coverage; some suggested the communications material was not very strong, while other praised the content and presentation; some felt that sub-regions were not receiving sufficient information.

10.29 The Programme's website was one of five shortlisted from across Europe for an ERDF award for quality, and there has been positive feedback from CLG and the EC on the quality of the communications work. Overall the evidence suggests communications and marketing are a fairly strong area for the Programme. Going forward, Programme communications will be a critical element in successfully managing the transition to new working arrangements, and it will be important to maintain and utilise the solid communications tools that have been established to ease this transition.

## Project development, appraisal and contracting processes

10.30 Bids come into the Programme under various calls for proposals, as set out in the Investment Frameworks for the Programme. Methods include open bidding, limited bidding or non-competitive rounds. Essentially however, the development process is the same for all projects:

- **Project Concept**. This requires a firm project idea with broad costings and outputs, and the information provided is largely taken at face value at this stage. The project needs to demonstrate eligibility and strategic fit to the Programme. Originally, this stage was also preceded by an expression of interest form, which was later dropped, partly because it was seen to lead to a more protracted project development process.
- **Development and Appraisal (D&A)**. If the project is supported at concept stage, then it enters the D&A stage in which far greater detail on all its elements are required. The appraisal covers all aspects of the project including detailed review of eligibility, market failure and evidence of need, financial viability, options analysis and outputs, results and cross-cutting themes contributions. Projects under £1m total project cost will go straight to D&A stage and go through a slightly lighter touch appraisal (SPAG light), albeit with an appraisal form which is largely the same. Throughout the development stages, the project is supported by a development manager (DM). Where Single Programme funding is involved, the Programme has been able to draw extensively on project development expertise within the Agency. For other sources of funding, the evaluation suggests that previous experience of ERDF in applicant organisations is a significant advantage in navigating through the process.
- **Approval**. Following appraisal the project goes to the Project Review Group (PRG) and to the PMC or PMSC, depending on project size. At key thresholds, projects may also need approval from NWDA Board, CLG or the European Commission. This is understood to have occurred in a small number of cases (eg. where ESF type activities were being proposed, some high value transport infrastructure investments).

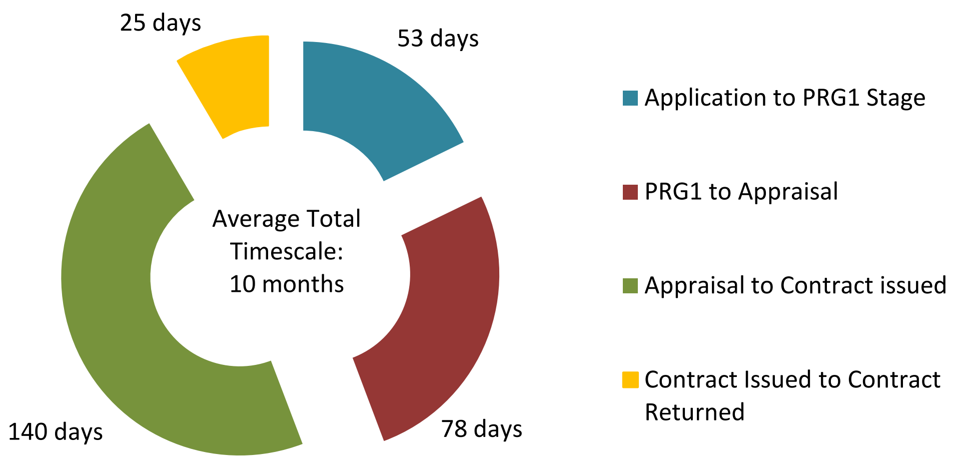
- **Contracting**. If approved, the project then enters the contracting process.

10.31 Four particular issues have been consistently raised through project consultations with regard to the project development phases up to contracting:

- The process for initial application to receipt of contract is perceived to be slow, particularly the contracting phase. While this is a common criticism of ERDF programmes, a combination of project applicants providing insufficient or incorrect information together with significant pressure on the EPE's appraisal resources, are acknowledged to have had some effect on timescales.
- Some projects have indicated that they have received too little communication on progress from NWDA / EPE, and feedback has often been incorrect or inconsistent. Again, this issue is not unique to the North West, and at least partly reflects the complexity of the process of securing ERDF, a lack of clarity in some of the national guidance on ERDF rules and regulations, and pressure on the EPE's resources.
- The process involves too much paperwork and several elements have changed, for which the burden of rewriting falls to project applicants.
- Recognition that the role for sub-regional partnerships (funded through Technical Assistance) in commenting on project concept forms is beneficial, but concerns that this does not extend to the full D&A stage and that other partners (eg. HEIs, private sector) are not given an opportunity for input in the process.

10.32 Figure 10-3 below shows the average length of the process at each stage, based on analysis of contracted projects. The overall average period from initial submission of concept form to return of signed contract is just under 10 months (297 days), with almost half of this period taken up between appraisal and contracting.

**Figure 10-3: Project Development and Appraisal Process Timescales**




Source: MCIS Data from the EPE, end of August 2010
Note: Based on analysis of 40 contracted projects for which all timescale data was available. Excludes JESSICA and VCLF.

10.33 There are a range of issues behind the experiences set out above, and these are discussed under the three headings below, looking at Paperwork, Staffing & Communications, and

Alignment with Single Programme.

## Paperwork

10.34 The evaluation has highlighted quite different perspectives on the paperwork involved in bids. The common view from projects has been that the paperwork is too long and repetitive, and that the adaptations that they have had to make in D&A stages were largely nit-picking rather than substantive changes to the project activities. From the EPE perspective, projects are seen as often failing to comply with what is asked for in the guidance, and that the quality of bids is often the principle barrier to speedier approval. These are familiar issues for ERDF programmes and are not easily resolved given the strongly rule bound process of securing funding.

10.35 Both highlight key areas of the forms which applicants tend to struggle with, including logic chain, market failures, options appraisal, net additional value and detailed financial breakdowns. Larger projects often have consultancy support in bid writing and thus often have fewer issues with this, but more focused support from development managers and more specific training for applicants on particular weak parts of forms may be of benefit to address some of these issues. Clearly the forms and processes could be reviewed as part of any transition that occurs as the NWDA winds down, and these issues should also be considered at this time although there is a risk that it will create further uncertainty at what is already a difficult time for the Programme.

10.36 The other particular issue with the paperwork has been the difficulties in administering a single ERDF and Single Programme application process. When the ERDF Programme commenced, merged funding forms were produced, but it gradually transpired that they were not capturing all of the information required by ERDF. The NWDA has been reluctant to make further changes to fully accommodate the ERDF requirements. Consequently, projects have had to be asked to resubmit various details in a different format (eg. financial forms giving a more detailed breakdown), which further fuelled applicants' perception of constantly changing conditions.

## Staffing and Communications

10.37 Several project applicants gave positive feedback for their development manager. In particular, they cited the expertise of DMs in specific fields and their ability to add value to the project development process. However, there were also consistent messages from project applicants about uncertainty over points of contact, a need for greater clarity about the roles of NWDA/EPE officers and general perceptions that direct communication with projects could be improved.

- Several projects appeared to be unclear about the distinction between NWDA and EPE officers, and the experience often involved being passed from one project manager to another from initial concept through to delivery. Projects should be clearly informed who their main point of contact is at each stage of the process.
- At D&A stage, feedback is sent to projects from several individuals within the Agency and a number of consultees suggested that this could be fragmented and inconsistent.
- Views that expectations about the length of the process could be better managed.

Some projects felt that a six month process from concept to contract was far too long, whereas others, with perhaps more experience of European funding, were satisfied at a one year process. Project applicants should be given a clear understanding of the process and realistic indication of timescales from the beginning. This is a common issue faced by ERDF programmes.

- Several projects singled out the lengthy period (up to six months) between approval and receiving the contract, which is reflected in Figure 10-3. In each case, the project applicants felt that communication about the progress of the application in this period could have been better, and that even now they are not clear about the cause of these delays.

### Single Programme Alignment

10.38 The linking up of Single Programme and ERDF processes has presented some difficulties from the outset, with ERDF bringing with it a more rigid, rule bound application process with clear implications for the length of time involved in securing funding. The links between Single Programme and ERDF appear to be confusing for external applicants in some respects. At D&A stage, project appraisals may have contradictory outcomes (eg. endorsed by Single Programme, but be required to make changes to comply with ERDF eligibility rules. Project delivery organisations deal with a single funding application process, yet as a result of separation of functions requirements they have two contract monitoring managers in delivery.

10.39 The indications from the evaluation are that this is more than a communication issue for the EPE and the wider NWDA. Project champions and developers who are unfamiliar with ERDF may be seeking to push forward ERDF projects at a Single Programme pace, and in the process run the risk of failing to dot Is and cross Ts with regard to stringent ERDF requirements. This may in turn leave gaps that need to be picked up at contracting, and in several cases post-contract stages, potentially adding to the length and complexity of the project application process.

## Post contract support and management.

10.40 Following contracting, the project is managed by a contract monitoring manager (CMM). If the project is a joint ERDF and Single Programme bid, then there will be a CMM for each of the funding streams. The post-contract monitoring period involves:

- **A Pre-Engagement Visit (PEV)**, which should take place within three months of contracting, with the CMM and another officer visiting the project to work with the project delivery team to discuss how the delivery organisation will practically deliver the project, who is involved, how they should make claims and complete their quarterly / monthly reporting commitments, ensure they are clear on issues of compliance, procurement, state aid etc and answer anything that the deliverer may still be unsure of.
- **Submitting Claims and Reports**. Projects agree to submit a claim form either monthly or quarterly. Each claim has to include all spend, broken down to individual transactions, a review of the spend profile for the project, and outputs/results achieved in that period. Additionally, all projects have to complete a quarterly progress monitoring report which gathers more qualitative feedback on project progress (including CCTs) and a review of risks.

- **Monitoring Performance**. Claims and quarterly reports are monitored by the CMM to ensure progress is as planned. Where there is underperformance, sanctions can be imposed which would begin with a warning letter, then applicant meeting, and may lead to a project being significantly reprofiled and potentially requiring re-appraisal. This can escalate to funds being clawed back if a project does not deliver. Projects are aware of the risks of failing to deliver, and are encouraged to communicate with their CMM if any problems arise
- **Project and Verification Visits (PAV).** Depending on size and complexity, all projects will receive one or more PAV (Article 13) visit to assess compliance with EC regulations, check progress against conditions in the offer letter and provide advice and support.

10.41 A number of issues have been raised in discussions with the EPE and project deliverers with regard to the post-contract monitoring and support phase. These are discussed below under the headings Eligibility & Compliance, Payment of Claims, Change Controls Pipeline and EPE Support.

### Eligibility / Compliance

10.42 Several projects have highlighted in reviews that project eligibility issues which they feel should have been sorted out prior to contracting are raised at PEV meetings and beyond, in some cases leading to projects needing to submit change controls to their contract in order to rectify errors. This issue is then exacerbated as several projects have not had PEVs prior to submitting their first claim (i.e. within three months of contracting), which has led to greater eligibility issues with submitted claims. It is understood that the large number of projects approved in 2008-09, coupled with restrictions on the recruiting of additional EPE personnel during this period, was a factor in delays to PEVs taking place. The EPE recognises the need to ensure that the PEV takes place within the target period, in order to ensure that eligibility issues on claims are reduced and the risk of clawback minimised.

### Payment of Claims

10.43 Timescales for processing ERDF claims appear to be a problem for some projects, with several reporting that they are being paid up to six months after the claim was made. The time taken to process claims should become an internal monitoring target for the EPE, and work undertaken to ensure this is reduced. Some of these measures are already being taken by the EPE, including a greater focus on ensuring PEVs take place prior to first claims and encouraging applicants to submit electronic drafts so that they can be reviewed before being finalised and submitted in hard copy. Working with projects to ensure that the correct claim information is being submitted is also recognised as a key task in addressing this issue.

10.44 A further issue with claims has been highlighted for combined Single Programme and ERDF projects. Claims for both funds had been submitted on a single form. However, in practice the Single Programme claim check is a quicker process than that for ERDF, and tends to be paid out before the ERDF element is approved. Given the more extensive rules associated with ERDF payments, projects can therefore run into difficulties with ERDF claims some time after their Single Programme payment has been received. In turn, this can lead to a number of problems for the EPE/NWDA:

- It may mean the project having to review its overall claim, which would involve paying back an element of its Single Programme funding

- It may lead to a project running out of match. If a project is 50:50 matched with Single Programme then every claim needs to be split 50:50. Thus if an element of ERDF funding is not accepted and paid, then a greater proportion of Single Programme funding will have been paid in that claim, meaning there will be part of the ERDF funding in later claims for which there will be no remaining match.

10.45 Decoupling the Single Programme and ERDF claims processes is expected to resolve many of these problems.

### Change controls pipeline

10.46 The Programme currently has a large number of change control documents which have not yet been processed. These are the result of projects having to reprofile spend and output targets due to project delays and to the need to revise output and result targets where these were incorrect in project documentation. In a small number of cases, submissions have not yet been processed as projects are having to reassess their spend profile in light of potential Single Programme funding withdrawal.

10.47 This problems is exacerbated by the inability of the CLG MCIS tool to capture the full picture of project spend and output profiles in instances where change controls are being negotiated. Processing these change control forms has been recognised as an urgent issue by the EPE.

### EPE Support

10.48 Project deliverers receive a standard guide to running an ERDF project, as well as additional guidance eg. on publicity, eligibility guidance etc. The experience of the EPE however is that projects tend to prefer guidance personally, and thus a significant amount of CMM time is taken up dealing with queries. This was not part of the intended CMM role and it places considerable pressure on resources.

10.49 Feedback from projects suggests a perception that post-contract communication from the EPE can feel more like policing than support. Given the support needs of projects and the importance of strong relationships between project deliverers and the EPE, it may be worthwhile strengthening the role of CMMs in terms of getting out to visit and support projects on a regular basis (eg.. quarterly) and being a more visible point of contact and support for project deliverers to raise issues. However, it is acknowledged that with 200 projects now in the systems, a more hands on role for CMMs is difficult to resource, particularly in light of the current position on recruitment by the EPE/NWDA. Nevertheless, it will be particularly important to support projects during transition to new management arrangements.

## Monitoring and evaluation arrangements

10.50 Monitoring and Evaluation (M&E) plans are produced for every project during the project development phase. Projects over £250k total project cost are required to commission external IEF-compliant evaluations, and all evaluations must be completed within 12 months of project completion. However, only interim (rather than final) evaluations are eligible for

ERDF funding. The EPE provide NWDA guidance on evaluations and example evaluation specifications to aid project deliverers.

10.51 The M&E plans are generally well developed and allow a clear understanding from the beginning of how and when each project will be evaluated, what the evaluation should cover, and the budget set aside for evaluation. Most projects are advised to budget around £10k for evaluation, with the largest projects rising to up to £50k. In our experience, compared with other programmes, these budgets are on the low side, which suggests more limited commitment to detailed project evaluation.

10.52 To date, there are very few completed project evaluations. This is partly a reflection of the stage of progress of projects, with many still at a relatively early stage in their delivery. However, a number of projects were due to have mid-term evaluations and they will need to be chased to complete them.

## Management information systems

10.53 The main management information system for the ERDF Programme is CLG's MCIS, which records full details of project spend and output profiles and delivery, and is used as the mechanism for reporting back progress to CLG. The EPE are 'Full Users' of MCIS, and so the software is heavily relied upon for successful delivery of the Programme. A second excel based Project Pipeline spreadsheet is also maintained, which includes all projects from live down to concept stage. Feedback both from the EPE and partners sitting on the PMC and its sub-committees highlights inadequacies of the MCIS system. Many partners believe the management information is insufficient for the committees to adequately monitor and scrutinise the Programme.

10.54 The MCIS system was introduced a year into the Programme and has since been found to have several weaknesses and problems which are difficult to resolve. Compounding this issue, the organisation's that now manage the system are not the ones who developed it, and CLG have no further funding to improve it. Particular weaknesses of MCIS include:

- Limited flexibility to produce reports needed for management of the Programme
- Lacking certain key fields which would be important for more detailed analysis eg.. source of match funding
- A fault in the software that at present does not allow irregularities to be registered in a final claim, which is currently stopping final claims from being processed.

10.55 The EPE are members of a national MCIS users group which is the forum for raising issues with MCIS, however it has not so far been possible to rectify these issues through the group.

10.56 In the course of the evaluation, and discussed in other parts of this report, it has also come to light that:

- There is a pipeline of project change control forms waiting to be processed and updated onto the MCIS system; in part these have been delayed awaiting further change control where projects are negotiating possible Single Programme funding reductions
- Details on the status and projected spend of several projects in development have not been updated onto the system for a number of months

- Several live projects have unprocessed or paid claims from up to six months ago
- Where projects straddle Action Areas and even Priority, there is not a clear breakdown on the system of how spend and outputs/results should be apportioned between them
- Project allocations recorded in the Project Pipeline spreadsheet often do not match up with figures from MCIS.

10.57 In managing a programme of this scale, difficulties in generating up to the minute performance data and the inability of systems to enable basic analysis of achieved and planned spend and outputs, is of concern to the EPE and its partners. As part of the transition to the new managing body for ERDF (or even prior to this), they should work to develop a system to MCIS that will allow for the detailed analysis of the Programme that is critical to its management. At the same time, the processes by which data is updated into management information systems should be reviewed to ensure that these systems are providing complete, consistent and timely information that will allow for real-time Programme management.

# 11. Summary of Evaluation Recommendations

11.1 We have developed a number of recommendations in response to issues identified by this evaluation. These recommendations are summarised below under headings which relate to each section of this report.

## Overall Programme

### 1. The Programme managers will need to work particularly closely with the small number of key projects that will be responsible for the substantial majority of outputs, results and impacts

11.2 The NWOP is heavily reliant on 14 projects, especially JESSICA and VCLF, to achieve its headline targets. Together, they are estimated to account for around 80% of projected Programme impacts, and represent around 50% of committed spend to date. The Programme has a strong interest in ensuring that any delivery and funding issues are swiftly dealt with, and that their performance is closely monitored to ensure early warning of any issues in meeting targets.

### 2. Reduce the relative importance of Action Areas and Action Area financial allocations in the Programme

11.3 The Action Areas were designed to provide a clear structure to what the NWOP was and to some extent was not to fund. This helped both in developing the quantification of the Programme and also in subsequent investment frameworks. They have been important in providing clarity of investment focus. However, overall their usefulness has now diminished. In part because there are fewer sources of match funding to deliver many of the intended activities, but also because in some respects they have got in the way of more joined up thinking about interventions. This probably most true in Priority 4, but also Priority 2. The financial allocations as between Action Areas was always intended to be indicative and were not, so far as we are aware, based on any particular science. The allocations have acquired a degree of importance that is not warranted. Moving forward, we suggest that more consideration is given to cross-Priority calls for projects that are aimed at delivering the overall objective so the Priority.

### 3. Adjust the Programme's investment strategy to new and alternative sources of public sector match funding which will follow the CSR 2010

11.4 The Programme should now be looking for the opportunities available from a changing landscape of public sector funding streams and organisational landscape to support its objectives over the period post 2010. At a national level there will be opportunities linked to innovation and knowledge transfer. For example, the Technology Strategy Board (TSB) is likely to see a considerable increase in demand for funding following CSR 2010; the Programme should assess how it might secure TSB support for both the continuation of existing research/innovation activity and to provide backing for potential new projects in Priority 2.

### 4. Develop links to the Regional Growth Fund (RGF)

11.5 There is £1.4bn available for the three years 2011/12 to 2013/14, of which £250m is to be made available in the first round with bids due by January 2011. The Programme's investment strategy should now start to reflect how RGF might support future ERDF project activity and how to encourage partners to seek and secure RGF funding. This is particularly important in light of expectations that large areas of the North West will be especially hard hit by cuts in public expenditure, with the RGF intended to mitigate these impacts through investments to stimulate private sector employment creation. The White Paper on Local Growth specifically encouraged the coming together of RGF and ERDF. However, RGF can only support ERDF projects which are both eligible and contribute to the targets and offer value for money from an NWOP perspective.

### 5. Explore again the opportunities for the Programme to secure private sector match

11.6 The EPE have already considered the scope for introducing more private sector match, good progress has already been made with VCLF, JESSICA and a number of property projects in Priorities 3 and 4. The new White Paper on Local Growth explicitly encourages a greater share of private sector match (as in Wales). Match funding is already as a particular emerging issue for Priority 2, with reductions in or the loss of Single Programme funding affecting a number of projects, including larger scale contributors to outputs and results targets. We consider that the time is right to re-look at this issue, especially in the light of the changed business support infrastructure. However, we acknowledge that there are considerable hurdles to getting more private sector match in ERDF projects that meet the eligibility rules and Article 55 restrictions. One possible solution would be to consider creating a vehicle (or using existing bodies) that could be used to act as an intermediary body between ERDF and SMEs supported.

### 6. Continue to closely monitor the Programme's compliance with the Lisbon criteria

11.7 Although the NWOP's spend to date just meets with the 75% Lisbon compliant criterion, this is a position that will need to be closely monitored through the remainder of the programme. Cuts in public sector funding, and ongoing pressure to meet spending targets could lead to a loss of focus from those investments, chiefly in P1 and P2, which will ensure the Programme meets its Lisbon obligations.

### 7. Carry out a full review/audit of NWOP MCIS data

11.8 In view of the widely recognised problems faced by the Programme with the CLG's MCIS platform, there would be benefit in action to ensure that contracted outputs and results are consistent with their respective entries on MCIS. The evaluation has highlighted a number of instances where inconsistencies are apparent (in both contracted and reported outputs and results), and addressing this issue would help the EPE in its efforts to generate more reliable and timely assessments of Programme performance.

### 8. Assess how best to support more localised project activity

11.9 There is now an emerging thrust in the Government's approach to economic development and regeneration towards sub-regional and local action, most visibly through the Local Enterprise Partnership initiative. While the objectives of the NWOP remain central to the economic prospects for the North West, the Programme needs to prepare to fund more localised project activity and its criteria for selection may need to flex to reflect this (especially in terms of the scale of interventions being sought). For example, in Priority 1 there should be greater scope for local high growth business support projects to secure ERDF and in Priority 2 more locally based innovation projects. It is important that such project still deliver value for money in terms of impacts compared to cost.

### 9. Consider a new call for low carbon economy projects across the Programme.

11.10 The NWOP clearly already set out to contribute to the development of new commercial strengths in low carbon technologies and to support moves towards more resource efficient industrial activity. However, the evaluation has point to a need to step up activity in and focus on this area. This could be facilitated by a new call for projects that can demonstrably support the development of opportune from low carbon economy across the Programme. This could include support for businesses to take up new market opportunities (P1), technology development initiatives (P2) and Lisbon compliant renewable energy initiatives (AA3.2).

## Priority 1: Stimulating Enterprise and Supporting Growth

### 10. Consider an open call for low carbon projects across Priority 1

11.11 The evaluation has made a recommendation about the need to increase the scale and scope of ERDF funded low carbon project activity across the Programme, and P1 will be a primary location for this. Opening a call across P1 could help to address the relative lack of funded project activity in AA1.1, and would build on the good platform that has been established in AA1.2 and AA1.3. At the same time, the Programme may also need to consider adjusting the value for money benchmarks for this activity to reflect the fact that higher cost and higher risk investments may be required to generate new employment in this emerging sector.

### 11. Ensure that there remains a strong focus on high impact projects

11.12 Activity in the Priority is critical to the Programme's ability to aid the delivery of new jobs and enterprises with growth potential in the North West. As the current position stands, it is heavily reliant on a very small number of projects to deliver against these targets which inevitably carries risks. Despite pressures to commit funding, the Programme should maintain a strong line on seeking projects which deliver substantial contributions to job creation/safeguarding and business formation.

### 12. Consider re-quantification of the jobs targets for P1

11.13 The evaluation evidence suggests that the Programme needs to consider the balance between its jobs created and safeguarded targets for P1. The record to date suggests that safeguarding employment is proving to be more straightforward to achieve than the creation of new jobs, a result of the deep recession that the North West economy has endured since 2008. However, prospects for economic recovery remain uncertain, and with public sector unemployment looming, the need to sustain existing as well as create new private sector jobs will continue. We suggest replacing the overall jobs target to a 50:50 split between created and safeguarded.

### 13. Close the Programme to further investment in housing initiatives

11.14 While there have been particular circumstances in which the allocation of ERDF to housing improvement interventions has been accepted, the Programme should not look to fund future schemes of this type. Their impacts in the form of jobs and business development will be low in relation to the costs of the investment, and greater priority needs to be given to projects which generate higher economic returns.

### 14. Retain a focus on sectors with high value added growth prospects

11.15 In our view, the decision to focus on high growth/high value added, knowledge-based business sectors remains valid. The current North West's sectoral priorities are broadly defined, leaving comparatively few sectors as ineligible. This approach also helps the Programme to focus investments on higher value, knowledge intensive commercial activity which is seen as essential to the region's competitive position. However, the Programme's future sectoral activity will need to anticipate and respond to changes in national sectoral policies. For example, it is becoming clear that manufacturing industry will be an even stronger priority for the current government.

### 15. Ensure that there continues to be resource available to invest in support for export development activity

11.16 As noted in previous sections, export trade will be critical to the North West's economic recovery and the Programme will need to maintain resource to invest in internationalisation activity, despite current uncertainty about the policy and funding landscape. For example, as UKTI's future funding and activity is settled, the Programme should look to opportunities to match ERDF in order to support the NWOP's priorities for external trade (especially increasing trade with the emerging BRICs[41] economies).

## Priority 2: Exploiting Innovation and Knowledge

### 16. Consider adjusting jobs created/safeguarded targets for Priority 2

11.17 Given the higher costs and more uncertain returns associated with the commercialisation of research, as well as the value of ensuring that the Programme can invest in higher risk innovative activity, the current P2 job creation targets may have been set at too high a level. The Programme should consider shifting the balance between jobs created and safeguarded to put more emphasis on the latter while remaining within the overall jobs target for P2. This would potentially better reflect the typical timescales for the returns that tend to be generated by investment in innovation as well as the impacts of the recession on activity in this critical area of the Programme. As with Priority 1, we suggest replacing the overall jobs target to a 50:50 split between created and safeguarded.

### 17. Actively engage the Technology Strategy Board and BIS to look for opportunities to support existing and potential new project activity

[41] Brazil, Russia, India and China

11.18 In view of what is likely to be stiff competition for TSB resources, the Programme should now look to engage the organisation in the process of identifying opportunities to secure match funding for its priorities for developing technologies in the North West and for knowledge transfer (eg. through Knowledge Transfer Partnerships). Similarly, we understand that BIS is keen to continue with a Manufacturing Advisory Service (MAS) and an early dialogue is needed about possible extension of the current Future MAS project (eg. by novation of the contract to BIS).

### 18. Review the Programme's engagement with HEIs

11.19 Clearly, the Programme has faced a range of issues in the extent to which HEIs in the region have sought to apply for ERDF support for projects. However, the evaluation has heard some differences of view about the precise nature of these issues and potential solutions to them. A number of options should be considered:

- Some relaxation of the requirements to deliver projects on a region-wide footprint. The project reviews have suggested that, in practice, demand for support from HEIs is often highest in the area closest to the institution, although there are several good examples of initiatives whose reach extends across the North West.
- Run workshops on engagement with ERDF in the areas of knowledge transfer and business support by HEIs, and produce tailored guidance material, building on existing activity.

## Priority 3: Creating the Conditions for Sustainable Growth

### 19. Clarify the process for claiming jobs results for investments in sites, premises and the visitor economy

11.20 The ability of the Programme to claim jobs created/safeguarded results for P3 and P4 investments will be a key factor in determining whether it reaches its targets. However, there remains uncertainty about whether or not it will ultimately be able to count jobs that are the indirect result of capital investments in sites and premises (i.e. jobs in new office schemes) or visitor spend (i.e. jobs created by a business providing services to tourists). At present there is an inconsistency between the way the targets for the Programme were developed, the contracted results for some projects and the national guidance on how jobs created and safeguarded can be verified[42]. The verification criteria for these jobs will either need to be relaxed by the EU, or Programme targets redefined in a way which will permit the counting of indirect jobs.

### 20. A selective approach to future infrastructure projects which focuses on high impact

11.21 Subject to the resolution of the problems relating to the jobs indicator, the small amount of headroom which remains in P3 should be absorbed by projects which will demonstrably deliver significant job and GVA impacts. Lisbon compliance requirements point towards investments in premises for commercial innovation etc. although property market

[42] Technical Note of combined indicators for RDA single budget and ERDF programme 2007-13, Version 3: Offpat June 2009. See definitions for O1 and R1

conditions and public sector funding cuts mean that conditions for this type of investment remain challenging.

### 21. Flexibility toward investing in Strategic Regional Sites

11.22 The investment framework for AA3.2 currently focuses on the need for all investment to take place in an agreed list of regionally strategic sites, as well as 15 supplementary sites in the region. Given the state of the economy and property market over the last two years, as well as the current position within P3 on achieving output and result targets, it would be sensible to have a more flexible approach to funding investment in sites which have the potential to deliver sites and premises that can meet the aspirations of this Priority. The sites already identified should be retained, but if their deliverability is uncertain within the Programme period, criteria should be established which enables Programme funding to be used to support other land and property investments which can meet the key objectives of the Priority within the timescales of the Programme. The focus should be on investment that can help deliver sites that are as stated in the NWOP "focused on knowledge-based businesses and high value added sectors"

### 22. Restrict any additional investment in the visitor economy

11.23 With little headroom left within AA3.3 and the non-Lisbon compliant status of investments in the visitor economy, the Programme should not be looking to provide further investment in this area (although potentially visitor economy investment that lead to direct job creation might suit packages of investment in Priority 4).

### 23. Focus any further investment in public realm only where it directly unlocks private sector investment

11.24 During the challenging economic and property climate in the early years of the Programme, investment in public realm was seen as a necessary response to pressure to commit funding. While investments in this type of activity can play an important part in making an area more attractive to business investors and residents in the longer term (as acknowledged in the NWOP), they do not directly contribute to job creation and safeguarding targets, and they are not compliant with the Lisbon criteria. The intention of the NWOP was that such investment would be part of a wide programme that delivered new economic activity on sites, not stand-alone projects in their own right. Given the limited headroom remaining in P3 and relatively slow progress on economic impact, the Programme should not be seeking to fund a significant amount of this activity in the future (unless as part of a wider package of site investment that demonstrably unlocks substantial private sector investment).

### 24. Ensure that appropriate resource is committed to the contract management and formative evaluation of JESSICA

11.25 Given the significant proportion of funding allocated to JESSICA and its critical role in delivering economic impacts to the Programme, the evaluation recommends that contract management resource is geared towards close monitoring of (and support for) the project. An interim review and the fullest possible reporting of progress will be vital to ensuring that any performance issues faced by the project are identified at an early stage.

### 25. Consider opening a call for renewable energy demonstrator projects

11.26 There is a case for the Programme to consider opening a call for capital investment in renewable energy demonstrator projects, with headroom in Merseyside's P3 allocation available. This is Lisbon compliant activity which would meet with the objectives of the Europe 2020 strategy, and would fit the Programme's broader emphasis on the low carbon economy.

## Priority 4: Growing and Accessing Employment

### 26. Introduce a investment package approach to P4

11.27 There is a strong case for removing the current boundaries between the three Action Areas in P4. Instead we suggest an investment call to encourage investment in packages of capital and revenue interventions which focus on creating employment in those areas of the North West which will be hardest hit by public sector funding cuts. This could use the headroom that exists across the three Action Areas Evidence shows that existing disadvantaged communities are often hit hardest by such cuts, and such flexibility in ERDF investment could enable partners to develop creative solutions to this issue. Activity already being delivered in the region (eg. employment links projects) suggests that there already innovative approaches to working across institutional and geographic boundaries, and the Programme should be looking to draw on this expertise. This type of investment would also appear to be a strong fit with the Regional Growth Fund.

### 27. Clarify the outputs and results targets for P4

11.28 Priority 4 faces the same problems as P3 relating to the eligibility and verification of indirect jobs generated by ERDF investment. As the Programme currently stands, the balance of target results between jobs created and safeguarded may need to shift towards jobs created, where the business start up project is making good progress. However, any further progress on jobs will be subject to confirmation that indirect jobs can be counted by the Programme.

## Priority 5: Technical Assistance

### 28. Begin to consider future match funding for Technical Assistance

11.29 The Programme should now start the process of helping partners to identify how TA will secure match funding in future. For example, this might include assistance identifying opportunities generated by NWOP VCLF activity, any resources allocated to LEPs and the potential to secure resources from the Regional Growth Fund.

### 29. Review performance measures for Priority 5 projects

11.30 There may be some benefit in considering whether changes need to be made to the framework for monitoring and measuring the performance of Priority 5 projects. This may also bring help to bring greater clarity on the eligibility of activities that TA projects are delivering, which is understood to have been a challenge for the Programme. In particular, targets relating to the development of projects could play an increasingly important role as the Single Programme is wound down. Organisations delivering TA could be expected to bear a much bigger share of the responsibility for supporting the development of future ERDF projects.

### 30. Consider allocating Priority 5 headroom resource to address the deficiencies of MCIS

11.31 This is a key issue for the Programme, and there is a strong case for the allocation of a proportion of the substantial headroom resource in P5 to developing MCIS to work more effectively for the EPE and its partners.

## CCTs

### 31. Considering focusing post-contract support resources on key projects

11.32 In view of likely future resource pressures on support for CCT delivery in the NWOP and the loss of expertise elsewhere in the NWDA, there is a case for the programme to focus post-contract support activity where it is likely to generate the biggest value-added impact on environmental sustainability or equality and diversity. This does not mean dropping commitments to implement CCTs across the programme, but it may be a more realistic approach to securing action on CCTs that goes well beyond the minimum requirements. For environmental sustainability these may include extra, focused support for projects in:

- AA1-2 Developing higher added-value activity in target regional sectors – Energy and Environmental Technologies and Advanced Engineering and Materials sectors
- AA1-3 Increasing sustainable consumption and production
- AA2-2 Encouraging innovation to improve productivity in all companies
- AA3-2 Developing high quality sites and premises of regional importance.

11.33 For equality and diversity:

- AA1.1 Developing high value new enterprise (potentially targeted at particular groups and communities)
- AA4.1 Stimulate Enterprise in Disadvantaged Communities and Under-represented Groups.

### 32. Consider investing Priority 5 Technical Assistance funds in the modelling of the Programme's carbon footprint

11.34 While the NWOP's approach to measuring project' carbon emitting impacts is a welcome step forward, it does not capture the full carbon impact of all of the economic activity generated by the Programme. This is a particularly complex undertaking which would require each beneficiary across the entire Programme to capture and report the carbon outputs they have generated (or saved) as a result of ERDF support. There is a good case for looking to invest P5 resource in a more sophisticated modelling of the Programme's net carbon footprint, and in doing so to equip it with the information to better understand how it might contribute to reductions in carbon emissions.

## Governance, Management, Systems and Processes

### 33. Review the size and composition of the Programme Monitoring Committee

11.35 The evaluation evidence suggests that the number of attendees coupled with the breadth of representation is limiting to some degree the ability of the PMC to operate strategically. Public sector funding cuts and a need to find alternative, substantial sources of match funding to replace Single Programme funding will put pressure on the Programme to better engage the private sector, higher education institutions etc. and this needs to be factored into decisions about the PMC's future composition. The new Local Growth White Paper also set out some clear steers on the future roles of LEPs that need to be taken into account.

### 34. Retain a separate Performance Monitoring Committee for Merseyside

11.36 We believe that, on balance, there is a case for retaining a separate committee to specifically monitor commitment, approvals and debate ERDF expenditure on Merseyside. While the phasing-in period formally ends in December 2010, the overall resource envelope and separate targets for the area remain and need to be monitored closely. There remains both Merseyside specific funding (eg. AA3.1) to be committed and many projects in Merseyside are still at a comparatively early stage of delivery. If the Merseyside arrangements were folded fully into region-wide arrangements there could be a danger that the PMC might get bogged down with too much detail or that there was not sufficient focus on progress in Merseyside. There are clearly pressures to resource the activity to support the committee's work (preparation of reports, attendance at meetings), but on balance this is probably outweighed by the benefit of working through a mechanism to ensure there is a strong focus on delivery of ERDF in Merseyside. The EPE and Merseyside partners should consider whether there are ways of further streamlining its work to find resource efficiencies and also to ensure that the most value is obtained from a separate sub-committee.

### 35. Ensure that the current European Programme Executive expertise is retained in the North West

11.37 While it is appears that the position on the future ERDF governance and management will only become clear following the 2011 Budget, the North West needs to make provision now to ensure that it is able to retain the considerable expertise in ERDF issues and programme management it has built up through the delivery of the Programme to date in the EPE. Any new arrangements may need to go through time consuming Article 71 audit procedures, and the Programme could be at a significant disadvantage if it compromises the knowledge and experience of those currently responsible for Programme management.

### 36. Consider additional training (and other support) for project delivery bodies in the completion and processing of ERDF financial claims

11.38 The evaluation has heard consistent messages about perceived delays and complexity in the processing of ERDF financial claims from projects. By the same token, it is clear that irregularities (eg. inadvertent claims for ineligible costs) are an important factor in the difficulties that the EPE and projects are experiencing. The UK Government has become more risk averse in this ERDF programme than was previously the case, at least partly attributable to fines imposed following problems with eligible expenditure in previous programmes. Additional, intensive training for groups of ERDF project financial officers (eg. for business support projects) may go some way to addressing these problems. As would more hand-holding support from the EPE or its replacement body.

### 37. Consider investing Technical Assistance funding (Priority 5) in measures to significantly improve the way the Programme is able to use CLG's MCIS platform

11.39 The quality of Programme performance data on spend, outputs and results is falling short of the level desired by the EPE and its partners. In large part this is due to the nature of the MCIS system that the EPE has to use. There is considerable headroom within Priority 5, and the Programme should now consider whether immediate investment needs to be made to improve or upgrade MCIS. The use of alternative multiple systems to monitor and manage Programme spend, output and results data is creating difficulties for the EPE and is the source of some concern for PMSC, PMC and MPISC members. Clearly, however in any such move consideration will need to be given to the changes that may happen has a result of the proposed announcements on future ERDF management and governance in the 2011 Budget.

# Appendix A Approach to Assessing Impact

1. Our estimate of the potential economic impact of the North West ERDF programme is based on the anticipated jobs outputs of projects receiving (or expecting to receive) ERDF investment. We have calculated the likely net additional GVA impact for each project using the following steps:

    1) **Establish the gross jobs impact**: Sum of the jobs created and safeguarded results for each project. This includes the jobs impacts already reported and future anticipated results.

    2) **Convert to net additional jobs:** BIS guidance[43] provides regional additionality adjustment factors for different types of intervention; business development and competitiveness, regeneration through physical infrastructure and people and skills. We have mapped the Action Areas against these three types of intervention and applied the appropriate adjustment factor to the gross jobs impact for each project.

    3) **Calculate the annual GVA impact of the net additional jobs**: The number of net additional jobs created and safeguarded was multiplied by regional GVA per worker for 2008 of £40,300.

    4) **Convert annual GVA impact into Cumulative GVA impacts:** We have replicated the methodology used by PWC in their evaluation of RDA spending[44] to reach a figure for the cumulative GVA impact (i.e. a cumulative estimate which reflects the duration over which impacts build up, persist and decay). PWC generated a series of composite adjustment factors to convert annual GVA impact figures into a net present value (NPV) for the cumulative achieved GVA. A different factor was calculated for each IEF sub-theme taking into account;

        - the time taken to deliver the intervention
        - the period over which benefits build
        - the time over which benefits will persist
        - the annual rate of decay in benefits.

        The relevant composite factor for each Action Area (mapped to the IEF sub themes) has been applied to the single year GVA figure to reach the cumulative achieved and future potential GVA impact of each project.

    5) **Aggregate jobs and GVA impacts**: The per-project impacts have been aggregated to provide an estimation of impact for each Priority.

2. This methodology is underpinned by a number of assumptions. Particular attention should be drawn to the following:

[43] BIS (2009) Practical Guidance on Implementing the Impact Evaluation Framework

[44] PWC (2008) Impact of RDA spending

- Projections for future impacts are based on contracted outputs for each project (or anticipated outputs profile for projects not yet contracted). The analysis therefore **assumes that all projects will meet their output targets**.

- The estimation of GVA conflates jobs created and jobs safeguarded

- We have not attempted to include estimates of impact for projects which do not directly create or safeguard jobs. As a result, the total impact figures represent a conservative estimate of the GVA impact.

## Modelling Scenarios

3. As some projects have already reported jobs created / safeguarded results, we have provided an estimation of achieved impacts to date. We have topped this estimate up by modelling the likely future impacts of the programme under five scenarios:

- **Scenario 1: Contracted projects only**. This scenario models the impact of all contracted projects and assumes that they will proceed as planned.

- **Scenario 2: Contracted and committed projects.** Assumes all contracted and committed (i.e. post concept stage) projects will proceed unchanged.

- **Scenario 3: Contracted, committed and pipeline projects.** Assumes all contracted and committed projects will proceed unchanged and that all projects currently in the pipeline will be approved and contracted.

- **Scenario 4**: **Moderate loss of match funding.** This scenario assumes that all contracted, pipeline and committed projects will still go ahead, but there will be some reduction in their scope to reflect the limited availability of match funding. Projects have been scaled back in accordance with their primary source of match funding

  - Contracted projects where SP funding is the main source of match have been scaled back by 10% in P1 and P2 and 6% in P3 and P4. Committed and pipeline projects by 50% in P2 and P2 and 40% in P3 and P4

  - All projects where other public funding is the main source of match have been scaled back by 25%

  - Projects with a large proportion of private sector match remain unchanged.

  It is anticipated that the contracted outputs would decrease in proportion with the reduction in investment i.e. 10% reduction in ERDF investment would result in a 10% reduction in the contracted outputs.

- **Scenario 5**: **Significant loss of match funding.** This models a more pessimistic scenario where reduced availability of match funding have a more severe impact on the programme, particularly with regard to bringing forward committed and pipeline projects.

- Contracted projects where SP is the main source of match funding have been scaled back on the same basis as in Scenario 4.
- Committed and pipeline projects where Single Programme is the main source of match funding are assumed to be unable to proceed.
- Projects where other public sector funding is the main source of match have been scaled back by 65%
- Projects where the private sector is the main source of match funding remain unchanged.

# Appendix B- Evaluation Consultees

| Name | Organisation | Status |
|---|---|---|
| Cllr Clucas Flo | Liverpool City Council & 4NW | Completed |
| Dave Moorcroft | TMP | Completed |
| Paul Dixon | The Mersey Partnership | Completed |
| Neil Scales | Merseytravel | Email submission |
| Neil Clatworthy | NWUA | Completed |
| John Hacking | North West Network | Completed |
| David Horstead | Cheshire and Warrington Enterprise Commission | Completed |
| Mike Emmerich | Commission for the New Economy | Completed |
| Liz Meek | GONW | Completed |
| Miranda Abrey | CLG | Completed |
| Chris Kirby | BIS | Completed |
| Pernille Kousgaard | NWDA | Completed |
| Guy Flament | European Commission | Completed |
| Alan Roff | NWUA | Completed |
| Alan Manning | NW TUC | Completed |
| Roger Mitchell | NW Bus Link | Completed |
| John Stageman | NWDA Board | Completed |
| David Malpass | EPE | Completed |
| Euan Cartwright | Cumbria Vision & University of Cumbria | Completed |
| Brian Bailey | Blackburn Council | Completed |
| Steve Zdolyny | NWDA | Completed |
| Gillian Elliott | Cumbria County Council | Completed |
| Fiona Williams | Environment Agency | Completed |
| Paul Roots | Environment Agency | Completed |
| Cllr Sue Murphy | Manchester City Council | Completed |
| Sarah Todd | Manchester City Council | Completed |
| Eddie Smith | Manchester City Council | Completed |
| Paul Evans | AGMA | Completed |
| Euan Cartwright | Cumbria Vision & University of Cumbria | Completed |
| Cllr Phil Davies | Liverpool City Council | Completed |
| Andy Churchill | Merseyside Network for Europe | Completed |
| Emma Kirkpatrick | EPE, NWDA | Completed |
| Nicola Lavin | EPE, NWDA | Completed |
| Lucy Staite | NWDA | Completed |
| Sarah Carling | NWDA | Completed |
| Mark Joslyn | NWDA | Completed |
| Marie Clayton | NWDA | Completed |
| Emily Smith | NWDA | Completed |
| Steve Bain | NWDA | Completed |
| Ian Haythornthwaite | NWDA | Completed |
| Hazel Catt | EPE, NWDA | Completed |
| Gemma Callaghan | EPE, NWDA | Completed |
| Paul Davies | EPE, NWDA | Completed |
| Lisa Young | EPE, NWDA | Completed |

# Appendix C- ERDF Projects Reviewed

| Project Name | Action Area | Type of Review – Tel or FTF |
|---|---|---|
| High Growth Business Start Up | 1.1 | Email & Follow Up |
| HE Enterprise Champions | 1.1 | Tel |
| Food and Drink Growth Programme | 1.2 | FTF |
| ASCEP II | 1.2 | Tel |
| Sector Devpt. for Visitor Economy in the Merseyside CR | 1.2 | FTF |
| NW Waste Technology Virtual Centre of Excellence | 1.2 | FTF |
| Centre of Excellence for Bio-Pharmaceuticals | 1.2 | Tel |
| Media Enterprise Centre (Media City UK) | 1.2 | Tel |
| NW Construction Knowledge Hub | 1.3 | Tel |
| Embedding Resource Efficiency in Key Sectors | 1.3 | FTF |
| Environmental Business Support (Enworks) | 1.3 | FTF |
| KE-LAS Knowledge Exchange in Laser Engineering | 2.1 | Tel |
| Innovation Voucher Scheme | 2.1 | Tel |
| ISIS (InfoLab21's Strategic Innovation Support Programme) | 2.1 | Tel |
| North West Virtual Engineering Centre | 2.1 | Tel |
| Future MAS | 2.2 | FTF |
| Enhancing the Business Link Service Innovation Specialist Brokerage | 2.2 | FTF |
| Hall Lane Strategic Gateway | 3.1 | Tel |
| Integrated Corridor D Gateway | 3.1 | FTF |
| Integrated Corridor B Gateway | 3.1 | FTF |
| Integrated Corridor F Gateway | 3.1 | FTF |
| URC LV St Paul's Square Phase 3 | 3.2 | FTF |
| Manchester Central Improvement Programme | 3.2 | FTF |
| URC Liverpool Lime St. Gateway | 3.2 | FTF |
| Partners for Tourism Growth - Liverpool City Region | 3.3 | FTF |
| Mann Island - Museum of Liverpool | 3.3 | FTF |
| Lowther Castle & Gardens Trust | 3.3 | Tel |
| Regional Marketing Culture & Heritage | 3.3 | Tel |
| Supporting Links to Employment - Merseyside | 4.2 | FTF |
| Cheshire and Warrington Links to Employment Phase 1 | 4.2 | Tel |
| WLR-NDP Waterfront Business Park further infrastructure | 4.3 | Tel |
| URC LV Baltic Triangle Creative Industries Quarter | 4.3 | FTF |
| WLR-NDP Maryport Business Centre | 4.3 | Tel |
| LCVS Business Development Centre | 4.3 | Tel |
| (NW Network)Third Sector Coordination | 5 | Tel |
| Greater Manchester TA for NWOP 2007-13 | 5 | Tel |
| VCLF | | FTF |
| Jessica | | FTF |
| Blackpool Leisure Assets Purchase and Development | 4.3 | Not completed |
| Business Start Up 2 | 4.1 | Not completed |

**Regeneris Consulting Ltd**

Manchester Office
One Ashley Road
Altrincham, Cheshire
WA14 2DT
Tel: 0161 926 9214
Email: manchester@regeneris.co.uk

London Office
70 Cowcross Street
London, EC1M 6EJ
Tel: 0207 608 7200
Email: london@regeneris.co.uk

Web: www.regeneris.co.uk