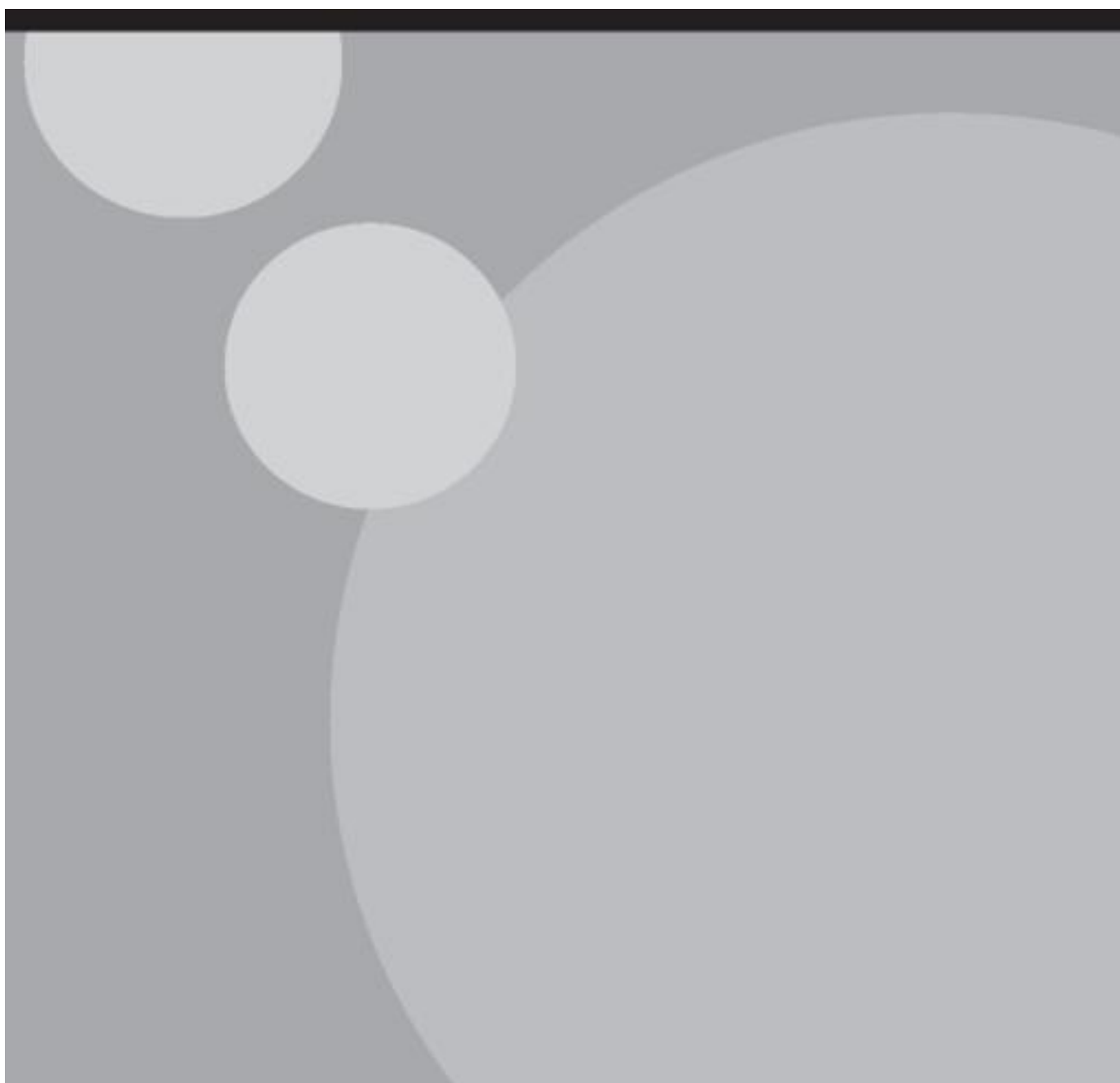


# **Regional Competitiveness and Employment Objective 2007 – 2013**

## **West Midlands European Regional Development Fund Operational Programme**



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**The Operational Programme was originally developed in 2007 and a number of chapters and Annexes relate to information which was correct at that time. This includes references to strategies, research documents, organisations and individual contacts. Where appropriate updated chapters and Annexes have been included in this version to reflect updated information.**

# 1. EXECUTIVE SUMMARY

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## 1.1 Background

The Regional Competitiveness & Employment Objective (RCE) is the successor to Objectives 2 & 3 and will be a source of European Union Structural Funds in the West Midlands from 2007 to 2013. It will be made up of two complementary programmes. The European Regional Development Fund (ERDF) Programme, worth €400 million, will be managed regionally by Advantage West Midlands. The European Social Fund (ESF) Programme, worth €372 million to the West Midlands, will be managed nationally by the Department for Work and Pensions with input at a regional level.

The new Structural Funds programmes link closely to the ambitions of the European competitiveness agenda, the “Lisbon Strategy” and the European policy focus on growth and jobs. The EU Commission set out the aims of the RCE programmes in the Community Strategic Guidelines and in the enabling regulatory framework established by Council Regulations No.1080/2006 and No.1083/2006. Each Member state has produced a National Strategic Reference Framework (NSRF) translating the Community Strategic Guidelines to the national context.

## 1.2 Regional Arrangements to Draft the New Programme

In March, under the direction of the Regional Assembly’s European and International Affairs Partnership, a small regional steering committee was established to prepare the regional operational programme. This steering committee - the RCE Group - included representation from the Learning and Skills Council, Job Centre Plus, Higher Education Association, local authorities, Natural England, WMRA as well as Government Office of the West Midlands (GOWM) and Advantage West Midlands (AWM) the regional development agency. GOWM was responsible for coordinating the activity of the group, whilst AWM took the strategic lead.

The Group directed the preparation of an extensive socio-economic analysis setting out the evidence base and strategy for the Programme. This drew upon both the existing and the emerging evidence base for the revised Regional Economic Strategy.

Based on this analysis and the overall EU, national and regional policy framework the Programme contains three major priority axes as follows:

- Promoting Innovation and Research and Development;

- Stimulating Enterprise Development;
- Achieving Sustainable Urban Development.

These are complemented by two much smaller priorities focusing on inter-regional activity and technical assistance.

Care was taken to ensure alignment with the existing West Midlands Economic Strategy (WMES); the emerging priorities of the revised WMES; the Regional Spatial Strategy; and other associated regional policies, whilst ensuring that these new funds bring added value. The funds do not cover all activities outlined in the WMES, but target specific activities within it.

The contents of each priority have been prepared by working groups drawn from across the relevant partners and drafts have been discussed by a number of regional bodies. The Programme at every stage has benefited from the detailed observations of the Ex Ante consultants, EKOS, a strategic environmental assessment and the independent Ex Ante Steering Group.

The draft Operational Programme was submitted to regional partners for a twelve week consultation. In light of observations made, the document was revised at the end of the consultation period. Once submitted to the Commission there will be a four months period of appraisal. It is hoped to launch the Programme in autumn 2007. Expenditure will be eligible from 1 January 2007.

## 1.3 Strategic Direction of the ERDF Programme

The vision for the West Midlands ERDF Programme is to achieve a significant increase in the productivity of the business base in the West Midlands; to reduce unemployment and inequalities; and ensure that the region's economic growth is achieved in a sustainable manner, which aids its transformation towards both a low-carbon and high-value added economy. Specifically, the programme seeks to assist 22,441 businesses to improve their performance, create 10,519 jobs and 2,495 new businesses and support the reduction of regional carbon emissions. In addition 3,288 businesses within the region will engage in new collaborations with the UK knowledge base as part of the Programme's determination to upgrade the regional economy. For a traditional manufacturing region adapting to a fast-changing world, these issues are crucial to enable the West Midlands to compete more effectively within an increasingly globalised economy.

### 1.3.1 Underlying Economic Conditions

Despite significant economic growth over the past decade and an important recovery in employment levels, it is clear from the socio-economic analysis that the West Midlands remains confronted by a series of major challenges. The SWOT analysis highlights the poor levels of educational and skills attainment; the relatively low innovation rates; and the ecological challenges and the continued weak GVA growth rates compared to other UK regions. These shortcomings, combined with substantial zones of socio-economic disadvantage pose dangers to the future economic vibrancy of the region. Left unattended, they will act as disincentives to start-up companies and those businesses wishing to expand and diversify their operations in order to maximise the potential of both existing and new markets. These trends are widely understood across the Region.

### 1.3.2 Reduced Levels of Funding

The significant reduction in funding as compared to the 2000-2006 Programmes – the West Midlands suffers a 55% drop in funding from the 2000-2006 period – means that the partners have agreed to select a limited number of activities rather than spread resources widely with the concomitant risk of diluted impact. The reduced funding has meant that partners have needed to deliberate on the fields of activity and decide on a focus that best lends itself to securing the sustainable growth and jobs targets demanded by the Lisbon agenda.

### 1.3.3 The Need to Concentrate Resources

This calls for a concentration of resources within promising spheres of activity and also to a series of geographic constraints in funding decisions. It is not possible to spread funds widely across all spheres of activity, including many which may be intrinsically valuable. Rather, the Programme shall seek to focus funds on both projects and wider initiatives which present good prospects for high value growth and sustainable jobs, while tackling some of the most visible signs of deprivation and disadvantage within the Region. It is from this analysis that the partners have drawn three major priorities for the programme focussing on innovation, enterprise development and sustainable urban development.

In developing **the first Priority - Promoting Innovation and Research and Development** - this approach led the partners to focus on the five clusters which have been identified by the region's Innovation and Technology Council as offering the most potential for the West Midlands to take a lead in new markets, processes or technologies, namely health and medical technologies; energy; digital media and ICT; transport technologies; and advanced materials/nano-technology. In terms of **the second priority**



**- Stimulating Enterprise Development** - the partners selected a broader but still concentrated focus with an emphasis on the ten business clusters identified within the current Regional Economic Strategy. As identified within the SWOT these represent just over a quarter of total businesses in the region. Focussed activity on these clusters with the Structural Funds will help the region diversify its economic base and achieve higher growth rates. The SWOT also identified the relatively weak engagement of women in entrepreneurial activity and new firm formation, and that the number of ethnic minorities involved in new business activity is below the UK average. The partners propose to concentrate an element of enterprise growth activity here in order to address these shortcomings. This would also address the EU's concerns on equal opportunity issues.

In terms of geography, these Structural Funds Programmes are open to all parts of the region. This is in contrast to the 2000-2006 Programme where only one-third of the region was a core beneficiary of Objective 2. The eligible areas were concentrated in the two main conurbations and the more sparsely populated areas in the West of the region. The remaining parts of the region were eligible for European Social Funds through Objective 3 and were beneficiaries of other EU funded Programmes, notably the Rural Development programme and the Common Agricultural Policy, worth £142 million to beneficiaries in the five shire counties in 2004-5.

It is a difficult task to apply the principles of concentration and targeting within a much reduced programme when the previous constraints of eligible areas and maps have been lifted. Wide variations exist between the component parts of the region but the socio-economic analysis repeatedly highlights the sharpest concentrations of disadvantage and deprivation within the two major conurbations. Both the general and ward data on unemployment and the generic poverty indicators of the Super Output Areas confirm this picture. That is why the partners have prepared **a third priority - Achieving Sustainable Urban Development** - which will address the significant concentrations of economic need and seek to generate major employment opportunities. This will take up approximately one-quarter of the programme's resources, leaving the remaining 75% open to the whole region.

The desire to integrate the rural, urban and regional European networking experiences of the 2000-2006 EU Programmes, for example, Leader, Urban and Equal into the mainstream Structural Fund Programme led the partners to develop **a small Inter-Regional priority** within this Programme, which will help the West Midlands learn and apply the lessons from other fast-growing regions within the EU. All parts of the Region will be eligible to apply for this Programme. The **small Technical Assistance priority** will also contain activities which will benefit different geographic and sectoral partners. Similarly, the cross-cutting themes of environmental sustainability and equal opportunity

will ensure the Programme embraces these crucial considerations in all aspects of its work.

#### **1.3.4 The Programme's Geography, Cross Cutting themes and Management**

It is in these various ways that the partners seek to promote an overall geographic balance to the Programme, while adhering to the principles of concentration and focussing on the need for these Funds to tackle market failure. This Programme is designed to reduce inequalities within regions as well as between them and to address market failure. Programme management mechanisms will be put in place to ensure this objective is fully considered when strategic commissioning or individual appraisal of project bids is undertaken.

At the same time the principles of environmental sustainability and equality of opportunity are embedded within the Programme. These will shape and inform all the Programme's priorities and the management mechanisms.

The UK Government asked the Regional Development Agencies to assume responsibility for the operational management of the Programme. Advantage West Midlands proposes to run the Operational Programme on the basis of the same partnership principles which have been used in its preparation: namely full engagement of all relevant partners; seeking to proceed by consensus wherever possible; and full transparency and accountability of Programme management mechanisms.

## 2a. SOCIO ECONOMIC ANALYSIS

All data references made within this chapter relate to **Annex A1 – Data Annex – Original**

### 2.1 Summary of Eligible Area Strengths and Challenges

#### 2.1.1 Regional Profile

##### *Key Economic Indicators for the West Midlands*

Description	Year	West Midlands	UK	Source
Population (thousands)	2004	5,334	59,835	NOMIS
Population from minority ethnic groups (%)	2001	11	9	Census
Gross value added (£ million)	2004	81,741	1,024,088	ONS
Gross value added per employee (£)	2004	15,325	17,451	ONS
Mean gross weekly wage (£)	2005	403	431	NOMIS
Employment rate (%)	2005	72.7	74.3	NOMIS
Claimant count rate (%)	2005	2.9	2.7	NOMIS
Rate of employment in manufacturing (%)	2004	16.5	11.8*	NOMIS
Number of businesses	2003	315,380	4,021,390	Small Business Service

\* This figure is for Great Britain (England, Scotland and Wales) figures for the UK are not available.

## ***Geography***

The West Midlands is situated at the heart of England. Administratively, the West Midlands region comprises the counties of Shropshire, Staffordshire, Warwickshire and Worcestershire, together with the unitary authorities of Herefordshire, Stoke-on-Trent and Telford and Wrekin, and the seven metropolitan districts of Birmingham, Coventry, Solihull, Wolverhampton, Dudley, Sandwell and Walsall (the latter four commonly known as the Black Country).

The region includes two conurbations: the Birmingham/Black Country, Coventry and Solihull conurbation in the central area, known as the Metropolitan Conurbation and the North Staffordshire conurbation.

The West Midlands covers 12,998 sq km of which only 10.8% is built up while just over 77% of the total land area is accounted for by arable, horticulture and improved grassland; the remainder is not under cultivation.

## ***Spatial Patterns in the Economy of the Region***

The West Midlands is a diverse region with significant variations among its component parts. This Section does not attempt to provide a detailed sub-regional breakdown. However, recent analysis<sup>1</sup> highlights that increasingly, the regional spatial economy is becoming much more complex than a simple division between urban-based industrial activity and rural-based business. Analysis suggests that the spatial patterning of economic activity in the West Midlands region is changing. While central Birmingham has seen a major rejuvenation and attracted a significant number of new jobs in the financial and professional services sector, the adjacent Black Country continues to lag behind. Currently the Black Country has an output gap of over £3bn when compared to the UK average, accounting for one third of that for the West Midlands region. The **Black Country Strategy (2005)** is a vision-led sub-regional strategy for growth and competitiveness, which seeks to realise the economic potential of a part of the country which has under-performed economically for the last quarter of a century.

Over the last three decades there has been a significant shift outwards from Birmingham and the Black Country to a belt that encircles the conurbation. In particular, an on-going process of restructuring within key industrial sectors has seen the extension of many

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<sup>1</sup> The Functioning Economic Geography of the West Midlands. University of Birmingham and West Midlands Regional Observatory. August 2006.

manufacturing and tertiary activities from the conurbation to a surrounding belt broadly between 20-40 miles from the conurbation. Importantly, this evolving pattern of economic geography is also likely to reflect the continued development of business and professional services (BPS), together with R&D capacity, beyond the confines of the conurbation.

In part, a key driver is access to the national transportation network with, for example, the geography of innovation facilitated by the motorway network, specifically the M50, M5 and the M40. Notably, other factors may be closely related to the attraction of places in the belt as high quality residential environments. Liveability factors attract commuters working in the service sector to these areas.

The general picture of the rural West Midlands is one of a high quality of environment, low unemployment, expanding population, higher business start-up rates than in the major urban areas and its residents enjoying a higher quality of life. The Region possesses many areas of outstanding natural beauty and a fine cultural and industrial heritage.

However, there are pockets of deprivation, particularly in the western remote rural areas, the rural west -Herefordshire and west Shropshire - along with parts of North Staffordshire comprise some of the most remote and sparsely populated areas in England.<sup>2</sup>

While there are low levels of unemployment in most rural areas, there are major issues such as underemployment, seasonality, low wages and too great a dependence on the declining sectors in particular the land based sectors. The existing economic base in a number of rural areas shows a higher than average number of low value businesses e.g. agriculture and a below average number of knowledge intensive activities.

### ***Population***

In 2004 the population of the West Midlands was 5.3 million - 10.6% of the population of England and Wales. This population makes it larger than some European countries (Denmark, Finland and Ireland). 65% of the Region's population live in urban areas, with 18.6% in Birmingham. There are significant variations in population density across the region (Figure 1.1). This ranges from a high of 3,647 people per sq km in Birmingham to a low of 39 in South Shropshire (Table 1.1).

The West Midlands region has the highest proportion of Black and Minority Ethnic communities outside London<sup>3</sup>. According to the most recent census, the largest ethnic

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<sup>2</sup> For information here see A State of the Region Update Report 2005. Section 6. Rural Lives, Rural Issues

<sup>3</sup> 11% of West Midlands population are from BME groups compared to 9% of national population (Census 2001)

minority group in the West Midlands is Indian. Other significant minority groups in the region are people of Pakistani, Black Caribbean and Bangladeshi origin, whilst an increasing proportion of the population are of mixed ethnic origin. The impact of immigration into the region since the last census, notably of Somalis and Eastern Europeans, must also be borne in mind. Ethnic diversity is particularly strong in certain sub-regions, especially in and around Birmingham and the Black Country. Indeed, the most recent data suggests Birmingham's non-white population has reached 30% and is expected to rise steadily over the next decade. As the West Midlands State of the Region Report 2004 highlights the region's ethnic diversity should be viewed as an opportunity in a global economy where familiarity with a wide range of cultures and the creative fusion of ideas may be seen as a competitive advantage.

The region had a slightly higher than national average representation in both the 60-70 and under 20 age groups, and a slightly lower than national average representation in the 20 to 55 age group meaning that a proportionally higher section of the West Midlands population were not of working age, and therefore not directly contributing to the regional economy (Figure 1.2) The more youthful age structure of Black and Minority Ethnic Groups relative to population also has important implications for the Programme going forward. Taken together with the aging white population, this means that BME groups will form an increasing part of the future working age population in the West Midlands, this together with the greater tendency for older people to reside outside of the urban centres contributes to the variation in the age distribution across the West Midlands.

Birmingham, for instance has a particularly high proportion of people aged under 30, contrasting with the older age structure of South Shropshire, Malvern Hills and Herefordshire, where the population aged over 45 is above both the regional and national average<sup>4</sup>.

In view of the spatial trends outlined above it is hardly surprising to find that over the past period there has been a continuation of outward migration from the core urban areas within the Region into the outlying suburbs, and historic towns (Table 9.1 and Figure 9.1.)

### ***Economic Output***

In 2004 Gross Value Added (GVA) in the West Midlands was £81.7million which is approximately 9.1% of the England and Wales total, this is lower than the region's 10.6% share of the England and Wales population. Before 2003 the manufacturing sector was the largest contributor to the region's GVA, however in 2003 it was overtaken by real estate, renting and other business activity which accounted for 21.5% of the GVA as opposed to the 19.5% accounted for by manufacturing. The next largest sector is the wholesale and retail trade with 13.8%.

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<sup>4</sup> Ethnicity and Diversity in the West Midlands Region, West Midlands Regional Observatory 2005

In the same year GVA per employee in the West Midlands was £15,325. This placed the region seventh in the twelve regions and devolved administrations of the UK (Figure 1.3). It is a long way behind the East of England, South East and London, marginally above the North West and Yorkshire, but below the East Midlands, South West and Scotland.

Between 1990 and 2004 GVA per employee in the region grew by 92%. While this growth is welcome it is lower than the 97% growth of the UK as a whole. Figure 1.4. presents these GVA trends by industry groups over the period 1989-2003. Recent modelling work<sup>5</sup> indicates that if current conditions continue this gap in productivity between the West Midlands and the UK as a whole is expected to increase over the next ten years.

Recent analysis<sup>6</sup> indicates that virtually every sector in the region by Standard Industrial Classification (SIC) definition has a lower than UK average level of GVA. Some of this productivity gap was shown to be related to the higher than average concentration of low productivity sectors, particularly in manufacturing. However the sectoral mix only accounts for some 30% of the productivity gap in manufacturing and around 5% of the gap in the services sector. This leads to the conclusion that attracting companies in high productivity sectors will not be enough to close the productivity gap.

Figure 1.5 illustrates the urban/rural divide in terms of productivity. It is perhaps not surprising that Solihull has the highest average productivity, followed by the urban areas such as Birmingham and Coventry. Figure 1.6 demonstrates the marked differences in the trends of various parts of the region compared with the UK. Birmingham is relatively stable, while Solihull has increased dramatically, from only 90% of the UK average to a level comparable with the South East of England. What is also noticeable is the significant declines in productivity compared to the UK average that have occurred in Telford and Wrekin, Stoke-on-Trent, Sandwell & Dudley, Herefordshire, Walsall and Wolverhampton. Telford and Wrekin has declined some 17% against the UK average.

The two sub-regional figures highlight a disturbing trend, in that productivity in the areas with the lowest levels of productivity has declined further over the period, while only three sub-regions have improved productivity compared with the UK average. However, all these figures are strongly affected by the increased prevalence of commuting across the region (Data Annex 8.1.3) which means that increasingly many people especially in the better-paid jobs do not live near to where they work. If this trend continues the region will

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<sup>5</sup> Future Prospects for the West Midlands Economy and Employment. Warwick Institute for Employment Research and West Midlands Regional Observatory. August 2006.

<sup>6</sup> Factors Influencing the Relative Performance of the West Midlands. Aston University Business School and West Midlands Regional Observatory. August 2006

face a growing 'doughnut' effect with major structural problems increasing in its older industrial areas.

### ***Income***

There are intra-regional variations in earnings by residence across the region (Table 1.2). These partly reflect the structure of local economies. However, these figures are misleading as they do not take into consideration intra-regional commuting patterns.

In 2005 the mean gross weekly wage in the West Midlands varies between £358 (Bridgnorth) and £545 (Coventry). The median wage, which is less distorted by high earners, varies between £319 (Bridgnorth), and £468 (Solihull). This compares to a regional average of £403 and a national figure of £431 per week.

Table 1.2 indicates that higher weekly earnings were not confined to the urban areas, suggesting that wealth is spread reasonably evenly around the Region.

### ***Ecology***

As a former major manufacturing, energy-intensive region the West Midlands faces significant challenges as it seeks to adjust to a low carbon economy. The following data illustrates the extent of the challenge.

The region's carbon emissions at approximately 42 million tonnes amount to 10% of the UK total, while between 2002 and 2004 there was a 1.2% increase in CO<sub>2</sub> emissions against the national trend. In terms of renewable energy the region generated 9% of the English total but this is less than half of that generated by the highest renewable energy generating Region. The Region consumed 165,614GWh of energy in 2004. There has been a gradual increase in energy consumption in the last few years.

However, there has been a step change in both public and political recognition of the importance of this environmental challenge. The publication of the Treasury's report on climate change by Nicholas Stern has been followed by the UK Government's Climate Change Bill. At its Council meeting in March 2007, the EU heads of state reached an agreement on a binding 20% energy efficiency savings target for 2020 and a binding 20% target for renewable energies in overall EU energy consumption by the same date. This Operational Programme seeks to embed both the philosophy and practice of a low carbon economy in its proposals.



### 2.1.2 Deprivation

The UK Government published Indices of Deprivation (IMD) in 2004. These are measures of deprivation for every Super Output Area (SOA)<sup>7</sup> and local authority district (LAD) in England. They combine a number of indicators across seven domains into an overall deprivation score and rank at both SOA and LAD levels. Analysis<sup>8</sup> of regional data revealed that nearly 15% of England's most deprived SOAs are located in the West Midlands. Only the North West (28.3%) and Yorkshire and the Humber (17.6%) have higher percentage shares than the West Midlands. (Table 1.3) As the region only has a 10.7% share of all SOAs in England, the West Midlands therefore has a disproportionate share of England's most deprived SOAs. In addition to the afore mentioned regions, the West Midlands shares with the North East the dubious distinction of having a bigger share of England's most deprived areas than its share of the total number of SOAs.

In the region, 710,000 people live in areas where deprivation is most severe. This represents 13.5% of the region's population as at 2001 census. The region's most deprived areas are concentrated in the region's larger urban centres such as Birmingham (37.9% of wards in England's most deprived), Stoke-on-Trent (30%), Sandwell (23.5%), Wolverhampton (21.5%) and Walsall (17.2%). All five are included in the 50 most deprived districts in England in terms of extent of deprivation. There are smaller pockets of deprivation outside big cities and towns in places such as East Staffordshire (4%), Wyre Forest (2.9%) and Cannock Chase (1.2%). (Figure 1.7)

An analysis by type of deprivation reveals the worst score is in skills, where the region has 17.8% of the most deprived SOAs. Next worst is living environment deprivation with 15.6%, followed by income (14.4%) and employment (13.1%).

### 2.1.3 Interaction of Drivers of Productivity

Recent detailed analysis on the drivers of productivity in the West Midlands<sup>6</sup> concluded with the following text describing how the key factors interact in such a way as to partly explain the gap between productivity in the West Midlands and that of the UK as a whole.

"It seems reasonable to infer that the productivity gap is determined to a large extent by the identified weaknesses in skill and innovation inputs, and by the consequent interactions between the different drivers of productivity. Importantly, the review of the

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<sup>7</sup> The average SOA consists of about 1,500 residents, and there is relatively little variation in size between SOAs. The Office of National Statistics is promoting the use of SOAs for all their releases, further information at <http://www.statistics.gov.uk/geography/soa.asp>

<sup>8</sup> Indices of Multiple Deprivation 2004 An Overview of the West Midlands Data. West Midlands Public Health Observatory et al. 2005

data on the drivers of productivity has also suggests that deficiencies are particularly concentrated in the indigenous SME sector in the West Midlands”.

A potential interpretation of this process is represented diagrammatically below. This does not purport to be a complete description of every part of the process; rather it is intended to introduce a logic model whereby the different drivers interact in determining overall productivity performance in the region. It should be remembered, for example, that the weaknesses and key driver elements highlighted here vary in their scale and relative importance across the various sub-regions within the West Midlands: for example, several rural counties in the region which have low and relatively declining levels of productivity (Shropshire, Herefordshire and Worcestershire) also have relatively high levels of qualifications and enterprise<sup>9</sup>.

### INTERACTION OF PRODUCTIVITY DRIVERS IN THE WEST MIDLANDS

A **low skills base** and **low R&D investment** both contribute to **limited absorptive capacity** (i.e. the ability of firms to absorb and use technology generated internally or externally) of local firms, which in turn limits the ability of local firms – particularly SMEs – to be **innovative**.

**Low R&D** also directly results in relatively low **innovations levels**.

The **low skills base**, and especially aspects such as **moderate graduate retention and low demand for graduate skills**, discourages enterprise: although the region has reasonably high firm formation rates, they tend to be firms with relatively low levels of **innovation** and **productivity**.

Relatively **low innovation rates** among SMEs both directly leads to low productivity, and also contributes to a moderate **export performance**, which has a two-way relationship with **productivity**.

The **low skill base** may also directly contribute to **low productivity** by constraining the ability of firms to boost productivity and growth.

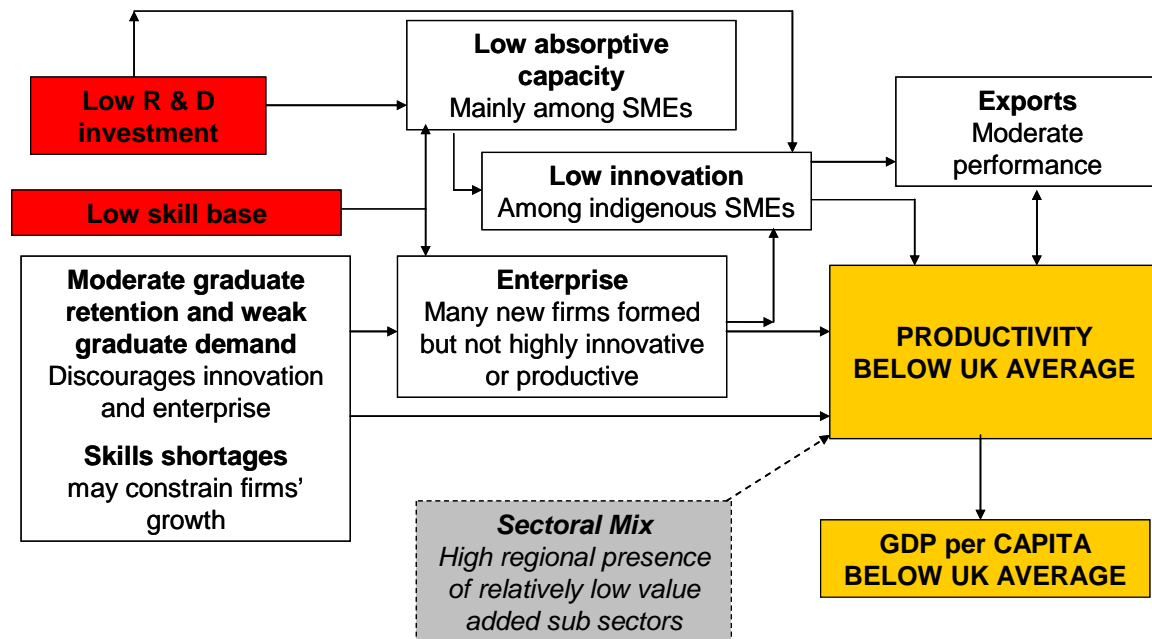
An **unfavourable sectoral mix** leads directly to productivity levels below the UK average.

Each of the factors described above is covered in more detail elsewhere in this socio economic analysis.

- Interaction of Productivity Drivers in the West Midlands

<sup>9</sup> It seems likely that this is to some extent a result of the pattern of residence versus employment in these counties

## Interaction of Productivity Drivers in the West Midlands



Source: *Factors Influencing the Relative Performance of the West Midlands*. Aston University Business School and West Midlands Regional Observatory. August 2006

### 2.1.4 Policy Implications

- The West Midlands is a major economic region with a population larger than many EU member states. The population of the region overall is stable though the rural population is growing at the expense of urban and better-paid workers who are leaving the core urban areas. Can the RCE address this issue?
- The region has the highest non white population of any English region outside London. This is especially concentrated in its urban core. The region's ethnic diversity may be viewed as a competitive advantage in a global economy, and the young age profile of BME groups also has important implications for future policy.
- Economic Output (GVA/head) is below the UK average and though it is predicted to increase, this growth will continue to be slower than UK average. There is a clear related problem of below average productivity. Both issues need to feature prominently in RCE proposals
- The West Midlands has a higher than average share of people living in areas which are among the worst 10% in terms of the UK government Index of Multiple Deprivation (IMD). Relatively poor performance in skills, living environment, income and employment contribute to this ranking. The RCE Programme will need to consider how to address this issue which is concentrated in the region's two major urban areas.

## 2.2 Employment

### 2.2.1 Overall and Sectoral

In 2005, the employment rate for the West Midlands was 72.7% compared to the overall UK rate of 74.3%. Closing this gap would make a significant contribution to the region's output deficit. Employment rates vary significantly across the region, as detailed in later sections.

As figure 2.1 shows employment in the service sector in the West Midlands far exceeds that in manufacturing, accounting for over three-quarters of total employment. Public administration (26%), distribution, hotels and restaurants (25%) and banking, finance and insurance (17%) all employed more people in the Region than manufacturing (16.5%). Despite this, manufacturing in the West Midlands continues to employ a significantly greater share of people than the national average of 11.9%.

Between 1998 and 2004 the broad industry sector which experienced the most dramatic loss in employment was manufacturing (Figure 2.2). During the 6 years, manufacturing employment in the West Midlands declined by 30%, from 554,727 to 387,955. In the same period, employment in distribution, hotels and restaurants increased by 7.5%; banking, finance and insurance services by 13.4%; and employment in public administration, education and health by over 19%, as people moved away from traditional production industries into the growing service sector. This shift in employment demonstrates flexibility within the region's workforce.

Within manufacturing, the sectors worst hit were:

- Fabrication of metal products - 20,546 jobs;
- Manufacture of motor vehicles' - 14,000 jobs (with significantly more following job losses at Peugeot, Jaguar and Land Rover in 2005/06) ;
- Manufacture of rubber and plastic products - 10,000 jobs;
- Machinery and basic metals - 8,000 jobs; and
- Manufacture of electric machinery - 9,000 jobs (which is over half of the entire number of employees involved in this sector in the West Midlands).

Some of the strongest growth was found in:

- Education + 24,000 jobs;
- Health and Social Work + 21,000 jobs;
- Construction + 7,800 jobs;

- Computer related industries + 7,200 jobs; and
- Other Business Services +30,892 jobs.

Over 80% of all unemployment in the Region in 2006 is located in urban areas (Table 2.1), with the highest concentrations in Birmingham and the Black Country.

Unemployment in the rural areas tended to be concentrated around the main towns, including Cannock, Bromsgrove, Kidderminster, Stafford and Rugby.

The evidence base<sup>10</sup> gathered by the West Midlands Minority Business Forum reveals that despite the relatively good participation levels in learning and skills amongst most BME groups, individuals from BME groups are still twice as likely to be unemployed than white people.

On a longer timescale in 1994 the average claimant count<sup>11</sup> for the region was 246,199 which is 7.7% of the working age population. By 2005 this had fallen to 94,922, 2.9% of the working age population. These falls have occurred in all parts of the Region. However, the drop is most marked in the shire counties. (Table 2.2)

### **2.2.2 Forecast Changes**

Recent analysis<sup>12</sup> has predicted that overall, total employment in the region is projected to increase by around 88,000 by 2015 (Figure 2.3). Notably, a high proportion (around 70%) of all net new jobs are expected to be part-time positions.

Manufacturing employment is projected to continue to decline (by some 47,000 jobs net of replacement demand), notwithstanding growth in manufacturing output as a result of productivity improvements and a significant need to replace the ageing workforce in this sector. This decline is almost 'across the board', though niche categories together with high technology sectors are likely to account for any net increases in employment. Employment in all other manufacturing sectors is projected to either remain static or decline, with substantial reductions in employment in textiles, clothing and leather goods, rubber and plastics, non-metallic mineral products, basic metals, electrical engineering and instruments, and motor vehicles. Mechanical engineering and electronics, while

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<sup>10</sup> Ethnic Minority Regional Economic Data August 2004 and Ethnic minority businesses in the West Midlands: A review Monder Ram and Trevor Jones July 2006

<sup>11</sup> Claimant count is lower than the ILO definition of unemployment as it includes only those people who are claiming unemployment related benefits. The ILO definition includes all those who want to work, are available to work, and are actively seeking employment and some of these may not be eligible for, or may choose not to claim, the benefits.

<sup>12</sup> Future Prospects for the West Midlands Economy and Employment. Warwick Institute for Employment Research and West Midlands Regional Observatory. August 2006

apparently not immune from decline, can be expected to exhibit much smaller reductions in employment.

Substantial employment growth can be expected in business and professional services, but employment is likely to remain static or even decline in insurance and banking and finance. Employment increases can also be expected in the non-marketed services sectors, where such growth will likely be concentrated in health and social services and, to a lesser extent, education. Public administration employment is projected to decline by a small amount.

Consumer services (broadly, distribution, hotels & catering) are of increasing importance to the region in terms of generating a broad range of job opportunities, and employment in this sector is projected to increase steadily during 2006-2015, amounting to about an extra 40,000 jobs by the end of the period. Whilst transport and communications is a major contributor to regional GVA, the level of employment is expected to remain static over the ten years up to 2015.

The total number of people employed in occupations closely associated with manufacturing, such as skilled manual trades and semi-skilled operatives, will continue to decrease, whilst the number of people employed in the region as managers professionals, associate professionals (so called 'knowledge workers') is projected to rise. Importantly, whilst analysis of net requirements for labour over the period suggests future job opportunities across the entire skill spectrum will rise as a consequence of replacement demand, the future employment projections for the region strongly suggest a profound shift towards the need for a more highly skilled and qualified workforce, with comparatively fewer opportunities likely to arise for those without skills or qualifications. This data is analysed more fully in the Skills section (2.7) but it has major implications for the West Midlands. It shows the continued depth of transformation that is required to shift major parts of the region from the culture and mindset of the previous era when unskilled and semi-skilled jobs were readily available in both large and small manufacturing.

The first five years of this century saw a rise of 42,000 in the number of people within the region registered as self-employed. This partly reflects changes in the nature of the modern economy especially the impact of the IT revolution and a trend among sections of the younger population and some women to see potential career opportunities in setting up their own businesses. The growth of the creative industries sector is one indicator of this trend.

### **2.2.3 Economic Inactivity and Worklessness**

In order to get a picture of the levels of ill health and relative poverty in the region it is informative to consider the numbers of people receiving ill health and income related benefits. The figures in table 2.3 detail the levels for 2004. For example:

- 4.9% of the Region's population received Disability Living Allowance, compared to 4.5% for England & Wales.(2004); and
- 7.5% of the relevant West Midlands population (i.e. 2001 Census population aged 16-64) were in receipt of Incapacity Benefit, compared to 7.2% for England & Wales.

In all of these benefits the West Midlands has a slightly higher than national average percentage of its population claiming. As with many other indicators this pattern varies across the region with higher levels in the more deprived areas.

The 2001 Census identified 18.9% of the West Midlands population as having a limiting long term illness, compared to 18.2% for England and Wales and, furthermore, the Regional Lifestyle Survey of 2005 returned a figure equivalent to 25.5% of the West Midlands population.

In order to estimate those not contributing directly to the regional economy, an alternative definition is to consider the numbers of economically inactive, that is the unemployed and those unavailable to work. This figure is higher as it includes those with long term illnesses and family commitments. For the region as a whole this is 22.1%, slightly above the 21.7% in Great Britain as a whole. Economic inactivity rates within the region also differ greatly, varying from a high of 26% in Birmingham down to 15% in Oswestry. This may be due in part to the demographic make-up of the region, having proportionally fewer people of working age than the national average, which, when coupled with the health issues outlined above may account for this above average figure.

### **2.2.4 Policy Implications**

- Employment in the region has historically been dominated by manufacturing. Major losses in this sector since 1980 have been largely compensated by growth in employment in services and the public sector.
- The pattern of growth in service employment and overall shrinkage in manufacturing employment is predicted to continue with a clear shift away from unskilled employment. For the region this means that the need to upgrade and up skill both the present and future labour force is an absolutely urgent priority. The ERDF and ESF programmes need to consider this issue in an integrated manner.

- Unemployment has significantly decreased over the last ten years though for the region as a whole, and more particularly in its deprived urban areas, it remains above the national rate. Individuals from BME groups are twice as likely to be unemployed than white individuals. The region also has higher than national average rates of worklessness. How can this Programme stimulate increased economic activity in these areas of greatest need?
- What role can self-employment and the encouragement of new business formation play in improving the region's economic activity?



## 2.3 Competition

### 2.3.1 International Trade

A full picture of International Trade in the West Midlands is not possible, since reliable figures for exports of services (or outward investment) are simply not available at a regional level. However, estimates suggest that trade in services is likely to be around two thirds that of trade in goods. More reliable figures do exist for trade in goods. Recent analysis<sup>13</sup> shows that in terms of the value of exports the performance of the West Midlands economy is relatively stable, varying between £13 billion and £14 billion for the last eight years worth of data, 1996 to 2003. (Figure 3.1)

However, in comparison with the rest of the UK the regional share has fallen since 1997 from some 9% to 7% of the UK total <sup>14</sup> (Figure 3.2). The West Midlands' export share alone amongst English regions has been falling while those of other regions has increased. Based on export share, the West Midlands ranks sixth of the regions of the UK, with better export performance than several of the regions that rank better in terms of skills and productivity.

While obtaining regionally comparable sectoral level data is extremely problematic, and relies on being able to match SIC codes with SITC ones, some regional comparisons are possible (Figure 3.3). Based on these data, the West Midlands is above only the North East, South West and Yorkshire in terms of total exports, and roughly comparable with the East Midlands. It is possible to break manufacturing down into 9 broad sectors. This shows that exports for the West Midlands even as late as 2005 were dominated by machinery and transport equipment, accounting for some two thirds of all the West Midlands exports in manufacturing (Figure 3.4). Given the plight of Peugeot, Rover and to a degree Land Rover in recent months, the reliance on this sector for regional exports is worrying. Comparing this sector with other regions, the West Midlands performs well but not outstandingly (Figure 3.5).

The West Midlands is still generally below the East Midlands, and significantly below the South East. Based on these data, the best performing sector of the West Midlands economy in terms of exports still only accounts for some 12% of exports from the UK in that sector.

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<sup>13</sup> Factors Influencing the Relative Performance of the West Midlands. Aston University Business School and West Midlands Regional Observatory. August 2006

<sup>14</sup> This ignores exports that are cannot be allocated to a region by ONS. These account for approximately 12-15% of the total.

The West Midlands is over dependent on three key markets: 20% of the region's exports go to the USA; 10% to France; and 8% to Germany. Whilst it will be important to maintain the regional position in these markets, efforts will also be needed to develop business in the enlarged EU and emerging new markets.

### **2.3.2 Business Specialisms**

The West Midlands has a strong heritage as the manufacturing heartland of the UK with particular strengths in the automotive, motorsport and aerospace industries. The concentration of jobs in high value added consumer products is higher in the West Midlands than elsewhere in the UK and the region also boasts a fast-growing service sector, and the largest concentration of professional firms outside London. New technologies for the medical and media sectors are crucial elements of the business base. Although small, employment in Environmental Technologies is above the national average, accounting for 10.7% of employment in the sector in Great Britain in 2002. This diverse regional business base is reflected in the West Midlands Economic Strategy.

Since 2001, the West Midlands Economic Strategy has adopted a cluster-based approach to the delivery of regional economic growth in line with policy at national level<sup>15</sup>. DTI defines clusters as concentrations of competing, collaborating and interdependent companies and institutions connected by a system of market and non-market links. This implies a focus on supply chain linkages and also specialist infrastructure in terms of finance, research, services, and labour market. The region's ten priority clusters were identified based on their strength and their positive potential to create jobs and economic growth. As detailed below, they are grouped into three categories: established, growing and embryonic, reflecting the need to support existing sectors to diversify and modernise as well as to support the development of new sectors of the regional economy.

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<sup>15</sup> Opportunity For All In A World Of Change joint DTI and DfEE White Paper 2001

Cluster	Definition	Why chosen	Companies	Employees
<b>ESTABLISHED</b>				
<b>Transport Technologies</b>	Commodity metal and polymer component manufacture, metal processes/treatments, electrical/electronic/mechanical sub systems manufacture, vehicle manufacture.	High concentrations of activity centred on volume manufacture of motor vehicles. Opportunities for focusing on higher value-added goods based on new technologies and in luxury cars, motor sports and materials to improve products and product design. Technology transfer opportunities between different transport modes and also in use of new materials to lessen environmental impact.	4,035	118,843
<b>Building Technologies</b>	Commodity materials (cement, timber, etc), commodity manufactured products (tiles, bricks, sanitary ceramics), sub-assemblies (fire alarms and other safety, mechanical lifting and handling equipment, electronic sensors), equipment/tooling manufacture/hire, design/professional services, construction services.	Significant concentrations of activity especially in north of the region associated with commodity materials and low value-added metal goods and ceramics. Need for modernisation. Shift from low value-added commodities to higher value-added systems, with scope to build on developments in materials such as polymers and recycling. Significant force for change in relation to urban regeneration and the transformation of the image of this region.	28,367	202,790

<b>Food and Drink</b>	Agricultural commodities supply, primary produce processing, secondary processing, wholesaling, distribution, food-processing machinery	Employment growth recorded in cluster. Consumer tastes and concerns over food safety are key drivers. Both create opportunities for value added through, for example, innovations in prepared ethnic foods and organics. Significant force for change in rural areas through a strengthening of supply linkages.	2,599	57,099
<b>Tourism and Leisure</b>	Attractions, accommodation, catering, public realm management, information services, intermediary services, catering, supplies, leisure goods, presentational arts.	Significant employment growth potential - although highly concentrated in certain parts of the region around specific types of product. Potential for expansion of heritage-related, business and sports-related tourism.	17,111	191,551
<b>High value-added Consumer Products (HVCP)</b>	Tableware ceramics, jewellery, crystal glass, leather goods, clothing, carpets.	Longstanding concentrations of traditional consumer product industries in older urban core. Also craft-based production an important component in some rural economies. Key influence played by design and marketing in the development of a future for these industries around improved value-added opportunities. Process efficiency improvements important in sustaining volume manufacturers.	2,808	35,382
<b>GROWING</b>				

<b>Specialist Business and Professional Services</b>	Legal, accountancy, market research, management consultancy, general business services, advertising, general research.	Significant forecast employment growth centred on Birmingham City Centre. Need for an adequate supply of skilled workers. Focus on specialist activity such as intellectual property rights and construction.	19,595	92,168
<b>Information and Communication Technologies</b>	Hardware manufacture, hardware consultancy, software, database management, associated components, associated wholesale, telecommunications.	Significant national growth and historic regional growth. Significant presence in software especially in southern part of region around Coventry, Solihull, Warwick. Recent successes in hardware but from a low base. Significant mobile investment opportunities. Incubation opportunities associated with region's universities around photonics, nano-technology.	8,907	65,372
<b>Environmental Technologies</b>	Environmental products, environmental services (utilities), specialist consultancies, energy production technologies.	Significant economic growth potential worldwide led by global concerns over climate change, diminishing resources and waste management. Diversification opportunity related to skills available within region and technology transfer from existing sectors. Identified by recent DTI work as a regional cluster.	1,400	28,039
<b>EMBRYONIC</b>				

<b>Screen and New Media for Education and Entertainment</b>	Recorded media manufacture, media production, distribution, content developers, specialist business services, content creators	Nucleus of highly successful, internationally competitive production companies, including firms focusing on the under-5s market. Strong skills base from traditional broadcasting industry.	1,700	10,348
<b>Medical Technologies</b>	Polymer/metal components, electronics/ electromechanical sub-assemblies, medical instrumentation, pharmaceutical production, wholesaling.	High rate of growth but from a low base. Full role played by the medical market place on regional industry is understated, given the role played by industries supplying multiple markets, e.g. polymers. Higher education based investments demonstrate a potential for spin-off activity. Opportunities for diversification. Major training region in medical schools and the University of Central England (UCE) for the NHS.	422	7,537

These 10 clusters account for 27.5% of businesses and 35% of employees in the Region (Table 3.1), and make a disproportionately positive contribution to the region's economy.

Although the term 'cluster' describes a common delivery mechanism, they vary in scale, scope and context. A recent evaluation of the clusters<sup>16</sup> evidenced how each is at a different stage of development, thus requiring a tailored set of interventions as set out in their respective cluster business plans. Firms working within Transport Technologies, HVACP and medical technologies all face intense competition from low cost economies, hence key objectives for these clusters are fostering innovation, achieving higher value

<sup>16</sup> Evaluation of the Key Delivery Mechanisms - Advantage West Midlands. GHK in association with CSK Strategies. September 2006

added and providing assistance in securing new markets. Technology and innovation are of lesser priority within the Food and Drink; Tourism and Leisure; and Professional Business Services clusters, where emphasis lies on effective promotion of the regional offer, and ensuring access to the right skills for the clusters to develop. Screen Media and Medical Technologies, as the two embryonic clusters, are the smallest, and the cluster mechanism provides a means for focusing on well targeted opportunities for development, and new and innovative routes to market. The region possesses a strong base in Environmental Technologies, with particular strengths in renewable energy and aspects of waste management. Environmental Technologies is identified within the ten regional priority clusters. This cluster offers significant potential to exploit the expanding global market in environmental products, services and processes, expected to be worth US\$688 billion by 2010<sup>17</sup>.

In 2005, the regional Innovation and Technology Council identified five priority themes which cut across the ten business clusters and offer potential for significant growth through innovation. The five priority themes for innovation are, health and medical technologies; energy; advanced materials and nanotechnology; digital media (and ICT); and transport technologies.

The recent evaluation of clusters attested to their strategic added value, concluding that the economic need for clusters as delivery mechanisms was well established in the majority of cases and that in aggregate they have contributed to the leadership capacity and capability necessary for economic development.

Despite its relative decline, manufacturing is still of central importance to the regional economy, continuing to be a major provider of jobs, and the largest wealth producing sector. It is predicted that this centrality will continue over the next five years, and its productivity per job is forecast to grow 50% faster than other sectors over the same period. However, manufacturing will continue to be vulnerable to further employment decline, especially in lower productivity component parts of the sector, due to competition from lower cost economies. Modernisation of lower value manufacturing sectors and diversification into new areas of manufacturing is therefore recognised as a key priority challenge in the West Midlands Economic Strategy.

### **2.3.3 Policy Implications**

- The region's share of the UK total of exports has been rapidly decreasing as its former manufacturing base has eroded. Its exports remain overly dependent on

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<sup>17</sup> [http://www.dti.gov.uk/sectors\\_environment.html](http://www.dti.gov.uk/sectors_environment.html).

machinery and transport equipment. The new programme needs to help the diversification of the region's export base and provide focused support for trade development with new products into new markets and wider business exchange programmes.

- Enterprise support focuses on ten priority business clusters selected on the basis of regional strengths and growth potential. How can the Programme strengthen their overall impact and value to the regional economy?



## 2.4 Enterprise

### 2.4.1 Business Stock

Data from the Small Business Service shows that at the start of 2003 there were 315,380 businesses in the West Midlands with combined sales of around £174bn (Table 4.1). Of these firms, around two-thirds had no employees, i.e. were either self-employed individuals or partnerships with no employees, accounting for 13 per cent of employment but only around 8 per cent of total sales (Table 4.1b). Small firms with between 1 and 49 employees accounted for 30.8 per cent of firms and around 33 per cent of employment and 31 per cent of sales, with medium-sized and larger firms accounting for only around 0.9 per cent of firms but more than half of all jobs in the region and around 60 per cent of sales. At this level of aggregation few significant regional differences are evident, although the West Midlands has among the highest proportions of small firms in the country but a concentration of employment in larger firms with 250 plus employees. The number of medium-sized businesses in the region, and employment and sales in these firms, is also marginally above the UK average.

Table 4.2 provides a more dynamic picture of the trend in employment and the stock of firms in the West Midlands over a period of two years. In terms of the number of new firms the results are promising as the West Midlands has seen an increase in its firm stock from 2001 to 2003 of 25,450 which has boosted the share of zero-employment firms whilst reducing that of both small employers (1-49) and medium-sized firms. However, this has been accompanied by a loss of employment to the tune of 145,600 people predominantly in large employers. The trend in the region over this short period has therefore been towards an economy increasingly dependant on smaller firms, with larger employers providing a lower proportion of all jobs.

### 2.4.2 Start Ups

VAT statistics provide an indication of the stock and change in the number of VAT registered businesses in the region. This data is comprehensive although it misses very small firms with sales below the VAT registration limits<sup>18</sup>. Figure 4.1 gives VAT registration and de-registration rates as a proportion of the stock of businesses in the West Midlands and the UK as a whole. In general terms the VAT registration rate in the West Midlands both follows the general UK pattern and is only marginally below the UK

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<sup>18</sup> Other limitations of VAT data are that it can be distorted by industrial structure – particularly in relation to agricultural businesses – and can be affected by changes in VAT registration levels.

average rate (Figure 4.1, part a). Over the 1994 to 2004 period the average registration rate in the UK was 10.31 per cent compared to 9.97 per cent in the West Midlands with the gap in start-up rates between the region and the UK average narrowing over the period. Notably too, VAT de-registration rates in the West Midlands were also lower than those in the UK as a whole (Figure 4.1, part b)<sup>19</sup>. Taken together it is clear that the lower registration and de-registration rates in the West Midlands have led to very similar changes in the stock of VAT registered businesses (plus 0.90 per cent) compared to the UK (plus 1.06 per cent) as a whole (Figure 4.1, part c).

Lower levels of registration and de-registration mean, however, that levels of 'churn' in the stock of businesses in the West Midlands is lower than that in the UK as a whole.

There is a spatial dimension to start up rates in the West Midlands. The key urban areas tend to have lower levels of firm formation (Table 10.1). The urban areas also have lower levels of enterprise in general. Amongst the Region's small and medium enterprises there are on average 50 for every 1000 adults. However, areas of multiple deprivation within the West Midlands have an average density of just 30 SMEs per 1000 adults while Birmingham, Coventry, Nuneaton and Bedworth, Stoke, Telford and Wolverhampton average just 20.

An analysis of the VAT registration by sector over the last ten years reveals that the largest growth in the region has been in real, estate, renting and business (1,640 new registrations) with expansion also evident in construction, hotels and restaurants, and transport and communications. There have been significant losses in manufacturing (-590) and public administration (-600). (Table 4.3)

### ***Self Employment Rates***

This indicator picks up very small firms or sole traders, often cited as an individual's first step towards starting their own firm.

In 2005, data from the Labour Force survey suggested there were around 291,000 self-employed in the West Midlands, 7.9 per cent of the UK total. Figure 4.2 gives the time-trend in self-employment in the West Midlands and the UK since the mid-1990s. As with the new firm formation rate (registration rate) examined above the West Midlands marginally underperforms compared to the UK although there has been a significant recovery in self-employment in the region since the low point in 2000 (249,000). One possibility is that this bodes well for new firm formation in the future as this larger cohort of self-employed individuals consider the potential for business start-up.

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<sup>19</sup> Over the 1994 to 2004 period the UK de-registration rate averaged 9.25 per cent compared to 9.07 per cent in the West Midlands.

### ***Attitudes to Enterprise***

Another useful source for benchmarking the level of enterprise activity in the West Midlands is the Global Entrepreneurship Monitor or GEM. This is an international study of entrepreneurial activity conducted by surveying a proportion of all households in an area. This provides an indication of the proportion of the population engaged in entrepreneurial activity at the time of the survey. Recent GEM analysis in the West Midlands comes from a report commissioned by Advantage West Midlands.<sup>20</sup> The key outcome from the GEM survey is a Total Entrepreneurship Activity (TEA) index based upon individuals' involvement in enterprise activities during the previous 42 months (as a manager or owner of a business). The TEA rate for the West Midlands in 2005 was 5.4 per cent which again puts the West Midlands in the middle of the UK regional distribution in terms of overall levels of entrepreneurial activity (Figure 4.3, part a). Further analysis suggests that levels of female entrepreneurial activity are much lower than that for males across each of the UK regions although the distribution of regional TEA rates for males and females are relatively similar. For the West Midlands, a male TEA rate of 7.5 per cent in 2005 compares to a female rate of just 3.3 per cent. In terms of male entrepreneurship, the West Midlands is again in the middle of the UK regional distribution (Figure 4.3, part c), but for females the situation in the region is weaker, with the level of female entrepreneurship closer to the bottom of the UK regional table (Figure 4.3 part b).

GEM provides some other information on the reasons for individuals to be involved in enterprise which might help to explain the West Midlands pattern of enterprise activity. In Table 4.3 Total Entrepreneurial Activity is divided into that due to 'necessity' (i.e. have to start a business due to unemployment etc) and that due to 'opportunity' (i.e. where a business is started due to a perceived opportunity rather than because of unemployment). For males the profile of reasons for being involved in enterprise activity is similar in the West Midlands to that in most other regions apart from London, the South East and East of England. For women the pattern is slightly different with notably lower levels of necessity entrepreneurship compared to most other UK regions.

Another issue which is of particular interest for the West Midlands is the level of ethnic entrepreneurship. Here regional comparisons are complicated both by the very different importance of ethnic minority populations in each UK region but also by the relatively small size of ethnic minority samples in most national surveys. Additionally, no data is available on the ethnic background of those registering businesses for VAT.

However, a substantial evidence base has been gathered by the West Midlands Minority Business Forum in recent years, which sheds more light on Minority Ethnic

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<sup>20</sup> Harding, R. and Cowling, M. (2004) *West Midlands Regional Entrepreneurship Monitor: United Kingdom 2004*, London Business School: London.

Entrepreneurship in the West Midlands.<sup>21</sup> In the case of Indians, Pakistanis, Bangladeshis and Chinese, self employment rates actually exceed those of the white British majority in the West Midlands. Black Caribbeans and Africans display the lowest levels of self-employment. These regional patterns mirror national trends, although it is of note that self employment rates for each BME groups in the West Midlands is below their equivalent elsewhere in the UK. Moreover, analysis of this data by sector reveals concentrations of different BME groups in certain lower value added areas of retailing (particularly South Asian people), catering (notably Bangladeshi and Chinese people) and transport (notably Pakistani people). A more nuanced approach to enterprise support for minority ethnic groups is now being advocated which combines the promotion of sectoral diversification alongside more effective engagement strategies.

### **2.4.3 Supply of Finance**

In 2001, two reports were commissioned by the Regional Finance Forum to identify gaps in the regional supply of finance which were acting to constraint business development and growth.<sup>22</sup> The reports suggested that there are a number of gaps in the provision of finance, including a lack of early growth equity funding opportunities up to approximately £250,000 for SMEs in the Region, loan finance for working capital requirements, particularly between £1000-40000, bridging finance, and loans finance for Ethnic Minority Businesses.

The reports were used to develop an “Access to Finance Framework” which set out the actions to be taken to improve Access to Finance for SMEs and formed the basis of identifying priorities for the use of ERDF funding under Measure 1.13 of the 2000-2006 West Midlands Objective 2 programme. Actions have progressively been implemented via joint private and public sector initiatives and clear benefits have been secured.

During autumn 2005 the Access to Finance Framework was reviewed to see if the original framework required updating in the light of experience and changing circumstances. This review concluded that, whilst significant progress had been made, there remain significant barriers for Small and Medium Sized Enterprises (SMEs) wishing to access the finance they need to grow and develop, ranging from a lack of knowledge of what different types of finance are available and what circumstances they are designed to meet, through the risk aversion of banks and other traditional sources of finance, to the difficulty in raising relatively small amounts of risk capital of up to £2 million.

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<sup>21</sup> Ethnic Minority Regional Economic Data August 2004 and Ethnic minority businesses in the West Midlands: A review Monder Ram and Trevor Jones July 2006

<sup>22</sup> Access to Finance: Opportunities and Constraints for Business Development and Growth in the West Midlands Deloitte& Touche, 2001. Improving Access to Finance for Small and Medium Sized Enterprises

In terms of the importance of access to finance a recent review<sup>23</sup> of ethnic minority businesses in the West Midlands reported that studies have repeatedly shown that ethnic minority businesses face particular problems when raising finance. There is an ongoing debate on whether this is attributable to 'business related' or 'race-related' processes. However, there is little doubt that underfunding of EMBs is still one of the most significant factors inhibiting ethnic minority businesses. However, it is not just an issue of finance. The findings of one study on African-Caribbean businesses highlighted a range of issues including the critical role of individual business advisers to the take-up and utility of business support; the importance of providing training and mentoring packages for business advisers; the need for long-term funding for organisational stability and the retention of business advisers; and the link between community-based support and broader agendas of economic inclusion

#### **2.4.4 Policy Implications**

- Levels of enterprise activity in the West Midlands are broadly in the mid-range of UK regions both relative to the population of the region and the stock of existing firms, with a narrowing gap between start-ups in the region and the national average.
- Two equal opportunity issues stand out. Firstly, female entrepreneurial activity is relatively weak compared to other regions. Secondly, data from the GEM study suggests, that ethnic minority populations in the West Midlands are 'less active' in terms of enterprise than their counterparts in other UK regions. Both are issues which the Programme needs to address
- The uneven geographical spread of new firm formation has important policy implications for the enterprise support element of the programme
- Although significant progress has been made, significant barriers still remain for Small and Medium Sized Enterprises (SMEs) wishing to access the finance they need to grow and develop. The Programme needs to make a distinctive contribution to address this issue.

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<sup>23</sup> Ethnic Minority Businesses in the West Midlands: A Review. Monder Ram and Trevor Jones. July 2006

## 2.5 Innovation

### 2.5.1 Employment in Innovation / Knowledge Based Business

Recent analysis<sup>24</sup> has attempted to gain an understanding of the extent of technologically advanced economic activity in the region using the standard indicators of the share of employment in medium and high-technology manufacturing and employment in knowledge-intensive services<sup>25</sup>. Figure 5.1 gives the percentage of employment in the region in medium and high-technology manufacturing compared to the GB level over the 1998-2004 period. As Figure 5.1 suggests, the West Midlands actually has a higher percentage of its workforce in medium and high tech manufacturing activity than GB as a whole, although this number has declined from around 297,000 in 1998 to 205,000 in 2004. This primarily reflects the concentration and contraction of metal-based industries in the Midlands which tend to have medium levels of R&D intensity.

If a narrower definition of 'high-tech' manufacturing is used – which is dominated by high R&D-intensity industries such as aerospace, pharmaceuticals and electronics – the West Midlands fares less well with a lower proportion of its manufacturing workforce in this category (Figure 5.2). Around 40,000 people worked in high-tech manufacturing industry in the West Midlands in 1998. This had fallen to 25,000 in 2004, although the broad trend is similar to that across the UK.

In terms of services, the profile of the West Midlands is less satisfying with the region having relatively low shares of employment in both knowledge intensive and high-tech knowledge intensive services (Figure 5.3). In knowledge intensive services – which includes categories such as air and water transport, communications, business services and health and education - the share of employment in the West Midlands has been increasing, although it remains significantly behind that in GB.

Employment in this group in 2004 was 991,000, up from 838,000 in 1998. Similarly, in high-technology services, which includes communications, computer and related activities and R&D, employment shares in the West Midlands have remained consistently below those in GB as a whole. Again, however, absolute levels of employment in this group in the West Midlands increased from 73,000 in 1998 to 88,000 in 2004. Notably, there is also a closing gap between the proportion of employment in high-tech services in the UK and the West Midlands (Figure 5.4).

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<sup>24</sup> Factors Influencing the Relative Performance of the West Midlands. Aston University Business School and West Midlands Regional Observatory. August 2006

<sup>25</sup> High and medium high technology manufacturing includes NACE Rev. 1.1 codes 24, 29 to 35. High technology manufacturing includes NACE Rev. 1.1 codes 30, 32 and 33.

General levels of high-tech employment in manufacturing in the West Midlands, however, are only a relatively poor guide to those in any part of the region as there are marked variations between sub-regions. This reflects local industrial concentrations but mean that employment in medium and high tech manufacturing varies from 82.9% of all manufacturing employment in Solihull to 19.7% in Stoke. More generally, rural areas in the region tend to have higher medium and high tech employment shares in manufacturing than urban areas although there are substantial variations within urban and rural areas within these figures.

As in manufacturing there are also substantial sub-regional variations in the composition of service sector employment in the West Midlands. Unlike manufacturing, however, the concentration of knowledge intensive services tends to be urban reaching highs of 60.1% in Birmingham and 61.9% in Solihull. The region's smaller towns and more rural areas tend to have lower shares of knowledge intensive and high-tech service employment.

### **2.5.2 Business Involvement in Innovation**

This section utilises recent analysis of data on innovation outputs from the UK Innovation Survey 2005, Figure 5.5 compares the proportion of 'innovative active firms' in the West Midlands and other UK regions. Here, a firm is said to be innovation active if during the 2002 to 2005 period it engaged in either product or process development, invested in innovation or introduced new products, services or processes to the market. On this measure 55.5 per cent of West Midlands firms were engaged in innovation over the 2002 to 2005 period. This compares relatively poorly to the overall level in other regions only being higher than the proportion of innovation active firms in Eastern England, although the performance gap between most regions is relatively small.

More specific comparisons for product innovation in the production industries and service innovation in the service sector are given in Figure 5.5, parts b and c respectively. In terms of the proportion of production firms introducing product innovations the West Midlands fares better with a level (30.8 per cent) second only to that in the North West. In terms of services, the performance of the West Midlands is middling, with the region lying 5th out of the 12 UK regions.

### **2.5.3 Investment in R&D**

Adopting an industry approach helps to explore whether the decline in R&D spending in the region relative to England as a whole is due to industry mix. In Table 5.1 we therefore compare business R&D spend per employee by industry in the West Midlands and UK as a whole in 2003 and 2004. Overall, levels of R&D expenditure per employee in the West

Midlands were 66 per cent of the UK average in 2004; 48 per cent in manufacturing and 70.2 per cent in the broadly based services sector. In general terms, however, there is only one sector – transport equipment – in which R&D per employee was higher in the West Midlands than the UK average. The implication is that levels of R&D spending in the West Midlands are below average for the UK both in aggregate and in almost all individual industries.

The pattern of innovation and R&D in the West Midlands can be further analysed by comparing it with the UK as a whole and with other UK regions. As a starting point, Figure 5.6 compares the level of R&D investment (as a percentage of regional value added) to that in England over the 1998 to 2004 period. Investment levels compared to England have fallen from around 78 per cent of the national average in 1998-99 to around 50 per cent in 2003.

Among English regions, levels of R&D investment in the West Midlands were the lowest of any English Government Office in 2003 (Figure 5.7), with levels of investment in the West Midlands (1.1 per cent) below those in Yorkshire and the Humber (1.21 per cent). These figures are all the more surprising given the importance of manufacturing in the West Midlands, a sector which tends to dominate R&D investments.

Comparing the different elements of total R&D in the West Midlands to the English average emphasises the contrasts between different types of organisations investments. Among businesses in the West Midlands the trend in R&D investment compared to England as a whole reflects closely the regional situation (Figure 5.8), with investment falling from around 75 per cent of the English average in 1998 to around half by 2004. University R&D varied significantly less averaging slightly more than two thirds of the English average (Figure 5.9). Finally, Government R&D in the West Midlands fell from around the English average level during the late 1990s to reach around a third of the average English level by 2003 (Figure 5.10).

Comparing levels of R&D investment in the West Midlands to other English Government Office regions also suggests a relatively weak overall picture. In terms of business R&D expenditure, the West Midlands comes out 7th out of nine English regions below the North East but above Yorkshire and the Humber (Figure 5.11). Essentially similar results are obtained by comparing higher education and Government R&D with the West Midlands again coming out towards the bottom of the UK regional league table (Figures 5.12 and 5.13).



#### **2.5.4 New Products and Processes**

A key output of R&D investments, and an intermediate indicator in terms of innovation, is patent applications, the subject of Figure 5.14. For English regions again this gives the number of patent applications per million inhabitants – a general indicator of inventiveness. Here the West Midlands performs better with an average of 66 patents per million inhabitants, the fourth highest among English regions in 2003.

Looking at the outputs of the innovation process, Table 5.2 compares the proportion of 'innovative active firms' in the West Midlands and UK by sector and plant sizeband based on the new 2005 Innovation Survey. Overall, over the three year period 2002 to 2005 55.5 per cent of West Midlands firms were said to be innovation active, 97.1 of the UK average rate. Marked differences were evident however between SMEs and larger firms with a higher proportion of innovators among larger firms in the West Midlands (74.4 per cent). Indeed, in a number of industries larger firms in the West Midlands actually had higher levels of innovation activity than in the UK as a whole. This was the case in food, electrical and optical equipment, transport equipment, construction and wholesale trades and transport and communications. Generally among SMEs the proportion of innovating firms in the West Midlands lagged behind that in the UK as a whole. The exceptions were SMEs in food, transport equipment and financial intermediation.

#### **2.5.5 Business and HE/FE Collaboration**

Within the West Midlands there are 12 higher education institutions in the West Midlands: nine universities and three higher education colleges. There are an additional 36 further education colleges (FECs) with students taking higher education courses.

The higher education student population is 184,055; this equates to 129,155 full-time equivalent students, and includes 7,090 students registered with FE colleges in the region. The higher education institutions range in size from the University of Birmingham with 30,520 students, to Harper Adams University College with 1,745 students.

Most of the higher education provision is in the east of the region. The largest concentration is in the Birmingham and Solihull area, with three universities, two higher education colleges and seven FECs. The region has a strong performance in terms of the number of category A research active staff (from the 2001 Research Assessment Exercise (RAE)). The 2001 RAE showed that there were 69 departments in the region rated at 5 or 5\*, meaning their work is considered of international excellence. Data from the 2005 UK innovation survey shows the positive effect that collaboration with HE/FE institutions has on a company range of products, market share, quality and value added. The region also contains a significant private sector research capability, such as part of

the former defence research agency and leading transport and materials research companies.

Despite these assets analysis of the Community Innovation Survey (2005) reveals that the West Midlands performs poorly for innovative products as measured by the turnover from new products (Figure 5.15). It can also be seen that companies in the West Midlands cooperate less with private sources of innovation than those in the South East (Figure 5.16).

### **2.5.6 Policy Implications**

- Levels of employment in high-tech manufacturing have continued to contract. More growth is evident in employment in knowledge intensive and high-tech services, although in both cases West Midlands' employment as a share of total services employment is below that in GB as a whole.
- Since 1999 investment in the West Midlands in the R&D which might underpin new innovation has declined in both the public and private sectors.
- The region presents a mixed picture on innovation. Levels of innovation activity are generally low in aggregate but notably stronger in manufacturing than in services relative to other regions. The region does well with regard to patent applications and in terms of the presence of sources of innovation. However levels of company turnover attributable to innovative products and interaction of companies with sources of innovation could both improve. These are crucial issues for the RCE programme to address.
- Similarly, there is a mixed picture on industry-academia linkages. Evidence from the Research Assessments and elsewhere suggest that there is substantial potential for the region to make more effective use of its intellectual talent and resources in the drive for economic diversification and renewal. A programme focussing on regional competitiveness should focus on this issue as a matter of priority.

## 2.6 Investment

### 2.6.1 Business Investment

Annual Business Inquiry (ABI) trend data for net capital expenditure in the West Midlands are available for the period 1998 to 2003 in money terms (i.e. not adjusted for inflation). Figure 6.1 shows that the overall level of investment in the region fluctuated slightly between 1998 and 2001 before falling markedly thereafter. The nature of the decline differs somewhat between manufacturing and services. Manufacturing – which typically accounts for 25-30% of business investment in the region – shows a steady decline over the period: in money terms, this represents a fall of 45% (from £2.2bn to £1.2bn) in six years. In services, the pattern is more erratic: the marked decline in investment (34% in money terms over the period) occurred almost entirely during 2002-03. By contrast, over the same period total net capital expenditure in the UK as a whole fell by just 7.7%.

ABI data also permits investment data to be broken down into that which is carried out by UK and foreign-owned enterprises. The pattern of investment overall is very similar for both sets of businesses over the period (Figure 6.2), with a much sharper fall evident in manufacturing than in services (Figures 6.3 and 6.4). It is worth noting that the steady decline in overall manufacturing noted earlier appears to come mainly from UK-owned enterprises.

### 2.6.2 Inward Investment

Figures indicates that between 1991 and 2004 the Foreign Direct Investment (FDI) attracted into the West Midlands created or safeguarded 1,028 businesses, created 57,407 jobs and safeguarded 119,872 jobs.

In 2004/05 the Region had 67 investments out of a UK total of 1,066 (6.3%), creating 4,073 jobs from a UK total of 39,592 (10.3%). Historically, the West Midlands has performed well in terms of inward investments (Figure 6.5) although it is difficult to compare this Region to other regions as comparable data is not readily available.

The level of FDI into the UK as a whole suffered a fall post 9/11 primarily due to the United States being the primary source of inward investment into the UK. However, the continued growth since then has been encouraging.

The United States is by far and away the largest inward investor into both the UK and West Midlands. The US has been the source of 38% of all FDI's into the Region since

1991. The next three highest investing countries (Germany, France and Japan) collectively accounted for 34% of FDI's.

Inward investment has tended to be split fairly evenly between the 7 former urban Metropolitan Boroughs and the 5 rural Counties. In 2004/05, for example, there were 36 investments in Birmingham, the Black Country, Solihull and Coventry, and 31 in Shropshire, Staffordshire, Warwickshire, Worcestershire and Herefordshire.

### **2.6.3 Stock / Availability of Business Sites**

In order to both attract new business and to allow existing business to expand it is necessary to have a supply of land available to develop. The Regional Employment Land Survey indicated that 216 hectares (ha) of land developed in 2005 in the West Midlands was classified as for employment purposes. Of the employment land released 71% was brownfield.

In 2005 there was 3,328 ha of land classified as available for employment use in the region.

Figure 6.6 indicates both the number and geographical spread of employment sites across the Region. These are heavily concentrated in the major urban areas, Telford and some of the older industrial areas in South Staffordshire, Bedworth and Nuneaton.

Over the past two decades significant efforts have been made to develop brown-field land for employment use. Major sums of public expenditure have been invested in site clearance, land remediation, re-use of old industrial buildings and new business development.

Increasingly, this has been undertaken within a sustainable development framework where the activity is designed to remove environmental blight; concentrate on comprehensive packages of regeneration which can act as a catalyst for new economic activity; be accessible to public transport and close to areas of high unemployment; and consequently reduce the pressures for encroachment on the Green Belt. Significant sums of EU Structural Funds have been deployed for these purposes in previous programmes.

The added-value of the use of brown-field land as employment sites in Structural Fund programmes has been analysed for national government.<sup>26</sup> The report notes that in UK programmes the environmental sustainability of some of the major employment sites

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<sup>26</sup> Regeneris Consulting. The 2007-2013 EU Operational Programmes: Good Practice Guidance see especially pages 7-8.

which have been taken forward has been questionable, especially those which are green-field and located away from or on the periphery of urban locations.

Table 6.1 shows that there is a plentiful supply of regional strategic site priorities within the major conurbations. In looking to the 2007-13 programmes the Regeneris report stresses that these sustainability factors need to be a major consideration in the decision to grant fund schemes. In the West Midlands a number of difficulties continue to hamper the development of these sites: they are often in multiple ownership; a number are contaminated and require time-consuming remediation; others are not easily accessible.

#### **2.6.4 Transport Infrastructure**

The West Midlands Region is at the hub of the UK's motorway and railway network, making the regional transport infrastructure of national as well as regional importance. The Regional Spatial Strategy (RSS) identified modernising the transport infrastructure of the Region as a major challenge.

Car ownership in the West Midlands conurbation continues to grow (the number of licensed vehicles in the Region rising by 9.9% between 2001 and 2005) and increasing congestion is a constraint to the movement of traffic growth, particularly within urban areas, and especially at peak times.

Increasing volumes of traffic have resulted in significant decreases in average speeds (and journey reliability) on trunk roads between 1995 and 2003 in the WM Region:

- Morning and evening peak hour traffic speeds decreased 6.5mph and 6.0mph respectively (compared to decreases of 2.5mph and 3.2mph in England); and
- Off peak traffic speeds also decreased by 2.7mph (compared to a decrease of 0.2 in England).

Congestion is economically, socially and environmentally damaging. Carbon emissions from transport in the West Midlands are higher because of higher than average car use.

<sup>27</sup>Estimates from the West Midlands Area Multi-Modal Study model suggested that the annual cost of congestion in the West Midlands conurbation would increase from £2.3 billion in 1999 to £2.5 billion by 2006 if nothing was done. Congestion makes businesses less competitive, journey times less reliable and freight transport users report a lack of confidence in delivery times.

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<sup>27</sup>Counting Consumption in the West Midlands' Ecological Budget UK, West Midlands Regional Report WWF 2006

### **2.6.5 Investment in Workforce Training**

The proportion of companies investing in training is low relative to other regions (currently the lowest in England), with the proportion of staff receiving training over the previous 12 months having fallen between 2004 and 2005 (Figure 6.7).

There are some positive examples of links between the academic strengths of the region and its businesses, such as Knowledge Transfer Partnerships (KTPs). The purpose of KTPs is to help facilitate the transfer of knowledge and the spread of technical and management skills. KTPs are also designed to stimulate investment in training and collaborative research and development. KTPs provide business based training for 12 to 36 months for research graduates intending to pursue a career in industry. These are part funded by a Government grant to the Knowledge Base Partner.

Another example is STEP (Shell Technology Enterprise Programme). This is a national scheme where second-year undergraduates undertake a work project for a local business during their summer break. The main aim of the Programme is to provide cost-effective solutions to business issues identified by small firms such as: niche market research; improvements to internal systems; and strategy development. The cost to companies for the Programme is subsidised through the European Regional Development Fund and Warwickshire County Council.

Another example is KITTS (Knowledge Innovation Technology Transfer Scheme) which comprises 10 academic partners within the West Midlands. This Programme involves Advantage West Midlands working together with the academic partners to match small and medium sized enterprises with suitably qualified graduates. Practical projects are suited to the needs of the firm typically last 10-12 weeks.

### **2.6.6 Policy Implications**

- Investment by business in the West Midlands has been falling since 1998, especially in manufacturing and particularly among UK owned firms. The Programme needs to consider how it can contribute to halting this trend.
- Availability of sites is important to new and expanding businesses. The region has promoted the use of brownfield land in urban areas and sought to overcome the blight cast over parts of the region by this industrial legacy. In light of the Stern Report and the imperatives to act on climate change a focus within this Programme on stimulating new economic developments within these areas is a priority.
- The region's traffic congestion problems are increasing and cause problems in terms of costs to business, environmental impact and external image. However,

large-scale capital investments to tackle these matters lie outside both the policy remit and financial scope of this Programme. Smaller-scale interventions such as real time information systems may be considered.

- Business investment in training is low. However there are some positive examples of schemes designed to promote employers' demand for highly skilled workers and help retain graduates in the region. This ERDF Programme should consider how its activities can complement the activities undertaken by the national ESF Programme within the West Midlands.

## 2.7 Skills

### 2.7.1 Qualifications Attainment

In order for the economy of the West Midlands to continue to grow the workforce needs to be well educated and skilful. A simple measure of the level of learning and skills development in the West Midlands is to consider the highest level qualifications of the workforce (Table 7.1). National Vocational Qualifications (NVQs) are competence-based qualifications. They reflect the skills and knowledge needed to do a job effectively, and show that a candidate is competent in the area of activity the NVQ represents.

Compared to the UK, the Region had relatively low proportions of its workforce with qualifications at any level, and particularly at higher levels. The Region has the highest proportion of people with no qualifications of any region in the country, with sub-regional areas like Sandwell, Stoke on Trent, Walsall and Wolverhampton suffering particularly badly with non-qualified rates far above even the already-high regional average.

The patterns of comparison between the West Midlands and the rest of the UK are matched for higher level qualifications. For example, A-Level attainment in the West Midlands is also well below average (Figure 7.1). While the stock of people of working age with no qualifications reflects perhaps 40 years of history, and in a similar way to manufacturing regions such as the North East, North West and Yorkshire, reflects low education participation, the A-Level data reflects the creation of basic human capital now.

### ***Projections***

Projections<sup>28</sup> for the period 2006-2015 indicate that the broad pattern of occupational change in the West Midlands will continue. Figure 7.2 describes the changes in numbers employed over the period. The largest increase in employment, both in absolute and relative terms will be of professional employment. The number of professionals is projected to increase by just over 75,000 (or nearly 25%). Substantial increases in employment are also projected for associate professionals and technicians whose number is expected to increase by over 57,000 (or 17%), managers and senior corporate administrators (with an increase of 40,000 (or 11%) and sales occupations (37,000 or 17%).

The largest fall in employment in the West Midlands over the period 2006-2015 is projected for the semi-skilled administrative, clerical and secretarial occupational group.

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<sup>28</sup> Future Prospects for the West Midlands Economy and Employment. Warwick Institute for Employment Research and West Midlands Regional Observatory. August 2006.



The number of jobs for this occupational group is expected to decrease by nearly 49,000 (or more than 13%). Large decreases in employment are also projected for the skilled trades (a fall of 35,000 or 10%), process plant and machine operatives (a fall of nearly 16,000 or 6%) and elementary unskilled jobs (32,000 or 12%).

The changing occupational structure of the region requires a change in the skill levels of the region's labour force. The decline in the number of elementary jobs – that is jobs for which only the minimum amount of schooling is required – is significant. In 1981, almost one in five (18%) of jobs in the West Midlands were of this nature and this was slightly above the UK average. Over the following 25 years the number of such jobs in the region halved, as has their share of total employment. This is particularly significant because the West Midlands has the highest proportion of the workforce with no qualifications of any region and the gap between regional qualification attainment and the national average is still widening. A particularly high proportion of older people, people from minority ethnic communities and people living in deprived urban areas are likely to lack formal qualifications and have poor basic skills. These groups have, in the past, relied upon unskilled jobs and they may find their job opportunities diminishing in the future.

### **2.7.2 Basic and Core Skills**

The West Midlands has the highest proportion of people with no qualifications of all English regions<sup>29</sup>: When one considers that the UK as a whole is well behind competitor countries on this measure, the situation in the West Midlands is clearly particularly serious (Figure 7.3).

This highlights a fundamental weakness in the West Midlands economy, namely that the region has a higher proportion of people of working age with no formal qualifications than any other region. More than one in six of the work age population have no formal qualifications including basic English and maths. With the decline in unskilled labouring and manufacturing jobs and the rise in the type of emerging skills needs identified by employers (Figure 7.4), including customer handling, communications and team working, along with literacy and numeracy this places significant sections of the regional population at a severe disadvantage.

### **2.7.3 Intra Regional Patterns**

As with the productivity analysis, there are significant differences across the sub-regions. The urban areas are worst off: Sandwell, Stoke on Trent, Walsall, Wolverhampton and

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<sup>29</sup> There are some slight variations between the “raw” LFS data and the “adjusted data” – with the raw data the north east's figure is reduced such that the West Midlands is the worse.

Birmingham all have in excess of one fifth of their work-age population with no formal qualifications (Figure 7.5).

These data are strongly inversely correlated with the overall productivity figures. The sub-regions of the West Midlands that have the lowest levels of unqualified people also have the highest productivity rates. It should be noted, however, that the best performing sub-regions locally are only just below the English average in terms of unqualified people.

The pattern of well qualified people is almost a perfect mirror image of the unskilled pattern (Figure 7.6). Sandwell and Stoke on Trent have the lowest proportions of graduates, while in contrast Solihull (not surprisingly) has the highest. These figures show a high level of similarity with the productivity distribution across the region.

#### **2.7.4 Graduate Retention**

Figure 7.7 illustrates the graduate retention rate across the regions of England. This data measures the proportion of graduates in a given region that then obtain employment in that region. The West Midlands has improved significantly compared with earlier years, moving from the second lowest amongst English regions, to above halfway.

Many of the graduates that are retained in the region do not enter graduate jobs, especially those in transport and communications, professional and financial services and hotels and catering. This under-use of human capital is by no means unique to the region, but may account for the low levels of service sector productivity, especially if it is accompanied by low levels of motivation amongst workers. The Regional Skills Assessment report<sup>30</sup> also highlights the number of graduates who left the region to work elsewhere in sectors such as professional and financial services. What is perhaps more surprising is the high percentage of graduates who entered manufacturing elsewhere.

The HEFCE data suggest that of those who entered the manufacturing sector having graduated from West Midlands universities in 2003, nearly 70% left the region.

Figure 7.8 shows the sectors in which graduates are employed in the West Midlands and the UK. It is clear that services and the public sector dominate. The proportion of graduates employed in manufacturing is very low both in the region and nationally. It is perhaps encouraging that the financial sector employs a relatively large number of graduates. Business and financial services are becoming ever more important to the region, so it is crucial that the jobs created are high skill jobs, attracting well qualified people. This contrasts somewhat with the pattern for the UK overall. Again not surprisingly education dominates, but to a lesser extent than in the West Midlands, and

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<sup>30</sup> Regional Skills Partnership. Regional Skills Assessment. West Midlands Regional Observatory 2005

financial services are less important than for the West Midlands, accounting for just under 11% of graduate employment nationally compared with over 16% in the region. In general, public sector employment of graduates in the West Midlands is much higher than for the rest of the UK, with non-financial private sector services being much lower in the West Midlands than for the UK. Given the importance of the service sector both in the region and nationally this may be an issue, particularly in the context of the large productivity gap in services between the West Midlands and the UK average.

### **2.7.5 Skills Gaps / Recruitment Difficulties**

Although the demand for higher level skills remains relatively weak, it should be stated that skill deficiencies within the region's workforce (supply) are likely to represent a significant impediment to productivity, profitability and expansion. In this respect the fact that the proportion of the regional workforce with skill deficiencies<sup>31</sup> has reduced significantly from 14% in 2003 to 5% in 2005 (the proportion is now the third lowest in the country), should be interpreted as positive news (Figure 7.9).

Nevertheless, it is the case that skill gaps remain a significant problem within certain sectors and occupations, inhibiting the potential for growth and development:

- The proportion of staff with skill deficiencies is around double the regional average in retail and hotels and catering
- Sales and customer service staff are most likely to have skill deficiencies

Moreover, the proportion of companies identifying gaps in specific technical skills has risen to 60% - from 40% in 2003 – and there would also appear to be growing problems with gaps in respect of generic or transferable skills.

Many companies are struggling to address their skill needs via the recruitment of skilled and experienced people from the labour market. In many case this is apparently due to skill shortages in the labour market, with some 30% of companies struggling to recruit citing a lack of the required skills among job applicants and some 20% citing a lack of the required experience. Although the proportion of 'hard to fill' vacancies in the region arising due to skill shortages has fallen from 24% in 2003 to 21% in 2005, it is significant to note that the gap with the national average is not narrowing and that the proportion in the West Midlands is now the highest in the country (Figure 7.10).

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<sup>31</sup> Defined as being identified as not fully proficient in their role by their employer in the LSC National Employer Skills Survey

Notably, recruitment problems and skill shortages in the region are concentrated in particular sectors and occupations:

- In the engineering sector some 58% of vacancies are hard to fill and some 88% of these are hard to fill vacancies due to skill shortages;
- In the construction sector some 58% of vacancies are hard to fill and some 71% of these are hard to fill vacancies due to skill shortages; and
- In the business & professional services sector some 48% of vacancies are hard to fill and some 83% of these are hard to fill vacancies due to skill shortages.

Problems are also concentrated in particular occupations:

- Some 72% of vacancies for skilled trades staff are hard to fill and some 73% of these are hard to fill vacancies due to skill shortages;
- Some 43% of vacancies for associate professional & technical staff are hard to fill and some 70% of these are hard to fill vacancies due to skill shortages; and
- Some 53% of vacancies for operatives are hard to fill and some 64% of these are hard to fill vacancies due to skill shortages.

## **2.7.6 Policy Implications**

- The West Midlands has a high proportion of its workers with no skills and a low proportion with high level skills. A particularly high proportion of older people and people from ethnic minorities are likely to lack formal qualifications and have poor basic skills. These issues have a strong geographical dimension, being concentrated in the two major urban areas. Projections suggest that the future economy of the region will require higher skilled workers. These issues should shape the regional emphasis of the national ESF Programme. They should also influence the complementary elements of this RCE Programme, while strong management arrangements need to be put in place to ensure strong working relationships are maintained between the two programmes.
- Graduate retention and the diversity of sectors into which those who stay enter, could be significantly improved. Given the changes forecast for the regional economy and the urgent need to improve its productivity this is an issue which the Regional Competitiveness Programme needs to address urgently.

## 2.8 Environment and Attractiveness

### 2.8.1 Environment and Quality of Life

The legacy of the previous industrial era is still evident across the Region. The impact of the major de-industrialisation experienced by the West Midlands cannot be addressed within a short period.

The physical scars of the industrial era remain. Table 6.1 shows the considerable extent of derelict and unused land that remains in the Region particularly concentrated in the Black Country, Stoke and Staffordshire along with pockets of dereliction associated with industrial canals and old coalmining areas.

The geographical focus and concentration of derelict land becomes more evident when it is considered as a proportion of total land area. There are five local authorities where derelict land accounts for more than 1.0% of total land area.

These are all within the major urban areas in the northern half of the region. They are in ascending order, Wolverhampton, Sandwell, Walsall and Dudley in the Black Country, along with Stoke-on-Trent which has a proportion approaching 3%.<sup>32</sup> Tackling these concentrations of derelict land is one of the major issues evident from the recently published Black Country Study and the North Staffordshire Regeneration Zone Strategy.

The following sections provide a summary of the baseline environment and other data, not already covered that was presented in the ex-ante evaluation and Strategic Environmental Assessment (SEA) Scoping Study<sup>33</sup> for this Programme.

#### ***Climate Change***

- Trends of increasing greenhouse gas emissions need to be reversed and over all emissions reduced;
- Renewable energy generation is to be increased with a target of 5% total energy generation by 2015;<sup>34</sup> and

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<sup>32</sup> West Midlands Spatial Strategy 2005 Table QE2.

<sup>33</sup> Ex-ante evaluation and SEA for the West Midlands Regional Competitiveness and Employment Programme. Sinclair Knight Merz (SKM) for the Government Office for the West Midlands (GOWM). August 2006

<sup>34</sup> This target is contained in the Regional Energy Strategy. It reflects the physical nature of the West Midlands which restricts opportunities to deploy the most cost effective sources of renewable energy, such as tidal, wave ,off-shore wind energy, large scale hydro electric or geothermal technologies. There is however a great potential for other technologies such as energy from waste, landfill gas, or mine gas, which although not strictly renewable could represent an important source of low carbon energy. The programme includes activity to support the development and commercialisation of such technologies.

- Energy efficiency needs to be promoted.

### ***Natural Resources***

- Steady increase in waste generation;
- Recycling/compost target for households and businesses of 30% by the end of 2010; and
- Reuse of previously developed land still a priority.

### ***Transport***

- In the West Midlands Region, the average commuting trip length increased from 5.7 miles in 1985/86 for both Metropolitan and non-Metropolitan mileage to 7.6 and 8.5 respectively in 2002/03;
- People in the West Midlands use their cars more and walk less than in the rest of the UK;
- While bus use is slightly higher than the national average, the number of bus passengers has actually been steadily decreasing since 2000/01;
- Use of the light rail network has increased over the same period, even though compared with the rest of England and Wales tram use is much lower than average; and
- Modal share of public transport and other non car journeys needs to be increased.

### ***Air Quality***

- Air quality is an issue in the region and should not be compromised further by additional emissions.

### ***Biodiversity, Flora and Fauna and Nature Conservation***

- The proportion of designated sites in the region compared to the rest of the country is low; and
- Biodiversity in the region is rich, but needs to be protected and where possible enhanced.

### ***Landscape***

- There are numerous landscape designations which should be protected; and
- Green Belt land remains under threat from development.

### ***Cultural Heritage***

- Cultural heritage buildings are under continued threat from damage and loss; and
- Reuse of buildings may be economically viable.

### ***Health***

- 1 in 8 people of working age have a limiting long-term illness with Stoke, North Staffordshire and Sandwell being the areas most affected; and
- Light pollution is increasing in the region.

### ***Soil***

- Agricultural land is a key part of the region.

### ***Water***

- Water quality has improved although it remains at threat from nutrient run-off from agricultural activities;
- Some areas in the region are the driest in the country; and
- Approximately 6% of the area is at risk from flooding.

## **2.8.2 Policy Implications**

- The region has a large amount of contaminated former industrial land in its urban areas. The Programme offers an opportunity for the redevelopment of some of this land, which would also contribute to the wider sustainability goals of the Regional Economic Strategy.
- The need to reduce carbon emissions and move to a low carbon economy is an indispensable requirement if the Region is to make its contribution to the need to tackle the threat of climate change. The trends on commuting illustrate how difficult this will be. Can the Programme in its efforts to promote environmental technologies; energy efficiency; non car dependent development initiatives, etc. show the way in producing an economic programme that combines competitiveness with sustainability objectives?
- There are a number of other environmental issues within the region, such as a need to reduce waste, protect biodiversity, landscape and cultural assets, promote public transport and address flood risks. The Programme will need to address these as appropriate through its commissioning and bid appraisal processes.

## 2.9 Rural

### 2.9.1 Rural Issues

The rural areas form a significant physical element of the Region. The classified rural areas of the West Midlands cover about 80% of the total area. Approximately one-fifth of the population, 1.19 million people, live in rural areas – mostly in the 97 market towns and 2,300 villages.

Analysis of the rural areas of the Region shows their diversity of population and employment. The general picture of the rural West Midlands is one of a high quality of environment, low unemployment, expanding population, higher business start-up rates than in the major urban areas and its residents enjoying a higher quality of life.

Population growth is higher in most of the rural areas, with an average increase of 6% between 1991 and 2002, compared to 1.4% for the Region as a whole, alongside the steady decline in the major urban areas. (Figure 9.1 and Table 9.1)

The Region possess many areas of outstanding natural beauty and a fine cultural and industrial heritage. This gives it the potential to generate significant economic benefits through attracting people and business as well as leisure and tourism activities

However, there are pockets of deprivation, particularly in the western remote rural areas, where the economic structure tends to be less growth oriented, with a higher than average dependence on low value-added traditional sectors such as agriculture, related land-based activities and tourism.

The rural west - Herefordshire and west Shropshire - along with parts of North Staffordshire comprise some of the most remote and sparsely populated areas in England.<sup>35</sup>

There are high levels of economic activity and therefore low levels of unemployment in most rural areas. However, there are major issues such as underemployment, seasonality, low wages and too great a dependence on the declining sectors in particular the land based sectors. The existing economic base in a number of rural areas shows a higher than average number of low value businesses e.g. agriculture and hotels and leisure, and a below average number of knowledge intensive activities. In order to develop a robust and diverse economic base there is a need to enhance productivity and

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<sup>35</sup> For information here see A State of the Region Update Report 2005. Section 6. Rural Lives, Rural Issues



the number of high tech businesses to improve innovation and competitiveness. For example, evidence from the Annual Business Inquiry 2005, shows Shropshire has a low number of high productivity businesses.

In order to support the development of a diverse economy in rural areas support needs to be provided for the development of new enterprises in sectors such as food / drink and tourism alongside the traditional agricultural sector. There is also considerable potential in the development of environmental technologies.

Rural areas, especially in the more remote parts have a higher predominance of employees working in small businesses. Shropshire has a higher number of employees (27%) working in companies employing less than 10 people, compared to 19% in the West Midlands. Smaller businesses can be more vulnerable to economic forces and competition, and are less able to invest heavily in research and development.

The Regional Spatial Strategy<sup>36</sup> acknowledges the specific difficulties being faced by some of the more isolated rural areas in the Region, especially those with low densities of population which with the changing patterns of the rural economy suffer from “insufficient economic activity.”<sup>37</sup> As previous, the Programme will seek to address these distinctive issues.

The issues affecting the productivity of the region are relevant across the region to a greater or lesser extent. However there are a number which are of particular interest and relevance to the rural parts of the region. The Competition Section (2.3) of this Socio-economic Analysis highlights ten economic clusters within the West Midlands. Three of these – tourism and leisure; food and drink; and environmental technologies – are well-embedded within the rural parts of the region. These therefore offer major opportunities to lift the productivity and economic dynamism of rural areas, which the Programme has the potential to exploit.

One of the concerns is decreases in employment in agricultural industries and it needs to be borne in mind that these changes may be concentrated in particular localities and rural areas where the impact on the local community of even small job losses may be considerable. For example, Herefordshire has lost 540 jobs in agriculture since 1998, which equates to around 11.7% of agricultural jobs in the county. Whilst the 271 jobs lost in North Warwickshire over the same period, account for nearly a third of agricultural jobs there. This is in the context of a low unemployment rate of 1.7% in both counties.

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<sup>36</sup> Regional Spatial Strategy (RSS). West Midlands Regional Assembly.

<sup>37</sup> Regional Planning guidance for the West Midlands Paragraph 3.3. p.13.

There is a continued aspiration of urban residents to live in rural areas, for example the Regional Lifestyle Survey<sup>38</sup> indicates that 35 per cent of people currently residing in major urban areas in the region aspire to live in the countryside or a village close to a town. Indeed, long-term sub-regional population projections suggest that the fastest population growth will be in rural parts of the region – particularly in more isolated areas. Between 1999 and 2004 rural areas have received a net in-migration of over 9,000 people per year (Source: NHSCR). This in turn is driving up house prices and reducing affordability for those seeking to enter the rural housing market. Patterns suggest that 18-24 year olds are still migrating out of the rural areas and this needs to be addressed to stop the future workforce reducing and skills and overall educational attainment falling.

Other issues of particular relevance to productivity, and within the scope of the RCE, in rural areas include:

- A need to diversify the economic base to include higher value-added, knowledge intensive activity; and
- A need to utilise and exploit broadband and other communications technologies to reduce the impact of distance on accessibility to markets and competitiveness.

The Region has been a beneficiary of other EU funds which have contributed to the overall development of its economy.

The largest EU contribution has come in agriculture where the Common Agricultural Policy has given significant funds to the region's farmers. The nature of CAP is changing and gradually there is a shift of EU budgetary resources to rural development.

Over the period from January 2000 to October 2005 West Midlands' shire counties received £21.5 million of EU grants under the rural development programmes to enable £49 million of rural project development (Table 9.2). The region's rural areas will be eligible for a similar programme during the 2007-2013 period. Its precise size is uncertain, though it is due to increase as 'modulation' calculations enable some further limited shift of resources from the CAP regime.

## **2.9.2 Policy Implications**

- The rural parts of the Region have pockets of poverty and lack of access to employment opportunities and services. There are a number of issues related to productivity which are either unique to, or more extreme, in rural areas. There will

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<sup>38</sup> Regional Lifestyle Survey. West Midlands Regional Observatory. 2005

need to be specific elements written into the Programme to address the rural dimensions of economic development.

- One dimension of this will be to promote those economic clusters which are firmly embedded within rural areas of the region.
- Economic diversification activity will be carried out under the EU's Rural Development Programme alongside the Programme. It will be important to ensure that these activities are complementary and that there are sound management arrangements to provide good working relationships between the two Programmes so that they achieve maximum impact.

## 2.10 Urban

There is a strong spatial dimension to almost every element of the preceding analysis. While there are growth points within the region's two major conurbations – defined in section 2.1.1 - it is evident throughout this socio economic analysis that the bulk of the region's problems are concentrated in these urban areas. Poor performance is apparent in indicators of social wellbeing, economic achievement and the quality of environment

### 2.10.1 Social Wellbeing

Poverty is heavily concentrated in the wards within these conurbations. This is apparent in the basket of indicators used to calculate the Index of Multiple Deprivation (IMD) (Section 2.1.2). There are 474 Super Output Areas (SOAs) within the Region, which fall within the most deprived 10% of SOAs within the UK. They account for 14% of the regional population. Over 95% of these SOAs - a total of 454 -are to be found within the metropolitan conurbation and the Stoke-on-Trent Unitary Authority area<sup>39</sup> (Table 10.1). The degree of multiple deprivation in both Birmingham and Stoke-on-Trent is particularly severe with more than 30% of the districts super output areas falling within the 10% most deprived category.

### 2.10.2 Employment

Manufacturing job losses have been most intense in the urban areas. In the last three years seven of the top 22 worst hit local authorities in terms of manufacturing job losses are located in the West Midlands urban core (Table 10.2). Unemployment is also most severe in the urban areas. This is evident in the material in Section 2.2 and the complementary table 2.1 which shows that all parts of the two major urban areas bar Solihull have unemployment above the regional average. This picture is reinforced by the evidence shown in Table 10.3. In May 2006 there were thirty wards in the West Midlands with an unemployment rate more than twice the rate for the region as a whole. All of these wards are in the West Midlands urban conurbation.

### 2.10.3 Enterprise

This spatial pattern to economic development is also evident when enterprise is considered. The better-off, outer ring of historic towns and newer developments with plentiful greenfield sites are experiencing fast rates of new firm formation. In contrast, it is

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<sup>39</sup> Analysis based on ID2004 Department of Communities and Local Government. Calculations undertaken by Research Office, Staffordshire County Council.

the older industrial areas within or on the fringes of the major conurbations where there is a low rate of new firm formation (Table 10.4). These urban areas also have lower levels of enterprise in general. Amongst the Region's 290,000 small and medium enterprises there are on average 50 for every 1000 adults. However, areas of multiple deprivation within the West Midlands have an average density of just 30 SMEs per 1000 adults while Birmingham, Coventry, Nuneaton and Bedworth, Stoke, Telford and Wolverhampton average just 20.<sup>40</sup>

It is noticeable here that both Stoke-on-Trent and Coventry figure prominently within this data set, although they are less severely affected by unemployment than Birmingham and the Black Country. For Stoke-on-Trent these low enterprise figures plus the high concentrations of multiple deprivation indicate a low wage economy unable to diversify and modernise its economic base.

#### **2.10.4 Investment and the Quality of Physical Capital**

The chapter on investment indicated the geographical dimension to the stock and availability of sites and land in the region (Table 6.1). There are five local authorities where derelict land accounts for more than 1.0% of total land area. These are all within the major urban areas in the northern half of the region. They are in ascending order, Wolverhampton, Sandwell, Walsall and Dudley in the Black Country, along with Stoke-on-Trent which has a proportion approaching 3%.<sup>41</sup> Tackling these concentrations of derelict land is one of the major issues evident from the recently published Black Country Study and the North Staffordshire Regeneration Zone Strategy. They represent a blot on the regional landscape and a reminder of the industrial legacy that still casts its shadow over the region. These concentrations of derelict land act as a deterrent to both new economic uses and to the wider environmental attractiveness of these areas.

#### **2.10.5 Skills and the Quality of Human Capital**

The Skills chapter highlighted the difficulties facing the region as it makes the transition from an industrial to a knowledge economy. The Region's skill problems are especially intense in the old manufacturing urban areas. For example the local authority areas of Stoke-on-Trent, Wolverhampton, Sandwell and Walsall have almost a quarter of their population with no qualifications. Data from the Learning and Skills Council (Table 10.5) shows that the Black Country and Birmingham and Solihull rank second and third respectively in England for the proportion of the working population which have no

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<sup>40</sup> NEF and B.Nicholson 2003. Analysis and Need for Development Funding for CDFIs.

<sup>41</sup> West Midlands Spatial Strategy 2005 Table QE2

qualifications. This table also illustrates the more favourable situation with regard to qualifications evident in the shire counties.

### **2.10.6 Environmental Attractiveness**

Against this background it is not surprising that the two major conurbations have been experiencing a population decline since the 1960s. This forms part of a pattern common across much of Europe of a decentralisation of the urban population with an increase in the population growth of smaller centres ringing the major cities and an enormous increase in commuting to work illustrated by the data in Data Annex, Para. 8.1.3

Table 9.1 and Figure 9.1 show the position over the last fifteen years. The rapid depopulation experienced by the conurbation from the 1960s-1980s slowed during the 1990s and now appears to have halted. However, the steady growth of the surrounding shire counties continues. The overall figures do not reveal the significance of migration, with significant numbers of economic migrants, legal immigrants, asylum seekers and refugees contributing to the stabilisation of the conurbation population during this period.

At the same time major cities such as Birmingham have benefited from the growth in student populations increasingly located in core urban areas. This is a feature noted in the recent State of the Cities report (2006) commissioned by national Government. While this report noted the positive changes occurring in many of England's urban areas, it also reported on the continuing pull of the rural idyll. The steady population growth of the shire counties confirm this observation.

### **2.10.7 Policy Responses**

It was the analysis of the above issues that was assessed in the Regional Spatial Strategy. It spoke of "the loss of investment, abandonment and environmental degradation in the major urban areas and increased development and environmental pressures in other parts of the Region. The dispersal of population and activities under-uses the social and physical resources of the major urban areas and contributes to unsustainable development patterns that lead people to make more and longer journeys, more often than not by private car"<sup>42</sup> hence its call for a fundamental change of direction.

This is a viable strategy because many of the strengths of the region are present in the major urban areas. They have the highest concentration of businesses and enterprises alongside major universities. Birmingham is the economic heartbeat of the region. The metropolitan conurbation is home to many of the prime cultural assets which are so

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<sup>42</sup> Regional Planning guidance for the West Midlands Paragraph 3.2. p.13.

important to quality of place and attractiveness, while the past two decades have seen enormous achievements in the transformation of parts of the region's urban core. Yet, this remains unfinished business. Some of its benefits have gone to citizens who work in the urban core but do not live there. Most of Solihull has boomed with the new economy, while there has been a substantial renewal of parts of Birmingham and Coventry. Yet the heart of the Black Country and Stoke still await that wider change.

### **2.10.8 Policy Implications**

- There is a clear spatial dimension to the preceding socio-economic analysis. Many of the region's problems, such as poverty, high unemployment, low productivity and poor skills are concentrated in its major urban areas. This is such a persistent and pervasive phenomenon that it is incumbent on the Programme to address it in a focussed manner.
- The data shows that this is not a uniform phenomenon across the two conurbations. There are more prosperous, flourishing neighbourhoods particularly in parts of Birmingham, Coventry and the majority of Solihull. Therefore, the Programme will need to concentrate its efforts. In particular, it should strive to ensure that economic and employment opportunities are focussed so that those parts of the conurbations that currently gain little from the region's overall economic growth are able to benefit more in future. The Programme should seek to ensure that new employment opportunities are matched and closely linked to those living within areas of need.
- There is a clear need for major physical renewal and infrastructure developments in the northern half of the region's conurbations i.e. the Black Country and Stoke on Trent. These matters should be addressed within the constraints set by financial, regulatory and 'Lisbon' earmarking limits of the Programme
- Travel to work patterns and the presence of major leisure and cultural assets make the metropolitan conurbation of key significance to the economic and social well-being of the region as a whole. This needs to be taken into account in the formulation of the RCE Programme.

## 2.11 Lessons Learnt

### 2.11.1 Partnership

The last twenty years have been a period of rapid change for the West Midlands. Two particular elements have contributed to the Region's economic resilience. Firstly, there has been a widespread acknowledgement of the importance of all relevant agencies working together. Thus, local government, national and regional government agencies, business organisations and individual companies, the voluntary sector and further and higher education have increasingly recognised the need for close collaboration and partnership working. The development of a common West Midlands Economic Strategy (WMES) in line with the Region's Spatial Strategy has helped towards this objective. Indeed, EU Programme has been prepared with the consistent engagement of a wide range of partners and it is with their agreement that it is closely linked with the WMES.

The second crucial element has been the ready availability for more than two decades of European Union Structural Funds across large parts of the Region. These have played an important role in the Region's economic transformation, while their governance arrangements have helped the Region to develop its robust partnership arrangements. From the beginning, these EU Funds have made a vital contribution to the revitalisation of the region's business base, its skills and its physical conditions.

### 2.11.2 Diversifying the Regional Economy

Funds have been used to modernise existing industries and promote the wider diversification of the economy. Motor vehicles and ceramics are two examples where European resources have been deployed to equip traditional manufacturing sectors to respond to the challenges of globalisation, to improve their performance and to find new market niches. To give two examples: The Accelerate Programme has been designed to tackle the productivity challenges within the automotive sector supply chain, while the Hothouse Centre has worked to modernise the ceramics sector in the Potteries.

#### **Accelerate**

- Accelerate is a major public/private sector initiative dedicated to addressing the changing needs of the West Midlands' substantial automotive supply chain
- Drawing on the expertise of a wide variety of public and private sector partners, Accelerate works with the region's small to medium sized automotive companies



to secure production efficiencies and best practice manufacturing techniques

- The initiative is managed by Birmingham Chamber of Commerce on behalf of Advantage West Midlands and is led by a partnership board of the region's leading automotive industrialists.
- It has been supported with ERDF through both the Objective 2 Programme and its predecessor.
- During the last decade, Accelerate has safeguarded more than 53,000 jobs across the region and assisted in excess of 3000 businesses, attracting significant investment through its engagement with the private sector.

With regard to developing new areas of economic activity the 2000-2006 Objective 2 Programme contributed over £2.5 million to the provision of 'grow-on' units at both Warwick Science Park and Coventry University Enterprises. Here, Structural Funds helped to ensure that new small businesses often in the growing IT and design sectors have the appropriate office space and facilities that will enable them to grow and remain within the city. In Herefordshire, the Programme funded high-technology growth for local rural and semi-rural businesses.

### **2.11.3 Increasing Business Collaboration with the Research Base**

Programme funds have been used to support a number of initiatives to improve the links between business and the research base. For example, Faraday Plastics which uses a process developed by the Warwick Manufacturing Group to identify innovative SMEs then develops close relationships with these companies, covering counselling, and knowledge transfer but also bringing them, where appropriate, into research activity constructed from the standpoint of SMEs. Funds were also used to support a 'Spin Out' initiative which encouraged the establishment of new companies drawing on the ideas and innovations of university-based researchers and scientists. The latest data shows that in the four year period between 2002-2005 73 new companies were established under this programme from universities across the eligible Objective 2 area. The types of activity vary but a very high proportion are in high technology and knowledge economy areas e.g. powdered metals, silicon wafers, stem cell development, and protein synthesis. Pristine Plus, detailed in the box below, is a further illustration of how ERDF has been used to improve regional competitiveness through investment in innovation:

#### **Pristine Plus**

- Operated by the North Staffordshire and Black Country Business Innovation Centre, Pristine Plus deploys Innovation Advisors to work with small scale manufacturers, primarily from the automotive, ceramic and engineering sectors, to progress new and innovative ways of advancing product development.
- A combination of grants and innovation related workshops are used to remove the barriers to innovation
- Total project costs are £886,000 of which £294,000 is through ERDF. Other match comes from Business Link and SRB6

#### **2.11.4 Recycling Derelict Land**

Significant resources have been invested over several programmes in re-cycling derelict industrial land and under-used buildings to create jobs and to act as motors of economic growth. Previous regional programmes have adopted different approaches to this support. A significant step forward was made in the 2000–2006 Programme when the partnership chose to adopt a package approach to site development. Package areas<sup>43</sup> were identified at the beginning of the Programme on the basis of the co-location of significant need and opportunity. Coordinated provision was then targeted through the packages to enable deprived communities to benefit from capital investment. In this programming period, the focus has moved away from large scale land reclamation, although there will be some limited opportunity for small site development in urban areas under Priority 3. A package approach will again be adopted integrating site development with complementary actions to enable local communities to access the employment opportunities that arise.

#### **2.11.5 Embedding the Cross Cutting Themes**

Two cross cutting themes run through the heart of European funding programmes, environmental sustainability and equal opportunities. Projects funded through previous programmes have been encouraged to embed best practice in terms of both themes within the project development stage. The Eliot Park Innovation Centre (EPIC) in Nuneaton is a regional example of how the principles of sustainability can successfully be incorporated into new build:

<sup>43</sup> There are 13 packages in the region. These are • Eastside, Birmingham, • Birmingham to Worcester A38 Technology Corridor, Birmingham, • The Arc of Opportunity, Black Country, • Future Foundations, Black Country, • Moving Market Confidence North, Coventry & Warwickshire, • Accessibility South, Staffordshire, • North Staffordshire Strategic Package, Staffordshire, • Burton: Creating Advantage, Staffordshire, • Oswestry Strategic Package, Shropshire, • Severn Valley Package, Shropshire, • South Shropshire Strategic Package, Shropshire, • Telford ERDF Package, Telford & Wrekin, • Herefordshire Strategic Package, Herefordshire

### **EPIC – Eliot Park Innovation Centre**

- EPIC is a multi-occupancy business development unit designed to accommodate and support small and medium-sized businesses in the innovation and knowledge-based industries
- Built on a former waste tip, it was the first new office space development in the Nuneaton area for twenty years. Where possible building materials were either reused on site or sourced as locally as possible.
- EPIC achieved BREEAM Excellent standards thanks to its excellent energy efficient design. The incorporation of such features as a Termo Deck which provides natural ventilation, and photovoltaic panels which provide renewable energy, enable the building to make in excess of 50% energy savings, producing less than 50% of a standard commercial office's carbon dioxide emissions. A butterfly garden is also under development.
- EPIC works with Bridges to Success to inform and encourage disadvantaged residents in the Coventry and Nuneaton Regeneration Zone to apply for the new employment opportunities created at the site.
- The project has provided 4,245m<sup>2</sup> premises on previously developed land and is projected to create over 300 new and safeguarded jobs.
- Total project costs were £7.2 million comprising £2.9 million ERDF, together with monies from Advantage West Midlands, and Warwickshire County Council.

Elsewhere, ERDF support helped to revive the grade II listed Bordesley Centre transforming it into a 'bridge to success' for more than 6,500 people of Minority Ethnic Communities in the wards of Sparkbrook, Sparkhill and Small Heath: three Birmingham wards where the unemployment rate is over twice the regional average (Table 10.3).

### **The Bordesley Centre**

- The project is run by a community-based organisation, the Mu'ath Welfare Trust, which has established a large sustainable service delivered through partnership with a range of statutory and voluntary organisations.
- The main focus is on: job matching, enterprise, education and training,

- The centre offers 1,200 training opportunities every year; placing individuals into employment; helping individuals into self-employment; and enabling local people to take advantage of the opportunities created by massive building projects, such as the Eastside development and other areas of the city and the region.

### **2.11.6 Linking to Best Practice in Other European Regions**

The achievements through the Objective 2 and 3 Programmes have been complemented by inter-regional co-operation in the fields of innovation, business, trade, and regeneration. Drawing down European funding through Equal, Interreg, the Framework Programme, Leader and Asia Invest, these projects have enabled strong international links and inter-regional networks for the exchange of learning and best-practice in the areas of most strategic importance to the region. ERRIN is an example of an inter-regional network led from the West Midlands.

#### **ERRIN - European Regions Research and Innovation Network**

- The European Regions Research and Innovation Network (ERRIN) is a Brussels-based network designed to help regional representations to participate fully and effectively in the European Research Area.
- ERRIN was established through support from the European Commission's Directorate-General for Research in the frame of the Regions of Knowledge Pilot Action Programme.
- From 2007, it has become a sustainable network hosting detailed information sessions with project marketplaces to facilitate partner building and project development as well as sectoral practitioner working groups, many of which correspond to current West Midlands' clusters.
- The West Midlands Region, through its Brussels-based representation (West Midlands in Europe), plays a leading role in the network and expects this network to contribute to an increase in R&D expenditure in the region over the Programme period.

The combined outcomes of the 2000-2006 investments will be significant. The Programme is worth £610 million and will lever in £2 billion of additional investment. To date the Programme is scheduled to create over 15,000 new jobs and to safeguard a

further 16,500. It has let contracts to assist over 4,000 business start-ups. The current Objective 3 Programme is worth just under £350 million. This, together with resources from the Objective 2 and the region's co-financing organisations has provided training opportunities and re-skilling programmes for large numbers of both employed and unemployed across the Region.

### **2.11.7 Policy Implications**

- The various public policy agencies in the region have developed a good working relationship and made genuine efforts to avoid duplication and promote additionality and complementarity. It will be important that this fruitful partnership working continues with the new programme and that there is a smooth transition to the new management arrangements.
- There has been a good level of success from schemes designed to link university research skills with businesses, albeit small scale and limited geographic scope. Can these be enhanced in the new Programme?
- The integration of capacity building activities alongside site development is important if the communities most in need are to benefit from growth achieved through the Programme
- There have been some genuine efforts to promote sustainability in the work funded to date, notably through schemes to reclaim brownfield land and with a limited number of best practice demonstrator sites. Environmental sustainability should be an important attribute of the Programme
- The West Midlands already has good experience of learning from exchange with partners across Europe through active inter-regional networks, such as ERRIN and RURIPOLITAN; and established international links, such as with Lower Silesia. These will provide a good platform for future inter-regional cooperation.

## 2.12 SWOT Analysis

The following table seeks to summarise the strengths, weaknesses, opportunities and threats to the West Midlands based on the evidence presented in this section.

SWOT Analysis		
Strengths		
Strategic Issue	Underpinning Evidence	Strategic Implications for the ERDF Programme
Certain areas of the economy, as identified in the ten business clusters, are well placed to exploit regional strengths and emerging market opportunities to create wealth and employment	Sectoral GVA data	With limited resources it is important to focus economic activity on these growth sectors in the RCE
High ethnic diversity is an economic asset. Many BME communities normally display high enterprise rates and a number have close connections with some of the fastest growing areas of the world's economy.	Population data. GEM data which shows that West Midlands BME communities have lower enterprise rates than counterparts elsewhere in the UK	Support members of the BME communities to optimise their entrepreneurial potential
Birmingham as the UK's second city, acting as the pivot of the regional economy.	Both International Convention Centre and National Exhibition Centre act as a magnet for European and wider business community.	Need to consider how to build on and multiply its successes.
Strong growth in South East and green belt group of towns ringing the urban conurbation	GVA/head	Region needs to rebalance its development focus. Public resources need to concentrate on areas of market failure, major conurbation and isolated rural areas.
Good national and international accessibility	Increasing business travel at Birmingham International	Further investments needed. Outside scale and scope of

	Airport. Extensive motorway and rail network	programme
Workforce with proven ability to shift from one sector to another	Contraction in manufacturing mirrored by growth in services and other employment, which is predicted to continue into the future.	Proven labour force flexibility
High quality natural environment with potential to generate significant economic benefits.		Use Programme to develop activities in the leisure and tourism cluster
Early successful pilot schemes linking academia and business	Lessons learnt	Expand scope and scale of such schemes as they increase business competitiveness
Favourable attitudes to entrepreneurship		
<b>Weaknesses</b>		
<b>Strategic Issue</b>	<b>Underpinning Evidence</b>	<b>Strategic Implications</b>
Low levels of business productivity and income	GVA/ head and income / head, especially in certain parts of the region	From interaction of drivers key issues behind this are low skills, low R&D investment which in turn feed into low innovation and low enterprise. Use funds from the separate ERDF and ESF programmes to address these issues.
Social, economic and environmental conditions in major urban areas.	IMD rankings	Long term regional renewal dependent on tackling this. Need to concentrate an element of programme resources on bringing hard to reach and disadvantaged groups into employment
Exports dominated by machinery and transport (where international competition is strong),	Export data	Export support needed, especially into new markets and into higher value-added products.

levels falling relative to other regions		
Access to finance and investment readiness have been identified as key barriers to enterprise	Research commissioned by Regional Finance Forum	Provide targeted finance to improve investment readiness in key clusters
Underperformance in enterprise, especially for women and relatively speaking BME groups	Low VAT registration, Global enterprise monitor (GEM)	Need to address specific barriers to enterprise
Limited higher value added service sector economy, particularly in the private sector	Employment data	Need to diversify existing firms and support new firms into knowledge intensive sectors
Sharply falling investment in R&D and low levels of 'innovation active' firms	Investment data and data from the Innovation Survey	Key factor in GVA gap. Need to encourage higher levels of innovation in firms as major priority in programme
Low investment in training		Principally address via ESF Programme
High proportion of workers with no / low skills especially in certain areas		Need to ensure ESF national Programme reflects this issue.
Graduate retention poor, low levels of representation in manufacturing		Need to encourage graduate placement and recruitment into WM companies, especially in manufacturing
Poor performance in terms of high level skills,	Skills surveys	Need to ensure ESF national Programme reflects this issue
<b>Opportunities</b>		
<b>Strategic Issue</b>	<b>Underpinning Evidence</b>	<b>Strategic Implications</b>
Promote more widespread uptake of broadband and ICT applications	Almost universal broadband coverage achieved in the region, but low number of e-enabled businesses	Stimulate business and innovation activity which capitalises on the region's massive broadband coverage
Strength of HEI with strong track record of research	HEFCE research ratings	Structures available to provide business



		development through the HE sector. Programme to develop mechanisms to maximise this.
Continue to develop the relative strengths of the creative and cultural industries	One of the emerging clusters within the Region in digital media, serious games and elsewhere.	One of the high value-added clusters which the Programme should focus on to help the diversification of the Region.
Maximise linkages to best practice in other European regions	Region has made valuable links with previous Leader, Equal and Interreg Programmes but not on a consistent and coherent basis	Mainstream these types of linkages within the Programme. Tie them firmly to the priorities established within the OP and to Regions of Economic Change initiative.
Promote key projects within the clusters e.g. the Nano Technology Centre, Medical Technology Park and similar centres coming on stream in the High Technology corridors	Development plans are well advanced	To consolidate and develop these Birmingham Science City type initiatives in key clusters in order to increase the rate of technology transfer, spin-outs from universities and research technology institutes.
The expanding global market in environmental products, services and processes	Global market place for environmental goods and services expected to be worth £377 billion by 2010. Emerging environmental technologies cluster in the region, while renewable energy technologies is a major theme of Birmingham Science City.	Supporting businesses within the environmental technologies cluster to develop solutions to regional environmental problems
Significant success in turning round Birmingham and Coventry city centres, with the knock on growth of the service sectors	Stronger cities acting as a driver for wider regional growth.	Barriers to further growth to be tackled, while efforts made to replicate this economic revitalisation in other major urban centres, notably Walsall, Wolverhampton and Stoke.
Address the more sparsely populated and isolated rural parts of the region	These areas are not sharing in the overall prosperity and well-being of the shire	Focus on those clusters embedded within the rural economy to promote

	counties	economic development and take specific measures to promote rural enterprise
<b>Threats</b>		
<b>Strategic Issue</b>	<b>Underpinning Evidence</b>	<b>Strategic Implications</b>
Inability to generate sufficient higher paid and higher skilled employment within the regional economy.	Continuing predominance of low value added sectors within the economy. High out-migration of graduates on leaving university, especially to London and South East	Increase support in the Programme for modernisation and diversification of the region's business base with special emphasis on high value added clusters
Significant manufacturing base still remains within the region	Higher percentage share of the economy than other UK regions	More vulnerable to the challenges of globalisation than other regions unless traditional sectors such as engineering, metals, automotive and ceramics modernise and find new niche markets.
Availability of land for development at a cost effective rate. Much of the available land in urban areas is brownfield.	Brownfield land data and lessons learnt.	Support needed to encourage brown field development as opposed to greenfield sites which are often easier to develop. Example of determination of region to face up to issue of climate change.
Poor public transport connectivity within and between key centres	Journey times increasing	Large infrastructure beyond scope of Programme but some small scale innovative experimental actions may be funded
Over concentration of low value sectors of the economy in a number of rural areas	Sub-regional economic data	Take measures within Programme priorities to promote new economic activity in these areas.
Environmental pressures on the region e.g. need to reduce energy use and waste generation, improve air quality and adapt to	SEA, Energy strategy, Climate change impacts strategy	Strengthen both supply and demand for technologies and services with reduced impact on the environment, supporting regional business

climate change		to improve their resource efficiency
Rural issues of isolation and lack of critical mass	low population and enterprise density, low innovation	Reduce barriers related to isolation of some rural areas
Concentration in the major urban areas of problem issues - poor skills, low productivity, social exclusion etc. Key barriers	IMD, skills indicators, productivity indicators	Need to focus support to ensure opportunities are made available in these areas and barriers are addressed in a culturally relevant way. Also need to take a co-ordinated approach to tackling these linked issues.

## 2b. SOCIO ECONOMIC ANALYSIS

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All data references made within this chapter relate to **Annex A2 – Data Annex – Updated 2010**

### 2.1 Summary of Eligible Area Strengths and Challenges

#### 2.1.1 Regional Profile

##### *Key Economic Indicators for the West Midlands*

Description	Year	West Midlands	UK	Source
Population	2008	5 411 000	61 398 000	NOMIS
Population from minority ethnic groups	2007	16.9%	16.4%*	ONS experimental estimates
Gross value added	2008	£94.5bn	£1 259.6bn	ONS
Gross value added per capita	2008	£17 463	£20 520	ONS
Gross value added per hour worked (relative to UK average)	2008	89.6%	100%	ONS regional trends
Mean gross weekly wage	2009	£441.50	£480.90	NOMIS
Employment rate	Feb-Apr 2010	70.6%	72.1%	NOMIS
Claimant count rate	May 2010	4.9%	3.9%	NOMIS
Rate of employment in manufacturing	2008	13.3%	9.5%**	NOMIS

Number of businesses	2008	364 635	4 783 285	BIS Enterprise Directorate Analytical Unit
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*\* This figure is for England; figures for the UK are not available.*

*\*\* This figure is for Great Britain (England, Scotland and Wales); figures for the UK are not available.*

## **Geography**

The West Midlands is situated at the heart of England. Administratively, the West Midlands region comprises the counties of Shropshire, Staffordshire, Warwickshire and Worcestershire, together with the unitary authorities of Herefordshire, Stoke-on-Trent and Telford and Wrekin, and the seven metropolitan districts of Birmingham, Coventry, Solihull, Wolverhampton, Dudley, Sandwell and Walsall (the latter four commonly known as the Black Country).

The region includes two conurbations: the Birmingham/Black Country, Coventry and Solihull conurbation in the central area, known as the Metropolitan Conurbation and the North Staffordshire conurbation.

The West Midlands covers 12,998 sq km of which only 10.8% is built up while just over 77% of the total land area is accounted for by arable, horticulture and improved grassland; the remainder is not under cultivation.

## **Spatial Patterns in the Economy of the Region**

The West Midlands is a diverse region with significant variations among its component parts and a range of functional linkages between those parts though the regional boundary makes sense in functional terms, with relatively few cross-border links other than around Burton-upon-Trent, with its close links to neighbouring parts of the East Midlands region, and Ross-on-Wye, with its links to Gloucestershire<sup>44</sup>. This Section does not attempt to provide a detailed sub-regional breakdown. However, recent analysis<sup>45</sup> highlights that increasingly, the regional spatial economy is much more complex than a simple division between urban-based industrial activity and rural-based business. Analysis suggests that the spatial patterning of economic activity in the West Midlands region is changing, While central Birmingham has seen a major rejuvenation and attracted a significant number of new jobs in the financial and professional services sector, the adjacent Black Country continues to lag behind. In 2007, the Black Country

<sup>44</sup> Analysis of Sub-regional Dynamics in the West Midland, West Midlands Regional Observatory. March 2010

<sup>45</sup> The Functioning Economic Geography of the West Midlands. University of Birmingham and West Midlands Regional Observatory. August 2006.

had an output gap of over £4.8bn when compared to the UK average, accounting for almost one third of that for the West Midlands region. The Black Country Strategy (2005) is a vision-led sub-regional strategy for growth and competitiveness, which seeks to realise the economic potential of a part of the country which has under-performed economically for the last quarter of a century.

Over the last three decades there has been a significant shift outwards from Birmingham and the Black Country to a belt that encircles the conurbation. In particular, an on-going process of restructuring within key industrial sectors has seen the extension of many manufacturing and tertiary activities from the conurbation to a surrounding belt broadly between 20-40 miles from the conurbation. Importantly, this evolving pattern of economic geography is also likely to reflect the continued development of business and professional services (BPS), together with R&D capacity, beyond the confines of the conurbation.

In part, a key driver is access to the national transportation network with, for example, the geography of innovation facilitated by the motorway network, specifically the M50, M5 and the M40. Notably, other factors may be closely related to the attraction of places in the belt as high quality residential environments. Liveability factors attract commuters working in the service sector to these areas.

The general picture of the rural West Midlands is one of a high quality of environment, low unemployment, expanding population, higher business start-up rates than in the major urban areas and its residents enjoying a higher quality of life. The Region possesses many areas of outstanding natural beauty and a fine cultural and industrial heritage.

However, there are pockets of deprivation, particularly in the western remote rural areas, the rural west -Herefordshire and west Shropshire - along with parts of North Staffordshire which comprise some of the most remote and sparsely populated areas in England.<sup>46</sup> Ludlow Henley ward (Shropshire), Gatacre ward in Oswestry and Oldinton and Foley park in Wyre Forest are among the most disadvantaged areas in the West Midlands on the Rural Disadvantage Index<sup>47</sup>.

While there are low levels of unemployment in most rural areas, there are major issues such as underemployment, seasonality, low wages and too great a dependence on the declining sectors in particular the land based sectors. The existing economic base in a number of rural areas shows a higher than average number of low value businesses e.g.

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<sup>46</sup> For information here see A State of the Region Update Report 2005. Section 6. Rural Lives, Rural Issues and West Midlands Regional Observatory Contextual Monitoring for Urban and Rural Renaissance.

<sup>47</sup> EDRF Priority 3 Research, WMRO February 2010

agriculture and a below average number of knowledge intensive activities, as well as a high level of business 'churn'. The picture varies between accessible and remoter rural areas, where the stories are often very different.

### ***Population***

In 2008 the population of the West Midlands was 5.4 million - 10.5% of the population of England. This population makes it larger than some European countries (eg Slovakia, Finland, Norway, Croatia and Ireland). 65% of the Region's population live in urban areas, with 18.8% in Birmingham. There are significant variations in population density across the region (Figure 1.1). This ranges from a high of 3,794 people per sq km in Birmingham to a low of 42 in South Shropshire (Table 1.1). Between 2001 and 2007 the population increased by 101,000, or 1.9 per cent, significantly below the corresponding rate of 3.3 per cent for England. Projections indicate that the rate of population growth will remain below the national average. Total population is projected to reach nearly six million by 2026<sup>48</sup>.

The West Midlands region has the highest proportion of Black and Minority Ethnic communities outside London<sup>49</sup>. According to the most recent census, the largest ethnic minority group in the West Midlands is Indian. Other significant minority groups in the region are people of Pakistani, Black Caribbean and Bangladeshi origin, whilst an increasing proportion of the population are of mixed ethnic origin. Ethnic diversity is particularly strong in certain sub-regions, especially in and around Birmingham and the Black Country. Indeed, the most recent data<sup>50</sup> suggests Birmingham's non-white population has reached 33% (up from 30% at the time of the last census) and is expected to rise steadily over the next decade. The rapid growth of the non-white ethnic groups in the West Midlands, particularly in the urban core, suggests that this section of the population will be providing a much larger proportion of business start-ups than at present and therefore a much larger proportion of economic growth. As the West Midlands State of the Region Report 2004 and a later 2009 report on the region's changing population<sup>51</sup> highlight, the region's ethnic diversity should be viewed as an opportunity in a global economy where familiarity with a wide range of cultures and the creative fusion of ideas may be seen as a competitive.

The impact of immigration into the region since the last census, notably of Somalis and Eastern Europeans, must also be borne in mind, though international migration is difficult to predict. Numbers arriving have increased since 2001, and particularly since the

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<sup>48</sup> ONS West Midlands Regional Profile, 2010

<sup>49</sup> 11% of West Midlands population are from BME groups compared to 9% of national population (Census 2001)

<sup>50</sup> ONS 2007 experimental population estimates

<sup>51</sup> The West Midlands' Changing Population. A State of the Region Thematic Report. WMRO, October 2009

accession of new member states to the European Union in 2005. However, current economic conditions have seen a slowing of the number of incoming migrants and information about the number who have remained in the country is very limited. Net international migration into the region in 2001 was estimated to be 8,200 in 2007 and is projected to average approximately 10,000 per year over coming decades<sup>52</sup>. However, future levels of migration will be influenced by a wide variety of factors making it hard to predict, both in terms of volume and of countries of origin.

The region has a slightly higher than national average representation in both the 60-70 and under 20 age groups, and a slightly lower than national average representation in the 20 to 55 age group meaning that a proportionally higher section of the West Midlands population is not of working age, and therefore not directly contributing to the regional economy (Figure 1.2) The more youthful age structure of Black and Minority Ethnic Groups relative to population also has important implications for the Programme going forward. Taken together with the aging white population, this means that BME groups will form an increasing part of the future working age population in the West Midlands, this together with the greater tendency for older people to reside outside of the urban centres contributes to the variation in the age distribution across the West Midlands.

Birmingham, Coventry and Sandwell, for instance have a particularly high proportion of people aged under 30, contrasting with the older age structure of areas such as Staffordshire Moorlands, Malvern Hills, Stratford-on-Avon and Herefordshire, where the proportion of the population aged over 45 is well above both the regional and national average at more than 50%<sup>53</sup>.

In recent years there has been a continuation of outward migration from the core urban areas within the Region into the outlying suburbs, and historic towns (Table 9.1 and Figure 9.1.)

### ***Economic Output***

In 2008 Gross Value Added (GVA) in the West Midlands was £94.5 million which is approximately 7.5% of the UK total, this is lower than the region's 8.8% share of the UK population; West Midlands GVA per capita in 2008 was only 85% of the UK rate per capita.

Before 2003 the manufacturing sector was the largest contributor to the region's GVA, however in 2003 it was overtaken by real estate, renting and other business activity which in 2007 accounted for 20m GVA compared to manufacturing's £15m. The next

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<sup>52</sup> Office of National Statistics 2006-based Subnational population projections; Migration Projections

<sup>53</sup> Office for National Statistics (2008 Resident Population Estimates)



largest sector is the wholesale and retail trade which is closing the gap with manufacturing as the second largest contributor to the region's GVA..

In 2003 GVA per employee in the West Midlands was £15,325. This placed the region seventh in the twelve regions and devolved administrations of the UK (Figure 1.3). It is a long way behind the East of England, South East and London, marginally above the North West and Yorkshire, but below the East Midlands, South West and Scotland.

In 2007 GVA per employee was £35,700 (10% lower than the current UK average). In terms of GVA per filled job and GVA per hour worked in 2007, the West Midlands ranks 8<sup>th</sup> and 9<sup>th</sup> respectively out of all UK regions and countries<sup>54</sup>. The £15 billion output gap with the UK in terms of Gross Value Added (GVA) per head is widening year on year. Growth in workplace based GVA per head grew 4.1% between 2000 and 2007, the lowest growth among all UK regions and countries. Figure 1.4. presents GVA trends by industry groups over the period 1989-2007. Recent modelling work<sup>55</sup> indicates that if current conditions continue this gap in productivity between the West Midlands and the UK as a whole is expected to increase over the next ten years.

Recent analysis<sup>56</sup> indicates that virtually every sector in the region by Standard Industrial Classification (SIC) definition has a lower than UK average level of GVA. Some of this productivity gap was shown to be related to the higher than average concentration of low productivity sectors, particularly in manufacturing. However the sectoral mix only accounts for some 30% of the productivity gap in manufacturing and around 5% of the gap in the services sector. This leads to the conclusion that attracting companies in high productivity sectors will not be enough to close the productivity gap. More recent work on the West Midlands post-recession economy<sup>57</sup> supports this view and emphasises the need both to attract companies in high productivity sectors and to upskill the workforce to facilitate this.

Figure 1.5 illustrates the urban/rural divide in terms of GVA per capita. It is perhaps not surprising that Solihull has the highest average GVA per capita, as well as the urban areas such as Birmingham and Coventry. However, the position of Warwickshire within the region has improved since 2003; the county now has the second highest GVA per capita of all NUTS3 regions in the West Midlands. Figure 1.6 demonstrates the marked differences in the trends of various parts of the region compared with the UK.

Birmingham is relatively stable, while Solihull has increased dramatically, from only 90%

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<sup>54</sup> ONS Productivity measures by Regions, 2010

<sup>55</sup> Future Prospects for the West Midlands Economy and Employment. Warwick Institute for Employment Research and West Midlands Regional Observatory. August 2006.

<sup>56</sup> Factors Influencing the Relative Performance of the West Midlands. Aston University Business School and West Midlands Regional Observatory. August 2006

<sup>57</sup> The West Midlands Economy Post-recession: Key Issues and Challenges. June 2010.

of the UK average to a level comparable with the South East of England. What is also noticeable is the significant declines in GVA per capita compared to the UK average that have occurred elsewhere in the region. Since 2003 the decline in Dudley and Sandwell and in Stoke has become steeper relative to the national picture. Equally, while Birmingham had shown a small increase in GVA between 1989 and 2003 relative to the UK, the picture for 1995-2007 shows a 5% decline.

Figures 1.5 and 1.6 highlight a disturbing trend, in that productivity in the areas with the lowest levels of productivity have declined further in recent years to 2007, while only Solihull and Warwickshire have improved productivity compared with the UK average. However, all these figures are strongly affected by the increased prevalence of commuting across the region which means that increasingly many people especially in the better-paid jobs do not live near to where they work. If this trend continues the region will face a growing 'doughnut' effect with major structural problems increasing in its older industrial areas.

### ***Income***

There are intra-regional variations in earnings by residence across the region (Table 1.2). These partly reflect the structure of local economies. However, these figures are misleading as they do not take into consideration intra-regional commuting patterns.

In 2009 the median<sup>58</sup> gross annual income in the West Midlands varied between £30,544 (Bromsgrove) and £21,238 (Stoke-on-Trent) (Table 1.2). The areas of Stoke and the Black Country exhibit the lowest average annual income, with Wyre Forest seeing a decline on 2007 of 2% in annual income and Newcastle-under-Lyme a decline of 3%. By contrast Warwick, Lichfield, Wychavon and Redditch saw double-digit increases in median income over the same period. Table 1.2 indicates that higher annual earnings were not confined to the urban areas, suggesting that wealth is spread reasonably evenly around the region.

The number of LSOAs in the 10% most deprived nationally under the income domain grew in the West Midlands from 468 in 2004 to 491 in 2007. Sandwell and Birmingham saw the biggest increases in the number of SOAs experiencing income deprivation. None of the SOAs in the bottom 10% nationally were defined as being rural.

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<sup>58</sup> Median earnings, rather than mean, are preferred for earnings data as the figures are less influenced by extreme values and the skewed distribution of earnings data. The median value is the value below which 50% of employees fall.

## ***Environment***

As a former major manufacturing, energy-intensive region the West Midlands faces significant challenges as it seeks to adjust to a low carbon economy. The following data illustrates the extent of the challenge.

In 2007, the West Midlands emitted 44 Mt of Carbon Dioxide (CO<sub>2</sub>). This figure was the sixth highest level of CO<sub>2</sub> emissions of the English regions in 2007. The level of CO<sub>2</sub> emissions per capita has declined between 2005 and 2007 across all regions. However, the West Midlands had the lowest reduction (same as Greater London), only 1.3 per cent.

In the West Midlands, the industrial and commercial sector makes the highest contribution to the region's CO<sub>2</sub> emissions (40.7 per cent). The domestic sector contributes 28.3 per cent of the region's emissions. Finally, road and transport is responsible for 30.2 per cent of the CO<sub>2</sub> emissions in the region. Overall greenhouse gas emissions from industries decreased between 1998 and 2007; most industries in the West Midlands are less polluting than they were in 1998. The only exceptions were transport and communication, and construction, where emissions grew by 2.5% a year on average.

In comparison with last year, the West Midlands reduced its CO<sub>2</sub> emissions by 1.5 per cent. In addition, the two main sectors (industrial and commercial and domestic) achieved a slight reduction on their emissions. The road transport sector on the other hand, increased its level of emissions. In 2008 the West Midlands generated 697 GWh of electricity from renewable sources. This is the fourth lowest across the English regions. The lack of a coastline represents a clear disadvantage for the region making the generation of electricity from offshore wind farms and wave sources impossible.

There has been a step change in both public and political recognition of the importance of this environmental challenge. The publication of the Treasury's report on climate change by Nicholas Stern has been followed by the UK Government's Climate Change Bill. At its Council meeting in March 2007, the EU heads of state reached an agreement on a binding 20% energy efficiency savings target for 2020 and a binding 20% target for renewable energies in overall EU energy consumption by the same date. This Operational Programme seeks to embed both the philosophy and practice of a low carbon economy in its proposals. A low carbon economy is one where businesses deliver their products and services while, at the same time, they reduce their level of carbon emissions. Key findings from recent research into opportunities and constraints from a low carbon economy<sup>59</sup> include that

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<sup>59</sup> West Midlands Regional Observatory 'Low Carbon Economy in the West Midlands.' March 2010

- The low carbon economy can deliver opportunities across a wide range of business sectors, not just to those seen as being in the 'traditionally' environmental technologies sector.
- Sectors with clear opportunities in the West Midlands include: Non-metallic mineral goods; Automotive & transport equipment; Metals & metal products; Construction; Environmental Goods & Services; Food & beverages; Transport, storage & communications; and Public services.
- Businesses can benefit from the low carbon economy in two ways: diversify into new low carbon products or become more efficient in their current processes (decarbonise).

### **2.1.2 Deprivation**

The UK Government published Indices of Deprivation (IMD) in 2004 and 2007. These are measures of deprivation for every Lower Super Output Area (LSOA) and local authority district (LAD) in England. They combine a number of indicators across seven domains into an overall deprivation score and rank at both SOA and LAD levels.

The 2007 IMD shows five of the West Midlands' local authorities are in the top 50 of authorities with the highest proportion of LSOAs in the 10% most deprived. There were 521 LSOAs in the West Midlands that were in the 10% most deprived nationally, up from 474 in 2004. Birmingham has the 9th highest proportion nationally with 39.63% of its LSOAs in the 10% most deprived. The five in the top 50 (with national ranking in brackets) are:

- Birmingham (9th);
- Stoke-on-Trent (14th);
- Sandwell (17th);
- Wolverhampton (33rd);
- Walsall (45th).

These five were also in the top 50 in 2004. 13 authorities had an increased proportion of LSOAs in the 10% most deprived between 2004 and 2007. Table 1.3 shows the geographic distribution of the changes over this period. The main increases in overall deprivation have come in the urban, with Birmingham, Dudley, Sandwell, Walsall and Wolverhampton witnessing the biggest changes. There are also smaller pockets of

deprivation outside big cities and towns in places such as South Shropshire, Wyre Forest and Cannock Chase. (Figure 1.7, Figure 2.15)

### **2.1.3 Interaction of Drivers of Productivity**

Recent detailed analysis on the drivers of productivity in the West Midlands<sup>60</sup> concluded with the following text describing how the key factors interact in such a way as to partly explain the gap between productivity in the West Midlands and that of the UK as a whole.

"It seems reasonable to infer that the productivity gap is determined to a large extent by the identified weaknesses in skill and innovation inputs, and by the consequent interactions between the different drivers of productivity. Importantly, the review of the data on the drivers of productivity has also suggests that deficiencies are particularly concentrated in the indigenous SME sector in the West Midlands".

A potential interpretation of this process is represented diagrammatically below. This does not purport to be a complete description of every part of the process; rather it is intended to introduce a logic model whereby the different drivers interact in determining overall productivity performance in the region. It should be remembered, for example, that the weaknesses and key driver elements highlighted here vary in their scale and relative importance across the various sub-regions within the West Midlands: for example, several rural counties in the region which have low and relatively declining levels of productivity (Shropshire, Herefordshire and Worcestershire) also have relatively high levels of qualifications and enterprise<sup>61</sup>.

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<sup>60</sup> Factors Influencing the Relative Performance of the West Midlands. Aston University Business School and West Midlands Regional Observatory. August 2006

<sup>61</sup> It seems likely that this is to some extent a result of the pattern of residence versus employment in these counties

## INTERACTION OF PRODUCTIVITY DRIVERS IN THE WEST MIDLANDS

A **low skills base** and **low R&D investment** both contribute to **limited absorptive capacity** (i.e. the ability of firms to absorb and use technology generated internally or externally) of local firms, which in turn limits the ability of local firms – particularly SMEs – to be **innovative**.

**Low R&D** also directly results in relatively low **innovations levels**.

The **low skills base**, and especially aspects such as **moderate graduate retention and low demand for graduate skills**, discourages enterprise: although the region has reasonably high firm formation rates, they tend to be firms with relatively low levels of **innovation** and **productivity**.

Relatively **low innovation rates** among SMEs both directly leads to low productivity, and also contributes to a moderate **export performance**, which has a two-way relationship with **productivity**.

The **low skill base** may also directly contribute to **low productivity** by constraining the ability of firms to boost productivity and growth.

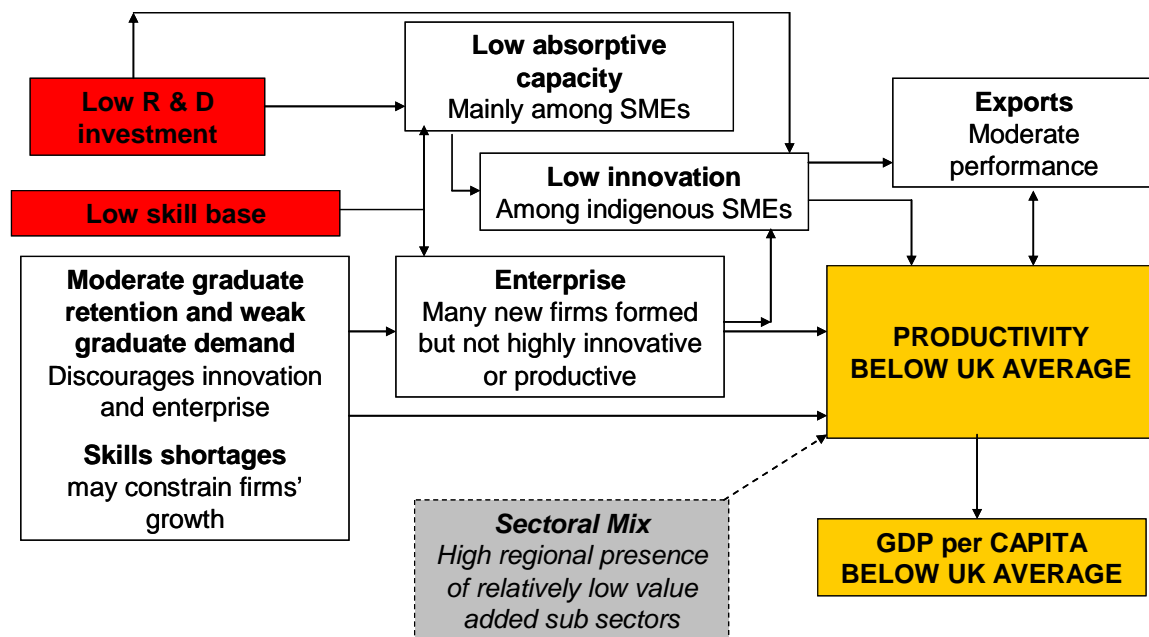
An **unfavourable sectoral mix** leads directly to productivity levels below the UK average.

**Low productivity** leads directly to **regional income (GDP per capita)** below the national average.

Each of the factors described above is covered in more detail elsewhere in this socio economic analysis.

- Interaction of Productivity Drivers in the West Midlands

## Interaction of Productivity Drivers in the West Midlands



Source: *Factors Influencing the Relative Performance of the West Midlands*. Aston University Business School and West Midlands Regional Observatory. August 2006

### 2.1.4 Policy Implications

- The West Midlands is a major economic region with a population larger than many EU member states. The population of the region overall is stable though the rural population is growing at the expense of urban and better-paid workers who are leaving the core urban areas. Can the RCE address this issue?
- The region has the highest non white population of any English region outside London. This is especially concentrated in its urban core. The region's ethnic diversity may be viewed as a competitive advantage in a global economy, and the young age profile of BME groups also has important implications for future policy.
- Economic Output (GVA/head) is below the UK average and though it is predicted to increase, this growth will continue to be slower than UK average. There is a clear related problem of below average productivity. Both issues need to feature prominently in RCE proposals
- The West Midlands has a higher than average share of people living in areas which are among the worst 10% in terms of the UK government Index of Multiple Deprivation (IMD). Relatively poor performance in skills, living environment, income and employment contribute to this ranking. The RCE Programme will need

to consider how to address this issue which is concentrated in the region's two major urban areas.

## 2.2 Employment

### 2.2.1 Overall and Sectoral

In the year to June 2009, the employment rate for the West Midlands was 70.5% compared to the overall UK rate of 73.2%. Closing this gap would make a significant contribution to the region's output deficit. Employment rates vary significantly across the region, as detailed in later sections, from 60% in Sandwell and in Birmingham to 79.5% in Herefordshire.

As figure 2.1 shows employment in the service sector in the West Midlands far exceeds that in manufacturing, accounting for over three-quarters of total employment in 2008. Public administration (27%), distribution, hotels and restaurants (24%) and banking, finance and insurance (19%) all employed more people in the Region than manufacturing (13.3%). Despite this, manufacturing in the West Midlands continues to employ a significantly greater share of people than the national average of 9.5%.

Between 1998 and 2008 the broad industry sector which experienced the most dramatic loss in employment was manufacturing (Figure 2.2). During these 10 years, manufacturing employment in the West Midlands declined by 41%, from 555,000 to 325,000. In the same period, employment in distribution, hotels and restaurants increased by 3% (though this is a decline from a peak in 2004); banking, finance and insurance services by 23%; and employment in public administration, education and health by 25%, as people moved away from traditional production industries into the growing service sector. This shift in employment demonstrates flexibility within the region's workforce.

The highest concentrations of unemployment in the region are in Birmingham and the Black Country. Unemployment in the rural areas tended to be concentrated around the main towns, including Cannock, Bromsgrove, Kidderminster, Stafford and Rugby.

Research by the West Midlands Minority Business Forum<sup>62</sup> and the West Midlands Regional Observatory<sup>63</sup> reveals that ethnic minority groups as a whole have an

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<sup>62</sup> Ethnic Minority Regional Economic Data August 2004 and Ethnic minority businesses in the West Midlands: A review Monder Ram and Trevor Jones July 2009

<sup>63</sup> Employment and black and minority ethnic groups in the West Midlands Briefing paper WMRO, February 2010



employment rate of 54%, 20 percentage points lower than the white population in the West Midlands (74%) A national report<sup>64</sup> also found this general trend to be true with white groups having higher employment rates than ethnic minorities at all qualification levels. Furthermore, qualification attainment among some minority ethnic groups is lower than for other groups, increasing further their chances of worklessness.

On a longer timescale (Table 2.2) in 1994 the average claimant count<sup>65</sup> for the region was 246,199 (7.7% of the working age population). By 2005 this had fallen to 94,922, 2.9% of the working age population; these falls occurred in all parts of the region, though the decline was most marked in the shire counties. By 2009 the rate had risen again, to 5.3% of the working population, or 174,382. The rise has been region-wide, and claimant rates remain highest in urban areas of the region, but the scale of the rise has been most significant in the shire counties

### **2.2.2 Forecast Changes**

Over the 1998-2008 period employment overall increased by just 30,000 (growth of 2% which compares to an increase of 19% across the UK as a whole). Recent analysis<sup>66</sup> of the West Midlands economy forecasts net growth over the period 2010-2015 of only 5% (11,000 new jobs). Figure 2.3. shows the sectoral breakdown of jobs projected to be created or lost between 2010 and 2015. This revised forecast is in contrast to estimates made in 2006<sup>67</sup> that predicted that total employment in the region would increase by around 88,000 by 2015.

Manufacturing employment is projected to continue to decline to 2010 (by some 6,200 jobs net of replacement demand), notwithstanding growth in manufacturing output as a result of productivity improvements and a significant need to replace the ageing workforce in this sector. This decline is almost 'across the board', though niche categories together with high technology sectors are likely to account for any net increases in employment. Employment in motor vehicles is also expected to increase by 4,500 by 2015<sup>68</sup>.

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<sup>64</sup> National Audit Office (2008) 'Increasing employment rates for ethnic minorities'

<sup>65</sup> Claimant count is lower than the ILO definition of unemployment as it includes only those people who are claiming unemployment related benefits. The ILO definition includes all those who want to work, are available to work, and are actively seeking employment and some of these may not be eligible for, or may choose not to claim, the benefits.

<sup>66</sup> The West Midlands Economy Post Recession: Key Issues and Challenges. WMRO. June 2010

<sup>67</sup> Future Prospects for the West Midlands Economy and Employment. Warwick Institute for Employment Research and West Midlands Regional Observatory. August 2006

<sup>68</sup> Cambridge Econometrics forecasts prepared for WMRO, March 2010

Employment in all other manufacturing sectors is projected to either remain static or decline, with substantial reductions in electrical engineering and instruments, and mechanical engineering.

Substantial employment growth can be expected in wholesale and retail, business and professional services, and, to a lesser extent, construction and ICT& Telecoms. The main employment growth is predicted to be in retailing (+18,400), construction (+7,900) as well as computing services, other business services and professional services. Employment in banking and finance and hotels and catering is expected to grow by 3800 in each of these two sectors. Public administration employment and employment in education is projected to decline.

Consumer services (broadly, distribution, hotels & catering) are of increasing importance to the region in terms of generating a broad range of job opportunities. Lower value added private sector activities are an important source of jobs for people with fewer skills and can play a key role in reducing worklessness and economic and social deprivation.

Importantly, whilst analysis of net requirements for labour over the period suggests future job opportunities across the entire skill spectrum will rise as a consequence of replacement demand, the future employment projections for the region strongly suggest a profound shift towards the need for a more highly skilled and qualified workforce, with comparatively fewer opportunities likely to arise for those without skills or qualifications. Already, employers are struggling to address skills gaps through recruitment from the labour market due to a lack of applicants with the appropriate skills. While these shortages have reduced due to the recession, in 2009 15% of jobs remained unfilled due to skills shortages<sup>69</sup>. This data is analysed more fully in the Skills section (2.7) but it has major implications for the West Midlands. It shows the continued depth of transformation that is required to shift major parts of the region from the culture and mindset of the previous era when unskilled and semi-skilled jobs were readily available in both large and small manufacturing.

The first five years of this century saw a rise of 42,000 in the number of people within the region registered as self-employed. This partly reflects changes in the nature of the modern economy especially the impact of the IT revolution and a trend among sections of the younger population and some women to see potential career opportunities in setting up their own businesses. The growth of the creative industries sector is one indicator of this trend. Since 2004/5 the number and proportion of people registered self-employed has remained relatively stable at approximately 8% of the working age

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<sup>69</sup> The West Midlands Economy Post Recession: Key Issues and Challenges. WMRO. June 2010

population (Nomis Annual Population Survey, June 2010). Recent data<sup>70</sup> shows that, whilst self-employment amongst males is close to the national average, amongst women it is lower than in virtually all the other regions of the UK. Young people too have lower rates of self-employment in the West Midlands than nationally and the limited data available suggests that the same is true of most minority ethnic groups.

### **2.2.3 Economic Inactivity and Worklessness**

In 2009 there were 979,000 workless people – people not in employment – in the region accounting for 30% of the working age population. This group is made up of 260,000 unemployed people and the remainder are economically inactive. People who are economically inactive include those looking after a family/home, people who are sick and disabled, students, and those who are early retired and so is much broader than unemployment, which just includes people who are actively looking for work and available to start work.

Levels of worklessness vary across the region from 40% in Birmingham to 21% in Herefordshire, compared to an English average of 27% (APS, July 08 to Jun 09). The relative proportion of unemployed and economically inactive people making up the workless population varies between authorities. Levels of unemployment tend to be higher in the urban areas of the region. Unemployment has increased across the region due to the economic recession.

In order to get a picture of the levels of worklessness in the region it is also informative to consider the numbers of people receiving out-of-work benefits. The figures in table 2.3 detail the levels for 2009. For example:

- 7.3% of the Region's working age population received Incapacity Benefits/Employment and Support Allowance, compared to 6.7% for England.(year to Aug 2009); and
- 4.9% of the West Midlands working age population were in receipt of Jobseekers Allowance, compared to 3.6% for England.
- 2.2% of working age people in the West Midlands are claiming Income Support for Lone Parents, compared to 2% in England.

If we rank all 761 of the West Midlands' 2003 CAS (Census Area Statistics) wards by their Job Seekers' Allowance rates in April 2010, we find nineteen wards with rates more

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<sup>70</sup> Enterprise Report 2: Benchmarking start-up business activity. December 2009. WMRO Enterprise and Innovation Research Team

than twice the regional average of 5.3%. (Table 10.3). Wards in more rural authorities tend to be in the minority in the upper part of the list.

In all of the out-of-work benefits the West Midlands has a slightly higher than national average percentage of its population claiming. As with many other indicators this pattern varies across the region with higher levels in the more deprived areas.

Annual Population Survey data shows that 18.7% of the working age population in the West Midlands has a long-term health problem or disability, compared to 17.9% across England. (July 08 to Jun 09). These figures are broadly in line with the picture painted by the 2001 census.

#### **2.2.4 Policy Implications**

- Employment in the region has historically been dominated by manufacturing. Major losses in this sector since 1980 have been largely compensated by growth in employment in services and the public sector.
- The pattern of growth in service employment and overall shrinkage in manufacturing employment is predicted to continue with a clear shift away from unskilled employment. For the region this means that the need to upgrade and up skill both the present and future labour force is an absolutely urgent priority. The ERDF and ESF programmes need to consider this issue in an integrated manner.
- Unemployment has increased recently due to the recession for the region as a whole, and remains above the national rate. The region also has higher than national average rates of worklessness. Individuals from BME groups, those with no qualifications and people with a long-term health problem/disability all have above average levels of worklessness. How can this Programme stimulate increased economic activity in these areas of greatest need?
- What role can self-employment and the encouragement of new business formation play in improving the region's economic activity?

## 2.3 Competition

### 2.3.1 International Trade

A full picture of International Trade in the West Midlands is not possible, since reliable figures for exports of services (or outward investment) are simply not available at a regional level.

However, estimates suggest that trade in services is likely to be around two thirds that of trade in goods. More reliable figures do exist for trade in goods. Recent analysis<sup>71</sup> shows that in terms of the value of exports the performance of the West Midlands economy has improved from 2003 to 2006, increasing from £13.36bn to £17.15bn. However, since then, despite some fluctuation, the value of exports have fallen to £13.59bn in 2009. (Figure 3.1)

The West Midlands' share of UK exports has fallen between 2003 and 2009, from 7.10% to 6.04%. Apart from London, this is the biggest decline of any region. However, the West Midlands still ranks sixth in terms of the proportion of exports.

Whilst not directly comparable to SIC codes, some regional export data is available by sector. In 2009, exports from the West Midlands' were estimated to be £13.59bn putting it above only the North East, South West and Yorkshire in terms of total exports, and roughly comparable with the East Midlands. (Figure 3.3). The manufacture of transport equipment remains by far the largest export sector in the West Midlands. In 2009, it accounted for £7.7bn, 57% of the regions' exports (Figure 3.4). Although much of the regions car production has previously suffered (e.g. Peugeot, MG Rover) this shows the importance of the remaining car companies (Jaguar Land Rover) to the West Midlands. Comparing this sector with other regions, the West Midlands performs well but not outstandingly (Figure 3.5). Despite being the most dominant export sector in the West Midlands, manufacturing of transport equipment only accounts for 9.9% of the UK total. Whilst the third highest region in the UK behind the East Midlands and the South East it has fallen notably from 2006 when the region accounted for 14.8% of UK exports in the sector.

The West Midlands is over-dependent on three key markets: 20% of the region's exports go to the USA; 10% to France; and 8% to Germany. Whilst it will be important to

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<sup>71</sup> Factors Influencing the Relative Performance of the West Midlands. Aston University Business School and West Midlands Regional Observatory. August 2006

maintain the regional position in these markets, efforts will also be needed to develop business in the enlarged EU and emerging new markets.

### 2.3.2 Business Specialisms

The West Midlands has a strong heritage as the manufacturing heartland of the UK with particular strengths in the automotive, motorsport and aerospace industries. The concentration of jobs in high value added consumer products is higher in the West Midlands than elsewhere in the UK and the region also boasts a fast-growing service sector, and the largest concentration of professional firms outside London. New technologies for the medical and media sectors are crucial elements of the business base. Although small, employment in Environmental Technologies is above the national average, and this is the sector with the largest GVA per employee, with over £130,000 per employee. Despite its low levels of employment, the sector accounts for some 6% of regional GVA, nearly £4 billion, and the region has around 12% of the national total output. Growth rates have matched the national average in recent years but are higher than most other sectors at 13% per annum in the three years to 2006<sup>72</sup>. This diverse regional business base is reflected in the West Midlands Economic Strategy.

Since 2001, the West Midlands Economic Strategy has adopted a cluster-based approach to the delivery of regional economic growth in line with policy at national level<sup>73</sup>. DTI defines clusters as concentrations of competing, collaborating and interdependent companies and institutions connected by a system of market and non-market links. This implies a focus on supply chain linkages and also specialist infrastructure in terms of finance, research, services, and labour market. The region's ten priority clusters were identified based on their strength and their positive potential to create jobs and economic growth.

Cluster	Definition	Why chosen	Firms (2008)	Employees (2008)
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<sup>72</sup> First Steps in Measuring Regional Innovation. Baseline sector analysis and the Innovation Dashboard November 2009. WMRO

<sup>73</sup> Opportunity For All In A World Of Change joint DTI and DfEE White Paper 2001

Cluster	Definition	Why chosen	Firms (2008)	Employees (2008)
<b>Transport Technologies</b>	Commodity metal and polymer component manufacture, metal processes/treatments, electrical/electronic/mechanical sub systems manufacture, vehicle manufacture.	High concentrations of activity centred on volume manufacture of motor vehicles. Opportunities for focusing on higher value-added goods based on new technologies and in luxury cars, motor sports and materials to improve products and product design. Technology transfer opportunities between different transport modes and also in use of new materials to lessen environmental impact.	3,674	92,347
<b>Building Technologies</b>	Commodity materials (cement, timber, etc), commodity manufactured products (tiles, bricks, sanitary ceramics), sub-assemblies (fire alarms and other safety, mechanical lifting and handling equipment, electronic sensors), equipment/tooling manufacture/hire, design/professional services, construction services.	Significant concentrations of activity especially in north of the region associated with commodity materials and low value-added metal goods and ceramics. Need for modernisation. Shift from low value-added commodities to higher value-added systems, with scope to build on developments in materials such as polymers and recycling. Significant force for change in relation to urban regeneration and the transformation of the image of this region.	32,532	221,641

Cluster	Definition	Why chosen	Firms (2008)	Employees (2008)
<b>Food and Drink</b>	Agricultural commodities supply, primary produce processing, secondary processing, wholesaling, distribution, food-processing machinery	Employment growth recorded in cluster. Consumer tastes and concerns over food safety are key drivers. Both create opportunities for value added through, for example, innovations in prepared ethnic foods and organics. Significant force for change in rural areas through a strengthening of supply linkages.	2,804	58,182
<b>Tourism and Leisure</b>	Attractions, accommodation, catering, public realm management, information services, intermediary services, catering, supplies, leisure goods, presentational arts.	Significant employment growth potential - although highly concentrated in certain parts of the region around specific types of product. Potential for expansion of heritage-related, business and sports-related tourism.	17,627	192,010
<b>Interiors and Lifestyle</b>	Tableware ceramics, jewellery, crystal glass, leather goods, clothing, carpets.	Longstanding concentrations of traditional consumer product industries in older urban core. Also craft-based production an important component in some rural economies. Key influence played by design and marketing in the development of a future for these industries around improved value-added opportunities. Process efficiency improvements important in sustaining volume manufacturers.	2,643	25,749



Cluster	Definition	Why chosen	Firms (2008)	Employees (2008)
<b>Business and Professional Services</b>	Legal, accountancy, market research, management consultancy, general business services, advertising, general research.	Significant forecast employment growth centred on Birmingham City Centre. Need for an adequate supply of skilled workers. Focus on specialist activity such as intellectual property rights and construction.	25,047	109,192
<b>Information and Communication Technologies</b>	Hardware manufacture, hardware consultancy, software, database management, associated components, associated wholesale, telecommunications.	Significant national growth and historic regional growth. Significant presence in software especially in southern part of region around Coventry, Solihull, Warwick. Recent successes in hardware but from a low base. Significant mobile investment opportunities. Incubation opportunities associated with region's universities around photonics, nano-technology.	9,723	65,588
<b>Environmental Technologies</b>	Environmental products, environmental services (utilities), specialist consultancies, energy production technologies.	Significant economic growth potential worldwide led by global concerns over climate change, diminishing resources and waste management. Diversification opportunity related to skills available within region and technology transfer from existing sectors. Identified by recent DTI work as a regional cluster.	1,628	35,065
<b>Education and Entertainment Media</b>	Recorded media manufacture, media production, distribution, content developers, specialist business services, content creators	Nucleus of highly successful, internationally competitive production companies, including firms focusing on the under-5s market. Strong skills base from traditional broadcasting industry.	1,785	9,444

Cluster	Definition	Why chosen	Firms (2008)	Employees (2008)
<b>Medical Technologies</b>	Polymer/metal components, electronics/ electromechanical sub-assemblies, medical instrumentation, pharmaceutical production, wholesaling.	High rate of growth but from a low base. Full role played by the medical market place on regional industry is understated, given the role played by industries supplying multiple markets, e.g. polymers. Higher education based investments demonstrate a potential for spin-off activity. Opportunities for diversification. Major training region in medical schools and the University of Central England (UCE) for the NHS.	400	7,283

Although the term 'cluster' describes a common delivery mechanism, they vary in scale, scope and context. Recent evaluations of the clusters<sup>74</sup> evidenced how each is at a different stage of development, thus requiring a tailored set of interventions as set out in their respective cluster business plans. Firms working within Transport Technologies, HVACP and medical technologies all face intense competition from low cost economies, hence key objectives for these clusters are fostering innovation, achieving higher value added and providing assistance in securing new markets. Technology and innovation are of lesser priority within the Food and Drink; Tourism and Leisure; and Professional Business Services clusters, where emphasis lies on effective promotion of the regional offer, and ensuring access to the right skills for the clusters to develop. Screen Media and Medical Technologies, as the two embryonic clusters, are the smallest, and the cluster mechanism provides a means for focusing on well targeted opportunities for development, and new and innovative routes to market. The region possesses a strong base in Environmental Technologies, with particular strengths in renewable energy and aspects of waste management. Environmental Technologies is identified within the ten regional priority clusters and has the potential to be a key driver of growth and source of employment in the future. Significant market opportunities are identified relating to renewable energy technologies, recycling and waste management and clean and waste

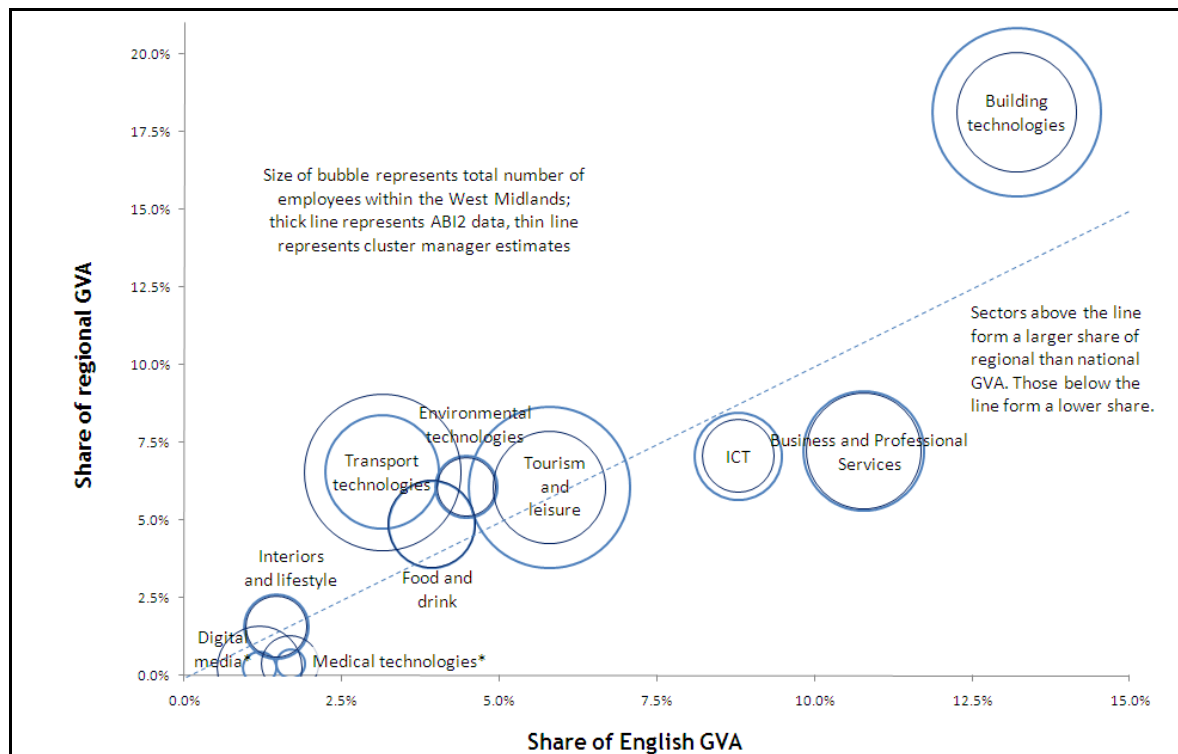
<sup>74</sup> Evaluation of the Key Delivery Mechanisms - Advantage West Midlands. GHK in association with CSK Strategies. September 2006; First Steps in Measuring Regional Innovation Baseline sector analysis and the Innovation Dashboard November 2009. WMRO; Regional Skills Assessment 2009: skills issues in key business clusters, WMRO

water management. In turn these developments are driving demand for both specialist technical skills and a range of more generic/transferable skills.<sup>75</sup>

In 2005, the regional Innovation and Technology Council identified five priority themes which cut across the ten business clusters and offer potential for significant growth through innovation. The five priority themes for innovation are, health and medical technologies; energy; advanced materials and nanotechnology; digital media (and ICT); and transport technologies.

Recent evaluations of clusters attested to their strategic added value, concluding that the economic need for clusters as delivery mechanisms was well established in the majority of cases and that in aggregate they have contributed to the leadership capacity and capability necessary for economic development.

### Sector Contributions to GVA and Scale of Employment, 2006



Source: *First Steps in Measuring Regional Innovation Baseline sector analysis and the Innovation Dashboard* November 2009. WMRO. Note: \* Estimates for these sectors significantly understate their true size (GVA and employment) due to the limited coverage of the SIC-based definitions used.

<sup>75</sup> Environmental technologies skills review: key findings, issues and recommendations. WMRO, October 2009

Despite its relative decline, manufacturing is still of central importance to the regional economy, continuing to be a major provider of jobs, and the largest wealth producing sector. It is predicted that this centrality will continue. However, manufacturing will continue to be vulnerable to further employment decline, especially in lower productivity component parts of the sector, due to competition from lower cost economies. Modernisation of lower value manufacturing sectors and diversification into new areas of manufacturing is therefore recognised as a key priority challenge in the West Midlands Economic Strategy.

### **2.3.3 Policy Implications**

- The region's share of the UK total of exports has been rapidly decreasing as its former manufacturing base has eroded. Its exports remain overly dependent on machinery and transport equipment. The new programme needs to help the diversification of the region's export base and provide focused support for trade development with new products into new markets and wider business exchange programmes.
- Enterprise support focuses on ten priority business clusters selected on the basis of regional strengths and growth potential. How can the Programme strengthen their overall impact and value to the regional economy?

## 2.4 Enterprise

### 2.4.1 Business Stock

Data from the BIS Enterprise Directorate Analytical Unit shows that in at the start of 2008 there were 364,635 businesses in the West Midlands with combined turnover of £216bn (Table 4.1). Of these firms, over two-thirds had no employees, i.e. were either self-employed individuals or partnerships with no employees, accounting for 14.9 per cent of employment but only 7.7 per cent of total sales (Table 4.1b/c). Small firms with between 1 and 49 employees accounted for 28.5 per cent of firms and around 33 per cent of employment and just over 29 per cent of sales, with medium-sized and larger firms accounting for only around 0.7 per cent of firms but more than half of all jobs in the region and over 60 per cent of sales. At this level of aggregation few significant regional differences are evident, although the West Midlands has the highest proportion of small firms in the country but a concentration of employment in larger firms with 250 plus employees. TableS 45.1 and 4.2 provide a more dynamic picture of the trend in employment and the stock of firms in the West Midlands between 2005 and 2008. In terms of the number of new firms the results are promising as the West Midlands has seen an increase in its firm stock during this period of 11,235 firms which has boosted the share of small and medium employers (1-49). However, this has been accompanied by a loss of employment of around 31,000 people predominantly in large employers. The trend in the region over this short period has therefore been towards an economy increasingly dependant on smaller firms, with larger employers providing a lower proportion of all jobs.

### 2.4.2 Start Ups

Figure 4.1 gives business formations and cessations as a proportion of the stock of businesses in the West Midlands and the UK as a whole using new business demography statistics. In general terms the business birth rate in the West Midlands both follows the general UK pattern but has become increasingly lower than the UK average since 2006 The rate of business deaths has followed the UK average very closely over the period. Combining these two trends it is evident that the region's business stock is growing at a slower rate than the UK..

There is a spatial dimension to start up rates in the West Midlands. The key urban areas tend to have lower levels of firm formation (Table 10.4). The urban areas also have lower levels of enterprise in general.. However, areas of multiple deprivation within the West Midlands have an average density of just 32-38 start ups SMEs per 1000 adults while areas such as Stratford (62) and Warwick (59) are above the UK average.

An analysis of the VAT registration by sector over the ten years to 2004 revealed that the largest growth in the region was been in real, estate, renting and business (1,640 new registrations) with expansion also evident in construction, hotels and restaurants, and transport and communications. There were significant losses in manufacturing (-590) and public administration (-600). (Table 4.3). However, the new business demography figures do not permit analysis by sector at a regional level.

### ***Self Employment Rates***

Whilst vital in understanding the dynamics of the economy, official start-up statistics do not cover all enterprising activity. Self employment data helps provide a more holistic picture. Figures from the Annual Population Survey show that in the West Midlands the level of self employment has been historically below that of the UK (Figure 4.2). The most recent (2008) data shows that 11.9% of those in employment were self employed which accounted for 286,300 people.

### ***Attitudes to Enterprise***

Another useful source for benchmarking the level of enterprise activity in the West Midlands is the Global Entrepreneurship Monitor or GEM. This is an international study of entrepreneurial activity conducted by surveying a proportion of all households in an area. This provides an indication of the proportion of the population engaged in entrepreneurial activity at the time of the survey. Recent GEM analysis in the West Midlands comes from a report commissioned by Advantage West Midlands.<sup>76</sup> The key outcome from the GEM survey is a Total Entrepreneurship Activity (TEA) index based upon individuals' involvement in enterprise activities during the previous 42 months (as a manager or owner of a business). The TEA rate for the West Midlands in 2005 was 5.4 per cent which again puts the West Midlands in the middle of the UK regional distribution in terms of overall levels of entrepreneurial activity (Figure 4.3, part a). Further analysis suggests that levels of female entrepreneurial activity are much lower than that for males across each of the UK regions although the distribution of regional TEA rates for males and females are relatively similar. For the West Midlands, a male TEA rate of 7.5 per cent in 2005 compares to a female rate of just 3.3 per cent. In terms of male entrepreneurship, the West Midlands is again in the middle of the UK regional distribution (Figure 4.3, part

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<sup>76</sup> Harding, R. and Cowling, M. (2004) *West Midlands Regional Entrepreneurship Monitor: United Kingdom 2004*, London Business School: London.

c), but for females the situation in the region is weaker, with the level of female entrepreneurship closer to the bottom of the UK regional table (Figure 4.3 part b).

GEM provides some other information on the reasons for individuals to be involved in enterprise which might help to explain the West Midlands pattern of enterprise activity. In Table 4.3 Total Entrepreneurial Activity is divided into that due to 'necessity' (i.e. have to start a business due to unemployment etc) and that due to 'opportunity' (i.e. where a business is started due to a perceived opportunity rather than because of unemployment). For males the profile of reasons for being involved in enterprise activity is similar in the West Midlands to that in most other regions apart from London, the South East and East of England. For women the pattern is slightly different with notably lower levels of necessity entrepreneurship compared to most other UK regions.

Another issue which is of particular interest for the West Midlands is the level of ethnic entrepreneurship. Here regional comparisons are complicated both by the very different importance of ethnic minority populations in each UK region but also by the relatively small size of ethnic minority samples in most national surveys. Additionally, no data is available on the ethnic background of those registering businesses.

However, a substantial evidence base has been gathered by the West Midlands Minority Business Forum in recent years, which sheds more light on Minority Ethnic Entrepreneurship in the West Midlands.<sup>77</sup> In the case of Indians, Pakistanis, Bangladeshis and Chinese, self employment rates actually exceed those of the white British majority in the West Midlands, though rates are declining among second generation ethnic minority adults. Black Caribbeans and Africans display the lowest levels of self-employment. These regional patterns mirror national trends, although it is of note that self employment rates for each BME groups in the West Midlands is below their equivalent elsewhere in the UK. Moreover, analysis of this data by sector reveals concentrations of different BME groups in certain lower value added areas of retailing (particularly South Asian people, Bangladeshi and Chinese people) and transport (notably Pakistani people). In recent years several communities have experienced an entrepreneurial transition in which human capital, including education, acculturation, and expertise is used to move from traditional sectors into less labour-intensive mainstream markets with higher returns. These non-traditional sectors include financial services, IT and consultancy. Much of this transition is associated with the British born generations of minority ethnic groups. A more nuanced approach to enterprise support for minority ethnic groups is now being advocated which combines the promotion of sectoral diversification alongside more effective engagement strategies.

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<sup>77</sup> Ethnic Minority Regional Economic Data August 2004; Ethnic minority businesses in the West Midlands: A review Monder Ram and Trevor Jones July 2006; Ethnic minority businesses in the West Midlands Trevor Jones, David McEvoy and Monder Ram Minority Ethnic Enterprise Centre of Expertise, Oct 2009

## 2.4.2 High Growth Sectors

### 2.4.3 Supply of Finance

In 2001, two reports were commissioned by the Regional Finance Forum to identify gaps in the regional supply of finance which were acting to constraint business development and growth.<sup>78</sup> The reports suggested that there are a number of gaps in the provision of finance, including a lack of early growth equity funding opportunities up to approximately £250,000 for SMEs in the Region, loan finance for working capital requirements, particularly between £1000-40000, bridging finance, and loans finance for Ethnic Minority Businesses.

The reports were used to develop an “Access to Finance Framework” which set out the actions to be taken to improve Access to Finance for SMEs and formed the basis of identifying priorities for the use of ERDF funding under Measure 1.13 of the 2000-2006 West Midlands Objective 2 programme. Actions have progressively been implemented via joint private and public sector initiatives and clear benefits have been secured.

During autumn 2005 the Access to Finance Framework was reviewed to see if the original framework required updating in the light of experience and changing circumstances. This review concluded that, whilst significant progress had been made, there remain significant barriers for Small and Medium Sized Enterprises (SMEs) wishing to access the finance they need to grow and develop, ranging from a lack of knowledge of what different types of finance are available and what circumstances they are designed to meet, through the risk aversion of banks and other traditional sources of finance, to the difficulty in raising relatively small amounts of risk capital of up to £2 million.

In terms of the importance of access to finance a recent review<sup>79</sup> of ethnic minority businesses in the West Midlands reported that studies have repeatedly shown that ethnic minority businesses face particular problems when raising finance. There is an ongoing debate on whether this is attributable to ‘business related’ or ‘race-related’ processes. However, there is little doubt that underfunding of EMBs is still one of the most significant factors inhibiting ethnic minority businesses. However, it is not just an issue of finance. The findings of one study on African-Caribbean businesses highlighted a range of issues including the critical role of individual business advisers to the take-up and utility of

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<sup>78</sup> Access to Finance: Opportunities and Constraints for Business Development and Growth in the West Midlands Deloitte& Touche, 2001. Improving Access to Finance for Small and Medium Sized Enterprises

<sup>79</sup> Ethnic Minority Businesses in the West Midlands: A Review. Monder Ram and Trevor Jones. July 2006



business support; the importance of providing training and mentoring packages for business advisers; the need for long-term funding for organisational stability and the retention of business advisers; and the link between community-based support and broader agendas of economic inclusion

#### **2.4.4 Policy Implications**

- Levels of enterprise activity in the West Midlands are broadly in the mid-range of UK regions both relative to the population of the region and the stock of existing firms, with a narrowing gap between start-ups in the region and the national average.
- Two equal opportunity issues stand out. Firstly, female entrepreneurial activity is relatively weak compared to other regions. Secondly, data from the GEM study suggests, that ethnic minority populations in the West Midlands are 'less active' in terms of enterprise than their counterparts in other UK regions. Both are issues which the Programme needs to address
- The uneven geographical spread of new firm formation has important policy implications for the enterprise support element of the programme
- Although significant progress has been made, significant barriers still remain for Small and Medium Sized Enterprises (SMEs) wishing to access the finance they need to grow and develop. The Programme needs to make a distinctive contribution to address this issue.

## 2.5 Innovation

### 2.5.1 Employment in Innovation / Knowledge Based Business

In the West Midlands, employment in medium and high technology manufacturing as a percentage of all manufacturing employment is higher than the UK average and has been consistently so for the last decade (figure 5.1). However the same analysis for just high tech manufacturing (Figure 5.2) shows the West Midlands behind the UK average, indicating that the majority of the West Midlands manufacturing employment is in medium and lower value technologies. The proportion of West Midlands employees working in knowledge intensive services has grown continually over the last decade. However, the region is still below the national average.

### 2.5.2 Business Involvement in Innovation

The Community Innovation Survey (2004-2006) indicates that the West Midlands has the lowest level of innovation active firms, above only the North East and London (Figure 5.5a). However, the region is on par with the rest of the UK, but somewhat below the leading region, the East of England.

One area of innovation where the region performs well is the proportion of businesses introducing novel products. The West Midlands has the third highest proportion compared to the national average.

### 2.5.3 Investment in R&D

Adopting an industry approach helps to explore whether the decline in R&D spending in the region relative to England as a whole is due to industry mix. In Table 5.1 we therefore compare business R&D spend per employee by industry in the West Midlands and UK as a whole in 2003 and 2004. Overall, levels of R&D expenditure per employee in the West Midlands were 66 per cent of the UK average in 2004; 48 per cent in manufacturing and 70.2 per cent in the broadly based services sector. In general terms, however, there is only one sector – transport equipment – in which R&D per employee was higher in the West Midlands than the UK average. The implication is that levels of R&D spending in the West Midlands are below average for the UK both in aggregate and in almost all individual industries.

The pattern of innovation and R&D in the West Midlands can be further analysed by comparing it with the UK as a whole and with other UK regions. As a starting point, Figure 5.6 compares the level of R&D investment (as a percentage of regional value added) to that in England over the 2003 to 2008 period. Investment levels compared to England have remained below the national average but the gap has closed slightly from a dip in 2005.

Among English regions, levels of R&D investment in the West Midlands were the fourth lowest of any English Government Office in 2008 (Figure 5.7), with levels of investment in the West Midlands (0.94 per cent) having risen since 2004 to above those in the North East (0.8%), Yorkshire and the Humber (0.5 %) and London (0.4%). These figures are more surprising given the importance of manufacturing in the West Midlands, a sector which tends to dominate R&D investments, but indicate improving performance against other regions.

Comparing the different elements of total R&D in the West Midlands to the English average emphasises the contrasts between different types of organisations investments. Among businesses in the West Midlands the trend in R&D investment compared to England as a whole reflects closely the regional situation (Figure 5.8), with investment falling from around 75 per cent of the English average in 1998 to around half by 2004. University R&D varied significantly less averaging slightly more than two thirds of the English average (Figure 5.9). Finally, Government R&D in the West Midlands fell from around the English average level during the late 1990s to reach around a third of the average English level by 2003 (Figure 5.10).

Comparing levels of R&D investment in the West Midlands to other English Government Office regions also suggests a relatively weak overall picture. In terms of business R&D expenditure, the West Midlands comes out 7th out of nine English regions below the North East but above Yorkshire and the Humber (Figure 5.11). Essentially similar results are obtained by comparing higher education and Government R&D with the West Midlands again coming out towards the bottom of the UK regional league table (Figures 5.12 and 5.13).

#### **2.5.4 New Products and Processes**

A key output of R&D investments, and an intermediate indicator in terms of innovation, is patent applications granted, the subject of Figure 5.14. For English regions again this gives the number of patent applications per ten thousand population – a general indicator of inventiveness. In 2008 the West Midlands had fewer patents granted than the national average, at 0.3 per 10,000 population – in this it sits in the middle of the nine regions.

Looking at the outputs of the innovation process, Table 5.2 compares the proportion of 'innovative active firms' in the West Midlands and UK by sector and plant sizeband based on the new 2005 Innovation Survey. Overall, over the three year period 2002 to 2005 55.5 per cent of West Midlands firms were said to be innovation active, 97.1 of the UK average rate. Marked differences were evident however between SMEs and larger firms with a higher proportion of innovators among larger firms in the West Midlands (74.4 per cent). Indeed, in a number of industries larger firms in the West Midlands actually had higher levels of innovation activity than in the UK as a whole. This was the case in food, electrical and optical equipment, transport equipment, construction and wholesale trades and transport and communications. Generally among SMEs the proportion of innovating firms in the West Midlands lagged behind that in the UK as a whole. The exceptions were SMEs in food, transport equipment and financial intermediation.

### **2.5.5 Business and HE/FE Collaboration**

There are 12 higher education institutions (HEIs) in the West Midlands: nine universities and three university colleges. In addition there are 34 further education colleges (FECs) teaching recognised courses of higher education. In total, there are 192,555 full person equivalent students studying on higher education courses (equating to 135,085 full time equivalents). Of these, 163,730 students are taught at HEIs in the region. There are also 11,345 students taught at FECs in the region, and 16,055 students who are domiciled in the region and are studying via distance learning.

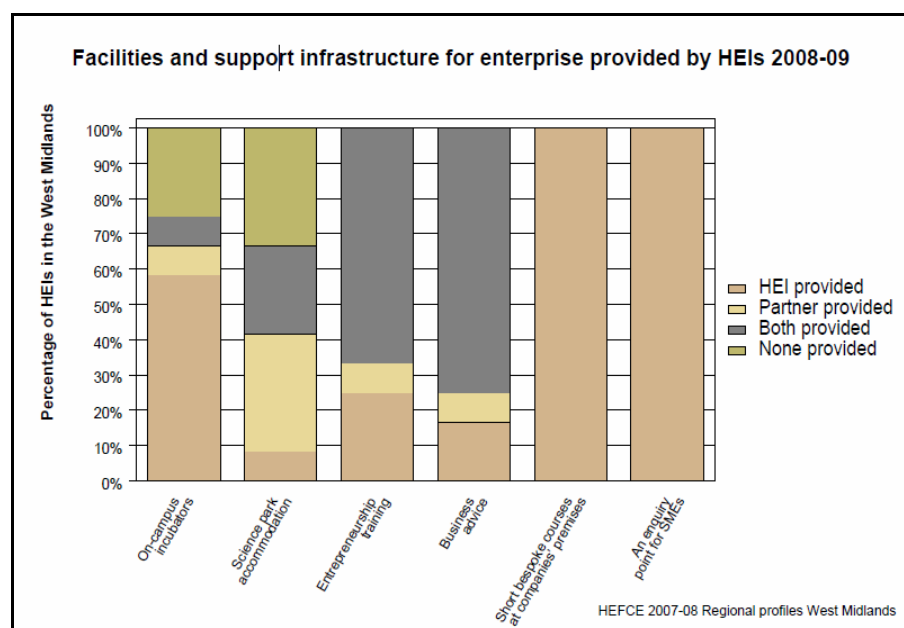
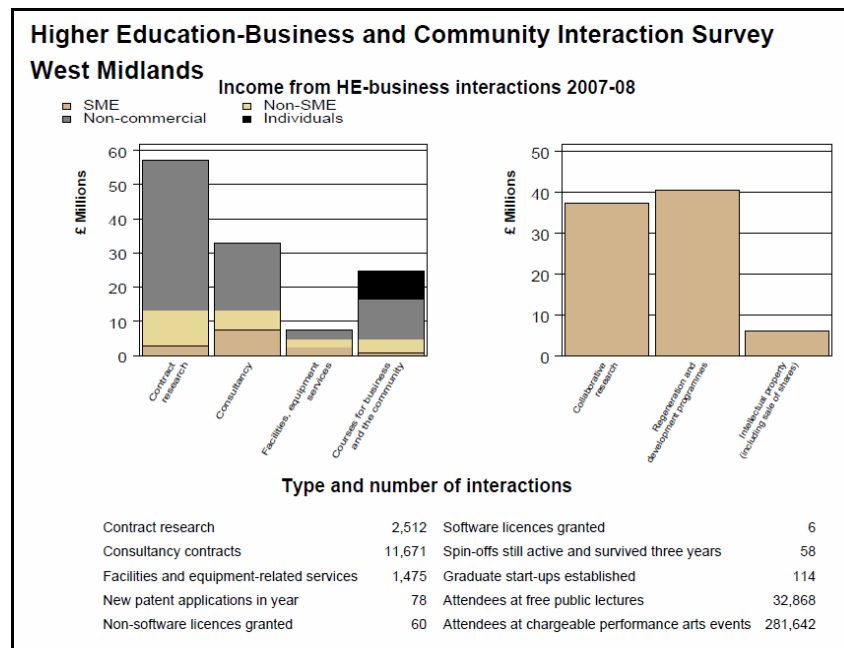
The total income of higher education institutions in the region was £1,636 million in 2007-08. Of this, 66 per cent came from funding council grants and tuition fees, 11 per cent from research grants and contracts and 23 per cent from other income.

HEFCE recurrent funding allocated to HEIs in the West Midlands totalled £527 million in 2009-10. Of this, 79 per cent was for teaching funding, 19 per cent for research, and 3 per cent for business and community engagement. Almost 80 per cent of the region's funding for research was allocated to two HEIs.

Most of the higher education provision is in the east of the region. The largest concentration is in the Birmingham and Solihull area, with three universities, two higher education colleges and seven FECs. The region has a strong performance in terms of the number of category A research active staff (from the 2008 Research Assessment Exercise (RAE)). The 2008 RAE showed that there were over 2700 category A research active staff in the region, Data from the 2005 UK innovation survey shows the positive effect that collaboration with HE/FE institutions has on a company range of products, market share, quality and value added. The region also contains a significant private sector research capability, such as part of the former defence research agency and

leading transport and materials research companies. The charts overleaf show the level of interaction of HEIs with regional businesses and communities.

Despite these assets however, analysis of the Community Innovation Survey (2005) reveals that the West Midlands performs poorly for innovative products as measured by the turnover from new products (Figure 5.15). It can also be seen that companies in the West Midlands cooperate less with private sources of innovation than those in the South East (Figure 5.16).



Source: HEFCE Regional Summary 2007/8

### 2.5.6 Policy Implications

- Levels of employment in high-tech manufacturing have continued to contract. More growth is evident in employment in knowledge intensive and high-tech services, although in both cases West Midlands' employment as a share of total services employment is below that in GB as a whole.
- Since 1999 investment in the West Midlands in the R&D which might underpin new innovation has declined in both the public and private sectors.
- The region presents a mixed picture on innovation. Levels of innovation activity are generally low in aggregate but notably stronger in manufacturing than in services relative to other regions. The region does well with regard to patent applications and in terms of the presence of sources of innovation. However levels of company turnover attributable to innovative products and interaction of companies with sources of innovation could both improve. These are crucial issues for the RCE programme to address.
- Similarly, there is a mixed picture on industry-academia linkages. Evidence from the Research Assessments and elsewhere suggest that there is substantial potential for the region to make more effective use of its intellectual talent and resources in the drive for economic diversification and renewal. A programme focussing on regional competitiveness should focus on this issue as a matter of priority.

## 2.6 Investment

### 2.6.1 Business Investment

Annual Business Inquiry (ABI) trend data for net capital expenditure in the West Midlands are available for the period 1998 to 2003 in money terms (i.e. not adjusted for inflation). Figure 6.1 shows that the overall level of investment in the region fluctuated slightly between 1998 and 2001 before falling markedly thereafter. The nature of the decline differs somewhat between manufacturing and services. Manufacturing – which typically accounts for 25-30% of business investment in the region – shows a steady decline over the period: in money terms, this represents a fall of 45% (from £2.2bn to £1.2bn) in six years. In services, the pattern is more erratic: the marked decline in investment (34% in money terms over the period) occurred almost entirely during 2002-03. By contrast, over the same period total net capital expenditure in the UK as a whole fell by just 7.7%.

ABI data also permits investment data to be broken down into that which is carried out by UK and foreign-owned enterprises. The pattern of investment overall is very similar for both sets of businesses over the period (Figure 6.2), with a much sharper fall evident in manufacturing than in services (Figures 6.3 and 6.4). It is worth noting that the steady decline in overall manufacturing noted earlier appears to come mainly from UK-owned enterprises.

### 2.6.2 Inward Investment

Figures indicate that between 1991 and 2010 the West Midlands received 1,530 Foreign Direct Investment (FDI) project successes, either new investment, expansions or acquisitions, creating 72,560 jobs and safeguarded a further 172,585.

In 2008/09 the Region had 115 investments out of a UK total of 1,744 (6.6%), creating 2,524 jobs from a UK total of 35,111 (7.2%). Historically, the West Midlands has performed well in terms of inward investments (Figure 6.5) although it is difficult to compare this region to other regions as comparable time-series data is not readily available but the West Midlands generally attracts between 6 and 12% of the UK total.

The level of FDI into the UK as a whole suffered a fall post 9/11 primarily due to the United States being the primary source of inward investment into the UK. There then followed a period of growth in project numbers albeit with reduced job numbers thus highlighting the trend for smaller firms employing smaller numbers of employees.

However, the effects of the global recession began to be seen in late 2008/09 and figures for 2009/10 will see the first falls in FDI numbers in the West Midlands since 2002/03.

The United States is by far and away the largest inward investor into both the UK and West Midlands. The US has been the source of 33% of all FDI's into the Region since 1991, although the proportion of investments from the United States has been falling from highs of around 40% of all successes to the present figure of 15% . The next three highest investing countries (Germany, France and Japan) collectively accounted for 30% of FDI with investments from Australia and India becoming more prevalent in the last few years.

Inward investment has tended to be split fairly evenly between the 7 former urban Metropolitan Boroughs and the 5 rural Counties with the majority just about tending to locate to the urban areas (55%). This trend has reversed in 2009/10 however with 38 investments in Birmingham, the Black Country, Solihull and Coventry, but 49 in Shropshire, Staffordshire, Warwickshire, Worcestershire and Herefordshire.

### **2.6.3 Stock/Availability of Business Sites**

In order to both attract new business and to allow existing business to expand it is necessary to have a supply of land available to develop. The Regional Employment Land Survey indicated that 216 hectares (ha) of land developed in 2005 in the West Midlands was classified as for employment purposes. Of the employment land released 71% was brownfield. In 2005 there was 3,328 ha of land classified as available for employment use in the region. West Midlands Regional Spatial Strategy monitoring data shows that in 2009 there were 2752 ha available (Regional Employment Land Survey 2009) and 69.5% of land released was previously developed land.

Figure 6.6 indicates both the number and geographical spread of employment sites across the Region. These are heavily concentrated in the major urban areas, Telford and some of the older industrial areas in South Staffordshire, Bedworth and Nuneaton.

Over the past two decades significant efforts have been made to develop brown-field land for employment use. Major sums of public expenditure have been invested in site clearance, land remediation, re-use of old industrial buildings and new business development.

Increasingly, this has been undertaken within a sustainable development framework where the activity is designed to remove environmental blight; concentrate on comprehensive packages of regeneration which can act as a catalyst for new economic activity; be accessible to public transport and close to areas of high unemployment; and



consequently reduce the pressures for encroachment on the Green Belt. Significant sums of EU Structural Funds have been deployed for these purposes in previous programmes.

The added-value of the use of brown-field land as employment sites in Structural Fund programmes has been analysed for national government.<sup>80</sup> The report notes that in UK programmes the environmental sustainability of some of the major employment sites which have been taken forward has been questionable, especially those which are green-field and located away from or on the periphery of urban locations.

Table 6.1 shows that there is a plentiful supply of regional strategic site priorities within the major conurbations and derelict land data shows an increase in regional reclaiming of derelict land between 2005 and 2008, particularly in Worcestershire, Stoke, Sandwell and Dudley. The area of derelict land in the Region is continuing to fall and in March 2009 was just over 2,140 hectares, of which over two-thirds is outside the Major Urban Areas. This represents a 33% fall in the derelict land area since 2001, and a 23% fall since 2006. In looking to the 2007-13 programmes the Regeneris report stressed that these sustainability factors need to be a major consideration in the decision to grant fund schemes. In the West Midlands a number of difficulties continue to hamper the development of these sites: they are often in multiple ownership; a number are contaminated and require time-consuming remediation; others are not easily accessible.

## **2.6.4 Transport Infrastructure**

The West Midlands Region is at the hub of the UK's motorway and railway network, making the regional transport infrastructure of national as well as regional importance. The Regional Spatial Strategy (RSS) identified modernising the transport infrastructure of the Region as a major challenge. One of the main aims of the WMRSS is to concentrate development within the region's MUAs and larger settlements where jobs and services tend to be located close to where people live, and therefore average trip lengths tend to be shorter. Whilst many of the region's new residential sites are being built in areas which have good public transport links, further work is needed to improve access to bus services with higher frequencies (20 minutes) in areas outside the Metropolitan Area

Car ownership in the West Midlands conurbation continues to grow (the number of licensed vehicles in the Region rising by 9.9% between 2001 and 2005) and increasing congestion is a constraint to the movement of traffic growth, particularly within urban areas, and especially at peak times.

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<sup>80</sup> Regeneris Consulting. The 2007-2013 EU Operational Programmes: Good Practice Guidance see especially pages 7-8.

The WMRSS Monitoring Report 2009 indicates that between 1998 and 2008, increases in traffic levels on the motorways and 'A' roads within the West Midlands were at the same level as those for England – each 9.0% respectively (Regional Transport Statistics 2009, Table 4.3 – Traffic Increase on Major Roads). Between 2001 and 2008, the Region experienced lower increases in overall traffic levels (7.1%) than England as a whole (7.8%). However prior to this (1999/01), traffic levels in the West Midlands had increased at a greater rate (2.1%) than national levels (1.8%). This indicates that since 2001, the West Midlands has been making progress towards limiting the demand for travel.

Calculations show that the average peak period speeds within the West Midlands Region are between 25-35mph on 'A' and 'B' class roads, faster than reported in 2008. Average motorway speed between the peaks was between 52-53mph, and shows relatively little change to data reported in 2008. On a positive note this suggests that journeys undertaken on motorways in the peak will be reliable.

Average delay of traffic for the entire Region indicated that 21% of the sampled road network had a delay greater than 30% of average free flow link time compared to 27% reported in 2008. In the Former Metropolitan Area 46% of the sampled road network was congested compared to just 14% in the Rest of the Region. Comparisons between the two years of data indicate that the average delay for the entire Region, the Former Metropolitan Area and the Rest of the Region has decreased, which suggests an improvement in levels of congestion. However, there are large variations between 2005 and 2006 data, which may be the result of increasing data reliability through more vehicles on the network being fitted with GPS. Until further data is available accurate conclusions are unable to be drawn.

DfT's annual Regional Transport Statistics 2009 suggests that in all regions, the majority of freight activity (goods moved and lifted) takes place within the Region. Similarly, the level of inward and outward freight movements is roughly in balance. A good indicator for measuring freight activity is 'goods lifted by origin of goods' In the West Midlands between 2001 and 2008 goods lifted by UK-registered HGVs in the Region increased by 12.7%, compared to a 10% increase across England as a whole. Whilst this shows an increase in freight handling from the baseline, it is lower than that reported for 2007 in both the Region (29.3%) and for England (18.4%). This could be due to a shift in mode due to the recent high fuel prices and a downturn in the market from the current economic recession. In 2008 61% of goods lifted by UK-registered HGVs in the West Midlands took place outside the Former Metropolitan Area. Comparable regional rail data is not available

Average delay of HGV traffic for the entire Region indicated that 23% of the sampled road network experienced delays and congestion. In the Former Metropolitan Area 50% of the sampled road network was considered congested compared to just 9% in the Rest of the Region. With regards to HGV road reliability, within the Former Metropolitan Area, 47% of the sampled road network was considered unreliable compared to 12% in the rest of the Region.

Congestion is economically, socially and environmentally damaging. Carbon emissions from transport in the West Midlands are higher because of higher than average car use.<sup>81</sup> Estimates from the West Midlands Area Multi-Modal Study model suggested that the annual cost of congestion in the West Midlands conurbation would increase from £2.3 billion in 1999 to £2.5 billion by 2006 if nothing was done. Congestion makes businesses less competitive, journey times less reliable and freight transport users report a lack of confidence in delivery times.

### **2.6.5 Investment in Workforce Training**

The proportion of companies investing in training varies by sector (Figure 6.7). Encouragingly, however, the proportion of the region's workforce being trained by their employer increased from 64% to 68% between 2007 and 2009 despite the recession<sup>82</sup>. At 11% the proportion of employers participating in the Train to Gain programme is above the England average of 11% and more than 90% are participating in or are aware of government funded apprenticeships. However it is notable that people working in the public sector are much more likely to be trained by their employer (91% in education, 88% in health & social care and 85% in public administration). In particular the proportions are far lower in traditional private sector industries such as engineering & manufacturing (60%) and in lower value added private sector activities such as hotels & catering (65%) and retail & wholesale distribution (62%). There is clearly still a pressing need, therefore to make the case for investment in skills to both employers and individuals.

There are some positive examples of links between the academic strengths of the region and its businesses, such as Knowledge Transfer Partnerships (KTPs). The purpose of KTPs is to help facilitate the transfer of knowledge and the spread of technical and management skills. KTPs are also designed to stimulate investment in training and

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<sup>81</sup>Counting Consumption in the West Midlands' Ecological Budget UK, West Midlands Regional Report WWF 2006

<sup>82</sup> The West Midlands Economy Post-Recession: Key Issues and Challenges. WMRO, June 2010

collaborative research and development. KTPs provide business based training for 12 to 36 months for research graduates intending to pursue a career in industry. These are part funded by a Government grant to the Knowledge Base Partner.

Another example is STEP (Shell Technology Enterprise Programme). This is a national scheme where second-year undergraduates undertake a work project for a local business during their summer break. The main aim of the Programme is to provide cost-effective solutions to business issues identified by small firms such as: niche market research; improvements to internal systems; and strategy development. The cost to companies for the Programme is subsidised through the European Regional Development Fund and Warwickshire County Council.

Another example is KITTS (Knowledge Innovation Technology Transfer Scheme) which comprises 10 academic partners within the West Midlands. This Programme involves Advantage West Midlands working together with the academic partners to match small and medium sized enterprises with suitably qualified graduates. Practical projects are suited to the needs of the firm typically last 10-12 weeks.

### **2.6.6 Policy Implications**

- Investment by business in the West Midlands has been falling since 1998, especially in manufacturing and particularly among UK owned firms. The Programme needs to consider how it can contribute to halting this trend.
- Availability of sites is important to new and expanding businesses. The region has promoted the use of brownfield land in urban areas and sought to overcome the blight cast over parts of the region by this industrial legacy. In light of the Stern Report and the imperatives to act on climate change a focus within this Programme on stimulating new economic developments within these areas is a priority.
- The region's traffic congestion problems are increasing and cause problems in terms of costs to business, environmental impact and external image. However, large-scale capital investments to tackle these matters lie outside both the policy remit and financial scope of this Programme. Smaller-scale interventions such as real time information systems may be considered.
- Business investment in training is low. However there are some positive examples of schemes designed to promote employers' demand for highly skilled workers and help retain graduates in the region. This ERDF Programme should consider how its activities can complement the activities undertaken by the national ESF Programme within the West Midlands.

## 2.7 Skills

### 2.7.1 Qualifications Attainment

In order for the economy of the West Midlands to continue to grow the workforce needs to be well educated and skilful. A simple measure of the level of learning and skills development in the West Midlands is to consider the highest level qualifications of the workforce (Table 7.1). National Vocational Qualifications (NVQs) are competence-based qualifications. They reflect the skills and knowledge needed to do a job effectively, and show that a candidate is competent in the area of activity the NVQ represents.

Compared to the UK, the Region has relatively low proportions of its workforce with qualifications at any level, and particularly at higher levels. The Region has the highest proportion of people with no qualifications of any region in the country, with sub-regional areas like Sandwell, Stoke on Trent, Walsall and Wolverhampton suffering particularly badly with non-qualified rates far above even the already-high regional average.

The patterns of comparison between the West Midlands and the rest of the UK are matched for higher level qualifications. For example, Level 3 (A-Level) attainment in the West Midlands is also well below average (Figure 7.1). While the stock of people of working age with no qualifications reflects perhaps 40 years of history, and in a similar way to manufacturing regions such as the North East, North West and Yorkshire, reflects low education participation, the A-Level data reflects the creation of basic human capital now.

#### ***Projections***

Projections<sup>83</sup> for the period 2006-2015 indicate that the broad pattern of occupational change in the West Midlands will continue. Figure 7.2 describes the changes in numbers employed over the period by sector.

The changing occupational structure of the region requires a change in the skill levels of the region's labour force. The decline in the number of elementary jobs – that is jobs for which only the minimum amount of schooling is required – is significant. In 1981, almost one in five (18%) of jobs in the West Midlands were of this nature and this was slightly above the UK average. Over the following 25 years the number of such jobs in the region halved, as has their share of total employment. This is particularly significant because the West Midlands has the second highest proportion of the workforce (after the North East) with no qualifications of any region. A particularly high proportion of older people, people

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<sup>83</sup> The West Midlands Economy Post Recession: Key Issues and Challenges. WMRO, June 2010

from minority ethnic communities and people living in deprived urban areas are likely to lack formal qualifications and have poor basic skills. These groups have, in the past, relied upon unskilled jobs and they may find their job opportunities diminishing in the future.

### **2.7.2 Basic and Core Skills**

The West Midlands has the second highest proportion of people with no qualifications of all English regions<sup>84</sup>: When one considers that the UK as a whole is well behind competitor countries on this measure, the situation in the West Midlands is clearly particularly serious (Figure 7.3).

This highlights a fundamental weakness in the West Midlands economy, namely that the region has a higher proportion of people of working age with no formal qualifications than any other region. More than one in six of the work age population have no formal qualifications including basic English and maths. With the decline in unskilled labouring and manufacturing jobs and the rise in the type of emerging skills needs identified by employers (Figure 7.4), including technical and practical skills, customer handling, problem solving, communications and team working, along with literacy and numeracy this places significant sections of the regional population at a severe disadvantage.

### **2.7.3 Intra Regional Patterns**

As with the productivity analysis, there are significant differences across the sub-regions. The urban areas are worst off: Sandwell, Stoke on Trent, Wolverhampton and Birmingham all have in excess of one fifth of their work-age population with no formal qualifications (Figure 7.5).

These data are strongly inversely correlated with the overall GVA figures. The sub-regions of the West Midlands that have the lowest levels of unqualified people also have the highest productivity rates. It should be noted, however, that the best performing sub-regions locally are only just below the English average in terms of unqualified people.

### **2.7.4 Graduate Retention**

Figure 7.7 illustrates the graduate retention rate across the regions of England. This data measures the proportion of graduates in a given region that then obtain employment in

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<sup>84</sup> There are some slight variations between the “raw” LFS data and the “adjusted data” – with the raw data the north east’s figure is reduced such that the West Midlands is the worse.

that region. The West Midlands has improved significantly compared with earlier years, moving from the second lowest amongst English regions, to above halfway.

Many of the graduates that are retained in the region do not enter graduate jobs, especially those in transport and communications, professional and financial services and hotels and catering. This under-use of human capital is by no means unique to the region, but may account for the low levels of service sector productivity, especially if it is accompanied by low levels of motivation amongst workers. The Regional Skills Assessment report<sup>85</sup> also highlights the number of graduates who left the region to work elsewhere in sectors such as professional and financial services. What is perhaps more surprising is the high percentage of graduates who entered manufacturing elsewhere.

Figure 7.8 shows the sectors in which graduates are employed in the West Midlands and the UK. It is clear that services and the public sector continue to dominate. The proportion of graduates employed in manufacturing remains very low both in the region and nationally. It is perhaps encouraging that the financial sector employs a relatively large number of graduates. Business and financial services are becoming ever more important to the region, so it is crucial that the jobs created are high skill jobs, attracting well qualified people. This contrasts somewhat with the pattern for the UK overall. Again not surprisingly education dominates, but to a lesser extent than in the West Midlands, and financial services are more than for the West Midlands. In general, public sector employment of graduates in the West Midlands is much higher than for the rest of the UK, with non-financial private sector services being much lower in the West Midlands than for the UK. Given the importance of the service sector both in the region and nationally this may be an issue, particularly in the context of the large productivity gap in services between the West Midlands and the UK average.

### **2.7.5 Skills Gaps/Recruitment Difficulties**

Although the demand for higher level skills remains relatively weak, it should be stated that skill deficiencies within the region's workforce (supply) are likely to represent a significant impediment to productivity, profitability and expansion. While the proportion of the regional workforce with skill deficiencies<sup>86</sup> reduced significantly from 14% in 2003 to 5% in 2005 (making the West Midlands proportion is now the third lowest of all regions), the region's relative position has now worsened; in 2009 the region had 7.5% of staff with skills gaps, the second worst position in the country<sup>87</sup> (Figure 7.9 and 7.10).

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<sup>85</sup> Regional Skills Partnership. Regional Skills Assessment. West Midlands Regional Observatory 2005

<sup>86</sup> Defined as being identified as not fully proficient in their role by their employer in the LSC National Employer Skills Survey

<sup>87</sup> LSC National Employer Skills Survey 2009

The proportion of the region's businesses who have staff with gaps in their skills has risen in recent years and is above the England average. Lower value added private sector activities such as hotels & catering and cultural, recreational and sporting activities and traditional private sector industries such as engineering & manufacturing have the highest proportion of staff with gaps in their skills. These issues are having a significant impact on business performance, leading to increased workloads for other staff, increased operating costs and problems in meeting quality standards and introducing new working practices<sup>88</sup>.

Many employers are struggling to address these skill gaps via recruitment from the labour market due to deficiencies in the skills of job applicants. The most common cause of these skill shortages is a lack of adequate technical and practical skills among applicants although many were also due to a lack of softer generic skills such as customer handling, written and oral communication and team working.

Encouragingly the proportion of the region's workforce being trained by their employer has continued to increase despite the recession. However it is notable that people working in the public sector are much more likely to be trained by their employer and the proportions are far lower in traditional private sector industries such as engineering & manufacturing and in lower value added private sector activities such as hotels & catering and retail & wholesale distribution

A recent audit of regional skills priorities<sup>89</sup> highlighted that, in particular, there will be a growing demand for skills in the following areas:

- Management and leadership skills, especially corporate managers across a wide range of sectors
- Professional skills in the computing and software sector, in parts of health and social care, in pharmaceutical and medical technology, in manufacturing (i.e. traditional and advanced), especially for STEM skills, and in teaching and research
- Technician and equivalent skills across many sectors, such as health and social care, utilities, chemicals, life sciences and pharmaceuticals, automotive engineering and broadcasting

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<sup>88</sup> Source: UKCES National Employer Skills Survey 2009

<sup>89</sup> Source: UKCES Skills Audit 2010 in Draft Regional strategic and investment skills priorities for 2011-2012: policy supplement (WMRO, June 2010)



- Intermediate vocational skills within sectors such as manufacturing, engineering, processing and construction associated with skilled trades as the current ageing workforce retires and emerging opportunities develop in some sectors and to support future demand at technician level
- The ageing population will lead to increased demand for care services with particularly significant volumes of staff in care assistant roles, that will need greater understanding of ICT to support care users with assisted living technologies
- Customer service and employability skills will be of growing importance to the service sector, including retailing as well as with after-service and maintenance roles in manufacturing and the digital economy

Nevertheless in the future significant employment is expected to remain in sectors traditionally requiring lower skilled jobs. These jobs are important as an entry point for many groups, notably those seeking to move out of unemployment. However many of these jobs will need up-skilling in order to make improvements in service/product quality and to meet changes in consumer demand. The tables overleaf demonstrate current and future employment sectors and the skills needs identified by local authorities in the region.

Forecasts for growth in GVA and jobs assume that a number of key investment sites across the region will successfully attract significant numbers of high value added businesses and skilled jobs to the region in the coming years. Research undertaken by the Observatory and Reiver 128 Ltd<sup>90</sup> reveals that the 16 sites where the most significant progress has been made can potentially make a significant contribution to driving economic growth, generating new job opportunities and raising the demand for higher level skills.

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<sup>90</sup> Source: Draft Regional strategic and investment skills priorities for 2011-2012: policy supplement (WMRO, June 2010)

**Local Authority Statements of Skills Priorities – Current Key Employment Sectors**

Sub-region	Local authority area	Current key employment sectors
Birmingham	Birmingham	High value added business & professional services, wholesale & retail, hotels & catering, low value added business services, public administration, education health & social care
Black Country	Dudley	Wholesale & retail, hotels & catering, low value added business services, public administration, health & social care, professional financial services and hi-tech manufacturing
	Sandwell	Engineering, manufacturing, construction, wholesale & retail, transport, low value business services, education, health & social care
	Walsall	Engineering, manufacturing, construction, wholesale & retail, low value added business services, education, health & social care
	Wolverhampton	Engineering, manufacturing, construction, wholesale & retail, low value added business services, public administration, education, health & social care
Coventry Solihull & Warwickshire	Coventry	High value added business & professional services, ICT, wholesale & retail low value added business services, education, health & social care and engineering
	Solihull	High value added business & professional services, ICT, engineering, manufacturing, construction, wholesale & retail, transport, education, health & social care
	Warwickshire	High value added business & professional services, manufacturing, wholesale & retail, hotels & catering, public administration, education, health & social care, transport, communications and other services
Staffordshire & Stoke	Staffordshire	Agriculture, wholesale & retail, hotels & catering, public administration, education, health & social care, business and professional services
	Stoke-on-Trent	Manufacturing, wholesale & retail, hotels & catering, transport, low value business services, public administration, education, health & social care
Herefordshire, Shropshire &	Herefordshire	Agriculture low value added business services, public administration, health & social care, distribution,

Telford		transport, communications, manufacturing
	Shropshire	Engineering, food & drink, wholesale & retail, hotels & catering, Public administration, education, health & social care
	Telford & Wrekin	Engineering, manufacturing wholesale & retail, low value added business services, health & social care, building technologies
Worcestershire	Worcestershire	Manufacturing, low value added business services, public administration, health & social care, banking, finance and insurance

*Source: Local authority position statements on skills priorities, May 2010*

### ***Future Growth Sectors and Skill Needs by Local Authority***

Sub-region	Local Authority Area	Key growth sectors
Birmingham	Birmingham	Health and social care, high value added business & professional Services, Retailing
Black Country	Dudley	Engineering, Low value business services, ICT, Construction, Distribution
	Sandwell	Construction, Wholesale & retail, Transport, Low value business services
	Walsall	Construction, Low value business services
	Wolverhampton	Manufacturing, Education, Health & social care, Wholesale & retail
Coventry, Solihull & Warwickshire	Coventry	Engineering, Business management and services, ICT, Distribution
	Solihull	High value added business & professional services, Construction and Building technologies, Engineering and Transport technologies, Engineering and Transport technologies, ICT, Tourism & leisure, Transport services
	Warwickshire	High value added business & professional services, Distribution, Hotels and catering, Transport, Communications, Public administration, Education, Health & social care

Staffordshire & Stoke	Staffordshire Stoke	Distribution hotels and catering, Financial and business, Transport, Communication, Construction, Health & social care  Healthcare, Low value business services
Shropshire, Telford & Wrekin	Shropshire  Telford	Low value business services, Construction, Wholesale & retail, Hotels & catering, Transport & communication, Public administration, Education, Healthcare  ICT, Low value business services, Health & social care, Building technologies, Tourism & leisure
Herefordshire & Worcestershire	Herefordshire  Worcestershire	Low value business services, Construction, Education, Transport, Healthcare  Low value business services, Construction, Education

### 2.7.6 Policy Implications

- The West Midlands has a high proportion of its workers with no skills and a low proportion with high level skills. A particularly high proportion of older people and people from ethnic minorities are likely to lack formal qualifications and have poor basic skills. These issues have a strong geographical dimension, being concentrated in the two major urban areas. Projections suggest that the future economy of the region will require higher skilled workers. These issues should shape the regional emphasis of the national ESF Programme. They should also influence the complementary elements of this RCE Programme, while strong management arrangements need to be put in place to ensure strong working relationships are maintained between the two programmes.
- Graduate retention and the diversity of sectors into which those who stay enter, could be significantly improved. Given the changes forecast for the regional economy and the urgent need to improve its productivity this is an issue which the Regional Competitiveness Programme needs to address urgently.

## 2.8 Environment and Attractiveness

### 2.8.1 Environment and Quality of Life

The legacy of the previous industrial era is still evident across the Region. The impact of the major de-industrialisation experienced by the West Midlands cannot be addressed within a short period.

The physical scars of the industrial era remain. Table 6.1 shows the considerable extent of derelict and unused land that remains in the Region particularly concentrated in the Black Country, Stoke and Staffordshire along with pockets of dereliction associated with industrial canals and old coalmining areas.

The geographical focus and concentration of derelict land becomes more evident when it is considered as a proportion of total land area. There are five local authorities where derelict land accounts for more than 1.0% of total land area.

These are all within the major urban areas in the northern half of the region. They are in ascending order, Wolverhampton, Sandwell, Walsall and Dudley in the Black Country, along with Stoke-on-Trent which has a proportion approaching 3%.<sup>91</sup> Tackling these concentrations of derelict land is one of the major issues evident from the recently published Black Country Study and the North Staffordshire Regeneration Zone Strategy.

The following sections provide a summary of the baseline environment and other data, not already covered that was presented in the ex-ante evaluation and Strategic Environmental Assessment (SEA) Scoping Study<sup>92</sup> for this Programme, updated where more recent data has become available.

#### ***Climate Change***

- Trends of increasing greenhouse gas emissions need to be reversed and over all emissions reduced;
- To be in line with the national target for tackling climate change - a 60% reduction in emissions by 2050 – the total consumption needs to reduce to approximately 33 Mt by 2020 and to 17 Mt by 2050.
- Energy efficiency and renewable energy needs to be promoted.

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<sup>91</sup> West Midlands Spatial Strategy 2005 Table QE2.

<sup>92</sup> Ex-ante evaluation and SEA for the West Midlands Regional Competitiveness and Employment Programme. Sinclair Knight Merz (SKM) for the Government Office for the West Midlands (GOWM). August 2006

### ***Natural Resources***

- Steady increase in waste generation though total municipal waste arisings in the West Midlands have reduced in recent years ;
- Reuse of previously developed land still a priority – the amount of previously developed land that is vacant and derelict has fallen steadily in the West Midlands.

### ***Transport***

- The West Midlands has one of the higher proportions of people travelling to work by car of the English regions, with 76% of commuters travelling by car in 2008. This was a slight fall from 78% in 2004. At the same time the region has one of the higher rates of bus use for travel to work with 13% of commuters using the bus. Overall public transport modal share has increased since 2000
- Modal share of public transport and other non car journeys needs to be increased.

### ***Air Quality***

- Air quality is an issue in the region and should not be compromised further by additional emissions.

### ***Biodiversity, Flora and Fauna and Nature Conservation***

- The proportion of designated sites in the region compared to the rest of the country is low; and
- Biodiversity in the region is rich, but needs to be protected and where possible enhanced.

### ***Landscape***

- There are numerous landscape designations which should be protected; and
- Green Belt land remains under threat from development.

### ***Cultural Heritage***

- Cultural heritage buildings are under continued threat from damage and loss; and
- Reuse of buildings may be economically viable.

### ***Health***

- 1 in 8 people of working age have a limiting long-term illness with Stoke, North Staffordshire and Sandwell being the areas most affected; and
- Light pollution is increasing in the region.

### ***Soil***

- Agricultural land is a key part of the region.

## **Water**

- Water quality compared poorly with the England average and remains at threat from nutrient run-off from agricultural activities;
- Some areas in the region are the driest in the country; and
- Approximately 6% of the area is at risk from flooding.

### **2.8.2 Policy Implications**

- The region has a large amount of contaminated former industrial land in its urban areas. The Programme offers an opportunity for the redevelopment of some of this land, which would also contribute to the wider sustainability goals of the Regional Economic Strategy.
- The need to reduce carbon emissions and move to a low carbon economy is an indispensable requirement if the Region is to make its contribution to the need to tackle the threat of climate change. The trends on commuting illustrate how difficult this will be. Can the Programme in its efforts to promote environmental technologies; energy efficiency; non car dependent development initiatives, etc. show the way in producing an economic programme that combines competitiveness with sustainability objectives?
- There are a number of other environmental issues within the region, such as a need to reduce waste, protect biodiversity, landscape and cultural assets, promote public transport and address flood risks. The Programme will need to address these as appropriate through its commissioning and bid appraisal processes.

## 2.9 Rural

### 2.9.1 Rural Issues

The rural areas form a significant physical element of the Region. The classified rural areas of the West Midlands cover about 80% of the total area. Approximately one-fifth of the population, live in rural areas – mostly in the 97 market towns and 2,300 villages.

Analysis of the rural areas of the Region shows their diversity of population and employment. The general picture of the rural West Midlands is one of a high quality of environment, low unemployment, expanding population, higher business start-up rates than in the major urban areas and its residents enjoying a higher quality of life.

Population growth is higher in most of the rural areas, with an average increase of 6.5% between 1991 and 2008, compared to 3% for the Region as a whole, alongside the steady decline in the major urban areas. (Figure 9.1 and Table 9.1)

The Region possess many areas of outstanding natural beauty and a fine cultural and industrial heritage. This gives it the potential to generate significant economic benefits through attracting people and business as well as leisure and tourism activities

However, there are pockets of deprivation, particularly in the western remote rural areas, where the economic structure tends to be less growth oriented, with a higher than average dependence on low value-added traditional sectors such as agriculture, related land-based activities and tourism.

The rural west - Herefordshire and west Shropshire - along with parts of North Staffordshire comprise some of the most remote and sparsely populated areas in England.<sup>93</sup>

There are high levels of economic activity and therefore low levels of unemployment in most rural areas. However, there are major issues such as underemployment, seasonality, low wages and too great a dependence on the declining sectors in particular the land based sectors. The existing economic base in a number of rural areas shows a higher than average number of low value businesses e.g. agriculture and hotels and leisure, and a below average number of knowledge intensive activities. In order to develop a robust and diverse economic base there is a need to enhance productivity and the number of high tech businesses to improve innovation and competitiveness.

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<sup>93</sup> For information here see A State of the Region Update Report 2005. Section 6. Rural Lives, Rural Issues



In order to support the development of a diverse economy in rural areas support needs to be provided for the development of new enterprises in sectors such as food / drink and tourism alongside the traditional agricultural sector. There is also considerable potential in the development of environmental technologies<sup>94</sup>.

Rural areas, especially in the more remote parts have a higher predominance of employees working in small businesses. Shropshire has a higher number of employees (27%) working in companies employing less than 10 people, compared to 19% in the West Midlands. Smaller businesses can be more vulnerable to economic forces and competition, and are less able to invest heavily in research and development.

The Regional Spatial Strategy<sup>95</sup> acknowledges the specific difficulties being faced by some of the more isolated rural areas in the Region, especially those with low densities of population which with the changing patterns of the rural economy suffer from “insufficient economic activity.”<sup>96</sup> As previously, the Programme will seek to address these distinctive issues.

The issues affecting the productivity of the region are relevant across the region to a greater or lesser extent. However there are a number which are of particular interest and relevance to the rural parts of the region. The Competition Section (2.3) of this Socio-economic Analysis highlights ten economic clusters within the West Midlands. Three of these – tourism and leisure; food and drink; and environmental technologies – are well-embedded within the rural parts of the region. These therefore offer major opportunities to lift the productivity and economic dynamism of rural areas, which the Programme has the potential to exploit.

One of the concerns is decreases in employment in agricultural industries and it needs to be borne in mind that these changes may be concentrated in particular localities and rural areas where the impact on the local community of even small job losses may be considerable. There is a continued aspiration of urban residents to live in rural areas, for example the Regional Lifestyle Survey<sup>97</sup> indicates that 35 per cent of people currently residing in major urban areas in the region aspire to live in the countryside or a village close to a town. Indeed, long-term sub-regional population projections suggest that the fastest population growth will be in rural parts of the region – particularly in more isolated areas. Between 1999 and 2004 rural areas received a net in-migration of over 9,000 people per year (Source: NHSCR). This in turn is driving up house prices and reducing

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<sup>94</sup> For more information, see WMRO's 2009 Environmental Skills review

<sup>95</sup> Regional Spatial Strategy (RSS). West Midlands Regional Assembly.

<sup>96</sup> Regional Planning guidance for the West Midlands Paragraph 3.3. p.13.

<sup>97</sup> Regional Lifestyle Survey. West Midlands Regional Observatory. 2005

affordability for those seeking to enter the rural housing market. However, since 2001 the Metropolitan county has regained some of the population lost to return to 1991 levels; even so, population has continued to grow at a faster rate in the Shire Counties (Figure 9.1). Patterns suggest that 18-24 year olds are still migrating out of the rural areas and this needs to be addressed to stop the future workforce reducing and skills and overall educational attainment falling.

Other issues of particular relevance to productivity, and within the scope of the RCE, in rural areas include:

- a need to diversify the economic base to include higher value-added, knowledge intensive activity; and
- a need to utilise and exploit broadband and other communications technologies to reduce the impact of distance on accessibility to markets and competitiveness.

The Region has been a beneficiary of other EU funds which have contributed to the overall development of its economy.

The largest EU contribution has come in agriculture where the Common Agricultural Policy has given significant funds to the region's farmers. The nature of CAP is changing and gradually there is a shift of EU budgetary resources to rural development.

Over the period from January 2000 to October 2005 West Midlands' shire counties received £21.5 million of EU grants under the rural development programmes to enable £49 million of rural project development (Table 9.2). The region's rural areas will be eligible for a similar programme during the 2007-2013 period. Its precise size is uncertain, though it is due to increase as 'modulation' calculations enable some further limited shift of resources from the CAP regime.

### **2.9.2 Policy Implications**

- The rural parts of the Region have pockets of poverty and lack of access to employment opportunities and services. There are a number of issues related to productivity which are either unique to, or more extreme, in rural areas. There will need to be specific elements written into the Programme to address the rural dimensions of economic development.
- One dimension of this will be to promote those economic clusters which are firmly embedded within rural areas of the region.
- Economic diversification activity will be carried out under the EU's Rural Development Programme alongside the Programme. It will be important to ensure that these activities are complementary and that there are sound management

arrangements to provide good working relationships between the two Programmes so that they achieve maximum impact.

## 2.10 Urban

There is a strong spatial dimension to almost every element of the preceding analysis. While there are growth points within the region's two major conurbations – defined in section 2.1.1 - it is evident throughout this socio economic analysis that the bulk of the region's problems are concentrated in these urban areas. Poor performance is apparent in indicators of social wellbeing, economic achievement and the quality of environment

### 2.10.1 Social Wellbeing

Poverty is heavily concentrated in the wards within these conurbations. This is apparent in the basket of indicators used to calculate the Index of Multiple Deprivation (IMD) (Section 2.1.2). There are 521 Super Output Areas (SOAs) within the Region, which fall within the most deprived 10% of SOAs within the UK. They account for 20% of England's 10% most deprived. The vast majority of these SOAs are to be found within the metropolitan conurbation and the Stoke-on-Trent Unitary Authority area (Table 10.1). The degree of multiple deprivation in both Birmingham and Stoke-on-Trent is particularly severe with more than 30% of the districts super output areas falling within the 10% most deprived category.

### 2.10.2 Employment

Manufacturing job losses have been most intense in the urban areas. In the last three years five of the top 22 worst hit local authorities in terms of manufacturing job losses are located in the West Midlands urban core (Table 10.2). These five were also within the top losers of manufacturing employment between 2001 and 2004, indicating a prolonged decline. Sandwell and Wolverhampton, however, which had lost significant numbers of jobs in the 2001-4 period, are now no longer within the 22 Councils with the highest manufacturing job losses. Unemployment is also most severe in the urban areas. This is evident in the material in Section 2.2 and the complementary table 2.1 which shows that all parts of the two major urban areas bar Solihull have unemployment above the regional average. This picture is reinforced by the evidence shown in Table 10.3. In April 2010 there were nineteen in the West Midlands with an unemployment rate more than twice the rate for the region as a whole. All of these wards are in the West Midlands urban conurbation. However the distribution of unemployment has changed since 2006 (though remains urban) – Table 10.3 contrasts the 2010 picture with the rankings of the same wards in 2006.

### **2.10.3 Enterprise**

This spatial pattern to economic development is also evident when enterprise is considered. The better-off, outer ring of historic towns and newer developments with plentiful greenfield sites are experiencing fast rates of new firm formation. In contrast, it is the older industrial areas within or on the fringes of the major conurbations where there is a low rate of new firm formation (Table 10.4). These urban areas also have lower levels of enterprise in general. Amongst the Region's 290,000 small and medium enterprises there are on average 50 for every 1000 adults. However, areas of multiple deprivation within the West Midlands have an average density of just 30 SMEs per 1000 adults while Birmingham, Coventry, Nuneaton and Bedworth, Stoke, Telford and Wolverhampton average just 20.<sup>98</sup>

It is noticeable here that both Stoke-on-Trent and Coventry figure prominently within this data set, although they are less severely affected by unemployment than Birmingham and the Black Country. For Stoke-on-Trent these low enterprise figures plus the high concentrations of multiple deprivation indicate a low wage economy unable to diversify and modernise its economic base.

### **2.10.4 Investment and the Quality of Physical Capital**

The chapter on investment indicated the geographical dimension to the stock and availability of sites and land in the region (Table 6.1). There are five local authorities where derelict land accounts for more than 1.0% of total land area. These are all within the major urban areas in the northern half of the region. They are in ascending order, Wolverhampton, Sandwell, Walsall and Dudley in the Black Country, along with Stoke-on-Trent. Tackling these concentrations of derelict land is one of the major issues evident from the recently published Black Country Study and the North Staffordshire Regeneration Zone Strategy. They represent a blot on the regional landscape and a reminder of the industrial legacy that still casts its shadow over the region. These concentrations of derelict land act as a deterrent to both new economic uses and to the wider environmental attractiveness of these areas.

### **2.10.5 Skills and the Quality of Human Capital**

The Skills chapter highlighted the difficulties facing the region as it makes the transition from an industrial to a knowledge economy. The Region's skill problems are especially

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<sup>98</sup> NEF and B.Nicholson 2003. Analysis and Need for Development Funding for CDFIs.

intense in the old manufacturing urban areas. For example the local authority areas of Stoke-on-Trent, Wolverhampton and Sandwell have almost a quarter of their population with no qualifications (Figure 7.5), though the situation has improved lightly in recent years. There is a more favourable situation with regard to qualifications evident in the shire counties (Table 10.5).

### **2.10.6 Environmental Attractiveness**

Against this background it is not surprising that the two major conurbations have been experiencing a population decline since the 1960s. This forms part of a pattern common across much of Europe of a decentralisation of the urban population with an increase in the population growth of smaller centres ringing the major cities and an enormous increase in commuting to work.

Table 9.1 and Figure 9.1 show the position over the last fifteen years. The rapid depopulation experienced by the conurbation from the 1960s-1980s slowed during the 1990s and now appears to have reversed, bringing population back to 1991 levels. However, the steady growth of the surrounding shire counties continues. The overall figures do not reveal the significance of migration, with significant numbers of economic migrants, legal immigrants, asylum seekers and refugees contributing to the stabilisation of the conurbation population during this period.

At the same time major cities such as Birmingham have benefited from the growth in student populations increasingly located in core urban areas. This is a feature noted in the recent State of the Cities report (2006) commissioned by national Government. While this report noted the positive changes occurring in many of England's urban areas, it also reported on the continuing pull of the rural idyll. The steady population growth of the shire counties confirm this observation.

### **2.10.7 Policy Responses**

It was the analysis of the above issues that was assessed in the Regional Spatial Strategy. It spoke of "the loss of investment, abandonment and environmental degradation in the major urban areas and increased development and environmental pressures in other parts of the Region. The dispersal of population and activities under-uses the social and physical resources of the major urban areas and contributes to unsustainable development patterns that lead people to make more and longer journeys, more often than not by private car"<sup>99</sup> hence its call for a fundamental change of direction.

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<sup>99</sup> Regional Planning guidance for the West Midlands Paragraph 3.2. p.13.

This is a viable strategy because many of the strengths of the region are present in the major urban areas. They have the highest concentration of businesses and enterprises alongside major universities. Birmingham is the economic heartbeat of the region. The metropolitan conurbation is home to many of the prime cultural assets which are so important to quality of place and attractiveness, while the past two decades have seen enormous achievements in the transformation of parts of the region's urban core. Yet, this remains unfinished business. Some of its benefits have gone to citizens who work in the urban core but do not live there. Most of Solihull has boomed with the new economy, while there has been a substantial renewal of parts of Birmingham and Coventry. Yet the heart of the Black Country and Stoke still await that wider change.

### **2.10.8 Policy Implications**

- There is a clear spatial dimension to the preceding socio-economic analysis. Many of the region's problems, such as poverty, high unemployment, low productivity and poor skills are concentrated in its major urban areas. This is such a persistent and pervasive phenomenon that it is incumbent on the Programme to address it in a focussed manner.
- The data shows that this is not a uniform phenomenon across the two conurbations. There are more prosperous, flourishing neighbourhoods particularly in parts of Birmingham, Coventry and the majority of Solihull. Therefore, the Programme will need to concentrate its efforts. In particular, it should strive to ensure that economic and employment opportunities are focussed so that those parts of the conurbations that currently gain little from the region's overall economic growth are able to benefit more in future. The Programme should seek to ensure that new employment opportunities are matched and closely linked to those living within areas of need.
- There is a clear need for major physical renewal and infrastructure developments in the northern half of the region's conurbations i.e. the Black Country and Stoke on Trent. These matters should be addressed within the constraints set by financial, regulatory and 'Lisbon' earmarking limits of the Programme
- Travel to work patterns and the presence of major leisure and cultural assets make the metropolitan conurbation of key significance to the economic and social well-being of the region as a whole. This needs to be taken into account in the formulation of the RCE Programme.

## 2.11 Lessons Learnt

### 2.11.1 Partnership

The last twenty years have been a period of rapid change for the West Midlands. Two particular elements have contributed to the Region's economic resilience. Firstly, there has been a widespread acknowledgement of the importance of all relevant agencies working together. Thus, local government, national and regional government agencies, business organisations and individual companies, the voluntary sector and further and higher education have increasingly recognised the need for close collaboration and partnership working. The development of a common West Midlands Economic Strategy (WMES) in line with the Region's Spatial Strategy has helped towards this objective. Indeed, EU Programme has been prepared with the consistent engagement of a wide range of partners and it is with their agreement that it is closely linked with the WMES.

The second crucial element has been the ready availability for more than two decades of European Union Structural Funds across large parts of the Region. These have played an important role in the Region's economic transformation, while their governance arrangements have helped the Region to develop its robust partnership arrangements. From the beginning, these EU Funds have made a vital contribution to the revitalisation of the region's business base, its skills and its physical conditions.

### 2.11.2 Diversifying the Regional Economy

Funds have been used to modernise existing industries and promote the wider diversification of the economy. Motor vehicles and ceramics are two examples where European resources have been deployed to equip traditional manufacturing sectors to respond to the challenges of globalisation, to improve their performance and to find new market niches. To give two examples: The Accelerate Programme has been designed to tackle the productivity challenges within the automotive sector supply chain, while the Hothouse Centre has worked to modernise the ceramics sector in the Potteries.

#### **Accelerate**

- Accelerate is a major public/private sector initiative dedicated to addressing the changing needs of the West Midlands' substantial automotive supply chain
- Drawing on the expertise of a wide variety of public and private sector partners, Accelerate works with the region's small to medium sized automotive companies to secure production efficiencies and best practice manufacturing techniques



- The initiative is managed by Birmingham Chamber of Commerce on behalf of Advantage West Midlands and is led by a partnership board of the region's leading automotive industrialists.
- It has been supported with ERDF through both the Objective 2 Programme and its predecessor.
- During the last decade, Accelerate has safeguarded more than 53,000 jobs across the region and assisted in excess of 3000 businesses, attracting significant investment through its engagement with the private sector.

With regard to developing new areas of economic activity the 2000-2006 Objective 2 Programme contributed over £2.5 million to the provision of 'grow-on' units at both Warwick Science Park and Coventry University Enterprises. Here, Structural Funds helped to ensure that new small businesses often in the growing IT and design sectors have the appropriate office space and facilities that will enable them to grow and remain within the city. In Herefordshire, the Programme funded high-technology growth for local rural and semi-rural businesses.

### **2.11.3 Increasing Business Collaboration with the Research Base**

Programme funds have been used to support a number of initiatives to improve the links between business and the research base. For example, Faraday Plastics which uses a process developed by the Warwick Manufacturing Group to identify innovative SMEs then develops close relationships with these companies, covering counselling, and knowledge transfer but also bringing them, where appropriate, into research activity constructed from the standpoint of SMEs. Funds were also used to support a 'Spin Out' initiative which encouraged the establishment of new companies drawing on the ideas and innovations of university-based researchers and scientists. The latest data shows that in the four year period between 2002-2005 73 new companies were established under this programme from universities across the eligible Objective 2 area. The types of activity vary but a very high proportion are in high technology and knowledge economy areas e.g. powdered metals, silicon wafers, stem cell development, and protein synthesis. Pristine Plus, detailed in the box below, is a further illustration of how ERDF has been used to improve regional competitiveness through investment in innovation:

#### **Pristine Plus**

- Operated by the North Staffordshire and Black Country Business Innovation Centre, Pristine Plus deploys Innovation Advisors to work with small scale

manufacturers, primarily from the automotive, ceramic and engineering sectors, to progress new and innovative ways of advancing product development.

- A combination of grants and innovation related workshops are used to remove the barriers to innovation
- Total project costs are £886,000 of which £294,000 is through ERDF. Other match comes from Business Link and SRB6

#### **2.11.4 Recycling Derelict Land**

Significant resources have been invested over several programmes in re-cycling derelict industrial land and under-used buildings to create jobs and to act as motors of economic growth. Previous regional programmes have adopted different approaches to this support. A significant step forward was made in the 2000–2006 Programme when the partnership chose to adopt a package approach to site development. Package areas<sup>100</sup> were identified at the beginning of the Programme on the basis of the co-location of significant need and opportunity. Coordinated provision was then targeted through the packages to enable deprived communities to benefit from capital investment. In this programming period, the focus has moved away from large scale land reclamation, although there will be some limited opportunity for small site development in urban areas under Priority 3. A package approach will again be adopted integrating site development with complementary actions to enable local communities to access the employment opportunities that arise.

#### **2.11.5 Embedding the Cross Cutting Themes**

Two cross cutting themes run through the heart of European funding programmes, environmental sustainability and equal opportunities. Projects funded through previous programmes have been encouraged to embed best practice in terms of both themes within the project development stage. The Eliot Park Innovation Centre (EPIC) in Nuneaton is a regional example of how the principles of sustainability can successfully be incorporated into new build:

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<sup>100</sup> There are 13 packages in the region. These are • Eastside, Birmingham, • Birmingham to Worcester A38 Technology Corridor, Birmingham, • The Arc of Opportunity, Black Country, • Future Foundations, Black Country, • Moving Market Confidence North, Coventry & Warwickshire, • Accessibility South, Staffordshire, • North Staffordshire Strategic Package, Staffordshire, • Burton: Creating Advantage, Staffordshire, • Oswestry Strategic Package, Shropshire, • Severn Valley Package, Shropshire, • South Shropshire Strategic Package, Shropshire, • Telford ERDF Package, Telford & Wrekin, • Herefordshire Strategic Package, Herefordshire

### **EPIC – Eliot Park Innovation Centre**

- EPIC is a multi-occupancy business development unit designed to accommodate and support small and medium-sized businesses in the innovation and knowledge-based industries
- Built on a former waste tip, it was the first new office space development in the Nuneaton area for twenty years. Where possible building materials were either reused on site or sourced as locally as possible.
- EPIC achieved BREEAM Excellent standards thanks to its excellent energy efficient design. The incorporation of such features as a Termo Deck which provides natural ventilation, and photovoltaic panels which provide renewable energy, enable the building to make in excess of 50% energy savings, producing less than 50% of a standard commercial office's carbon dioxide emissions. A butterfly garden is also under development.
- EPIC works with Bridges to Success to inform and encourage disadvantaged residents in the Coventry and Nuneaton Regeneration Zone to apply for the new employment opportunities created at the site.
- The project has provided 4,245m<sup>2</sup> premises on previously developed land and is projected to create over 300 new and safeguarded jobs.
- Total project costs were £7.2 million comprising £2.9 million ERDF, together with monies from Advantage West Midlands, and Warwickshire County Council.

Elsewhere, ERDF support helped to revive the grade II listed Bordesley Centre transforming it into a 'bridge to success' for more than 6,500 people of Minority Ethnic Communities in the wards of Sparkbrook, Sparkhill and Small Heath: three Birmingham wards where the unemployment rate is over twice the regional average (Table 10.3).

### **The Bordesley Centre**

- The project is run by a community-based organisation, the Mu'ath Welfare Trust, which has established a large sustainable service delivered through partnership with a range of statutory and voluntary organisations.

- The main focus is on: job matching, enterprise, education and training,
- The centre offers 1,200 training opportunities every year; placing individuals into employment; helping individuals into self-employment; and enabling local people to take advantage of the opportunities created by massive building projects, such as the Eastside development and other areas of the city and the region.

### **2.11.6 Linking to best practice in other European regions**

The achievements through the Objective 2 and 3 Programmes have been complemented by inter-regional co-operation in the fields of innovation, business, trade, and regeneration. Drawing down European funding through Equal, Interreg, the Framework Programme, Leader and Asia Invest, these projects have enabled strong international links and inter-regional networks for the exchange of learning and best-practice in the areas of most strategic importance to the region. ERRIN is an example of an inter-regional network led from the West Midlands.

#### **ERRIN - European Regions Research and Innovation Network**

- The European Regions Research and Innovation Network (ERRIN) is a Brussels-based network designed to help regional representations to participate fully and effectively in the European Research Area.
- ERRIN was established through support from the European Commission's Directorate-General for Research in the frame of the Regions of Knowledge Pilot Action Programme.
- From 2007, it has become a sustainable network hosting detailed information sessions with project marketplaces to facilitate partner building and project development as well as sectoral practitioner working groups, many of which correspond to current West Midlands' clusters.
- The West Midlands Region, through its Brussels-based representation (West Midlands in Europe), plays a leading role in the network and expects this network to contribute to an increase in R&D expenditure in the region over the Programme period.

The combined outcomes of the 2000-2006 investments will be significant. The Programme is worth £610 million and will lever in £2 billion of additional investment. To date the Programme is scheduled to create over 15,000 new jobs and to safeguard a

further 16,500. It has let contracts to assist over 4,000 business start-ups. The current Objective 3 Programme is worth just under £350 million. This, together with resources from the Objective 2 and the region's co-financing organisations has provided training opportunities and re-skilling programmes for large numbers of both employed and unemployed across the Region.

### **2.11.7 Policy Implications**

- The various public policy agencies in the region have developed a good working relationship and made genuine efforts to avoid duplication and promote additionality and complementarity. It will be important that this fruitful partnership working continues with the new programme and that there is a smooth transition to the new management arrangements.
- There has been a good level of success from schemes designed to link university research skills with businesses, albeit small scale and limited geographic scope. Can these be enhanced in the new Programme?
- The integration of capacity building activities alongside site development is important if the communities most in need are to benefit from growth achieved through the Programme
- There have been some genuine efforts to promote sustainability in the work funded to date, notably through schemes to reclaim brownfield land and with a limited number of best practice demonstrator sites. Environmental sustainability should be an important attribute of the Programme
- The West Midlands already has good experience of learning from exchange with partners across Europe through active inter-regional networks, such as ERRIN and RURIPOLITAN; and established international links, such as with Lower Silesia. These will provide a good platform for future inter-regional cooperation.

## 2.12 SWOT Analysis

The following table seeks to summarise the strengths, weaknesses, opportunities and threats to the West Midlands based on the evidence presented in this section.

SWOT Analysis		
Strengths		
Strategic Issue	Underpinning Evidence	Strategic Implications for the ERDF Programme
Certain areas of the economy, as identified in the ten business clusters, are well placed to exploit regional strengths and emerging market opportunities to create wealth and employment	Sectoral GVA data	With limited resources it is important to focus economic activity on these growth sectors in the RCE
High ethnic diversity is an economic asset. Many BME communities normally display high enterprise rates and a number have close connections with some of the fastest growing areas of the world's economy.	Population data. GEM data which shows that West Midlands BME communities have lower enterprise rates than counterparts elsewhere in the UK	Support members of the BME communities to optimise their entrepreneurial potential
Birmingham as the UK's second city, acting as the pivot of the regional economy.	Both International Convention Centre and National Exhibition Centre act as a magnet for European and wider business community.	Need to consider how to build on and multiply its successes.
Strong growth in South East and green belt group of towns ringing the urban conurbation	GVA/head	Region needs to rebalance its development focus. Public resources need to concentrate on areas of market failure, major conurbation and isolated rural areas.
Good national and international accessibility	Increasing business travel at Birmingham International Airport.	Further investments needed. Outside scale and scope of programme

## SWOT Analysis

	Extensive motorway and rail network	
Workforce with proven ability to shift from one sector to another	Contraction in manufacturing mirrored by growth in services and other employment, which is predicted to continue into the future.	Proven labour force flexibility
High quality natural environment with potential to generate significant economic benefits.		Use Programme to develop activities in the leisure and tourism cluster
Early successful pilot schemes linking academia and business	Lessons learnt	Expand scope and scale of such schemes as they increase business competitiveness
Favourable attitudes to entrepreneurship		
<b>Weaknesses</b>		
<b>Strategic Issue</b>	<b>Underpinning Evidence</b>	<b>Strategic Implications</b>
Low levels of business productivity and income	GVA/ head and income / head, especially in certain parts of the region	From interaction of drivers key issues behind this are low skills, low R&D investment which in turn feed into low innovation and low enterprise. Use funds from the separate ERDF and ESF programmes to address these issues.
Social, economic and environmental conditions in major urban areas.	IMD rankings	Long term regional renewal dependent on tackling this. Need to concentrate an element of programme resources on bringing hard to reach and disadvantaged groups into employment
Exports dominated by machinery and transport (where international	Export data	Export support needed, especially into new markets and into higher value-added products.

## SWOT Analysis

competition is strong), levels falling relative to other regions		
Access to finance and investment readiness have been identified as key barriers to enterprise	Research commissioned by Regional Finance Forum	Provide targeted finance to improve investment readiness in key clusters
Underperformance in enterprise, especially for women and relatively speaking BME groups	Low VAT registration, Global enterprise monitor (GEM)	Need to address specific barriers to enterprise
Limited higher value added service sector economy, particularly in the private sector	Employment data	Need to diversify existing firms and support new firms into knowledge intensive sectors
Sharply falling investment in R&D and low levels of 'innovation active' firms	Investment data and data from the Innovation Survey	Key factor in GVA gap. Need to encourage higher levels of innovation in firms as major priority in programme
Low investment in training		Principally address via ESF Programme
High proportion of workers with no / low skills especially in certain areas		Need to ensure ESF national Programme reflects this issue.
Graduate retention poor, low levels of representation in manufacturing		Need to encourage graduate placement and recruitment into WM companies, especially in manufacturing
Poor performance in terms of high level skills,	Skills surveys	Need to ensure ESF national Programme reflects this issue
<b>Opportunities</b>		
<b>Strategic Issue</b>	<b>Underpinning Evidence</b>	<b>Strategic Implications</b>
Promote more widespread uptake of broadband and ICT applications	Almost universal broadband coverage achieved in the region, but low number of e-enabled businesses	Stimulate business and innovation activity which capitalises on the region's massive broadband coverage



## SWOT Analysis

Strength of HEI with strong track record of research	HEFCE research ratings	Structures available to provide business development through the HE sector. Programme to develop mechanisms to maximise this.
Continue to develop the relative strengths of the creative and cultural industries	One of the emerging clusters within the Region in digital media, serious games and elsewhere.	One of the high value-added clusters which the Programme should focus on to help the diversification of the Region.
Maximise linkages to best practice in other European regions	Region has made valuable links with previous Leader, Equal and Interreg Programmes but not on a consistent and coherent basis	Mainstream these types of linkages within the Programme. Tie them firmly to the priorities established within the OP and to Regions of Economic Change initiative.
Promote key projects within the clusters e.g. the Nano Technology Centre, Medical Technology Park and similar centres coming on stream in the High Technology corridors	Development plans are well advanced	To consolidate and develop these Birmingham Science City type initiatives in key clusters in order to increase the rate of technology transfer, spin-outs from universities and research technology institutes.
The expanding global market in environmental products, services and processes	Global market place for environmental goods and services expected to be worth £377 billion by 2010. Emerging environmental technologies cluster in the region, while renewable energy technologies is a major theme of Birmingham Science City.	Supporting businesses within the environmental technologies cluster to develop solutions to regional environmental problems
Significant success in turning round Birmingham and Coventry city centres, with the knock on growth of the service sectors	Stronger cities acting as a driver for wider regional growth.	Barriers to further growth to be tackled, while efforts made to replicate this economic revitalisation in other major urban centres, notably Walsall, Wolverhampton and Stoke.

## SWOT Analysis

Address the more sparsely populated and isolated rural parts of the region	These areas are not sharing in the overall prosperity and well-being of the shire counties	Focus on those clusters embedded within the rural economy to promote economic development and take specific measures to promote rural enterprise
<b>Threats</b>		
<b>Strategic Issue</b>	<b>Underpinning Evidence</b>	<b>Strategic Implications</b>
Inability to generate sufficient higher paid and higher skilled employment within the regional economy.	Continuing predominance of low value added sectors within the economy. High out-migration of graduates on leaving university, especially to London and South East	Increase support in the Programme for modernisation and diversification of the region's business base with special emphasis on high value added clusters
Significant manufacturing base still remains within the region	Higher percentage share of the economy than other UK regions	More vulnerable to the challenges of globalisation than other regions unless traditional sectors such as engineering, metals, automotive and ceramics modernise and find new niche markets.
Availability of land for development at a cost effective rate. Much of the available land in urban areas is brownfield.	Brownfield land data and lessons learnt.	Support needed to encourage brown field development as opposed to greenfield sites which are often easier to develop. Example of determination of region to face up to issue of climate change.
Poor public transport connectivity within and between key centres	Journey times increasing	Large infrastructure beyond scope of Programme but some small scale innovative experimental actions may be funded
Over concentration of low value sectors of the economy in a number of rural areas	Sub-regional economic data	Take measures within Programme priorities to promote new economic activity in these areas.
Environmental pressures on the region e.g. need	SEA, Energy strategy, Climate change impacts	Strengthen both supply and demand for technologies and

## SWOT Analysis

to reduce energy use and waste generation, improve air quality and adapt to climate change	strategy	services with reduced impact on the environment, supporting regional business to improve their resource efficiency
Rural issues of isolation and lack of critical mass	low population and enterprise density, low innovation	Reduce barriers related to isolation of some rural areas
Concentration in the major urban areas of problem issues - poor skills, low productivity, social exclusion etc. Key barriers	IMD, skills indicators, productivity indicators	Need to focus support to ensure opportunities are made available in these areas and barriers are addressed in a culturally relevant way. Also need to take a co-ordinated approach to tackling these linked issues.

## 3. STRATEGY

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### 3.1 The Challenges

#### 3.1.1 Vision

This section of the Programme Document draws on the socio economic analysis to assess how the West Midlands region can best utilise European Union Structural Funds for the 2007-2013 period. This assessment illustrates the strategic rationale behind the three major and two smaller priorities which the partners have selected.

The **vision** for the West Midlands ERDF Programme is to achieve a significant increase in the productivity of the business base in the West Midlands; to reduce unemployment and inequalities; and ensure that the region's economic growth is achieved in a sustainable manner. Specifically, the programme seeks to assist 22,441 businesses to improve their performance, create 10,519 jobs and 2,495 new businesses and support the reduction of regional carbon emissions. In addition 3,288 businesses within the region will engage in new collaborations with the UK knowledge base as part of the Programme's determination to upgrade the regional economy. For a traditional manufacturing region adapting to a fast-changing world these issues are crucial so as to enable the West Midlands to compete more effectively within an increasingly globalised economy.

#### 3.1.2 Underlying Economic Conditions

Despite significant economic growth over the past decade and an important recovery in employment levels, it is clear from the socio-economic analysis that the West Midlands remains confronted by a series of major challenges. The SWOT analysis highlights the poor levels of educational and skills attainment, the relatively low innovation rates, the environmental challenges and the continued weak export performance and GVA growth rates compared to other UK regions. These shortcomings, combined with substantial zones of socio economic disadvantage pose dangers to the future economic vibrancy of the region. Left unattended, they would act as disincentives to start-up companies and those businesses wishing to expand and diversify their operations in order to maximise the potential of both existing and new markets. These trends are widely understood across the region. They feature in analytical papers which have been written as part of the preparatory work for the new Regional Economic Strategy. Several of these are cited in the socio-economic analysis contained in the Programme. The opportunity presented

by this round of EU Structural Funds is particularly welcome since it will help the Region to address a limited number of the challenges highlighted in the socio-economic analysis.

### **3.1.3 Reduced Levels of Funding**

Given that the 2007-2013 Structural Funds are smaller than previous programmes, resources will be concentrated to achieve visible impact and added value. The significant reduction in funding as compared to the 2000-2006 programmes – the West Midlands suffers a 55% reduction in funding from the 2000-2006 period – means that the partners have agreed to select a limited number of activities rather than spread resources widely with the concomitant risk of diluted impact. The reduction in funding has meant that partners deliberated on the fields of activity and decided on a focus that best lends itself to securing the sustainable growth and jobs targets demanded by the Lisbon Agenda. Broad ranging series of investments are unlikely to create such growth and will dilute the specific European character of the funding interventions designed to meet the targets of the Community Strategic Guidelines.

### **3.1.4 The Need to Concentrate Resources**

This calls for a concentration of resources within promising spheres of activity; a focus on areas of market failure; and to a series of geographic constraints in funding decisions.

In terms of geography the new Programmes are in principle open to all parts of the region. This is in contrast to the 2000-2006 Programme where only one-third of the region was a core beneficiary of Objective 2. The eligible areas were concentrated in the two main conurbations and the more sparsely populated areas in the West of the region. The remaining parts of the region were eligible for European Social Funds through Objective 3 and were beneficiaries of other EU funded programmes notably the Rural Development Programme and the Common Agricultural Policy, worth £142 million to beneficiaries in the five shire counties in 2004-5.

It is a difficult task to apply the principles of concentration and targeting within a much reduced Programme when the previous constraints of eligible areas and maps have been lifted. It is not possible to spread funds widely across all spheres of activity, including many which may be intrinsically valuable. Rather, the Programme shall be seeking to focus funds on both projects and wider initiatives which present good prospects for high value growth and sustainable jobs and which address market failure while tackling some of the most visible signs of deprivation and disadvantage within the region. The region recognises the importance of focusing resources on potential high-value growth sectors in order to give impetus to the region's transition to an innovative, knowledge-based economy. It is from this analysis that the partners have drawn three major priorities for

the Programme focussing on innovation, enterprise development and sustainable urban development.

The most important factor is that there is a close link between our analysis of the measures needed and the activities proposed. Other factors have included: likely absorption capacities of regional partners to undertake these activities; cost and value for money benefits of these activities; and matching of these activities against the 75% Lisbon proofing requirement. We have also prepared the Programme with sufficient flexibility so that it shall be able to respond to any unexpected economic shocks that may occur over the Programme period.

### **3.1.5 Support to Businesses**

The Programme will predominantly target support on SMEs and new enterprises (within the current EU definition of an SME), but will include an element of support for larger firms where necessary for the satisfactory implementation of the operation. This is particularly the case in work related to the supply chain, knowledge transfer, innovation and new technologies such as environmental technologies or where the intervention brings significant economic benefit to the region. This will vary at project level depending on each project and will be monitored closely by the Programme Executive. The Programme will respect state aid rules in relation to any support given

## **3.2 Policy Context**

This section of the Operational Programme describes the key policy drivers at an EU, UK national and regional level that have shaped the overall thinking behind the programme. Partners have sought to apply a number of the key concepts in this material to the economic, social and environmental conditions of the West Midlands in the preparation of the Programme.

### **3.2.1 European Policy Drivers - Lisbon Agenda**

In March 2000 at their summit in Lisbon, European Heads of Government and State committed to a ten year strategy of reform for Europe's labour, capital and product markets. This became known as the Lisbon Agenda. The vision<sup>101</sup> was that by 2010, Europe would become 'the most competitive and dynamic knowledge-based economy in the world, capable of sustainable economic growth with more and better jobs and greater social inclusion'.

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<sup>101</sup> [www.dti.gov.uk](http://www.dti.gov.uk)

The European Council of March 2006 re-launched the EU's Lisbon Agenda for economic development by refocusing on growth and employment in Europe. It established a set of 24 broad economic policy guidelines which concentrate on the contribution of economic policies to higher growth and more jobs. The Guidelines address key policy issues for the West Midlands such as innovation, a more entrepreneurial culture and inclusive labour markets which are raised within the socio economic analysis.

Representing more than one-third of the overall EU budget, the Structural Fund programmes are a key policy instrument for fulfilling the aims of the Lisbon Agenda. The European Commission has established the framework within which these Structural Funds should be spent in its Community Strategic Guidelines. To help towards that goal the Commission has requested that at least 75% of the resources within each ERDF Programme under the Regional Competitiveness and Employment Objective should be earmarked to meeting the tasks outlined in the Lisbon Agenda's broad economic guidelines.

The Lisbon Agenda is complemented by the EU's principles on sustainable development as outlined in the Gothenburg strategy. The vital importance of sustainable development has been reinforced by the publication of the authoritative Stern Report on the dangers of climate changes and the urgent need for resolute action to reduce environmental damage and to move to a low carbon economy. Partners have sought to consider these matters within their analysis of the West Midlands region and to propose a set of sustainability actions that run through the Programme.

### **3.2.2 National Strategic Reference Framework (NSRF)**

These EU policy frameworks have been supplemented within each Member State by a National Strategic Reference Framework. The 'Lisbon Strategy for Jobs and Growth: UK National Reform Programme' looks at the challenges currently facing the UK economy and sets out the Government's strategy for delivering long term sustainable growth, high employment and a fair and inclusive society. Together these EU and UK documents set the framework and purpose for the use of these funding programmes.

As clearly outlined within the draft NSRF issued for consultation on 28th February 2006 "the purpose of EU Cohesion Policy is to provide EU Member States and regions within Member States with assistance to overcome structural deficiencies in order to reduce economic, social and territorial disparities and to enable them to strengthen their competitiveness and increase employment."<sup>102</sup>

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<sup>102</sup> NSRF EU Structural Funds Programmes 2007-13. Paragraph 9 page 7. Our emphasis.

The document makes clear across the UK “regional policy interventions can only be justified when they respond to a clear market failure. ...The Structural Funds should therefore only be used to finance these and other regional interventions in cases where free markets have genuinely failed to provide the goods or services by themselves.”<sup>103</sup> These statements clearly direct and target Structural Fund resources. Previous programmes gave concrete expression to these policy observations through the implementation of a set of maps designating eligible areas for funding. This is not the case with the 2007-2013 Programme. Partners have sought to develop the Programme in other ways to ensure that these policy stipulations concerning the direction and purpose of these resources are followed.

### **3.2.3 West Midlands**

The West Midlands is seeking to ensure the integration of its Regional Strategies, notably the Regional Spatial Strategy and the Regional Economic Strategy to deal with the challenges and opportunities facing the region. These are clearly outlined in the Regional Assembly’s Annual Monitoring Report.<sup>104</sup>

The key economic goals are:

- To aspire to reduce the differential in Gross Value Added between the West Midlands and the Greater South East;
- To bring together opportunities and areas of need with the aim of reducing internal inequalities;
- In the light of continued economic restructuring to enable a strong balanced economy to evolve; and
- To provide an environment able to support and encourage business creation and innovation.

For the labour force key tasks identified are

- To promote high levels of employment and good levels of productivity and to enable the Region to retain and attract from elsewhere graduates and other high quality members of the workforce.

In the physical arena four tasks identified are:

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<sup>103</sup> Ibid. Annex A. Paragraph 25.page 10.

<sup>104</sup> WMRA Annual Monitoring Report 2005. page 4.



- Firstly, to ensure a sufficiently attractive urban area to stem and ultimately reverse economic and population migration;
- Secondly, to enable the creation of socially balanced, self contained communities where the need for travel is minimised;
- Thirdly, to reclaim derelict land and to put it back into productive use; and
- Fourthly, to reduce green-field land take and promote sustainable previously developed sites for development.

These observations have helped to frame the main priorities selected within the Programme.

Given the emphasis by both the Commission and the UK Government on both competitiveness and innovation the Government's Science City initiative has particular relevance to the West Midlands Programme. In the budget of March 2005, the Chancellor of the Exchequer announced the extension of his 'Science City' initiative to Birmingham. This initiative has been developed on a wider Birmingham basis with the very close involvement of both Birmingham and Warwick Universities along with the Regional Development Agency. Other universities, research and development bodies such as Qinetiq and the local authorities are also involved. Significant resources are being earmarked for this development by the Regional Development Agency. The West Midlands ERDF Programme offers a major opportunity to consolidate and extend this initiative, bringing together public, private and academic sector players in a technology partnership which could contribute significantly to the region's economic modernisation.

The intention is also to link projects within the Structural funds Programme to initiatives which will be submitted to the EU's 7th Framework Programme and the new Competitiveness and Innovation Programme.

The Commission's guidance on Cities and Cohesion and the emerging national policy on city regions are also of importance to the Programme as reflected in the Community Strategic Guidelines and the National Strategic Reference Framework. The establishment of the Birmingham, Coventry and Black Country City Region is therefore an important dimension to the RCE influencing the thinking behind the Sustainable Urban Development priority.

### **3.2.4 West Midlands Economic Strategy (WMES)**

The West Midlands Economic Strategy sets out a vision to transform the West Midlands into a world-class region by 2010. The vision is that "the West Midlands is a world-class region in which to invest, work, learn, visit and live and the most successful in creating wealth to benefit all of its people". Its emphasis on the need for the West Midlands to

accelerate its transition to a high-growth, high value-added economy complements the wish of the European Commission for the ERDF Programme to have a strong growth and innovation dimension.

The WMES identifies three key delivery mechanisms on which the region aims to focus its efforts: High Technology Corridors, Business Clusters and Regeneration Zones. These are the agreed focus for all partners. Each has alignment with the three main priority axes selected by partners. The process of revising the Strategy began during the preparation of the Operational Programme. It will only be completed and published in December 2007 but studies undertaken for the revised WMES have been drawn on by partners in the preparation of this OP.

In the course of this seven year programme it is likely that the Regional Economic Strategy, and priorities for investment as designated by the Innovation Technology Council, will be reviewed. As the Programme management process requires a mid term evaluation, any changes in such regional priorities will be incorporated into revisions made as a result of the evaluation. Likewise, the Programme will try to remain complementary to activities at a national level, such as the Technology Support programmes through the new Technology Support Board.

### **3.2.5 Regional Spatial Strategy (RSS)**

Published in 2004, the West Midlands Spatial Strategy provides the longer-term planning and land use framework for the WMES. The relationship between the RSS and the WMES is fundamental to the level of economic development in the region, in that the RSS assists the delivery of the WMES. The policies contained within the 'Prosperity for All' section encourage the development of new high growth employment sectors, the modernisation of the region's existing traditional industries, and establishing and maintaining a portfolio of sustainable employment sites. Spatially, the RSS focuses on regeneration zones, high technology corridors, and a network of strategic town and city centres.

## 3.3 Priorities for Action

The following section outlines the Programme's five priorities and the specific EU, national and regional policy drivers which have informed them.

### 3.3.1 Priority 1: Promoting Innovation and Research and Development

The socio-economic analysis set alongside the EU, national and regional policy context makes it imperative that the ERDF Programme develops the innovation potential of the region particularly through knowledge transfer between the region's high class science base and its businesses. That is why the Programme has made Promoting Innovation, Research and Development its first priority with an allocation of €145 million.

This priority aims to improve the region's capacity to translate innovation into commercial outcomes that result in a step change in business productivity and performance. A particular focus will be on the region's high class science base, notably its universities and research institutions. The aim is to:

- Raise levels of business investment in research, development and innovation;
- Increase levels of knowledge transfer between these institutions and businesses;
- Improve opportunities for skilled people, students and graduates to contribute to increased economic activity via innovation; and
- Improve levels of commercialisation of ideas for new business ventures with the establishment of demonstrator projects

### ***EU Policy Drivers***

Promoting innovation and research and development is fundamental in contributing towards Europe's Community Strategic Guidelines<sup>105</sup> (CSG), which advocate research capacity and innovation as key drivers of economic growth and employment.

CSG 8 seeks to facilitate all forms of innovation and calls for improvements in innovation support services, in particular for dissemination and technology transfer and for the creation and development of innovation poles, networks and incubators. These should bring together universities, research institutions and enterprises at regional and local level. This priority axis fits the Lisbon Agenda in recognising that science and innovation are key drivers of productivity and essential to maintaining competitiveness in an increasingly knowledge-driven global economy. This priority also fits in terms of the

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<sup>105</sup> Cohesion Policy in Support of Growth and Jobs: Community Strategic Guidelines 2007-2013

responsiveness of the science-base to the economy i.e. business-university collaboration, in addition to increasing investment in research and development and its links to the science base.

The socio-economic analysis and the priorities of the European Commission lead to a special focus on the Environmental Technologies cluster and a key Programme objective of sustainable production and development. For example we are seeking activities that stimulate “eco-innovation”, developing new products, processes and services that reduce the waste of natural resources / raw materials, improve energy efficiency and reduce environmental impact.

### ***UK National Policy Drivers***

At the national policy level, there is long-term commitment to building the nation’s knowledge base and harnessing the innovation it creates, as laid out in the ‘Science and Innovation Investment Framework 2004-2014. The innovation strand of the Programme should stimulate this region’s impact on this national agenda.

This priority also has close links with the UK National Reform Programme<sup>106</sup> (NRP) by promoting productivity growth, with particular reference to the five drivers of productivity – competition, enterprise, science and innovation, skills, and investment, all of which are described in detail for the West Midlands in the socio-economic analysis. Furthermore, linkages can be found with the priorities of the National Strategic Reference Framework<sup>107</sup> (NSRF) in terms of promoting innovation and knowledge transfer and stimulating enterprise and supporting successful business.

### ***Regional Policy Drivers***

At the regional level the West Midlands Economic Strategy (WMES) review process is creating a significant pool of evidence that demonstrates good progress in the economic development of the West Midlands but also showing that there is still need for stimulation of innovation. The socio economic analysis reproduces much of the evidence base of the WMES review to illustrate this.

The clear focus of this strand is innovation based on the generation of new knowledge and the new application of knowledge. This will deliver innovative products and services that can be exploited by organisations in the West Midlands. The principal intention of this strand is to reinforce and support the priorities established through existing instruments of the Regional Economic Strategy designed to stimulate innovation. These

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<sup>106</sup> Lisbon Strategy for Jobs and Growth, UK National Reform Programme, October 2005

<sup>107</sup> UK National Strategic Reference Framework (Draft), EU Structural Funds Programmes 2007-2013

include the regional Innovation and Technology Council, the Birmingham Science City initiative, and the High Technology Corridors. Further details on each of these instruments is given in the box below. Activities will address opportunities for greater economic activity and/ or improved quality of life.

In terms of sectoral and spatial alignment with regional policy the activities of this priority will focus on the five innovation priority themes identified by the Innovation Technology Council, and will seek to target concentrations of potential towards the high technology corridors and where there exists a critical mass of activity.

<b>National and Regional Bodies which stimulate Innovation</b>	
Technology Strategy Board (TSB)	The Technology Strategy Board (TSB) is a new Executive Non-Departmental Public Body, which has been set up to develop a coherent UK-wide strategy for technological innovation and to deliver a programme of Government financial support to encourage business investment in, and use of, technology across all sectors of the UK economy. Where Structural Funds interventions aim to promote innovation and knowledge transfer, they will seek to achieve alignment with national priorities and maximise the benefits from collaborating with TSB supported programmes.
Research Councils	Research Councils are non departmental public bodies which invest in science and research in the UK in order to advance knowledge and generate new ideas to create wealth and drive improvements in quality of life.
Higher Education Funding Council for England (HEFCE)	The Higher Education Funding Council for England distributes money to universities and colleges in England for higher education teaching, research and related activities.
Innovation Technology Council (ITC)	The Innovation and Technology Council was set up in 2004 to advise the Board of Advantage West Midlands on issues around innovation and technology. Membership is predominantly drawn from business and academic/research institutes. The Innovation and Technology Council has identified the five themes of Energy, Healthcare Technology,

	Transportation Technology, Advanced Materials and Digital Media as a prime focus for regional innovation activity.
Birmingham Science City	In 2005, the Government designated Birmingham as a Science City. There are six Science Cities in England. The Science City Initiative promotes closer partnership and better co-ordination between public bodies, local businesses and the research base around a clear shared long term vision. Birmingham Science City has also adopted the five priority themes for innovation identified by the ITC. The Science City initiative has no dedicated funding stream.
High Technology Corridors	<p>The Regional Economic Strategy identifies three high technology corridors.</p> <ul style="list-style-type: none"> <li>• Central Technology Belt (Birmingham A38 to Malvern)</li> <li>• Coventry, Solihull &amp; Warwickshire Technology Corridor</li> <li>• Wolverhampton to Telford Technology Corridor</li> </ul> <p>These are geographic areas where the mix of business activity, academic expertise, research capability, infrastructure and development opportunities are such as to encourage the growth of high technology businesses.</p>
Universities	Universities are important sources of innovation in the ways that they support existing businesses, spin out new businesses and provide highly trained people
Research Centres	The West Midlands is home to a number of internationally recognised independent centres of research, including CERAM (ceramics and materials-based industries), RAPRA (plastics and rubber), MIRA (transport technologies), and QinetiQ (defence and security)

### 3.3.2 Priority 2: Stimulating enterprise development

The socio-economic analysis clearly indicates that the West Midlands remains a region in transition, where the legacy of its manufacturing history still weighs heavily. This is why

the Programme has made stimulating enterprise development its second major priority with an allocation of €142,171,187. This is designed to:

- Improve company productivity by supporting business creation and diversification into higher value knowledge based activities;
- Develop applied innovation activity;
- Support regional businesses to improve their resource efficiency and contribute to reducing the regional carbon footprint;
- Encourage a stronger entrepreneurial culture and promote the engagement of more women and black and minority ethnic groups into business; and
- Within all these measures to improve access to finance for business investment in order to facilitate this transition.

### ***EU Policy Drivers***

This priority links directly with chapter 3 of the CSG, 'promoting productivity growth'. Productivity growth underpins strong economic performance. UK regional economic development, irrespective of whether it is funded nationally or through Europe, is closely linked to the achievement of Lisbon's productivity and growth objectives.

The Community Strategic Guidelines set out the important role business support plays in improving the productivity and competitiveness of regional business. The guidelines advocate a one stop shop approach that provides quality, easy to access business support, responsive to needs of business and tailored, where appropriate, for specific categories (e.g. start-ups or recently transferred companies) or entrepreneurs (e.g. young people, women, older workers or those from ethnic minority communities).

Improving access to finance for start-ups and improving e-business is another key ingredient of the CSG. There is a clear realisation at EU level that access to finance is an important element of support for innovative companies, as reflected in a number of recent Commission Communications<sup>108</sup> on Access to Finance.<sup>109</sup>

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<sup>108</sup> MEMO/06/259, Brussels, 30 June 2006, Growth and jobs: Commission provides more means to finance innovative SMEs. Also see Commission Staff Working Document. Annex III to the Communication from the Commission to the Council, the European Parliament, The European Economic and Social Committee and the Committee of the Regions. Implementing the Community Lisbon Programme: Financing SME Growth – Adding European Value. {COM(2006) xxx final}. Access to Finance: The Way Forward

## **UK National Policy Drivers**

Linkages with the NRP are clear, in terms of improving access to finance for Small and Medium Enterprises (SMEs), increasing support for start-ups (in which the region underperforms), and strengthening e-business. Stimulating enterprise and supporting successful business is the second priority of the NSRF. Activities under this priority of the Programme, will also address the third priority of the NSRF: Ensuring sustainable development, production and consumption.

UK Government expects ERDF to be aligned with and support the emerging strategy for the simplification of business support - the Business Support Simplification Programme (BSSP).

The BSSP has agreed a broad definition of business support:

*Any publicly funded activity that benefits a business or potential business through grant, subsidy, advice or other service.*

The definition includes support to businesses designed to achieve wider economic, environmental, regulatory, social or cultural objectives.

All levels of government are working together to develop a flexible, comprehensive and shared portfolio of business support products deployable across the public sector, to meet business needs and deliver policy aims. Standard descriptions will provide assurance of the quality of a product's design and rationale. ERDF funding can be used to extend the scope of these products and improve access to priority groups. Genuinely innovative products will eventually become part of the shared portfolio. A standard approach to branding these products will allow for shared branding across funding streams.

Where ERDF proposals impact on business, they must be clear how they plan to use the Business Link information, diagnosis and brokerage model to best effect, simply duplicating this activity may not represent an effective use of funds. ERDF activity will add value to domestic funding and procurement will comply with EU and national guidelines on open and competitive tendering arrangements.

## **Regional Policy Drivers**

In response to this national agenda, responsibility for enterprise support in the regions passed to the Regional Development Agencies from April 2005. A new Business Support model has been developed by Advantage West Midlands which will deliver a demand



led, simplified, and efficient business support infrastructure. The new service will be based on an easily identifiable Gateway, working with a Core and Specialist Enterprise Brokerage and a Manufacturing Brokerage. Advantage West Midlands will align all its investment in Business Support activities with this new model, and will encourage its regional partners to do the same. The Learning and Skills Council (LSC) is already integrating its Train to Gain skills Programme into the model. The Gateway will quickly establish a regional client management system, which will embrace not only businesses and individuals using the business support model, but also partner business support activity. This will provide an invaluable market intelligence tool which will enable the region to better target its support.

This will provide the key organisational framework for the business support and enterprise activities proposed under Priority 2. These will mainly focus on the ten clusters identified in the WMES and where the SWOT analysis shows there is still significant room for the region to develop. The shortcomings identified in the SWOT concerning business formation in disadvantaged urban and isolated rural areas will be targeted by the social enterprise strand of this priority and there will be a distinct strand devoted to meeting the potential of women and ethnic minority entrepreneurs. Here again, the SWOT shows the region to be missing out on its potential.

In terms of the importance of access to finance, a recent review<sup>110</sup> of ethnic minority businesses in the West Midlands reported that ethnic minority businesses face particular problems when raising finance. Research has also shown that it is more difficult for women to raise start-up and recurrent business finance than men, and that they encounter more difficulties when dealing with bankers and penetrating informal banking networks<sup>111</sup>.

### ***The Rural Dimension***

In both Priorities 1 and 2 there will be scope for specific activities designed to respond to the needs of sparsely-populated and isolated rural communities highlighted in Section 2.9 of the socio-economic analysis. Within the Enterprise Development priority, support will be given to three clusters, namely food and drink, tourism and environmental technologies, which are embedded within the rural economy. These three economic clusters are also key elements of the West Midlands Rural Development Programme. The selection of these three common strands will permit close synergy between the two programmes with the development of a number of joint initiatives. ERDP will focus on land-based industries, primarily farm-related while ERDF will contribute to cluster

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<sup>110</sup> Ethnic Minority Businesses in the West Midlands: A Review. Monder Ram and Trevor Jones. July 2006

<sup>111</sup> Carter and Cannon 1992

developments that help the wider rural economy. Further detail on coordination and demarcation between interventions through the ERDP and ERDF programme is provided in the table provided in section 7.1.

### **3.3.3 Priority 3: Achieving Sustainable Urban Development**

The socio-economic analysis repeatedly highlights the sharp concentrations of disadvantage and deprivation found principally within the West Midlands major urban areas, namely the main West Midlands conurbation and the North Staffordshire conurbation. Both the general and ward data on unemployment and the generic poverty indicators of the Super Output Areas confirm this picture. That is why the partners believe that this merits a sustainable urban development priority which will address the significant concentrations of economic need and seek to generate major employment opportunities accessible to those communities. To encourage enterprise in these areas of greatest need in the region, ensuring that the potential of all individuals is harnessed will act as a major contributor to help the region to achieve its productivity goals. This priority will be allocated approximately €99,782,047. Its measures are designed to:

- Create new employment opportunities;
- Promote the take-up of these opportunities by residents in disadvantaged areas; and
- Develop a range of environmental measures to improve the sustainability potential of these areas.

#### ***EU Policy Drivers***

Linkages between this priority and the Lisbon Strategy can be found in the 'increasing employment opportunity for all' chapter. Particular reference can be made to addressing obstacles to labour market participation e.g. childcare, and targeting deprivation including efforts to tackle pockets of deprivation where worklessness continues to be a substantial barrier to social inclusion.

Similarly, the call in Guideline 19 for inclusive labour markets seeking to facilitate access to employment for job-seekers, combat social exclusion and discrimination and integrate immigrants and minorities has clear links with this priority axis.

The CSG refer to tackling the economic, social and environmental problems of many urban areas in order to achieve social cohesion and improve quality of life, and suggest developing support focussed on participative and integrated strategies.

## ***UK National Policy Drivers***

'Achieving sustainable urban development' supports the NSRF in terms of building sustainable communities by improving the growth and productivity of local economies, regenerating areas suffering from severe social, economic and environmental deprivation, and redeveloping brownfield land to support economic and social regeneration. The NSRF looks at increasing employment opportunities for all by addressing obstacles to labour market participation and targeting deprivation, where worklessness continues to be a substantial barrier to social inclusion.

## ***Regional Policy Drivers***

This approach follows closely the region's two main strategies;

The region's Regional Spatial Strategy – which is calling for a fundamental change of direction in encouraging the growth of the major urban areas after decades of declining population and outward movement of new employment opportunities.

The focus also chimes with Advantage West Midlands's Regeneration Zones. There is a real significant tie in both with the geography but also with the approach taken. The Major Urban Areas largely geographically contain the designated 5 urban regeneration zones<sup>112</sup>. The approach taken in this priority of linking communities in need to employment opportunities is also one taken in the Regeneration Zones.

This priority aims to support communities to increase their economic vitality. This will be achieved by improving the physical fabric of targeted areas in order to deliver good quality sites and buildings to stimulate economic activity and create new employment, and by creating the conditions and providing the support for those communities to access the new opportunities created. The aim is to reduce economic inequalities and increase productivity by ensuring that everyone has the opportunity to contribute to and benefit from the region's economic growth through employment creating and community regeneration actions<sup>113</sup>.

The Programme will apply the same principles of concentration and focus in this priority as elsewhere. Thus, it is expected that integrated packages of development will be prepared within these two conurbations which will focus effort on areas with most development potential linked to those districts with the highest levels of unemployment and worklessness. It is expected that there will be very close linkages with the ESF

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<sup>112</sup> The Regions Urban Regeneration Zones are; North Black Country and South Staffordshire, South Black Country and West Birmingham (Arc of Opportunity), Coventry and Nuneaton, North Staffordshire, East Birmingham and North Solihull.

<sup>113</sup> Sustainable Urban Development – Advantage West Midlands

Programme to achieve this. It is also clear that this focus on a limited number of integrated packages – no more than six are anticipated – will mean that choices will have to be made within these conurbations. The integrated package agreed will be designed to ensure a high profile is given to environmental matters and this priority should form a key element within the overall sustainability dimension of the Programme . Activity under this priority will be principally focused through area-based packages. However, an element of funding may also be made available through open call to target other significant concentrations of economic need across the region.

### **3.3.4 Priority 4: Developing Inter-Regional Activity**

The desire to integrate the rural, urban and regional networking experiences of the 2000-2006 EU Programmes, for example, Leader, Urban and Equal into the mainstream Structural Fund Programme has led the partners to develop a small inter-regional priority within this RCE Programme. This will be allocated €1,046,766. This will help the West Midlands to learn how other regions across Europe have achieved a step change in productivity improvements and economic/social cohesion and apply those lessons to policy interventions in the Programme. All parts of the Region will be eligible to apply for this priority.

This priority aims:

- To promote the transfer of know-how and good practice between the West Midlands and regions elsewhere in Europe in relation to successful policy approaches to raising productivity and improving economic and social cohesion.
- Focus on how lessons can be applied in delivering high quality and innovative interventions in the Programme's three main priorities
- Stimulate inter-regional co-operation and improve the West Midland's ability to access non-structural/trans-national European funding programmes, where it currently performs poorly against other European as well as UK regions. It is intended to maximise the flow of funding into the region by securing complementary resources that can add value to the Programme and its objectives.

### **3.3.5 Priority 5: Technical Assistance**

This priority will be allocated €11,899,930. It is designed to:

- Ensure smooth management and administration of the Programme;
- Support monitoring and evaluation;
- Engage regional partners including the voluntary sector.

- Ensure that the Programme's achievements are communicated clearly; and effectively to all relevant agencies and the wider public.

## Priority 1: Promoting Innovation and Research and Development

### Policy Drivers

#### EU

Shift to knowledge economy  
Increase investment in R&D  
CSG 2.1 +2.2 + 1.2

#### UK National

Science and innovation investment framework:  

- retain and build world class research
- Improve knowledge transfer
- Increase business R+D investment

NSRF Priority 1 & 3

#### WM Regional

Birmingham Science City  
Innovation & Technology Council  
5 identified innovation clusters  
Existing critical mass i.e. High Technology Corridors

### Socio Economic Analysis - SWOT

#### Strength and implications

Strong research skills in the region – utilise these  
Successful pilot schemes supporting business and academic links – expand these

#### Weakness and implications

Low employment in knowledge intensive sectors – support new cos. and diversification into these  
Sharply falling business investment in R &D – stimulate and pump prime this  
Low graduate retention – stimulate demand for graduates

#### Opportunities and implications

Strong (and sustainable) growth potential in some sectors – target support on these.  
Increasing global market for environmental goods

#### Threat and implication

Increasing global competition – need to develop innovative products and services  
Rural sparsity and lack of critical mass – programme needs to be able to help in addressing this.

### Priority Axis 1: Promoting Innovation and R&D

#### 1.1 Stimulating business demand for innovation

Financial assistance (e.g. voucher schemes) and specialist advisers to link the research skills and businesses

#### 1.2 Stimulating knowledge transfer

Support for technology transfer and research enabling mechanisms

#### 1.3 Retaining and maximising the value of skilled people

Graduate placement schemes and encouraging graduate enterprise.

#### 1.4 Building demonstrators

Support for schemes that demonstrate potential innovative applications for regional businesses

#### General approach

Bias towards: extending activity within existing networks, the five ITC priority sectors, schemes with sustainability as a positive theme (e.g. the environmental technology sector.)  
Schemes to address: overcoming lack of rural critical mass

## Priority 2: Stimulating Enterprise Development

### Policy Drivers

#### EU

CSG chapter 3. Points 3,4,5,7, 8,9,64,69  
Implementing Lisbon – Access to finance

#### UK National

Government business Support Simplification Agenda

Business Link evaluation

Access to Finance – barriers to certain groups and at certain scales

NSRF Priority 2 & 3

#### WM Regional

Enterprise Board

New West Midlands business support model

Regional Finance Forum

Access to finance Review 2005

OECD regional profile

### Socio Economic Analysis - SWOT

#### Strength and implications

Flexible labour force – support diversification and growth sectors

Ethnic diversity often promotes enterprise – target any specific barriers

Strong performance in specific clusters

#### Weakness and implications

Low productivity - R&D, skills and investment key problems – attempt to address these

Low enterprise – stimulate and support, especially in certain groups / areas.

Low R+D investment by industry – stimulate and pump prime this

Low number of innovation active firms

#### Opportunities and implications

Addressing access to finance and investment readiness removes a key barrier to business innovation, start up and growth

Expanding Global market in Environmental products, processes, and services – opportunity to exploit this

#### Threat and implication

Exports shrinking and dominated by motor manufacturing –

Challenge of climate change and rising fuel costs – support business to respond to this

Urban concentration of negative aspects – additional support needed in these areas.

Previous schemes somewhat complex, spatially specific and prolific – try to design programme to avoid this

### Stimulating Enterprise Development

#### 2.1 Stimulating and improving productivity

In depth business support to improve productivity and support diversification

Trade development schemes to stem decline in export share and encourage diversification of export base

Establish Transition Fund to help SMEs modernise and diversify

#### 2.2 Developing Applied Innovation Activity

Mentoring to provide business with tools to engage with innovation

Actions to support businesses to become more profitable through uptake of eco innovation and processes with reduced environmental impact

A regional proof of concept fund – to commercialise new products.

#### 2.3 Developing a Stronger Entrepreneurial Culture

Encourage high growth start ups within 10 clusters through mixture of business support and risk capital

Dedicated support inc. Investment readiness to underrepresented groups

Micro finance and business support to encourage start up and early stage business in enterprise cold spots

#### General approach

Focus on the ten clusters, except where objective to engage underrepresented groups

## Priority 3: Achieving Sustainable Urban Development

### Policy Drivers

#### EU

Increasing employment for all CSG chapter  
CSG 2.3, 3.1, 3.2 & 3.3

#### UK National

NRSF Building Sustainable Communities  
City Region Policy

#### WM Regional

RSS – Urban renaissance.  
LAAs  
RES – Regen zones  
Birmingham, Coventry & Black Country City Region

### Socio Economic Analysis - SWOT

#### Strength and implications

Wider benefits of brownfield development and supporting sustainable technologies – continue and expand this activity.

#### Weakness and implications

Concentration of problems in major urban areas (mua's) – high unemployment, low skills, low enterprise, problems particularly bad for some parts of the community – A package approach attempting to address a combination of issues is needed.

#### Opportunities and implications

Addressing physical barriers kick starts regeneration schemes – make funds available to achieve this.  
Ethnically diverse population more enterprising but WM underperforms and access to finance is an issue – community development funds.

#### Threat and implication

Urban population shrinking – need to make employment opportunities available and make urban areas attractive places to live.  
Congestion issues – encourage use of public transport  
Lack of affordable development land in urban areas – support needed for brownfield land development schemes.

### Priority Axis 3: Sustainable Urban Development

#### 3.1 Employment creating actions

Support to enable/improve the physical conditions with the recognition that they can be a significant barrier to growth in urban areas, with a particular emphasis on:  
the use of sustainable technologies and promoting the use of public transport  
Infrastructure to enable innovation and enterprise.

#### 3.2 Community innovation actions

Creating employment and the conditions for inclusion. Targeting communities in need by encouraging opportunities in (or easily accessible to) them. Investment in people related infrastructure – training centres, community access points as well as finance facilities.

#### 3.3 Wider employment and community actions

Revenue support for activity to promote the MUA to attract employment opportunities

#### General approach

Bias towards: The Package approach, extending activity within existing networks, commissioning of projects



## Priority 4. Developing Inter-Regional Activity

### Policy Drivers

#### EU

Adding value through use of multiple funds  
Regions for Economic Change

#### UK National

NRSF –

#### WM Regional

Past experience of involvement in EU transnational programmes has been positive  
WMES Powerful Voice for the Region

### Socio Economic Analysis - SWOT

#### Strength and implications

Good national and international accesibility  
Early successful schemes linking academia and business

#### Weakness and implications

Low levels of business productivity, innovation active firms, and underperformance in certain enterprise indices  
Poor graduate retention

#### Opportunities and implications

Maximise linkages to best practice in other European regions; Strength of HEI and strong track record of research; Developments coming on stream in high tech corridors

#### Threat and implication

Challenge of climate change  
Competition with low cost economies  
Concentration in major urban areas of problem issues  
Rural issues of isolation  
Environmental pressures

### Priority Axis 4 : Transnational Activity

#### 4.1 Promoting innovation and R&D

Student placements for elsewhere in the EU  
learning from cluster, university technology transfer experience elsewhere.

#### 4.2 Stimulating economic development

Exchange of skills,  
collaborative joint activity,  
opening new markets

#### 4.3 Sustainable urban development

Learning from best practice elsewhere – e.g.  
financial mechanisms to enable development  
sustainable transport and technologies,  
creative use of industrial heritage.

#### General approach

Support transnational activity which adds value to activity under the three other priorities where there is a clear rationale and benefit for doing so

### 3.4 Process for Chosen Strategy

There has been a consistent effort by agencies across the Region to ensure that this Programme has been developed on a basis of proper partnership. In March 2006, under the direction of the West Midlands Regional Assembly's European and International Affairs Partnership, a regional steering committee was set up to prepare the ERDF Operational Programme. This steering committee, the RCE Group, included representation from Advantage West Midlands (AWM), Government Office for the West Midlands (GOWM), the Chair of the partnership body the West Midlands Regional European Funding and Policy Group, the West Midlands Higher Education Association, Job Centre Plus, the Learning and Skills Council, Local Authorities and the West Midlands Regional Assembly. GOWM has been responsible for coordinating the activity of the Group, whilst AWM has taken the strategic lead. Consultants have been engaged to strengthen aspects of the work, most notably the socio economic analysis, but this has been a process led and determined by the partners. Regular reports on progress have been issued to the EIAP. A summary draft of the Operational programme has been presented to the EIAP in advance of the twelve week public consultation to facilitate regional ownership.

As part of the process, four Drafting Groups have been established, focussing on innovation, knowledge and enterprise; better skills and employment; sustainable urban development and inter-regional working. Efforts have been made to ensure that each Group contains a balance of regional and cross-sectoral representation and their Chairs have been shared among the partners. The drafting process has been subject to an ex-ante evaluation and Strategic Environmental Assessment (SEA). An Evaluation / SEA Reference Group has been established to oversee the work of independent consultants in carrying out both the ex-ante evaluation and the SEA. The SEA Reference Group is a sub group of this Group and advises on matters relating the SEA.

### 3.5 Alignment with the Main Strategies of the West Midlands

The West Midlands Economic Strategy (WMES) sets out a vision to transform the West Midlands into a world-class region by 2010. The vision is that "the West Midlands is a world-class region in which to invest, work, learn, visit and live and the most successful in creating wealth to benefit all of its people".

The WMES identifies three key delivery mechanisms on which the region aims to focus its efforts: High Technology Corridors, Business Clusters and Regeneration Zones. Each has alignment with the 3 major priority axes.

Published in 2004, the West Midlands Regional Spatial Strategy (RSS) provides the longer-term planning and land use framework for the WMES. The relationship between the RSS and the WMES is fundamental to the level of economic development in the region, in that the RSS assists the delivery of the WMES. The policies contained within the 'Prosperity for All' section encourage the development of new high growth employment sectors, the modernisation of the region's existing traditional industries, and establishing and maintaining a portfolio of sustainable employment sites.

As described in the additionality section what is proposed under the Programme will seek to support and expand efforts already underway which are supported by the WMES. However it is very important to stress that not every WMES supported activity will benefit from additional ERDF support. Only those activities which fit with the National and European policy context of the ERDF will be supported.

## 3.6 Development of the West Midlands Economic Strategy

The West Midlands Economic Strategy (WMES) was first published in 1999 and updated in 2004. The Strategy is currently under review and due to be republished in 2007<sup>114</sup>. In order to assist with the development of the review, partners have been asked to assist throughout the key phases of the work, including the development of the evidence base, consultation on policy options developed in line with the evidence base. Much of the evidence gathered during this phase of the WMES review process has been used to inform the socio-economic analysis of the Programme

## 3.7 Strategic Environmental Assessment

The drafting process of the Programme has been subject to a Strategic Environmental Assessment (SEA), undertaken by Sinclair Knight Merz. Annex F details how the SEA process influenced the Programme's development. Annex G contains the plan for monitoring the effects of the Programme on the environment. These are supported by the Environmental Report on the programme and a non Technical Summary published in December 2006 and the final Environmental Statement published in April 2007. The

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<sup>114</sup> [www.advantagewm.co.uk](http://www.advantagewm.co.uk)

latter details the consultation comments received from the public and the competent environmental authorities and how these have been incorporated into the Programme.

### 3.8 Lisbon Earmarking

The table located in Annex D demonstrates how the Programme's priorities contribute to achieving the EC Lisbon targets<sup>115</sup>.

### 3.9 Lisbon Agenda and the Lisbon National Reform Programme

See section 3.2.1 European Policy Drivers – Lisbon Agenda for this information.

### 3.10 Partnership Involvement

The development of the Programme has taken place in close collaboration with key partners and stakeholders, as described in Section 3.4. A conference was held in June 2006 in order to engage with a wider group of stakeholders to inform the development of the Programme. The event brought together over 120 senior decision makers from across the region, where the priorities were outlined and intelligence was gathered in respect of the Programme.

### 3.11 Additionality

Additionality<sup>116</sup> is the extent to which an activity is undertaken at all, on a larger scale, earlier, or within a geographical area of policy concern as a result of being supported by expenditure under the Structural Funds. Thus, Structural Funds must be additional to the funds provided by the public purse and must not replace public expenditure. Another aspect to consider is whether a project would have proceeded without Structural Funding. In essence, additionality is the principle that European funding for projects is additional to, and does not substitute, national funding.

The UK has always accepted these principles and as with other programmes, the principle of additionality must be taken into account. The methodology for calculating additionality for EU Programmes will be agreed in due course by the DTI and the EC.

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<sup>115</sup> Council Regulation (EC) No. 1083/2006, Annex IV, Categories of Expenditure

<sup>116</sup> [www.dti.gov.uk](http://www.dti.gov.uk)

The key way in which this Programme is designed to be additional is that although the general approach is to utilise existing partnerships, schemes and delivery mechanisms there has been a careful selection of which type of activity is suitable for ERDF support and only those activities which offer a strong strategic fit with the Lisbon agenda will be supported. This will have the effect of gaining additional Lisbon promoting activity and influencing the activities of the delivery organisations in a way which aligns them more strongly with the Lisbon agenda.

## 4. PRIORITY AXES

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### Priority 1 - Promoting Innovation and Research and Development

#### 4.1 Rationale and Objective

The current Regional Economic Strategy has attempted to diversify the economic base of the region by a focus on ten business clusters. The socio-economic analysis indicates that a key factor hampering development of the regional economy is low R&D investment and innovation levels (Section 2.5). Thus the overall aim of this priority is to increase the regional levels of R&D expenditure and activity (especially by the private sector) and knowledge transfer between research and business in order to generate more innovative businesses. Work by the Regional Innovation and Technology Council (ITC) has identified five themes as a prime focus for regional innovation activity. These relate to a sub-set of the business clusters with potential for significant growth through innovation, namely:

- Health and medical technologies;
- Energy
- Advanced materials and nanotechnology;
- Digital media (and ICT); and
- Transport technologies.

Of these themes two build on regional strengths in traditional sectors (materials and transport), two focus on global issues which will yield regional benefits and leverageable assets (medical and energy) and (subsequent benefits to climate change) and one focuses on high growth new technology and markets (digital media). This gives a balanced portfolio of risk and opportunity.

Whilst the intention of the Programme overall will be to support activity across all of the ten business clusters, in this priority axis we are particularly keen to develop the five innovation themes, as above, which have also been adopted by the region as the priorities of Birmingham Science City. Further detail on the Innovation themes is given in Chapter 2 – Socio Economic Analysis section 2.3.2 Business Specialisms.

The socio-economic analysis (Section 2.8.1) and the priorities of the European Commission lead to a further special focus on the Environmental Technologies cluster, as well as encouragement of environmental elements of the all the ITC priorities, e.g. low carbon energy sources and sustainable transport, and a key objective of stimulating innovation leading to sustainable production and development. For example we are seeking activities that stimulate “eco-innovation”, developing new products, processes and services that reduce the waste of natural resources / raw materials, improve energy efficiency, reduce environmental impact and address climate change across all four activity areas.

## 4.2 Description of Activities to be Supported

Actions developed under this priority axis are particularly welcomed that extend the range of thinking, scope and provide a longer-term focus than projects normally undertaken via Business Clusters given the inherently longer and unpredictable timescales involved in R&D and the translation of R&D outputs into business benefit, within the constraints of the fixed duration of the Programme.

The limited resources available in the priority axis will primarily, though not exclusively, be focussed where there is critical mass of public and/or private sector R&D expertise and/or facilities. For example, the Programme may support projects that come forward to further develop activities in the designated High Technology Corridors, or at existing facilities where there is a cluster of innovation activity such as research parks and innovation centres. Cooperation with existing structures supporting business to innovate will also be encouraged, e.g. the Manufacturing Advisory Service (MAS) and with larger companies whose supply chains might benefit. Notwithstanding the main focus of this priority axis on existing activity with critical mass, the socio economic analysis highlights the role of the rural and remote areas of the region. We are keen to facilitate activities that overcome existing barriers to innovation in organisations based in remote parts of the region, for example, improving access to significant technical or creative resources. Variations of the types of activity described below may be required to achieve the same outcomes in remote areas, including smaller innovative projects.

Given the shift of the sectoral balance of the regional economy, as highlighted in the socio-economic analysis (Section 2.2), we are keen to stimulate innovation in services, as well as manufactured products. Innovative services in some knowledge-driven sectors may require little new technology but may be enabled by using knowledge from other disciplines to generate more effective or efficient services, or to create an entirely new service. For example, activity may include increasing the use of ICT technology to

facilitate new on-line commercial activity or the development of test beds to showcase innovative applications of emerging ICT and Digital Media technology.

This priority axis will support actions to stimulate increased, and improved, investment in research, development and innovation through collaboration between public and private sectors. Equally important will be support to enable access to the knowledge generated through research, and other relevant knowledge, including design, to increase exploitation and innovation in the region. Structural Funds will be used to drive the research / business agenda forward and to strengthen links between universities / research institutions and industry and public sector organisations to the benefit of the regional economy. All the region's higher education institutions have been engaged in the preparation of the programme and will be involved in its implementation as both applicants and operational partners.

Actions to build relationships between universities / research institutions and businesses and public sector organisations will vary in scale and will be designed to offer a "ladder of progression" allowing entry at different points depending on past engagement or a progressive series of involvements. Priority will be given to approaches which enable a strong business demand-led process to be implemented and therefore encourage commitment and investment from the business or organisation themselves. Projects that build on successful pilots or broaden out existing activity will be encouraged in order to learn from experience and make best use of resources. The Programme will particularly favour the actions listed below, ideally with several of these delivered by the applicant(s) as a portfolio of a number of activities, again to be more efficient and less wasteful of resources.

In addition projects may include inter-regional activity within their work where there is a clear rationale in doing so. For example to learn how to tackle problems within this priority area that are applicable to the region to improve policy, projects and practice.

## **4.3 Indicative List of Specific Actions**

### **4.3.1 Stimulating Business Demand for Innovation**

This activity aims to stimulate business demand for and participation in research, development and innovation. The Programme seeks to increase the number of businesses which collaborate with and draw on the skills and facilities of universities and research organisations to meet their technical and knowledge-support needs, help solve business challenges and stimulate innovation.



ERDF funding will enable adoption of schemes that are new to the region or with only limited experience in the region. Such approaches are consistent with the simplification of business support schemes and developing a more business-led approach, but one which draws on research base strengths.

The following will be particularly encouraged:

- Implementation of voucher schemes to facilitate access by business to a range of research and knowledge providers, a new mechanism to this region but successfully piloted elsewhere<sup>117</sup>; and
- Specialist advisors previously used in the region on a limited scale<sup>118</sup> who can relate to and stimulate both business and the research base and help to broker interaction between them.

#### **4.3.2 Stimulating Knowledge Transfer**

This action aims to increase business participation (particularly SMEs) in collaborative R&D. The Programme will stimulate high quality business-academic collaborative research that will lead to increased private sector R&D investment that will, in turn, deliver economic or quality of life benefits within the region, through support of knowledge exchange and innovation activities involving SMEs. ERDF funding will enable easier participation in existing successful schemes through extension to a wider range of areas of research strength and more businesses with significant innovation and growth potential. Priority will be given to activity that transfers good practice in knowledge-exchange with SMEs to further areas of research strength, both between and within institutions.

Activity will include:

- Support for SMEs to access existing successful nationally and regionally funded collaborative research funding schemes (e.g. Knowledge Transfer Partnerships (KTP); Knowledge, Innovation, Technology, Transfer Scheme (KITTS); DTI Technology Programme; BBSRC Industrial Partnership Awards etc;
- The provision of initial support schemes to engage business with collaborative R&D/ knowledge transfer where it can clearly be demonstrated that a gap in support exists;

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<sup>117</sup> E.g. as piloted by in the Netherlands by SenterNovum

<sup>118</sup> E.g. as used by the Technology Transfer Fund in the Central Technology Belt and the SEEDA Innovation Advisory Service

- Support to develop collaboration to a stage that it can seek private or public research funding, for example, the EC Framework 7 and DTI Technology programmes;
- The expansion of successful support models in the region where demand outstrips supply. For example, this may include:
  - Extending the volume of KTP type activity available in the region; and
  - Extending supply of shorter term graduate placement schemes such as KITTS and Shell Technology Enterprise Programme (STEP) for those companies for which KTPs are too great a commitment.

#### **4.3.3 Promoting Graduate Placements and Entrepreneurship**

This activity aims to improve opportunities for skilled people to contribute to increased economic activity via innovation. This action will:

- Extend graduate or postgraduate placement schemes in small companies with no history of employing graduates to help provide skills in the latest technology areas. This should include appropriate support or mentoring for both the company and graduate to ensure success; and
- Increase entrepreneurial activity for students at graduate and postgraduate levels, including spin-outs and start-ups, for example by facilitating access to appropriate existing business support and incubator facilities.

The Programme will both improve the innovation potential of SMEs by improving their access to higher level skills and enhance the transfer of new knowledge into the regional economy. Furthermore, it will increase the retention of high-level skills in the region by creating greater high-value employment opportunity.

ERDF funding will enable these successful proven approaches to be operated alongside the other activities in the innovation priority axis where limited existing funding for a region-wide offer is available.

#### **4.3.4 Building Demonstrators**

The aim of this action is to stimulate the supply chain for innovative systems and components and the supporting knowledge base. This action will:

- Support establishment of demonstrator activities that act as showcases and test beds for integration of knowledge or novel technology into innovative products, processes or systems.

The purpose of technology demonstrators is to prove research outcomes in real-world situations, where the impact on improved productivity and economic competitiveness can be measured. Demonstrators act as catalysts for economically important innovation and technology development, and natural two-way links between the science base and industry.

It is anticipated that demonstrator activity supported through this programme will consist of fairly substantial, multi-partner projects, that may involve capital investment, e.g. in bespoke technology and its specialist accommodation, as well as revenue, e.g. to support running and development of the technology, and therefore there are likely to be relatively few projects compared to other activity areas. In order to engage the general public, the private sector and public services, these demonstrators will be highly visible, accessible and address significant societal issues. A natural location is within the High Technology Corridors, where knowledge generation and potential exploitation routes are concentrated.

The Programme will raise the profile of the region's ability to integrate the knowledge base and business activity to generate new products and services, and help understand and satisfy emerging market needs and public concern, in line with the Science City Prospectus.

ERDF funding will enable high profile projects to provide a sense of vision for the region that will integrate activity to stimulate innovation and enhance the reputation of the region. They will serve as exemplars for future regional partnership working. They will be consistent with Science City goals and the High Technology Corridors' strategies, and demonstrably add value to their business plans and existing activities.

## 4.4 Outputs / Results Indicators

Type	Description	Total
Output	No of businesses assisted to improve their performance	5,500
Output	No of businesses within the region engaged in new collaborations with the UK knowledge base	3,190
Output	No of businesses assisted that are SMEs	5,225

Output	No of businesses assisted that are social enterprises	2
Output	Public and private investment leverage	€145,000,000
Output	No of people assisted to get a job	1,200
Output	No of people assisted to start a business	500
Output	New or upgraded floorspace (square metres)	2,600
Output	Square metres of premises upgraded to BREEAM	1,025
Result	No of gross jobs created (see note 2 below)	1,550
Result	No of gross jobs safeguarded	3,500
Result	No of new businesses created and attracted to the region	175
Result	No of graduates placed in SMEs	1,000
Result	Tonnes of carbon dioxide equivalent (CO <sub>2</sub> e) reduced	2,000

Note 2: This output will be disaggregated by gender

# Priority 2 - Stimulating Enterprise Development

## 4.6 Rationale and Objective

The socio-economic analysis shows the West Midlands to be underperforming on a number of enterprise and productivity indices. Economic output and productivity are below the national average. The overall level of business start ups is also low, and the region has the lowest proportion of innovative active firms in the UK. Alone among UK regions, the regional share of UK exports is decreasing. Furthermore, there are distinct areas of under-representation. Notably female engagement in enterprise is the fourth lowest of all twelve UK regions, and rates of enterprise among certain BME groups fall behind the national average. The latter is of particular concern when one considers that BME groups will account for a growing proportion of the workforce in future years. The research produced for the 2007 review of the regional economic strategy forecasts a continued regional decline in GVA compared to the national average over the coming years. These forecasts clearly show the need for intervention to stimulate enterprise development to counter further decline in the region's relative economic standing.

Regional firms, particularly those in lower value added sectors of industry, face increased competition from lower cost economies. In order to compete, support is needed to help existing firms to modernise, achieve better resource efficiency, actively engage in innovation, improve their productivity and diversify into new markets. At the same time, efforts are required to generate new businesses in higher value sectors of the economy, and help underrepresented groups fulfil their entrepreneurial potential.

The objective of this priority axis is therefore to increase enterprise in the West Midlands in order to improve regional economic performance. This will be achieved through the provision of tailored business support together with a limited range of integrated access to finance measures. The access to finance initiatives are integrated with the indicative business support activities, but have also been listed separately at the end of the following section, for ease of reference. Business Support and financial products will be primarily focused at businesses within the ten business clusters as identified in the Regional Economic Strategy. However, an exception to the cluster focus will be made in the case of activities to increase the economic engagement of particular under-represented client groups.

## 4.7 Description of Activities to be Supported

Schemes supported through the Programme will be consistent with a demand-led approach to business support, and fit within the overall ethos of simplifying services to enterprise. Initiatives supported through this priority will fit within the West Midlands business support model which provides individuals and businesses across the whole of the West Midlands and across all sectors of the economy, with access to advice and support. The model offers a single gateway for simplified access to support, whilst also accommodating sufficient flexibility for local delivery. Funds from the RCE programme will not be used across the whole of the business support model, but exclusively in those areas which fit with the objectives of the Lisbon Agenda, and where added value can be brought. Specifically, funds will be used to increase the provision of in-depth tailored business support in relation to the ten priority business clusters, to generate start ups, aid diversification, innovation, adaptation to climate change, and access to new markets.

The ten priority business clusters are identified in the West Midlands Economic Strategy and account for 27.5% of regional business stock, representing markets of particular importance, or opportunity to the regional economy. They are listed on page 22 of the socio economic analysis. They cover established, as well as growing and aspirational sectors. Clusters display differing patterns of distribution, relative to underpinning factors such as the location of the skills base and that of specialist R&D infrastructure. It is of note that the Food and Drink and Tourism and Leisure Clusters are of particular importance to the rural economy. As detailed in the socio economic analysis, the clusters are different in scope, scale and stage of development; as such the most suitable type of intervention will differ relative to the particular cluster. This will result in a more tailored in-depth business intervention. Support for diversification and modernization will be, in the main, more appropriate to companies in the more established clusters, whilst support for high growth start ups may be more relevant to growing clusters. Meanwhile, assistance to find innovative routes to market will be a priority for all.

Environmental Sustainability represents both a key challenge and opportunity for enterprise in the West Midlands. Regional businesses will be compelled to make changes to respond to increased energy costs, and the challenge of climate change. Although the cost may be prohibitive in the short term, actions in this area also promise economic benefit. It is estimated that English businesses could save nearly £2bn a year

from increased energy efficiency, and up to £3bn from waste minimisation.<sup>119</sup> Support will be available through this priority to help firms in the ten business clusters identify and adopt more resource efficient processes or processes with reduced environmental impact. This action will bring particular benefits where targeted at businesses with high energy consumption, or levels of waste production, such as businesses in the Building Technologies and Food and Drink clusters. The expanding global market in environmental products, services and processes also represents significant opportunity for businesses in the region's Environmental Technologies cluster: one of the growing clusters, targeted for support through this priority.

An exception to the cluster focus will be made in the case of interventions to increase the economic engagement of particular under-represented client groups, such as women, members of certain BME groups, the disabled, as well as in those cases where rural isolation is acting as a barrier to enterprise. For the latter, it is anticipated that encouraging the greater basic uptake of ICT and broadband will be important tools to increase economic engagement. The barriers to access are different in the case of women and BME groups and as such actions will focus more on bottom up measures to promote engagement. Support for these underrepresented groups will be available across all sectors of the regional economy.

As detailed in the socio economic analysis, there is a spatial dimension to enterprise in the West Midlands. Enterprise and start up rates are highest in the South East of the region, as well as in accessible rural areas. The major urban areas tend to have lower levels of firm formation and enterprise in general, this is particularly acute in areas experiencing multiple factors of deprivation. For this reason, we would expect to see a strong, although not exclusive, correlation between support for entrepreneurship and activities under the Sustainable Urban Development priority. Notably, support will also be available where rural isolation is acting as a barrier to enterprise.

Research shows that regional entrepreneurs and existing Small and Medium Sized Enterprises (SMEs) face barriers in accessing appropriate finance to invest in growth. The autumn 2005 review of the Access to Finance Framework identified nine priority areas for action to improve the investment readiness of funding proposals and fill gaps in the provision of investment capital. ERDF will not cover everything identified in the Access to Finance Review but will target the following five specific activities where European funding will bring added value. These are integrated within the following thematic actions, but are listed separately here for ease of reference:

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<sup>119</sup> The benefits of greener business, 2003 Environment Agency

- The establishment of a Transition Fund to help existing businesses to diversify and make improvements in productivity. This fund will specifically target established businesses who wish to implement diversification plans that show the potential for long term growth but are constrained from achieving this as they do not have sufficient unused security to access bank finance, and are not able to provide the high returns required by Venture Capital. This fits under the *Improving business performance* sub priority;
- The creation of a regional Proof of Concept Fund to facilitate the creation, development of new products and processes including the commercialisation of ideas developed in universities and research institutes. This fits under the *Developing Applied Innovation Activity and Improving Resource Efficiency* sub-priority;
- The enhancement of core investment readiness support to address particular barriers experienced by underrepresented groups such as women and those from BME groups. Investment readiness support comprises guidance to SMEs on the advantages and disadvantages of alternative forms of finance and on how best to present investment projects to potential financiers. This fits under the *Developing a Stronger Entrepreneurial Culture* sub priority;
- Provision of small business loans, defined as loans below £50,000 (€56,860 as at point of change), for start up and early stage businesses including social and community enterprises. This will include as a sub set provision of micro finance defined as loans below €25,000. This fits under the *Developing a Stronger Entrepreneurial Culture* sub priority; and
- Ensuring priority business clusters have access to an adequate and consistent supply of venture capital during their start up phase and initial stages of development. Venture capital is defined as professional equity co-invested with the entrepreneur to fund early stage business or expansion. Off-setting the high risk the investor takes is the expectation of higher than average return on the investment.<sup>120</sup> The rationale for support for venture capital activity should demonstrate a clear market failure in access to finance, requiring ERDF, as opposed to other public, or purely private, intervention. This fits under the *Developing a Stronger Entrepreneurial Culture* sub priority.

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<sup>120</sup> <http://ec.europa.eu/enterprise/entrepreneurship/financing/glossary.htm>



Consideration will be given to the potential benefits of using the JEREMIE initiative as a means of allocating and managing all or part of the funding available to support the access to finance measures contained within this priority axis.

The section below indicates the type of actions which will be supported by this priority axis. The linkages to the issues brought out in the socio-economic analysis and the fit with the Community Strategic Guidelines, the UK National Strategic Reference Framework and regional policy and programme framework are illustrated by the diagram in section 3.3.2 of the Strategy section.

In the case of assistance granted from the Structural funds to a large enterprise, the Managing Authority undertakes to request an assurance from the enterprise concerned that the assistance will not be used in support of investment that concerns the relocation of its production or service facilities from another Member State of the European Union.

In addition projects may include inter-regional activity within their work where there is a clear rationale in doing so. For example to learn how to tackle problems within this priority area that are applicable to the region to improve policy, projects and practice.

## 4.8 Indicative List of Specific Actions

### 4.8.1 Improving Business Performance

The West Midlands GVA per head is below the UK average, and is predicted to grow at a slower rate over the coming years. The socio-economic analysis also reports a serious relative fall in the West Midlands share of exports (Figure 3.2) and shows an over-reliance on just two sectors, machinery and transport equipment, and on specific markets. This area of the Programme will concentrate on stimulating and improving the competitiveness and performance of businesses within the ten clusters, through actions which improve productivity and support diversification into new products and markets. Three particular types of activity are envisaged:

- Firstly, the programme will make available expert help to companies in the ten clusters offering in depth tailored business support to improve overall competitiveness and performance, drawing on the successful experiences and lessons learnt from previous EU funded projects such as Accelerate and Diversification. This will include support to businesses wishing to diversify into activity covered by the ten clusters;

- Secondly, the programme will include trade development schemes designed to stem the decline in regional export share and encourage a diversification of the region's export base. It will concentrate on three activities;
  - Informing regional companies of the opportunities, business culture and best routes to market in the emerging markets of Brazil, China, India, Indonesia, Mexico, Russia, South Africa and Turkey;
  - Seeking to develop new and 'niche' markets for each cluster thus extending the international trade element of the region's 10 cluster plans;
  - Developing support programmes for all aspects of business exchange and particularly exploring the potential for trade activity in the service sector of the regional economy in order to respond to the changing business environment; and
- Thirdly, the programme will establish a Transition Fund to help companies modernise and diversify their operations. This fund will specifically target established businesses who wish to implement diversification plans that show the potential for long term growth but are constrained from doing so as they do not have sufficient unused security to access bank finance, and are not able to provide the high returns required by Venture Capital.

It is envisaged that a fourth strand of activity, helping the management and leadership skills of middle and senior managers and directors within businesses will be offered via the separate European Social Fund programme.

#### **4.8.2 Developing Applied Innovation Activity and Improving Resource Efficiency**

The socio-economic analysis indicates that a low innovation rate amongst SMEs is acting to limit productivity and export performance. Climate change and the rising cost of fossil fuels place an imperative on business to reduce carbon consumption and improve efficiency. This strand of activity will embed the principles of innovation and sustainability across the ten clusters through three fields of activity:

- Firstly, it will support mentoring to enhance awareness and education of the economic benefits of investing in innovation within the 10 clusters, working with businesses to identify and take up opportunities for innovation;
- Secondly, the Programme will seek to support specific actions which assist businesses to become more profitable through resource efficiency savings, waste

management, the uptake of eco innovation and renewable energy and processes with reduced environmental impact; and

- Thirdly, the Programme will establish a Proof of Concept Fund to support ideas and concepts emerging from the collaboration with higher education and research institutes. This fund will enable companies to test out the potential development and commercialisation of new products and processes.

#### **4.8.3 Developing a Stronger Entrepreneurial Culture**

Traditional sectors of industry are declining, and efforts are required to generate new business in those areas of the regional economy that show the greatest potential for growth and higher value added. The socio-economic analysis shows that levels of enterprise activity within the West Midlands are broadly in the mid-range of UK experience but clearly the overall productive capacity of the region in terms of GVA is lagging. In addition, it is evident that female entrepreneurial activity in the West Midlands is relatively weak compared to other parts of the country (Figure 4.3.part b); that the region is not maximising the enterprise potential of some of its minority ethnic communities (Table 4.5); and that low rates of new firm formation are geographically concentrated in the region's two major conurbations (Table 10.1), although sparsely populated rural communities also encounter similar difficulties. In light of these findings, the Programme intends to focus its support for entrepreneurial activity in the following three areas:

- Firstly, the Programme will focus on encouraging high growth start ups within the 10 clusters. This will draw upon the experience of the successful Mustard and Connect Midlands/InvoRed models within the 2000-2006 Objective 2 Programme and give important impetus to companies showing the potential for fast business and employment growth. This activity will combine a mixture of business support measures and access to an adequate and consistent supply of venture capital during their start up phase and initial stages of development, to ensure they have access to the resources they need to reach their potential.
- Secondly, the Programme will provide dedicated support, advice and mentoring to those groups that face barriers to creating sustainable businesses, such as women, certain BME groups, and the disabled. In particular, it will target additional 'investment readiness' support to help these particular social groups to raise finance. This activity will be across all sectors of economic activity throughout the region; and
- Thirdly, the Programme will seek to address the low rate of business formation prevalent in areas of multiple deprivation which are concentrated within the two major conurbations, neighbouring districts and the more isolated and remote rural

areas (Figure 9.1). Access to micro finance and business support activity will be available for start up and early stage businesses in these areas, including social and community enterprises and those assisted under the activities set out at section 4.6 Support will be available to progress LEGI type initiatives. Packages operating under the Sustainable Urban Development Priority will be encouraged to access funds for enterprise support activities under this element of the priority.

## 4.9 Outputs / Results Indicators

Type	Output Description	Total
Output	No of businesses assisted to improve their performance	16,271
Output	No of businesses assisted that are SMEs	15,457
Output	No of businesses assisted that are social enterprises	150
Output	No of businesses within the region engaged in new collaborations with the UK knowledge base	700
Output	Public and private investment leverage	€142,171,187
Output	No of people assisted to get a job	1,000
Output	No of people assisted to start a business (see note 1 below)	9,000
Result	No of gross jobs created (see note 2 below)	9,000
Result	No of gross jobs safeguarded	6,000
Result	No of new businesses created and attracted to the region	2,380
Result	Tonnes of carbon dioxide equivalent (CO <sub>2</sub> e) reduced	341,020

Note 1: This output will be disaggregated by gender and ethnicity

Note 2: This output will be disaggregated by gender

# Priority 3 - Achieving Sustainable Urban Development

## 4.11 Rationale and Objective

This priority will stimulate renaissance within key urban areas in the West Midlands by encouraging job creation and by targeting communities in need to help them join the economic mainstream. The socio economic analysis shows that areas of the region are significantly under performing. It is clear firstly that there are real concentration of disadvantage in the region which are unsustainable economically and socially. These are areas where communities are disadvantaged with lower employment activity rates, lower skills levels and poor environments. Secondly it is clear that manufacturing employment is continuing to decline with all the associated problems that that creates and this is also concentrated in certain parts of the region. This priority is seeking to tackle both these issues by helping to create the conditions for new job growth and by helping to stimulate communities to become more economically successful and by linking these two aspects together.

### 4.11.1 Statistical Rationale for the Geographical Focus

This priority focuses on those areas which are shown to have:

- Higher than average unemployment and worklessness

Table 10.3 shows the geographical spread of unemployment in detailing those wards with over twice the regional rate of unemployment. It shows that these top 30 wards all lie within the West Midlands conurbation and have a total of almost 30,000 unemployed people.

- The most significant job losses in manufacturing

The main urban areas in the West Midland have had the most significant job losses in manufacturing as table 10.2 shows with seven of the top 22 local authorities in the UK for manufacturing job losses being drawn from this area. In total from 2001 to 2004 53,849 jobs were lost. This was before the headline closures at Longbridge and Ryton.

- Significant areas of brownfield land, under used sites and buildings

Figures are only available for brownfield land which is a small part of this priority. These are indicative of wider under investment by manufacturing firms. Table 6.1 outlines the problems across the region in the amount of derelict land still awaiting reclamation. The geographical focus for this priority does contain significant levels of such land. These areas also contain many areas of older industrial property where investment and new jobs are slow to materialise. Most investment in new manufacturing jobs is in the areas surrounding the main West Midlands conurbation where barriers to investment are much lower.

- The concentration of communities at risk of social exclusion

Table 10.1 shows that of the most deprived areas<sup>121</sup> within the region, 454 of the 474 areas lie within the seven metropolitan borough council and City of Stoke on Trent boundaries. These are areas where the population suffers a range of disadvantage, including unemployment, lower activity rates, lower skills and other factors.

#### **4.11.2 Indicative Area for Package Selection**

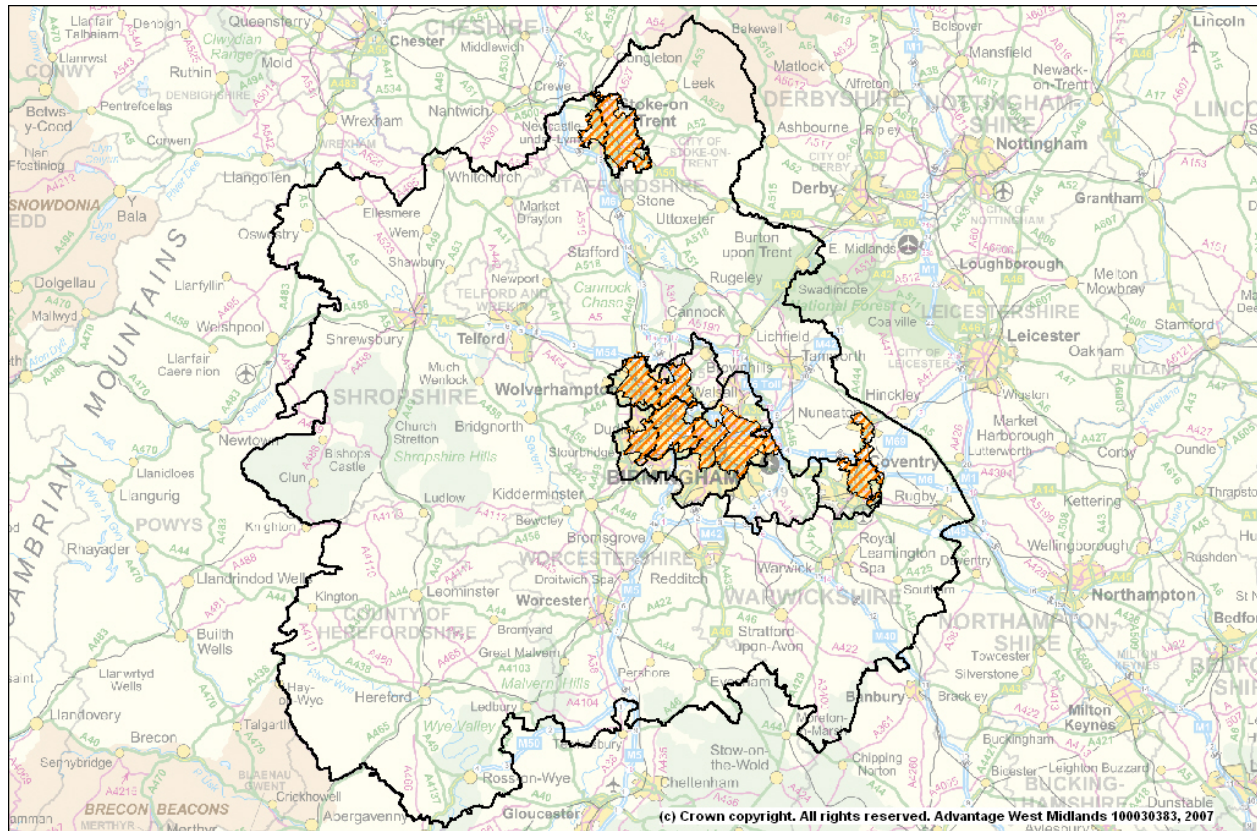
Activity under this priority will be principally focused within area-based packages located within the West Midlands Conurbation and the North Staffordshire Conurbation, where levels of deprivation are shown to be at their greatest. However, an element of funding may also be made available to initiate projects elsewhere in the region, where significant concentrations of economic need can be demonstrated.

The following map illustrates the indicative area for package selection. The administrative boundaries of the seven Metropolitan Councils which make up the main West Midlands Conurbation (Wolverhampton, Dudley, Walsall, Sandwell, Birmingham, Solihull and Coventry) are delineated in black, along with those of Stoke on Trent City Council in North Staffordshire. Overlaid in red hatching are the five urban regeneration zones: Coventry and Nuneaton; East Birmingham and North Solihull; North Staffordshire; North Black Country and South Staffordshire (Future Foundations); and South Black Country and North Birmingham (The Arc of Opportunity). The Regeneration Zones are an instrument of the West Midlands Economic Strategy which recognises that economic problems and deprivation do not stop at local authority boundaries. They focus on areas where need co-exists with substantial opportunity, and aim to connect

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<sup>121</sup> Super Output Areas (areas smaller than wards)

the opportunities with the need through a variety of projects. Funds under Priority 3 will similarly be used to link opportunity to need, but in view of the available resource, will concentrate on much smaller package areas. These packages will be invited to come forward from within the two major urban areas, including contiguous urban areas where similar issues exist (such as those parts of the Regeneration Zones that fall outside the administrative boundaries of Stoke on Trent or the seven Metropolitan Councils.)



#### 4.11.3 Package Approach

This priority recognises the need to prioritise further within the region's main urban areas given;

- **The level of resources available :** The resources in this priority are limited compared to previous programmes and therefore real choices are needed on where to focus;
- **The need for concentration for real effect:** All prior best practice points to the need and the benefit of concentrating in geographical areas. Area based approaches help ensure a greater economic benefit for the resources spent;

- **The geographical spread of opportunities/need are not universal across the West Midlands:** There are successful economic areas within the main conurbations and it would be inappropriate to allocate such limited resources to support such areas.

In general the priority will support an **area based package approach** (i.e. a grouping of projects) rather than a project by project approach across the urban area. This will facilitate impact, strategic linkages, and availability of match funding and delivery. For each package there will be a selection of the area where employment-creating actions can be concentrated and the area where communities in need should be supported. Geographically targeted package areas<sup>122</sup> will be selected on the coincidence of communities in need together with significant opportunities for job creation<sup>123</sup>. These should not solely be employment opportunities at a local level, but should aim to have an impact at a city, or sub regional level as a minimum.

Package Selection Guidelines and Management Guidelines will be developed. The following factors will be taken into account.

Package areas:

- 1) Will need to be geographically defined areas where employment creation is possible and necessary. Where there are identified barriers to growth, (e.g. physical, ownership environmental), the areas chosen will need to have real potential for private sector investment to follow on. This might be based around existing centres where growth is happening or areas where other significant public investment is due to follow.
- 2) Will need to contain communities identified as currently suffering from economic disadvantage: through use of IMD2004<sup>124</sup> and other indicators. These areas will need to contain existing community capacity on which to build.

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<sup>122</sup> The package model assumes the geographical area chosen includes both employment generating and community regeneration aspects. It is also feasible that the chosen employment generating area is separate from the community regeneration area. In this latter scenario it is vital that both chosen areas are on good public transport that links them together

<sup>123</sup> Areas chosen for creating employment must have a realistic scope for job creation, for instance they should be close to areas where the market is investing or further significant public sector investment should be planned to support ERDF actions

<sup>124</sup> Particularly the sub-domains of deprivation relating to economic disadvantage such as income, employment and, skills and training. Data sets available at ward level such as employment rates, unemployment, skill levels and worklessness would also be appropriate in helping to target the communities of need.



- 3) Will need to be existing or proposed strategic regional and or sub regional policy foci where resources are committed or due to be committed. This might be through a Regeneration Zone ZIP/SIP, a Local Area Agreement or a LEGI Programme. Where at all possible these packages should be delivered by existing partnerships/ delivery mechanism where these have been shown to have delivered under the 2000-2006 Programme or through other programmes.
- 4) Will set or have in place themes that link to the key policy drivers in the WMES or sub regional sector strategies and will need to have a potential range of co-ordinated projects.

The location and choice of these packages will ensure a proper geographical spread across the main urban areas reflecting the extent of problems and opportunities. All activity within the package must be for the benefit of the local community, but also must have wherever possible wider impact on the sub region. In order to achieve wider impact it is recognised that for some actions package managers may need to allocate a limited amount of resources outside the package area.

#### **4.11.4 Priority Aims / Objectives**

The objectives of this priority as outlined in the strategy section are two fold:

- **To create new employment opportunities in areas co-terminus or close to communities in need through the restructuring, reuse, and introduction of new uses in older employment <sup>125</sup>areas.**

With two sub-objectives

- To create jobs through the reuse of redundant or underused sites/premises, including reuse of heritage sites/premises; and
  - To increase energy efficiency and productivity in SMEs via the promotion of environmental technologies and knowledge economy projects.
- **To support communities in need to increase their economic viability and to help these communities access new jobs that will be created through this and other programmes and through market led job growth.**

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<sup>125</sup> This may include mixed use areas where there is significant scope for job creation

There will also be Wider Employment and Community Actions which will support the overall drive to bring employment to the regions main urban areas and to promote wider actions on sustainability and digital inclusion.

## 4.12 Indicative List of Specific Actions

As outlined above our approach is split between Employment Creating and Community Innovation actions.

### 4.12.1 Employment Creating Sub Objectives and Actions

Because of new ERDF regulations, the focus for ERDF intervention is likely to be more on public sector actions and facilities which have an economic impact than has been the case in the 2000-2006 Programme. It is recognised that given the amount of resources available and the new regulations, that where actions are directly linked to working with the private sector this will largely be with and for start-ups, micro enterprises and SMEs.

**a) To create jobs in Priority 3 package areas through the reuse of redundant or underused sites/premises, including reuse of heritage sites/premises. The following actions may be included in the package:**

- a1 Investment in the reclamation<sup>126</sup> and re-use of previously developed land including under used buildings, or parts of buildings, or sites. This investment must lead to productive /business floorspace for knowledge led businesses; creative industries, environmental technology industries, advance manufacturing, managed workspace and incubation and innovation activities in order to bring new economic life to the area (i.e. employment growth, sales growth and increased sales)
- a2 The sensitive reuse of historic buildings, infrastructure and other cultural heritage assets for development of new or expanded economic, tourism/cultural uses that contribute to economic impact at least at a sub regional level.<sup>127</sup>
- a3 The removal of physical barriers to growth in package areas such as improving degraded environments which are physical and psychological barriers to

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<sup>126</sup> Dealing with contamination, existing surface and buried structures; stabilisation; levelling; provision of flood defences; provision of utilities and other services; environmental improvement or enhancements (Draft V2 of definitions notes on proposed ERDF National Indicators).

<sup>127</sup> Such investments should not be solely targeted on the package communities and should aim in the case of tourism/cultural projects to draw in visitors from at least the sub regional level.

investment, and improving physical access routes to new and expanded employment sites.

a4 Integrated economic and public realm schemes in neighbourhood/local centres which create and safeguard local employment and strengthen and diversify local businesses.

a5 The Programme will also fund marketing of the opportunities in the area. This could include place marketing/ support for events drawing on the particular business sectors prominent in the area and promoting the area as a place to invest and / or visit.

**b) To increase energy efficiency and productivity in SMEs in Priority 3 package areas via the promotion of environmental technologies and knowledge economy projects. The following actions may be included in the package:**

b1 Pilot projects in using or promoting new environmental technologies and other technologies to achieve environmental and economic benefits in package areas.

- These would be actions such as Combined Heat and Power schemes/ networks for local businesses for improvements in energy and resource efficiency;
- Very high bandwidth networks to support the clustering of local businesses with such needs and where the market has failed to do so; and
- Other examples could be the development of pilot biomass schemes and other local energy actions such as integrated clean urban transport pilots.

#### **4.12.2 Community Innovation Actions**

This element of the priority will help those communities which suffer worklessness and deprivation to access new employment and training opportunities. It will target communities in need where employment rates and skills levels are lower than average. These areas will include populations drawn from different ethnic minorities and will exhibit a range of other indicators of deprivation. The packages will be expected to identify and address the equalities issues faced by the local communities.

This element of the Priority will assist these populations to access the jobs being created by the rest of the Priority, as well as other jobs growth in their vicinity and to promote the take up of enterprise. Given the reduced level of resources available to the Priority, the areas will be defined geographically, the actions will support other initiatives already in place or programmed. They will focus on investments that leave a legacy and empower communities in the longer term. Community Development Trusts, which promote and support local economic activity and social enterprises, may deliver these initiatives especially where the investment will aid their long term sustainability.

**c) To increase job take-up by residents in disadvantaged areas through improving access to information technologies, training and enterprise facilities and travel to employment opportunities.**

c.1 Strategic investments, where significant gaps exist, such as new, expanded and enhanced strategic enterprise and / or training centres<sup>128</sup> where these facilities are directly linked to improving the pathways to employment and enterprise in growth sectors<sup>129</sup> of the economy for disadvantaged communities.

- Provision of Community/Social enterprise space may be supplied under this action where there is benefit for local communities and where the focus is on new sectors.
- ERDF revenue support may also be given to such centres and in the wider package area to promote the effectiveness of such centres (and the wider uptake of the enterprise culture), their outreach in communities and their organisation. Actions directly related to training of beneficiaries etc will be expected to be funded by the separate ESF Programme and other funds

c.2 Activities that improve the cultural, historical and green environments for the benefit of the local community such as, community greening of derelict/under used land, refurbishment and improvement of public spaces, cultural outreach actions and mentoring. Such actions wherever possible should involve the active participation / targeting of the local community particularly those that are not usually engaged.

c.3 Investing in the use of information technologies for the benefit of local communities and business such as community access points, teleworking, and telelearning facilities and new digital opportunities such as WIFI and WIMAX<sup>130</sup> systems for free

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<sup>128</sup> These should be facilities identified in regional, sub regional or city level strategies. Where such facilities are proposed to serve only local needs there will need to be justification in terms of local strategies and a review of other provision.

<sup>129</sup> See section 2.3.2 which identifies business specialisms.

<sup>130</sup> WiFi Short for 'wireless fidelity'. A term for certain types of wireless local area networks

access to information on employment and vocational training opportunities and public services.

- c.4 Travel improvements which link communities identified in the package plan to significant employment opportunities. These would not be major capital transport infrastructure schemes but rather would comprise of actions such as bus priority measures, cycle lanes and pathways, park and ride, bus/rail interchanges, improved access measures alongside pilot sustainable transport measures, community transport schemes,. Such actions and those of a similar nature and scale would provide (i) the linkages between communities and new jobs and (ii) reflect the objective of the programme to tackle climate change by reducing car-borne commuting.

### **4.12.3 Wider Employment and Community Actions**

Most activity will be concentrated in the selected geographical areas given the scarcity of funds and the need to get real results. However it is vital that some revenue resources fund limited wider actions to bring employment to the regions main urban areas and to promote wider actions on sustainability and digital inclusion. These will not be part of the packages. These may include revenue funding for innovative projects that support: -

- The wider marketing of the two conurbations as locations for businesses, organisations and events;
- The promotion of sustainable transport initiatives and global change plans; and
- The promotion of awareness and support content development of IT resources to tackle digital exclusion.

### **4.12.4 JESSICA**

The proposals contained in the new regulations for the establishment of revolving funds to recycle ERDF investment in urban projects will be investigated. Further details are being sought specifically on the JESSICA<sup>131</sup> proposals emanating from the Commission. These might be applicable to a wide range of urban regeneration projects including community-based projects.

### **4.12.5 Delivery Issues**

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WIMAX – similar to WiFi but broadband

<sup>131</sup> Joint European Support for Sustainable Investment in City Areas (JESSICA)

While it is envisaged that these packages will be public sector led and many of the projects will be delivered by the public sector or sub regional partnerships; those bodies charged with leading the packages should consult with the private sector and the community sector on the different elements of the package and the strategy taken. This consultation should not only be focused on the geographic areas chosen but also on wider views and engagement.

To be effective it is expected that packages will invest £8-£12m ERDF. Given likely available resources this will lead to between 5 and 6 packages across the region. This must lever in significant other resources as ERDF is unlikely to be able to fund the whole range of actions needed.

The balance of these funds between community innovation and employment generating aspects will be determined package by package.

## 4.13 Outputs / Results Indicators

Type	Output Description	Total
Output	No of businesses assisted to improve their performance	600
Output	No of businesses assisted that are SMEs	570
Output	Public and private investment leverage	€99,782,047
Output	Brownfield land reclaimed and / or redeveloped	10
Output	New or upgraded floorspace (square metres)	65,000
Output	Square metres of premises upgraded to BREEAM excellent or very good at current standards	14,000
Output	No of people assisted to get a job	10,000
Result	No of gross jobs created (see note 2 below)	1,000
Result	No of gross jobs safeguarded	200
Result	No of new businesses created and attracted to the region	35
Result	Tonnes of carbon dioxide equivalent (CO <sub>2</sub> e) reduced	50,000

Note 2: This output will be disaggregated by gender

# Priority 4 - Developing Inter-regional Activity

## 4.15 Rationale and Objective

The Regional Economic Strategy emphasises a 'Powerful voice for the region'. This is concerned with increasing the profile of the region, and developing mutually beneficial relationships with partners in other Regions.

The impetus to this priority comes from:

- Partners own experience of the positive practical outcomes of inter-regional working, wanting to extend these benefits to the wider partnership, and
- Clear evidence from work undertaken by the region, the EU and beyond.

The overall aim of this priority is to support the three main priorities in assisting the introduction of a inter-regional element to their work where there is a clear rationale and expected benefit from doing so. Specifically to learn:

- How to tackle problems that are applicable to the region – so as to improve policy, projects and practice in the region; and
- How to maximise learning from current and future inter-regional activity, and engage key decision makers.

## 4.16 Description of Activities to be Supported

The subject / topic areas for seeking and offering inter-regional expertise will be driven by the three main priorities.

As the subject / topic areas within this priority will flow from those identified within the main priorities, they will have specific references to elements of the socio economic analysis and strategy and to the Lisbon guidelines.

The funding allocated to the inter-regional priority should be focused on activity, where the region is seeking to improve and learn, and to address specific relative regional under performance. Activity will be eligible to come forward from across the West Midlands.

The strategy and choice of regions with whom the West Midlands will co-operate will be defined during the ordinary course of programme implementation and following discussion of options and priorities within the Programme Monitoring Committee. At present there appear fruitful possibilities for co-operation between the West Midlands and the relevant regional/local authorities in France, Sweden and Poland. Additional member states are likely to be identified during the course of programme operations.

## 4.17 Indicative List of Specific Actions

### 4.17.1 Priority 1: Promoting Innovation, Research and Development

Good practice in this priority exists in other European countries (further information cited in the Innovation and Knowledge priority chapter section 4.1). Furthermore, skilled people exist across Europe who could bring knowledge that would stimulate innovation to and add value to regional businesses, to complement the third activity in this priority. This leads to the proposal to support the following activities within the inter-regional strand, in support of the Innovation and Knowledge Priority:

- Programme of European student / researcher placements in West Midland firms, association with a regional research-base link to attract high calibre graduates to the region, bringing market and cultural knowledge of their home country; Structural funds will be used to complement other EU Programmes for those companies who have no history of participation in such schemes and where speed of response is important;
- Study visits for Programme participants focusing on international experience of clusters, university-business interaction, supply chain innovation development, to transfer best practice between regions;
- Establishing networks with businesses, researchers etc in regions with similar innovation priority themes to extend the pool of knowledge and of business challenges that might be met via the research base; and
- Collaborating with EU technology platforms and the developing European Institute of Technology to both increase recognition of the regions institutions and technology business community, and create public/private partnerships.

Structural Funds will be used to complement other EU Programmes.



#### **4.17.2 Priority 2: Stimulating Enterprise Development**

The following activities will be supported under the inter-regional Priority (further information cited in the Stimulating Enterprise Development priority chapter section 4.6).

- Inter-regional study groups investigating the use of loan and guarantee based mechanisms and interest rate rebate schemes;
- Developing a structured approach to maximise the benefits of international trade especially where this is an element of wider region to region engagement;
- Examining models of innovation to encourage diversification;
- Approaches to Cluster management, and financial engineering' and
- Research into new technologies for SME development.

#### **4.17.3 Priority 3: Achieving Sustainable Urban Development**

The inter-regional Priority will provide support for overarching issues facing the region re: spatial policy and governance, out migration, city region, social and economic cohesion. (Further information cited in the Achieving Sustainable Urban Development priority chapter section 4.11).

These are examples where expertise may be sought and exchanged under this priority :

- Financial mechanisms for bringing forward development;
- Clean intra urban transport ;
- The role of culture and sport in job creation;
- The creative use of industrial heritage;
- Sustainability /Combined Heat and Power systems in urban areas;
- Waste management/ reduction/ recycling;
- The importance of place in developing clusters;
- Exchanging experience in sustainable urban development; and
- Developing community leadership.

#### **4.17.4 Regions for Economic Change**

This is a new inter-regional initiative from the European Commission, aimed at bringing together EU regions to develop and promote specific Lisbon agenda issues and topics.

Partners will consider the added value of participating in this initiative under the Inter-regional priority.

Where appropriate, the necessary arrangements will be made to integrate into mainstream programming innovative operations identified as a result of the networks the region is involved in under the framework of Regions for Economic Change (RFEC). Representatives of these networks will report on progress to the PMC and the networks activities and their relevance to the OP will be discussed by PMC on an annual basis. Activities undertaken as part of RFEC will be reported in the Annual Report.

## 4.18 Outputs / Results Indicators

Type	Output Description	Total
Output	No of businesses assisted to improve their performance	20
Output	No of businesses assisted that are SMEs	20
Output	Public and private investment leverage	€1,046,766
Output	No of participants, schemes, exchanges and study visits	350
Result	No of pilot best practice implementations	8
Result	No of new networks established	7

# Priority 5 – Technical Assistance

## 4.20 Rationale and Objective

Technical Assistance resources are included in the Programme and will contribute towards delivering the overall regional strategy by assisting the necessary activities associated with Programme management. This includes Programme preparation, implementation, monitoring, evaluation and publicity. The funds allocated to Technical Assistance shall be managed in accordance with Article 46 of Council Regulation (EC) No 1083/2006.

## 4.21 Description of Activities to be Supported

Technical Assistance will provide support under the following headings:

- Programme Management;
- Programme Development and Capacity Building;
- Programme related Research, Analysis, Monitoring and Evaluation; and
- Programme Information and Publicity.

Technical Assistance may be accessed by national, regional and local authorities, bodies or individuals, including economic and social partners, who are preparing or involved in the implementation of the Programme.

A Technical Assistance procedure has been produced. This procedure defines in detail the method of approach for the management and administration of funding allocated to the Technical Assistance priority axis.

A voluntary contribution mechanism will not be introduced, and there will be no match funding pool. The match funding for Technical Assistance will be provided by public organisations. 'External' applications for technical assistance, i.e. those outside of the operation of the Programme Secretariat function, will be expected to secure match funding.

Any Technical Assistance projects required providing suitable expertise for the Programme Secretariat function and support for Programme and project management will be commissioned by Advantage West Midlands.

## 4.22 Indicative List of Specific Actions

### 4.22.1 Programme Management

Effective Programme management requires that the Programme organisation and structure, roles and responsibilities and reporting arrangements are sufficiently well defined and implemented. This includes the establishment and maintenance of suitable regional partnerships.

The role of the Priority Manager will be supported by Technical Assistance. The Priority Managers will contribute towards delivery of the ERDF programme, maximising the impact of European Structural Funds in the region; in particular to lead and co-ordinate the regional partnership and Agency colleagues in developing ERDF Packages and projects in the context of the ERDF Operational Programme Document, the West Midlands Economic Strategy (WMES) and in accordance with the European Commission Regulations. In addition, other posts engaged in the preparatory, management, monitoring, evaluation, information and control activities of the operational programme, together with activities to re-enforce the administrative capacity for implementing the funds will be financed by Technical Assistance.

Specifically, Technical Assistance will support **Programme Management** through:

- The employment of suitable expertise where necessary, potentially the secondment of staff to the Programme Secretariat;
- Training and development of officials involved in the delivery of the programme including training/development of PMC and other partnership group members;
- Support for programme management including (i) project selection and appraisal, (ii) programme and project monitoring and (iii) co-ordination of the PMC and partnership groups;
- Embedding the cross cutting themes using appropriate expertise, growing the understanding, commitment and capacity of management bodies and beneficiaries;
- Acquisition and installation of the necessary IT hardware and software to support programme and project management; and
- The production of good quality programme management information to facilitate decision making and programme operation.

#### **4.22.2 Programme Development and Capacity Building**

A philosophy of continuous improvement is a key element of Programme management good practice. Technical Assistance will be used to ensure that (i) the Programme develops effectively, and (ii) applicants and suppliers are suitably aware of what is required of them and are equipped to deliver it.

Specifically, Technical Assistance will support Programme Development and Capacity Building through:

- Support to the project development activity to help ensure that the requirements of the Regulations are 'designed in' to projects;
- Development and provision of training, guidance, advisory and information services for successful applicants to ensure a controlled start to projects;
- Support for further development of understanding across the programme priority axes;
- Support for the development of pilot schemes to test innovative ideas; and
- Measures to improve coordination of activity at a sub-regional level including capacity building support for sub-regional partnerships.
- Provision of additional expertise to support the successful implementation of the cross cutting themes.

#### **4.22.3 Programme Analysis, Monitoring and Evaluation**

Programme related analysis, monitoring and evaluation forms an integral part of programme delivery. Evaluation of previous programmes has demonstrated that the use of technical assistance to analyse and evaluate performance is a significant factor in successful programme delivery. Performance analysis and evaluation will help ensure focused and effective application of ERDF resources within the Programme; it will also identify any gaps in the data and develop research projects to address these accordingly.

Specifically, Technical Assistance will support **Programme related Research, Analysis Monitoring and Evaluation** through:

- Development of baseline data to measure programme performance, particularly results, impacts and value for money;
- Provision of the required policy and socio-economic analysis updates to facilitate production of the Annual Implementation Reports;

- Commissioning evaluation studies and implementing the relevant findings from these evaluations at suitable intervals including mid-term and Programme completion;
- Development of research and evaluation expertise through provision of training;
- Commissioning an independent impact assessment of the Programme's cross cutting themes;
- Independent evaluation and value for money analysis of major projects and packages;
- Commissioning studies to support the preparation or impact assessment of specific projects, particularly innovative projects funded through the Programme (such as market and feasibility studies, environmental impact assessments etc.);
- Evaluation linked to the monitoring of the Programme in accordance with Article 48.3 (Reg. 1083/2006); and
- Bespoke research studies and thematic evaluations to ensure that the programme remains evidence based (examples include studies analysing innovation in the more dynamic sectors of the economy and identifying special needs of small organisations such as the transfer of technology or methods of financing).

#### **4.22.4 Information and Publicity**

The region is committed to (i) managing Programme communications, particularly publicity, in an effective manner, (ii) ensuring that the assistance received from European funds is accurate, transparent and highly visible and (iii) maximising public awareness of the positive impact of the ERDF across the Region. Publicity forms an integral part of the programming strategy and the Agency will ensure that the benefits of the funds are communicated to the wider public. To help achieve this, a Communication Plan will be established for the Programme in conformity with the provisions set out in the Implementing Provisions Chapter (Section 8.2) and the Implementing Regulation. The Agency will report on progress in implementing the plan to the Programme Monitoring Committee and in the annual implementation report.

The Programme Secretariat function 'owns' the Communication Plan; regional partners have a key role to play in supporting its implementation. Projects will be required to respect the publicity elements of the general and implementing regulations, especially with regards to signage, including billboards, plaques and promotional material.

Specifically, Technical Assistance will support **Programme Information and Publicity** through:

- Establishment and maintenance of effective channels for communication and publicity including new or enhanced websites and bespoke newsletters;
- Guidance and pro active monitoring to ensure all projects adhere to the publicity requirements applied to all grant offers; and
- Execution of promotional events such as seminars, conferences and road shows to launch the programme, publicise bidding rounds and disseminate best practice.

## 4.23 Outputs / Results Indicators

Type	Output Description	Total
Output	No of businesses assisted to improve performance	50
Output	No of businesses within the region engaged in new collaborations with the UK knowledge base	50
Output	No of businesses assisted that are SMEs	50
Output	No of businesses assisted that are social enterprises	8
Output	Public and private investment leverage	€11,899,930
Output	No of participants, schemes, exchanges and study visits	128
Output	No of capacity building initiatives	305
Output	No of research studies	4
Result	No of pilot best practice implementations	4
Result	No of new networks established	5

## 4.25 Aggregated Programme Outputs and Results

Type	Description	Priority Axes					TOTAL
		1 Innovation R&D	2 Enterprise Development	3 Sustainable Urban Development	4 Inter- Regional Activity	5 Technical Assistance	
Output	No of businesses assisted to improve their performance	5,500	16,271	600	20	50	22,441
Output	No of businesses assisted that are SMEs	5,225	15,457	570	20	50	21,322
Output	No of businesses assisted that are social enterprises	2	150			8	160
Output	No of businesses within the region engaged in new collaborations with the UK knowledge base	3,190	700			50	3,940
Output	Public and private investment leverage	€145,000,000	€142,171,187	€99,782,047	€1,046,766	€11,899,930	€399,899,930
Output	Brownfield land reclaimed and/or redeveloped (ha.)			10			10
Output	New or upgraded floorspace (square metres)	2,600		65,000			67,600
Output	No of people assisted to get a job	1,200	1,000	10,000			12,200
Output	No of people assisted to start a business (see note 1 below)	500	9,000				9,500
Output	Square metres of premises upgraded to BREEAM excellent or very good at current standards	1,025		14,000			15,025
Output	No of participants, schemes, exchanges and study visits				350	128	478
Output	No of capacity building initiatives					305	305
Output	No of research studies					4	4
Result	No of gross jobs created (see note 2 below)	1,550	9,000	1,000			11,550
Result	No of gross jobs safeguarded	3,500	6,000	200			9,700
Result	No of new businesses created and	175	2,380	35			2,590



	attracted to the region						
Result	No of graduates placed in SMEs	1,000					1,000
Result	Tonnes of carbon dioxide equivalent (CO <sub>2</sub> e) reduced	2,000	341,020	50,000			393,020
Result	No of pilot best practice implementations				8	4	12
Result	No of new networks established				7	5	12

*Note 1: This output will be disaggregated by gender and ethnicity. Note 2: This output will be disaggregated by gender*

## 4.26 Output Definitions

Type	Description	Summary Definition*
Output	No of businesses assisted to improve their performance	Provision of consultancy support, information and advice. A minimum of 2 days consultancy or other non-financial assistance; or a grant, or equivalent, of at least £1000.
Output	No of businesses assisted that are new SMEs	As above, assistance to SMEs in accordance with the EU definition. This output is a component of the business assist output.
Output	No of businesses assisted that are social enterprises	As above, assistance to Social Enterprises in accordance with the UK Cabinet Office Social Enterprise Unit definition. This output is a component of the business assist output.
Output	No of businesses within the region engaged in new collaborations with the UK knowledge base	As above and including an engagement between at least one business and one knowledge base organisation. This output is a component of the business assist output.
Output	Public and private investment leverage	Includes all match funding attracted to support projects.
Output	Brownfield land reclaimed and/or redeveloped (ha.)	Hectares of land reclaimed to an acceptable condition and/or redeveloped into effective use.
Output	New or upgraded floorspace (square metres)	The entire area within the external walls of a building including corridors, lifts, plant rooms and service accommodation.
Output	Employment support – No. of people assisted to get a job	Relevant assistance to individuals to find a job including the provision of information, advice and guidance.
Output	No of people assisted to start a business	Provision of assistance to individuals to start a business including (i) sole proprietorship, (ii) partnerships and (iii) companies.
Output	Square metres of premises upgraded to BREEAM excellent or very good at current standards	This output is a component of the new or upgraded floorspace output and in accordance with the required BREEAM standards.
Output	No of participants in placements, schemes, exchanges and study visits	Individuals engaged in inter-regional events.
Output	No of capacity building initiatives	Initiatives such as best practice events to facilitate capacity building and improve project development, appraisal and delivery.
Output	No of research studies	Research studies to further inform ERDF programme and project development.
Result	No of gross jobs created (see	Jobs created as a result of an ERDF intervention/s.

	note 2 below)	
Result	No of gross jobs safeguarded	Jobs safeguarded as a result of an ERDF intervention/s.
Result	No of new businesses created and attracted to the region	When a new business starts trading in the region i.e. registers for VAT or National Insurance (Class 2) contributions.
Result	No of graduates placed in SMEs	Individuals with NVQ4 or equivalent qualification awarded within the previous three academic years and placed in an organisation that meets the EU definition of an SME.
Result	Tonnes of carbon dioxide equivalent (CO <sub>2</sub> e) reduced	Reduction of CO <sub>2</sub> e measured using a carbon assessment tool over the lifetime of the project and derived from the baseline scenario.
Result	No of pilot best practice implementations	Incorporation of best practice identified as a result of inter-regional working including study tours, on-site visits etc.
Result	No of new networks established	Establishment of channels of communication and working protocols to facilitate sharing of best practice.

## 4.27 Impact Indicators

Type	Description
Impact	Increase in GVA as a result of the programme
Impact	Increase in employment
Impact	Carbon emissions per € of GVA

# 5. CROSS CUTTING THEMES

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## Introduction to the Cross Cutting Themes

Earlier chapters have recognised the focus of the programme on sustainable regional economic growth. However, such growth must also achieve environmental and social benefits. As laid out in article 17 of the Structural Funds Regulation 1083/2006, the programme objectives must be “pursued in the framework of sustainable development and the Community promotion of the goal of protecting and improving the environment”. Moreover, article 16 underlines how delivery of the Programme should promote equality between men and women and prevent discrimination on the basis of sex, racial or ethnic origin, religion, disability, age or sexual orientation. To ensure that environmental respect and social equity are put at the heart of the Programme, the partnership has adopted the two cross-cutting themes of **environmental sustainability** and **equal opportunities**.

The themes support the objective of increased competitiveness for the region. Greater economic engagement of otherwise inactive or excluded groups can help to bolster the regional economy, whilst basing economic growth upon a healthy and liveable environment ensures that the region can maintain a competitive edge without degrading the essential environmental context upon which it depends. Projects funded through the Programme will be expected to embed best practice in both themes as appropriate. Each theme is now expanded further.

## 5.1 Environmental Sustainability

### 5.1.1 Introduction and Context

Environmental sustainability within EU funds relates to the continued maintenance of the non-human world in which the Programme will operate. The Programme should seek, where it can, to create positive environmental impacts maximising the long term economic advantage of operating more sustainable modes of production and consumption whilst respecting natural limits to growth, especially carbon output.

In developing the cross cutting themes, the partnership has drawn on lessons learned from their implementation in the West Midlands Objective 2 Programme<sup>132</sup>. Research commissioned by the Partnership showed that just under half of the projects in the Objective 2 Programme increased their effort to integrate environmental concerns as a result of its promotion as a cross cutting theme.<sup>133</sup> The report's authors attribute this broad impact to the relative novelty of the sustainable development agenda in UK at the time, and the small number of other funding providers who included environmental impact in their project selection criteria. In recent years the principle of sustainability has however risen considerably up both the political and enterprise agenda.

Key policy documents at European, international and regional level include the EU Strategy on sustainable development agreed at Gothenburg in 2001, the principles of which were integrated into the Lisbon Agenda; "Securing the Future", the UK's most recent Sustainable Development Strategy, which sets out five guiding principles for a sustainable future; and "A Sustainable Future for the West Midlands", the agreed framework which establishes a common set of objectives to deliver sustainable development in our region.

The Community Strategic Guidelines, which establish the objectives of the structural funds, advocate "strengthening synergies between environmental protection and growth". This commitment is taken up in the National Strategic Reference Framework in which UK programmes are tasked with contributing to the Government's goal to reduce the UK's emissions of carbon dioxide by 20% by 2010 and by 60% by 2050. A prime mechanism advocated in the National Strategic Reference Framework is investment in sustainable consumption and production. This is also one of the four priorities of the "Securing the Future" strategy.

The need to protect the global economy from the effects of climate change was brought to wide attention by the authoritative Stern report published in 2006.<sup>134</sup> The West Midlands emits slightly less carbon dioxide (the most significant greenhouse gas) per person than the UK average, although in contrast to national trends, emissions are gradually increasing<sup>135</sup>. Partners recognise that tackling climate change and helping shift the West Midlands towards a low carbon economy are fundamental to the region's long-term success. Rising to this challenge will drive competitiveness over the longer

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<sup>132</sup> A third cross cutting theme, that of innovation, was also adopted. Given that innovation has now been mainstreamed through priority 1 it has not been felt necessary to carry it forward as a cross cutting theme.

<sup>133</sup> Evaluation of the Impact of mainstreaming the horizontal themes in the West Midlands Objective 2 Programme – Fraser Associates February 2005

<sup>134</sup> [http://www.hm-](http://www.hm-treasury.gov.uk/independent_reviews/stern_review_economics_climate_change/stern_review_report.cfm)

[treasury.gov.uk/independent\\_reviews/stern\\_review\\_economics\\_climate\\_change/stern\\_review\\_report.cfm](http://www.hm-treasury.gov.uk/independent_reviews/stern_review_economics_climate_change/stern_review_report.cfm)

<sup>135</sup> for full details see environmental report for the Strategic Environmental Assessment and sustainability appraisal of RCE Programme for the West Midlands Sinclair Knight Merz 2006

term. The programme will seek to capture the economic benefits of reduced direct carbon emissions through increased resource efficiency, be this through direct support to businesses or through the incorporation of efficiency measures into new and existing buildings. This will go hand in hand with investment which uses the region's strengths in engineering, science and technology to develop and deliver low carbon solutions to the growing regional, national and international markets.

Allied with responses to climate change should be the recognition that a healthy West Midlands environment will better support happy communities and a thriving economy. Environmental quality has been shown to attract inward investment and assist in retaining a highly skilled workforce, both key issues for the West Midlands. Environmental quality should not be lost to economic activity and this is also reflected in the objectives of the environmental sustainability cross cutting theme.

### 5.1.2 Design and Development

Much of the environmental data underpinning the development of this cross cutting theme is appended to the Strategic Environmental Assessment. The partners have used the strategic environmental process as a key instrument to optimise the impact of the environmental sustainability theme in the Programme. The SEA has informed the development of the Programme in an iterative fashion. This was facilitated through a number of workshops where drafting leads met with the SEA consultants to consider ways in which the positive contribution of the Programme could be maximised, whilst identifying ways to minimise potential negative effects. The SEA indicators have been used to assess the broad aims and specific activities of the Programme and will continue to be monitored throughout Programme delivery.

### 5.1.3 Aim

To pursue sustainable economic development which breaks the link between economic growth and negative environmental impacts; respecting environmental limits and maximising the positive opportunities that responding to environmental concerns can bring.

The Environmental Sustainability theme objectives are to:

- **Support sustainable production and consumption** through targeted support of businesses, R&D, partnerships and projects;
- **Protect natural resources** through the careful design of projects and programme support systems;

- Support **sustainable communities** through packages of focused support that benefit people and localities as a means of creating greater economic wealth and advantages.

#### 5.1.4 Actions by Priority Axis

Under Priority One, this means stimulating collaboration between businesses and the research base to develop and commercialise low carbon solutions for national and international markets.

Under Priority Two, this means helping regional businesses to exploit the economic benefits of increased resource efficiency and facilitating investment in the development of low carbon technologies and services.

Under Priority Three, this means developing community-focused low carbon initiatives, and ensuring that development optimises the use of previously developed land buildings and meets high standards of resource efficient design.

## 5.2 Equal Opportunities

### 5.2.1 Introduction and Context

Article 16 of the Regulations sets out the prevention of discrimination and the promotion of equal opportunities as key goals for the structural funds programmes. The regulations place a primacy on promoting gender equality, but also recognise the importance of preventing discrimination on the basis of sex, racial or ethnic origin, religion, disability, age or sexual orientation. The UK Government takes a wider interpretation of equal opportunities than just gender, encompassing race, disability, age, and sexual orientation. It is this wider interpretation that will be promoted through all stages of the implementation of this Programme.

The five year European Social Agenda was launched in 2005 integrating the social policy dimension into a the refocused Lisbon growth and jobs strategy. The twin objectives of the agenda are moving towards full employment and extending equal opportunities to everyone in society. As reflected in the Community Strategic Guidelines and the National Strategic Reference Framework, this programme has a key role in promoting the social dimension of economic growth. Particular emphasis will be placed on increasing the adaptability of enterprises and attracting more people to enter, and remain in, employment.

Getting people into paid work is a central element of the Government's strategy to tackle social exclusion. Some groups face more difficulty in accessing the labour market, including certain minority ethnic groups, older people, and those with disabilities. The Programme has an important role to play in removing specific barriers and promoting equality of access to economic opportunities.

The West Midlands region has a fairly even split of males and females. As with other regions in the UK, the male entrepreneurship rate in the West Midlands is much higher than that of the female. However, whilst West Midlands is in the middle of the UK regional distribution for male entrepreneurship, for females the situation in the region is much weaker, with the level of entrepreneurship closer to the bottom of the UK regional table. This has prompted the inclusion in the Programme of positive actions to engage more women in entrepreneurship.

The ethnicity dimension of equal opportunities is of particular importance in the West Midlands given its diverse ethnic make up. It is important to note the significant variations that exist between different minority ethnic groups in respect of employment rate, skills level, and employment sector. The evidence base gathered by the West Midlands Minority Business Forum in recent years has highlighted several important issues regarding the economic engagement of different minority ethnic groups<sup>136</sup>. Despite relatively good participation levels in learning and skills amongst most BME groups, individuals from BME groups are still twice as likely to be unemployed than the indigenous population. In contrast self employment rates for many minority ethnic groups exceed those of the indigenous British majority in the West Midlands. Although this should be tempered with an analysis that reveals high concentrations of different BME groups in certain lower value added areas of the economy. The impact of migration into the region since the last census, notably of Somalis and Eastern Europeans will have implications for the Programme going forward, as will the more youthful age structure of Black and Minority Ethnic Groups which will mean that BME groups will make a growing proportion of the working age population in the years to come. As the West Midlands State of the Region Report 2004 highlights this diversity should be viewed as an opportunity in a global economy where familiarity with a wide range of cultures and the creative fusion of ideas may be seen as a competitive advantage.

As revealed in the socio economic analysis, demographic factors display different distributions across the region. In line with the equal opportunities cross cutting theme, projects supported through this programme will be encouraged to take account of the

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<sup>136</sup> Ethnic Minority Regional Economic Data August 2004 and Ethnic Minority Businesses in the West Midlands: A review Monder Ram and Trevor Jones July 2006



needs of the local communities they serve at all stages of development and delivery whilst optimising the use of inclusive methods of engagement.

## **5.2.2 Design and Development**

The regional partnership expanded upon the statutory requirement for a Strategic Environmental Assessment submitting the Programme to a more broad-based Sustainability Appraisal. This was to ensure that social consideration and economic inclusion were integrated into Programme development. This process was augmented by the separate Equality Impact Assessment Screening which was carried out in conjunction with the West Midlands Regional Assembly's Regional Strategic Partnership for Equality and Diversity. The Strategic Partnership considered how the Programme addressed under-representation and social exclusion; identifying key risks and issues; and making recommendations to ensure these were addressed.

## **5.2.3 Aim**

To pursue regional regeneration which makes the link between opportunities for economic growth and areas of economic need; respecting individuals' gender, race, disability, age, religion and sexual orientation to maximise the positive opportunities, through economic success, that the Structural Funds can bring.

The following objectives are suggested:

- Identify and pursue opportunities to actively engage underrepresented groups;
- Enable all of the region's citizens to benefit from increased wealth and prosperity through the growth of the regional economy; and
- Raise the earning potential for women, ethnic minorities and other disadvantaged groups.

## **5.2.4 Actions by Priority Axis**

Under Priority One this means ensuring that employment opportunities created as a result of investment in regional innovation are offered in an inclusive fashion.

Under Priority Two this means ensuring that enterprise and business development support is promoted as relevant to all sections of the community, and offering tailored support to enable under-represented groups to overcome specific barriers to business start up and access to financial investment.

Under Priority Three this means facilitating access to employment for disadvantaged people.

## 5.3 Implementation of the Cross Cutting Themes

The evaluation of the cross cutting themes in the West Midlands Objective 2 Programme drew out several lessons to inform their implementation in future programmes. These included:

- Clearly articulating the objectives of the cross cutting themes from the start of the programme;
- Ensuring proposed indicators are observable, manageable and sufficiently focused on the actions to be supported;
- Issuing practical and focused guidance at an early stage to inform project development;
- Early consideration of the themes in project assessment procedures; and
- Ensuring that requirements made of projects are proportionate to their scale.

Following these recommendations, the partnership recognises that to achieve the successful implementation of the cross cutting themes they must be embedded through all stages of the Programme and project lifecycle: through governance, development, appraisal, selection, monitoring, and evaluation.

Within the Programme governance structures, the principles of ownership and accountability will be applied to the management of the cross cutting themes. It will be the responsibility of the dedicated resource assigned to lead on each of the priority axes to ensure that cross cutting themes are suitably accounted for. The Priority Managers will be assisted by policy officers from Advantage West Midlands, who will provide support in the following areas:

- Leading on the production of suitable guidance for staff and partners for the practical implementation of the cross cutting themes;
- Supporting work to ensure that the requirements of the cross cutting themes are incorporated into the Agency's management systems, including the application, appraisal, monitoring and reporting infrastructure;
- Developing and maintaining suitable baselines, particularly for monitoring the indicators arising from the Strategic Environmental Assessment;

- Providing policy advice to the European Programme Management Team and project development and delivery community in terms of project development, appraisal, monitoring and reporting; and
- Supporting the European Programme Management Team in capacity building events and best practice seminars.
- Technical assistance might be accessed to buy in additional expertise to support any of the above.

Staff working on the ERDF Programme will form part of the relevant working groups that have been established to monitor the implementation of work in these policy areas. Project sponsors will work with the applicants to draw out the cross cutting themes through the project development stage. The cross cutting theme requirements will be incorporated into the project selection criteria laid down by the PMC and given due consideration in appraisal. Cross cutting theme requirements will also be incorporated into the project management documentation, including items such as application and appraisal forms, project monitoring checklists and progress update pro formas.

Under the provisions of the technical assistance procedure, funds will be available to support such activities which grow the understanding, commitment and capacity of management bodies and beneficiaries to effectively implement the cross cutting themes.

## 5.4 Monitoring the Cross Cutting Themes

The integration of cross cutting themes will be the subject of monitoring and thematic evaluation over the life of the Programme, and it is envisaged that an independent impact assessment of the cross cutting themes will be commissioned.

As per the recommendations from the evaluation of the Objective 2 Programme, where possible, monitoring will also be exploited as an opportunity to capture better information on both processes and outcomes, and compile qualitative examples of both good and less successful practice to inform future delivery.

Performance measures for both environmental sustainability and equal opportunities have been integrated into the monitoring criteria for the Strategic Environmental Assessment and Sustainability Appraisal. These are listed in the SEA section later in this document. The following indicators have also been integrated into the Programme indicator framework to monitor the environmental impact at a project level, namely:

- Brownfield Land Reclaimed (ha)
- Square metres of premises upgraded to BREEAM excellent or very good at current standards
- Tonnes of carbon dioxide equivalent (CO<sub>2</sub> e) reduced

Two tools have been developed to support the implementation of the environmental sustainability theme:

1. A Built Environment Sustainability and Design Annex to the application form which will set out the published, mandatory, minimum standards for construction projects and the need for projects to attain certain BREEAM standards
2. A Carbon Reduction Assessment Toolkit to assess the likely carbon reduction that can be expected from suitable projects. A specific question in the application will be used to identify those projects most likely to contribute to carbon reduction and the tool will be used to predict the likely savings. Actual savings will be reported by projects during the delivery stage. Going forward, this will provide a baseline on which Programme and project level targets can be set and built into funding agreements.

In line with Commission guidelines, figures for jobs created through the Programme will be monitored and reported by gender. In addition, projects will be required to disaggregate the 'number of people assisted to start a business' by gender and ethnicity in project returns. This will inform the regional evidence base to inform future policy development and facilitate evaluation of the impact of the Programme on rates of female and BME entrepreneurship.

## 6. FINANCIAL ALLOCATIONS

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### 6.1 Financial allocations by year

**Financial Plan of the Operational Programme giving the Annual Commitment of each fund in the Operational Programme.**

Operational Programme Reference (CCI number): UK162po007  
Year by source for the programme in EUR

Year	ERDF	Total
<b>2007</b>		
In Regions without transitional support		53,791.322
<b>Total 2007</b>		<b>53,791.322</b>
<b>2008</b>		
In Regions without transitional support		54,867.148
<b>Total 2008</b>		<b>54,867.148</b>
<b>2009</b>		
In Regions without transitional support		55,964.491
<b>Total 2009</b>		<b>55,964.491</b>
<b>2010</b>		
In Regions without transitional support		57,083.781
<b>Total 2010</b>		<b>57,083.781</b>
<b>2011</b>		
In Regions without transitional support		58,225.457
<b>Total 2011</b>		<b>58,225.457</b>
<b>2012</b>		

In Regions without transitional support		59,389.966
<b>Total 2012</b>		<b>59,389.966</b>
<b>2013</b>		
In Regions without transitional support		60,577.765
<b>Total 2013</b>		<b>60,577.765</b>
Total in Regions without transitional support		399,899.930
<b>Grand Total 2007-2013</b>		<b>399,899.930</b>

## 6.2 Financial allocations by priority (Revised December 2011)

**Financial Plan of the Operational Programme giving, for the whole programming period, the amount of the total financial allocation for each fund in the Operational Programme, the national counterpart and the rate of reimbursement by priority Axis**

Payments are made as reimbursements of expenditure actually paid out according to the following plan.

Operational programme reference (CCI number): UK162po007

Priority axes by source of funding (in EUR)

	Community Funding (a)	National counterpart (b) (= (c) + (d))	Indicative breakdown of the national counterpart		Total funding (e) = (a)+(b)	Co-financing rate (f) = (a)/(d)	For information	
			National Public funding (c)	National private funding (d)			EIB contributions	Other funding
<b>Priority Axis 1 - ERDF</b>								
<b>Promoting Innovation and Research and Development</b>	145,000.000	145,000.000	133,400.000	11,600.000	290,000.00	50%		
<b>Priority Axis 2 – ERDF</b>								
<b>Stimulating Enterprise Development</b>	142,171.187	142,171.187	100,941.542	41,229.645	284,342.374	50%		
<b>Priority Axis 3 – ERDF</b>								
<b>Achieving Sustainable Urban Development</b>	99,782.047	99,782.047	69,847.432	29,934.615	199,564.094	50%		
<b>Priority Axis 4 – ERDF</b>								
<b>Developing Inter-</b>	1,046.766	1,046.766	1,046.766	0	2,093.532	50%		

<b>regional Activity</b>								
<b>Priority Axis 5 - ERDF Technical Assistance</b>	11,899.930	11,899.930	11,899.930	0	23,799.860	50%		
<b>Total</b>	399,899.930	399,899.930	317,135.67	82,764.26	799,799.860	50%		



## 7. CO-ORDINATION

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It is a regulatory requirement to coordinate assistance from the different financial instruments of the European Union. Demarcation is made at a regional level. Coordination is important both to avoid overlap, and to ensure that investments are carried out in a coherent manner consistent with the aims of European policy and legislation. In particular, the Sustainable Development Strategy, adopted by the European Council in June 2006, highlights the importance of enhancing synergies and complementarities between Community and other public funding in order to optimise the promotion of sustainable development.

The use of resources from the European Regional Development Funds in England will need to be carefully managed, to prevent any overlap or duplication of funding, and to ensure complementarity and optimal value for money. It is essential that we avoid any double funding. Equally, we must avoid a situation in which a high quality project is unable to attract funding. This applies both to other domestic funding streams, and to the closely linked European funding streams.

This section of the Operational Programme details the demarcation between support offered by the West Midlands Competitiveness & Employment Objective for ERDF and the following European funds in cases where there is a potential overlap between the types of activity that can be supported:

- European Agricultural Fund for Rural Development (EAFRD)
- European Investment Bank (EIB)
- Competitiveness & Employment Objective (ESF)
- 7<sup>th</sup> Framework Programme (FP7)
- Competitiveness & Innovation Programme (CIP)
- EU Programme for Lifelong Learning
- European Territorial Cooperation

### 7.1 European Agricultural Fund for Rural Development

The following table summarises the priorities for the different European funding streams available in rural areas in West Midlands over the 2007-2013 Programming period:

<b>ERDF</b>	<b>EAFRD</b>	<b>ESF</b>
<b>For Convergence regions:</b>	To build profitable, innovative and	Extending employment opportunities by tackling

To promote innovation and knowledge transfer	competitive farming, food and forestry sectors, that meet the needs of consumers and make a net positive contribution to the environment	barriers to work faced by people who are unemployed or disadvantaged in the labour market
To stimulate enterprise and business development		
To improve accessibility and connectivity		
<b>For competitiveness and employment regions:</b>	To improve the environment and countryside	Developing a skilled and adaptable workforce by training people who lack basic skills and good qualifications
To promote innovation and knowledge transfer	To enhance opportunity in rural areas, in a way that harnesses and builds upon environmental quality	
To stimulate enterprise and support successful business		
To ensure sustainable development, production and consumption	To mobilise the development potential of rural areas in a way that stimulates innovation to the benefit of the local area	
To build sustainable communities		

England's Regional Development Agencies will deliver the ERDF, and the socio-economic elements of the RDPE (with the exception of the Regional Development Agency for London, which does not receive any EAFRD support).

The Regional Development Agencies will ensure coherence in the day to day management of the socio-economic support under the RDPE and the ERDF. They will ensure that work carried out at the regional level under the two funds is complementary, and robust project development and selection processes will ensure that any duplication is avoided. Administrative arrangements are in place to ensure complementarity and co-ordination, for example, common secretariats; exchange of personnel on regional management committees; exchange of information from databases. The RDAs will also be required to work closely with the Leader groups to ensure demarcation on the ground. These processes begin with the clear establishment of demarcation criteria at the regional level.

The table below sets out the way in which this will be delivered in the West Midlands:

## Demarcation between the ERDF and the EAFRD in the West Midlands

Activity	Proposed Demarcation criteria by funding stream	
	Regional Competitiveness & Employment Programme (ERDF)	European Agricultural Fund for Rural Development (EAFRD)
<b>Support for innovation based on linking companies with R&amp;D providers</b>	<p>Priority 1</p> <p>Intended beneficiaries are primarily companies addressing the five innovation priority themes:            Energy            Health and Medical Technologies            Advanced Materials &amp; Nanotechnologies            Transport Technologies            Digital Media and ICT</p> <p>Plus companies in the Environmental Technologies sector.</p> <p>Support to the food and drink sector will be restricted to non-Annex 1 activities</p> <p>Priority 3</p> <p>Support to facilities with direct links to HE and FE sectors where there is a direct benefit to the local business economy. This activity will be restricted to the designated packages in the major urban areas and contiguous urban areas.</p>	<p>Axis 1</p> <p>Intended beneficiaries are small to medium sized land based businesses principally farming, food and forestry. Activity will support the West Midlands supply chain and be focused on smaller scale collaborations involving producer-led businesses, farmers and foresters.</p>

<b>Stimulating demand for environmental goods and services e.g. supply chain for biomass</b>	<p>Priority 1</p> <p>Will support establishment of substantial multi-sector demonstrator activities that act as showcases for the integration of knowledge or technology into innovative products, processes or systems</p> <p>Priority 3</p> <p>Small scale pilot projects promoting new environmental technologies. This activity will be restricted to the designated packages in the major urban areas and contiguous urban areas</p>	<p>Axis 1</p> <p>Will focus on skills training, logistical arrangements and other capacity development measures</p> <p>Possibility for small- scale activity in rural areas</p>
<b>Vocational training</b>	<p>Training and skills are generally outside the scope of the ERDF programme</p> <p>Priority 1</p> <p>However, priority one does allow for the provision of postgraduate placement schemes in small companies as a support to the business to help provide skills in latest technology areas</p>	<p>Axis 1 and Axis 3</p> <p>Identifying existing skills needs and supporting provision of training and knowledge transfer in land management skills and training in basic &amp; technical skills for the agricultural, food and forestry sectors.</p>
<b>Promoting resource efficiency</b>	<p>Priority 2</p> <p>Will focus on businesses in the ten clusters Support for companies in the food and drink sector will be restricted to non- Annex 1 activities</p> <p>Priority 3</p> <p>Grant schemes for SMEs in packages in the major</p>	<p>Axis 1</p> <p>Support in food and drink sector will focus on farm and forestry enterprises and other businesses involved in the production, processing and marketing of products listed in Annex 1 to the Treaty of Rome.</p>

	urban areas and neighbouring districts to invest in energy efficiency and renewables.	Restricted to rural areas
<b>Support for tourism activity</b>	<p>Priority 2</p> <p>Tailored business support and access to finance for businesses in the regional tourism and leisure cluster. This will exclude businesses which specialise in farm-based recreation and tourism.</p>	<p>Axis 3</p> <p>Focused on rural and farm-based tourism and recreation.</p>
<b>Support for modernisation and improving productivity</b>	<p>Priority 2</p> <p>Focused on activity within the ten business clusters, excludes annex 1 products</p>	<p>Axis 1</p> <p>Focused on the introduction of new technologies and production techniques, improving quality and adding value to agricultural and forestry products plus annex 1 food and drink products</p>
<b>Identification of and entry to new markets</b>	<p>Priority 2</p> <p>Support for trade development activity for businesses in the ten clusters, maximising potential of emerging markets</p>	<p>Intended beneficiaries are small to medium sized land based businesses principally farming, food and forestry, where the primary product is grown in the West Midlands.</p>
<b>Support for the creation and development of micro-enterprises with a view to promoting entrepreneurship and developing the economic fabric</b>	<p>Priority 2</p> <p>ERDF support will target under-represented groups to engage in and set-up NEW entrepreneurship (i.e. the facilitation of economic exploitation of new ideas and fostering the creation of new firms). This support is not restricted to clusters and includes women, BME groups, the disabled and instances where rural isolation is acting as a barrier to enterprise. ERDF WILL NOT support the creation and development of micro-enterprises in the farm, food and forestry related industry (i.e. manufacturing and services) and tourism</p>	<p>EAFRD support will target EXISTING small- to medium-sized land based enterprises in the farming, food, forestry branches and thus foster diversification of their activities. EAFRD support will target creation and development of micro-enterprises restricted to farm, food and forestry related industry (i.e. manufacturing and services) and tourism sectors.</p>

	sectors.		
<b>Support to diversify the rural economy</b>	<p>Priority 2</p> <p>Support for businesses to diversify into the ten business clusters, excluding support to businesses in Annex 1 to the treaty, farmers and foresters</p>	<p>Axis 3</p> <p>Utilisation of labour, land and skills for purposes developing new or novel crops and the generation of non-agricultural income.</p>	
<b>Conservation and preservation of heritage</b>	<p>Priority 3</p> <p>Reuse of redundant sites/ premises including heritage sites that have economic impact, restricted to packages in the major urban areas and neighbouring districts</p>	<p>Axis 3</p> <p>Small scale projects designed to conserve and preserve rural heritage in ways that improve the quality of life for rural populations and increase the area's economic attractiveness.</p>	
<b>Development of Community Facilities</b>	<p>Priority 3</p> <p>Limited funds for this activity will be available through the designated packages in the major urban areas and contiguous urban areas</p>	<p>Axis 3</p> <p>In rural areas only. Small scale projects designed to improve infrastructure and the local economy.</p>	
<b>Investing in use of information technologies for the benefit of local communities and businesses</b>	<p>Priority 3</p> <p>Limited funds for this activity will be available through the designated packages in the major urban areas and contiguous urban areas</p>	<p>Axis 3</p> <p>In rural areas only</p>	

### **Administrative arrangements to ensure on-going complementarity and co-ordination**

During the 2007-2013 funding period, delivery of the rural development funds and structural funds have been aligned more closely through the Regional Development Agencies. Within the West Midlands, day to day management of the ERDF Programme and Axis 1 and Axis 3 of the European Agricultural Fund for Rural Development (EAFRD) will be delivered by Advantage West Midlands. Each fund will be overseen by its own secretariat. Both will operate within the Agency's programme management framework which will bring increased coherence. Each programme has been developed within the policy framework set out within the West Midlands Economic Strategy. This brings increased complementarity, ensuring greater focus with both instruments contributing to shared regional goals. The teams developing the two programmes have worked together to ensure synergy, whilst reducing the risk of overlap between the two funds. Similar coordination methods will operate during the delivery of the programme in order to avoid double funding.

The RDPE programme is significantly restricted in its scope to fund largely land based business development, principally, farming and forestry, which are outside the scope of the West Midlands ERDF programme.

## 7.2 The European Fisheries Fund

This fund is not relevant for the West Midlands.

## 7.3 European Investment Bank (EIB)

The European Investment Bank is the autonomous financing institution of the European Union and provides long term finance for specific capital projects. Should this be the case for projects in the West Midlands, close coordination will be required to ensure projects complement the actions supported under the ERDF Programme.

Three new joint initiatives, JASPERS, JEREMIE and JESSICA, have been developed by the Commission and the EIB to bring forward good quality projects through the structural funds programmes (2007 – 2013). JASPERS is not applicable to the West Midlands. JEREMIE (**J**oint **E**uropean **R**esources for **M**icro to medium **E**nterprises) is an optional facility which increases the flexibility to use ERDF to support SMEs and micro enterprises through access to finance schemes. It may be relevant to the delivery of the financial instruments outlined in the Stimulating Enterprise Development Priority Axis of the new programme. JESSICA (**J**oint **E**uropean **S**upport for **S**ustainable **I**nterest in **C**ity **A**reas) is an optional facility to invest in Urban Development Funds (UDFs) to accelerate investment in urban areas. It may be relevant to delivery of actions under the Sustainable Urban Development Priority Axis. EIB may be elected to act as fund manager for either facility and in this capacity may lever in additional resources or expertise. Partners will give consideration to the potential benefits of using the JEREMIE and JESSICA facilities to implement parts of the ERDF Programme.

## 7.4 Regional Competitiveness and Employment Objective: European Social Fund

The Regional Competitiveness and Employment Objective is split organisationally with ERDF being managed within the regions and ESF being managed nationally. West Midlands' partners are looking for the closest possible integration between the two programmes as we sought to achieve within the 2000-2006 Objective 2 and Objective 3 programmes. Therefore, it is proposed that at PMC level the ERDF and ESF committees have both a common membership and a common schedule of meetings. The Chairs of the meetings are to be determined, but common membership will contribute to a smooth functioning of the interface between the two programmes.



The Regional Skills Partnership is leading the development of the Regional ESF Framework. The development team has worked closely with the team developing the ERDF Programme to increase complementarity where possible under the parameters set at National Level. The National ESF programme is strongly focused around basic and lower level skills, and as such the greatest potential for complementarity will be under the Sustainable Urban Development Priority. Under current proposals support for higher level skills will be very limited, but where possible we would expect these funds to complement activity under priority 1 and 2 of the ERDF Programme, particularly in the area of increasing leadership and management Skills.

## 7.5 7<sup>th</sup> Framework Programme

The 7th Framework Programme is the main EU funding programme for Research, Technology and Demonstration. The same project expenditure cannot be co-financed through both ERDF and the Framework Programme. However, as work conducted by the CREST Working Group<sup>137</sup> shows, co-ordinated use of Structural Funds and the Framework Programme can be instrumental in progressing research and development at a regional level particularly where resources are mobilised around agreed priorities. Both funding programmes operate under the policy framework of the Lisbon Agenda and share the common goal of delivering stronger, lasting growth and better jobs. Whilst the Framework Programme strives to support excellence in inter-regional scientific and technological research, the structural funds have a broader scope, investing in innovation in order to strengthen EU economic and social cohesion and create growth and employment at the regional level. Both programmes recognise the importance of knowledge transfer, and the role of SMEs as crucial actors in the innovation and development process. Different governing mechanisms, rules and procedures undoubtedly create challenges to coordination, yet it is possible to adopt a regional approach which optimises the synergies between the two programmes.

Partners recognise that increasing investment in research and development is essential to a competitive regional economy. Under priority one and two of this programme activities have been included which will increase regional capacity to generate and absorb innovative new products, processes and services; whilst activity under priority 4 will further inter-regional networks. The proposed activity is particularly focused around the five innovation priority themes identified by the Innovation Technology Council. These build upon areas of regional research

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<sup>137</sup> How to make better co-ordinated use of Structural Funds and Framework Programme to support R&D by Valeria Bandini, and Instrumental Commentary by Kathleen Toepel, for the CREST (Committee for Scientific and Technical Research) Working Group 2007

strength and knowledge exchange, whilst encompassing research areas supported under the Framework programme. Together, these actions should provide a firm foundation for increased regional participation in private or public research funding programmes, including the Framework Programme.

## 7.6 Competitiveness and Innovation Programme

The Framework programme will be implemented in close association with the Competitive and Innovation Programme (CIP), which will run from 2007-2013 with a budget of €3.2 billion. CIP will have three specific programmes:

- Entrepreneurship & Innovation (targeted at SMEs)
- ICT Policy Support
- Intelligent Energy Programme.

Partners will be looking for appropriate synergies between actions developed under CIP and actions supported under the ERDF RCE programme.

## 7.7 EU Programme for Lifelong Learning

The Lifelong Learning Programme is the main EU Programme for education and training. It fosters interchange and cooperation across the skills spectrum encompassing general education, vocational education and training, non-formal education and informal learning. Labour mobility is one of the principal actions supported through the Lifelong Learning programme. In the same vein, the Innovation, Research and Development Priority Axis of the ERDF Programme will provide support to graduate and postgraduate placements in small companies unused to employing graduates. This will provide access to higher level skills and enhance the transfer of new knowledge into the regional economy. The Inter-regional Priority Axis provides for this activity to be extended to attract high calibre European graduates to the region. In this way, actions under the ERDF Programme will increase awareness of the benefits of mobility transfer and encourage more regional businesses to continue engagement in this activity whether under the Lifelong Learning Programme or actions under the Marie Curie Strand of the 7<sup>th</sup> Framework Programme.

## 7.8 European Territorial Cooperation

European Territorial Cooperation is the structural fund instrument (ERDF) for cross-border, transnational and interregional cooperation within the EU. The purpose of this objective, inspired by the experience of the INTERREG Community Initiative of the last programming period, is to strengthen cooperation

at three levels: cross-border, within transnational zones and through interregional networks. The West Midlands is eligible under the latter two strands.

The Transnational strand is delivered through Cooperation Zones. The West Midlands is eligible under the North West Europe Zone programme which is worth €355m.

For the first time, the West Midlands has the potential to use an element of its regional structural funds allocation to exchange knowledge, experience and best practice with cities or regions across Europe. The West Midlands Partnership has embraced this possibility through the establishment of a distinct priority totalling 6 million euro to Develop Inter-regional Co-operation (Priority 4). There are obvious synergies between the Territorial Cooperation Objective and the aims of priority 4, particularly, where funds will be used to support innovation and the knowledge economy or sustainable communities. The Partnership is keen for this priority to be used as a stepping stone to larger collaborations through the mainstream transnational funding programmes, and efforts will be made to target organisations with no or little transnational working.

# 8. IMPLEMENTING PROVISIONS

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## 8.1 Regulatory Context

In accordance with the requirements of Article 37(1)(g) of Council Regulation (EC) No 1083/06 of 11 July 2006, this chapter sets out the implementation provisions for the West Midlands European Regional Development Fund Regional Competitiveness and Employment Operational Programme (“the OP”).

These have been developed taking into account the requirements of Council Regulation (EC) No 1083/06, which lays down general provisions about the Structural Funds; Council Regulation (EC) No 1080/06, which lays down specific provisions about the types of activity that may be financed by the European Regional Development Fund; and Commission Regulation (EC) No 1828/2006, which sets out rules for the implementation of the Council Regulations.

The implementing provisions will be subject to revision where necessary to reflect any subsequent regulations adopted by the Council or the Commission concerning the ERDF. All articles quoted in the text are those of Council Regulation (EC) No. 1083/06, except where otherwise stated. In the event that the implementing provisions are found on any point to be inconsistent with any provision of the Structural Funds Regulations, the meaning or effect of the Regulations shall prevail.

## 8.2 Managing Authority, Cerifying Authority, Audit Authority and Intermediate Bodies

### 8.2.1 Managing Authority: Role and Functions

A system of management and control of the implementation of the OP will be set up in accordance with Article 58.

The Managing Authority (MA), whose functions are set out in Article 60, is responsible for managing and implementing the OP in accordance with the principle of sound financial management and the requirements of the Structural Funds Regulations.

The MA for the OP is the Secretary of State for Communities and Local Government (SSCLG). The address is Eland House, Bressenden Place, London

SW1E 5DU, England, United Kingdom. The functions of the MA not entrusted to an intermediate body will be carried out by officials of the Department of State headed by SSCLG (the Department for Communities and Local Government) who administer European policy and programmes, presently entitled European Policy and Programmes Division, under the responsibility of SSCLG.

### **8.2.2 A 59(2) Intermediate Body: Roles and Functions**

Article 59(2) authorises the Member State to designate one or more intermediate bodies to carry out some or all of the tasks of the managing or certifying authority under the responsibility of that authority. [The Secretary of State, for the UK Government, proposes to designate a single intermediate body (hereafter referred to as the A 59(2) body) for the OP. The A 59(2) body is Advantage West Midlands, which is a regional development agency established and regulated by the Regional Development Agencies Act 1998.]

The tasks of the MA to be entrusted to the A 59(2) body are, subject to the reservation of specified functions for performance by the MA (as set out on page 154), all of the functions specified in Article 60, namely:

- a) ensuring that operations are selected for funding in accordance with the criteria applicable to the OP and that they comply with applicable Community and national rules for the whole of their implementation period;
- b) verifying that the co-financed products and services are delivered and that the expenditure declared by the beneficiaries for operations has actually been incurred and complies with Community and national rules; verifications on-the-spot of individual operations may be carried out on a sample basis in accordance with the detailed rules to be adopted by the Commission in accordance with the procedure referred to in Article 103(3);
- c) ensuring that there is a system for recording and storing in computerised form accounting records for each operation under the OP and that the data on implementation necessary for financial management, monitoring, verifications, audits and evaluation are collected;
- d) ensuring that beneficiaries and other bodies involved in the implementation of operations maintain either a separate accounting system or an adequate accounting code for all transactions relating to the operation without prejudice to national accounting rules;

- e) ensuring that the evaluations of OPs referred to in Article 48(3) are carried out in accordance with Article 47;
- f) setting up procedures to ensure that all documents regarding expenditure and audits required to ensure an adequate audit trail are held in accordance with the requirements of Article 90;
- g) ensuring that the certifying authority receives all necessary information on the procedures and verifications carried out in relation to expenditure for the purpose of certification;
- h) guiding the work of the monitoring committee and providing it with the documents required to permit the quality of the implementation of the OP to be monitored in the light of its specific goals;
- i) drawing up and, after approval by the monitoring committee, submitting to the Commission the annual and final reports on implementation;
- j) ensuring compliance with the information and publicity requirements laid down in Article 69; and
- k) providing the Commission with information to allow it to appraise major projects.

The A 59(2) body will be responsible for providing a secretariat function to make administrative arrangements for the performance of the MA tasks and to assist the PMC. The A 59(2) body will carry out MA tasks in accordance with the management and control system established under Article 58 and guidance and directions issued by the MA. The MA will provide suitable training to the A 59(2) body. The A 59(2) body will also be responsible for ensuring that revenue generating projects are supported in accordance with Art 55.

Concerns about the performance of functions by the A 59(2) body, whether relating to the standard of performance or other matters, may be addressed in various ways. The MA will be empowered to issue directions relating to the exercise of the MA functions. Directions may require functions to be exercised in a specified manner or place restrictions on the way in which they are carried out.

The Secretary of State, for the UK Government, may withdraw the A 59(2) body's designation as an intermediate body, taking back full responsibility for the performance of MA tasks, or may vary the allocation of tasks (taking back or changing the scope of specified tasks). The Secretary of State may entrust tasks to a different body designated under Article 59(2). The Secretary of State will

consult the A 59(2) body before deciding to take such steps and will inform the Commission of the action that has been taken.

The UK Government will ensure that the system of management and control and all other management and control documents, which govern the relationship between the MA and the A 59(2) body, are amended as appropriate to reflect any changes to the role of the A 59(2) body and that the Commission is notified of the amendments.

The MA will consult the A 59(2) body before issuing directions and guidance on matters relating to the performance of intermediate body functions.

The MA tasks not entrusted to the A 59(2) body (reserved by the Member State for performance by the MA) are tasks that can only be carried out by a national authority or on an inter-regional (England only) basis, particularly because they involve the coordination of matters requiring uniform practice for OPs or communication at national level with the Commission.

The reserved tasks include:

- i. providing guidance and instruction, as appropriate, on the interpretation of the rules and criteria contained in the Structural Funds Regulations and in documents issued by the Commission over the programming period in relation to the ERDF;
- ii. providing the contractual terms on which ERDF support is to be given, including, where relevant, state aid advice;
- iii. determining and issuing national eligibility rules;
- iv. providing guidance and instruction, as appropriate, on the management and control framework, accountancy rules to be followed by grant beneficiaries and others involved in with the implementation of operations, systems to be used for the maintenance of accounts and the other records, information and publicity requirements, including monitoring, and any other matters relating to the management and of the OP as necessary;
- v. establishing written standards and procedures for verifications undertaken by the A 59(2) body in compliance with Article 13.2 of Commission Regulation 1828/2006, and ensuring that the A 59(2) body keeps records for each verification, stating the work performed, the date and the results of the verification, and the measures taken in respect of the irregularities

detected thereby, and obtaining assurance that the monitoring and verification activities are adequately carried out in accordance with that Regulation;

- vi. prescribing the information to be provided to the Certifying Authority in relation to expenditure verification and verification procedures, the form in which this information is to be provided and how frequently it is to be provided;
- vii. appointing the Chair of the Programme Monitoring Committee (PMC) and being a member of the PMC;
- viii. receiving evaluations, annual and final implementation reports and submitting them to the Commission;
- ix. assisting as necessary with policy and technical support for the appraisal of major projects and the notification required for appraisal by the Commission;
- x. laying down and operating a mechanism for the payment of ERDF resources; and
- xi. ensuring that where, in the exercise of functions entrusted to it as an intermediate body, the A59(2) body has awarded grant for one of its own projects, resulting in the RDA becoming the final beneficiary, ensuring that the A59(2) body takes such steps to cease, suspend, reduce or recover ERDF funding as it would be expected to take if the grant beneficiary were a separate third party.

A description of the systems covering in particular the organisation and procedures of the MA, Certifying Authority and the A 59(2) body as well as the Audit Authority will be submitted in accordance with Article 71 using Annex XII to Commission Regulation 1828/2006.

### **8.2.3 A 59(2) Intermediate Body: Organisation**

The A 59(2) body will make its own administrative arrangements for the performance of the MA tasks, taking account of guidance issued by the MA. The principle of separation of functions will be adhered to in accordance with Article 58(b). In managing the OP, the A 59(2) body will be required to have due regard to potential conflicts of interest and a procedure for ensuring that they are avoided. The procedure will be detailed in the management and control system



which will be submitted to the Commission in accordance with Article 71 of Council Regulation 1083/2006 and Article 21 of Commission Regulation 1828/2006 using the model template set out in Annex XII to Commission Regulation 1828/2006.

The A 59(2) Body may exercise the functions entrusted to it by awarding funding to itself, as final beneficiary. The principle of separation of functions, in accordance with Article 58, will be adhered at each stage of the procedure as in the case of any other applicant for funding.

#### **8.2.4 Certifying Authority: Role and Functions**

The Certifying Authority (CA) for the OP is the Secretary of State for Communities and Local Government. The address is Eland House, Bressenden Place, London SW1E 5DU, England, United Kingdom. The functions of the CA will be carried out by officials of the Department of State headed by SSCLG (the Department for Communities and Local Government), who work in the Department's Finance Directorate. These administrative arrangements for the performance of the CA tasks will ensure that the principle of separation of functions is adhered to in accordance with Article 58(b).

The CA is responsible for certifying the accuracy of statements of expenditure and applications for payment presented to the Commission in accordance with the procedures set out in Article 78. The specific tasks of the CA are as follows:

- a) drawing up and submitting to the Commission certified statements of expenditure and applications for payment;
- b) certifying that:
  - i) the statement of expenditure is accurate, results from reliable accounting systems and is based on verifiable supporting documents;
  - ii) the expenditure declared complies with applicable Community and national rules and has been incurred in respect of operations selected for funding in accordance with the criteria applicable to the OP and complying with Community and National rules;
- c) ensuring for the purposes of certification that it has received adequate information from the MA on the procedures and verifications carried in relation to expenditure included in statements of expenditure;

- d) taking account for certification purposes of the results of all audits carried out by or under the responsibility of the Audit Authority;
- e) maintaining accounting records in computerised form of expenditure declared to the Commission; and
- f) keeping an account of amounts recoverable and of amounts withdrawn following cancellation of all or part of the contribution for an operation. Amounts recovered will be repaid to the general budget of the EU, prior to closure of the OP by deducting them from the next statement of expenditure.

### **8.2.5 Audit Authority: Roles and Functions**

The Audit Authority (AA) for the OP is the Secretary of State for Communities and Local Government. The address is Eland House, Bressenden Place, London SW1E 5DU, England, United Kingdom. The functions of the AA will be carried out by officials of the Department of State headed by SSCLG (the Department for Communities and Local Government) who audit the public expenditure of the Department under the responsibility of SSCLG and who work in a separate unit within the Department's finance directorate from those performing CA tasks. The functional independence of the audit services will ensure that the principle of separation of functions is adhered to in accordance with Article 58(b).

The AA is responsible for verifying the effective functioning of the management and control system. The specific tasks of the AA are as follows:

- a) ensuring that audits are carried out to verify the effective functioning of the management and control system of the OP;
- b) ensuring audits are carried out on operations on the basis of an appropriate sample to verify expenditure declared;
- c) presenting to the Commission within 9 months of the approval of the OP an audit strategy covering the bodies who will perform the audits referred to under points a) and b), the method to be used, the sampling method for audits on operations and the indicative planning of audits to ensure that the main bodies are audited and that audits are spread evenly throughout the programming period; [note: where a common system applies to several OPs, a single audit strategy may be submitted];
- d) by 31 December each year from 2008 to 2015:

- i) submitting to the Commission an annual control report setting out the findings of audits carried out during the previous 12 month period ending on 30 June of the year concerned in accordance with the audit strategy of the OP and reporting any shortcomings found in the systems for management and control of the programme. The first report to be submitted by 31 December 2008 will cover the period from 1 January 2007 to 30 June 2008. The information concerning the audits carried out after 1 July 2015 will be included in the final control report supporting the closure declaration referred to in point (e);
- ii) issuing an opinion, on the basis of the controls and audits that have been carried out under its responsibility, as to whether the management and control system functions effectively, so as to provide a reasonable assurance that statements of expenditure presented to the Commission are correct and as a consequence reasonable assurances that the underlying transactions are legal and regular.
- iii) submitting, where applicable under Article 88, a declaration for partial closure assessing the legality and regularity of the expenditure concerned;

[ Note: when a common system applies to several OPs, the information referred to in point (i) may be grouped in a single report, and the opinion and declaration issued under points (ii) and (iii) may cover all the OPs concerned ]; and

- e) submitting to the Commission at the latest by 31 March 2017 a closure declaration assessing the validity of the application for payment of the final balance and the legality and regularity of the underlying transactions covered by the final statement of expenditure, which will be supported by a final control report.

Where audits and controls are carried out by a body other than the AA, the AA will ensure that such bodies have the necessary functional independence from the Article 59(2) body. The AA may choose to employ private sector auditors to carry out system and operation audits under its responsibility.

### **8.2.6 Management and Control: Description of Systems**

The AA will be responsible for drawing up the report and the opinion referred to in Article 71(2), describing and assessing the management and control systems and giving an opinion on their compliance with Article 58 to 62.

## 8.3 Partnership and Committee Structure

### 8.3.1 General

The OP has been developed and will be implemented in accordance with the principles of partnership set out in Article 11 and national rules and practice. The partnership principle will be operated throughout the lifetime of the OP.

The Secretary of State, for the UK Government, has organised a partnership to cover the preparation of the OP with a wide variety of national, regional and local authorities and bodies, which are competent to contribute towards the aims, objectives and contents of the OP. Competent authorities and bodies include:

- (a) regional, local, urban and other public authorities;
- (b) economic and social partners;
- (c) any other suitable bodies representing civil society, environmental partners, non-governmental organisations;
- (d) bodies responsible for promoting equality between men and women.

### 8.3.2 Programme Monitoring Committee (PMC)

In accordance with Article 63, the Member State will set up a PMC within three months from the date of the notification to the Member State of the Commission decision approving the OP. The membership and role of the PMC will reflect the strategic nature of the prescribed tasks of the PMC set out in Article 65.

Reflecting the principle of partnership, the membership of the PMC will be drawn from representatives of the bodies of the regional partnership organised under Article 11. It will, therefore, reflect national, regional, local and sectoral interests in the OP, and will aim to be balanced in terms of gender. On its own initiative, or at the request of the PMC, the Commission may participate in an advisory capacity. Where the European Investment Bank or the European Investment Fund are contributing to the OP, they may be represented in an advisory capacity.

The MA will have a representative as a member of the PMC. A particular role of the MA representative will be to advise and guide the PMC on compliance with the regulatory requirements in delivering the OP and on any other aspects of implementing the programme.

The MA representative will also have a role in informing the PMC about relevant Government Policy and in reporting to Ministers as appropriate on how the strategy, priorities and activities of the OP are contributing to wider Government policies.

The chairperson of the PMC will be the Regional Director of the Government Office for the West Midlands

The Chair will approve all PMC minutes and papers before they are distributed to the PMC members for agreement.

### **8.3.3 Duties of the Programme Monitoring Committee**

The PMC will draw up and agree its own Rules of Procedure. These procedures will be publicised and made available on the programme website. The MA will issue guidance to Article 59(2) bodies on governance issues, including drawing up rules of procedure. The MA representative, as a member of the PMC, will have a role in ensuring that the rules of procedure are robust, are designed to ensure delivery and contain all appropriate checks and balances.

At its first meeting the PMC will approve detailed provision for the proper and efficient discharge of the duties assigned to it, including, the frequency of its meetings and procedures to deal with conflicts of interest. This will be contained within the PMC's Rules of Procedure. The PMC will satisfy itself as to the effectiveness and the quality of the implementation of the OP. To this end the PMC will carry out the tasks set out in Article 65.

The MA will approve the rules of procedure in accordance with Article 63(2).

### **8.3.4 Sub-committees and working groups of the PMC**

Reflecting its agreed terms of reference and rules of procedure, the PMC may at any time set up such sub-committees or working groups or other groups as it thinks appropriate to enable it to fulfil its responsibilities (e.g. geographically, sectorally or thematically based). The PMC may delegate any of its tasks to a sub-committee or working group. The membership of sub-committees and groups will be agreed by the PMC, reflecting the partnership principle set out in Article 11. The terms of reference and rules of regional sub-committees and groups will be approved by the PMC in accordance with Article 63(2). The use of sub-committees does not absolve the PMC from its responsibility for the proper performance of its tasks as set out in Article 65.

## 8.4 Management and Control System

The Secretary of State, for the UK Government, will establish management and control arrangements for the OP in accordance with Article 58.

This will ensure that Community funds are used efficiently and correctly and that assistance is managed in accordance with all applicable Community rules and in accordance with the principles of sound financial management. The detailed requirements set out in the Structural Funds Regulations will be observed throughout the period of the OP. The Secretary of State will consult the A 59(2) body about the details of the management and control system, which will meet the requirements of Article 58. The AA will assess the system and give an opinion on compliance with Articles 58, 59 and 60 prior to its submission to the Commission in accordance with Article 71.

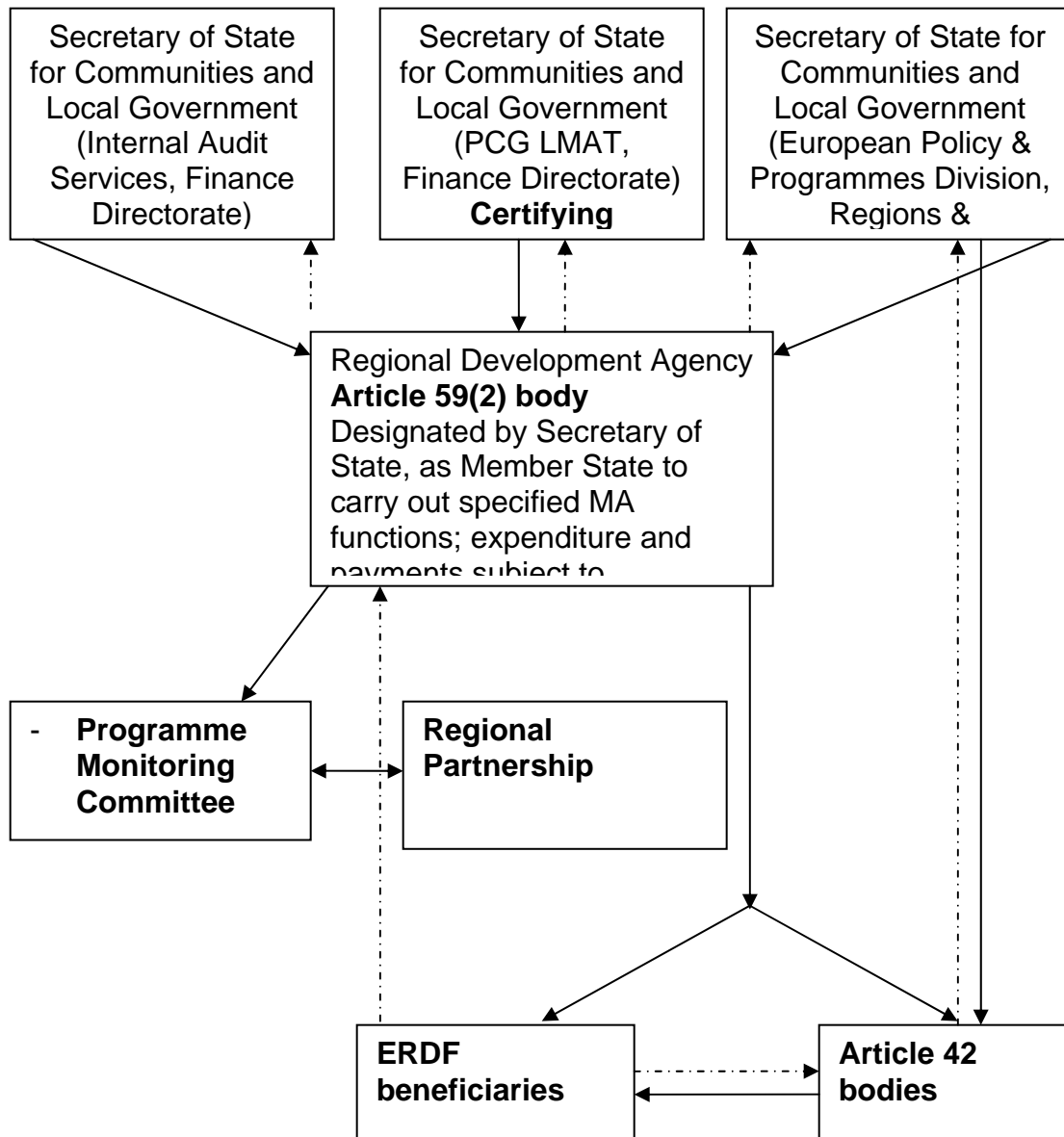
The organisation structures for ensuring sound management and control are set out below.

Diagram 1 illustrates the structure at a global level.

Diagram 2 illustrates the separation of functions with the Department for Communities and Local Government.

Diagram 3 illustrates the separation of functions with the Regional Development Agency.

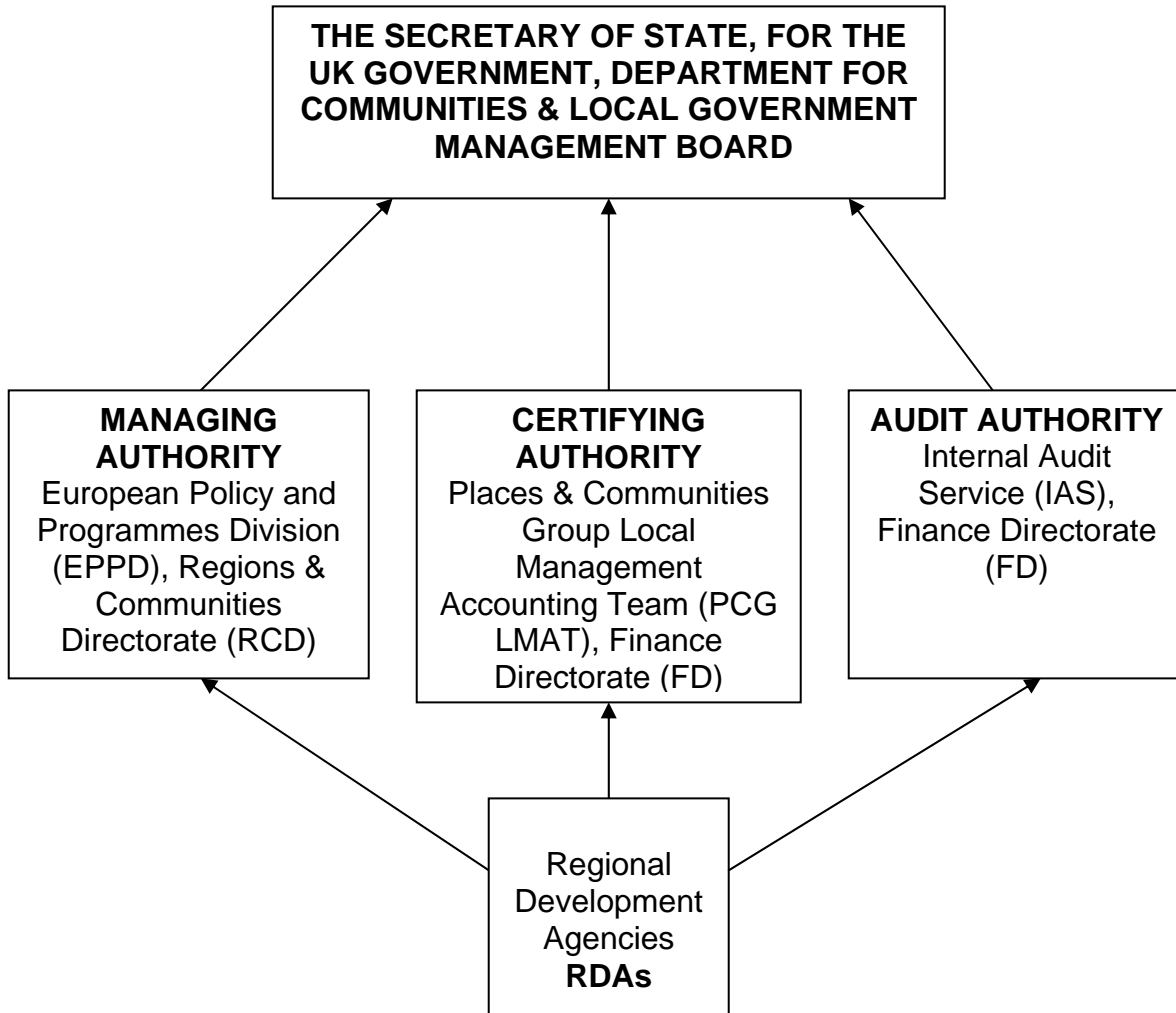
**Diagram 1 - Global Management and Control System for ERDF Convergence and Regional Competitiveness Programmes in England**



The direction of the solid arrow denotes the direction of management and control. The dotted arrows denote the direction of accountability.

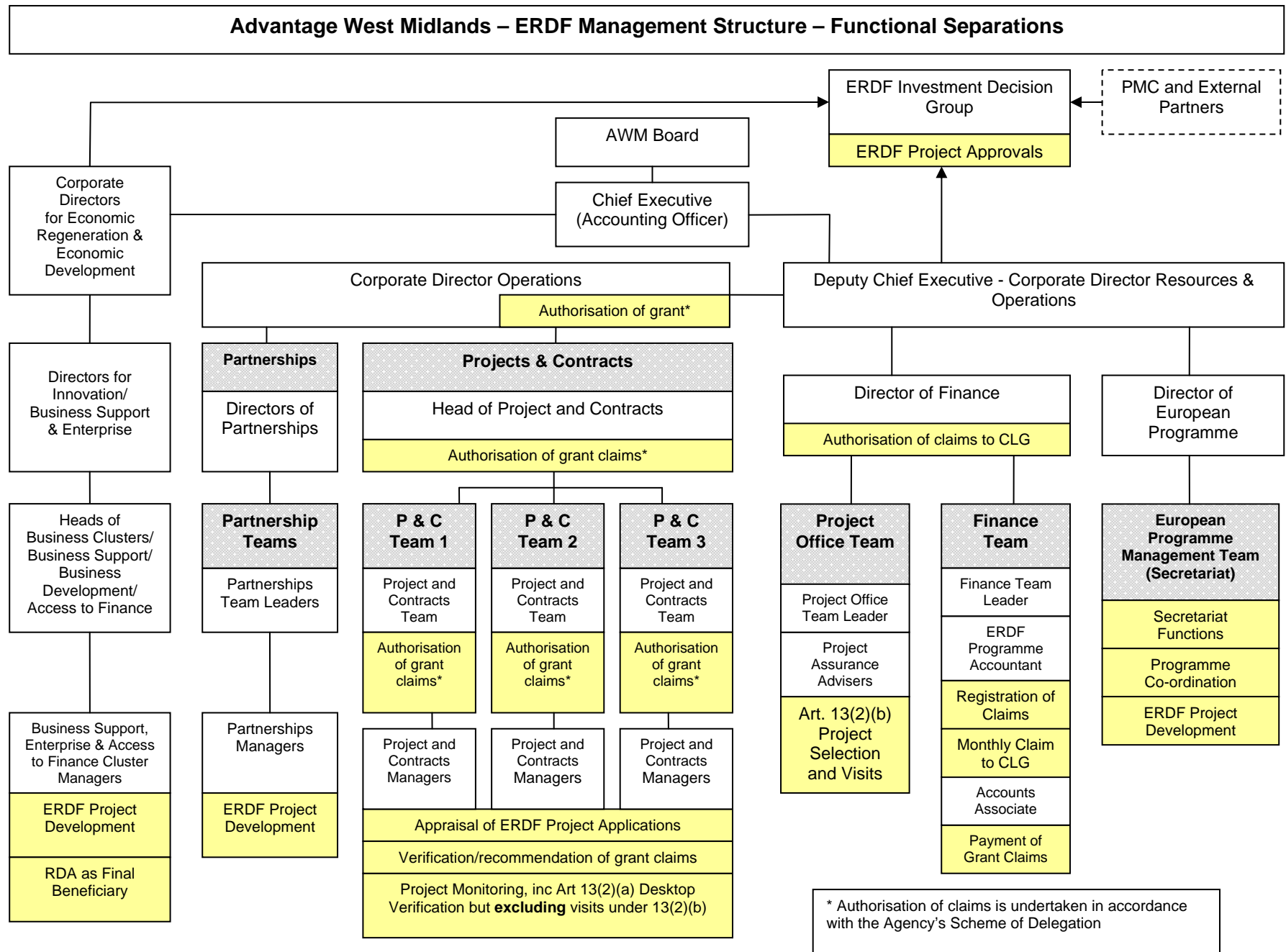
## Diagram 2 - Separation of functions with the Department for Communities and Local Government

(The direction of the arrows denotes reporting lines)





**Diagram 3 - Separation of functions within Advantage West Midlands**



### **8.4.1 Proportionality**

The proportional control arrangements set down in Article 74 will not apply to the OP.

### **8.4.2 Global Grants**

The Member State or the MA may entrust the management and implementation of a part of an OP to one or more intermediate bodies (A 42 bodies), designated by the Member State or the MA, including local authorities, regional development bodies or non-governmental organisations, in accordance with the provisions of an agreement concluded between the Member State or the MA and that body.

The Secretary of State, for the UK Government, does not have any intention, at present, to designate any A 42 body for the OP. Such a designation will be without prejudice to the financial responsibility of the MA and of the Member State.

The MA may consider designating an A 42 body on its own initiative, but would not make a designation without first consulting the A 59(2) body. Otherwise, a body will be considered by the MA for designation under Article 42 on the recommendation of the A 59(2) body and the PMC. If the A 59(2) body wishes to recommend any such designation, it will first:

- (a) assess the following matters for each body or organisation proposed for the management of a global grant:
  - i. its solvency;
  - ii. its competence in selecting and monitoring operations of the types to be covered by the global grant;
  - iii. the robustness of its management and control arrangements and its competence in financial and administrative management;
- (b) propose text for the agreement to be concluded by the MA with each A 42 body, making the designation and detailing the matters specified in Article 43 (which include the types of operation covered by the global grant; the outcomes and outputs to be achieved by the global grant; and management and financial controls set within the overall management and control system for the OP).

In considering whether to designate a body under Article 42, the MA will take account of all such matters and the guarantees about solvency and competence provided by the body or organisation itself to demonstrate compliance with Article 42(2).

The MA will provide reasons for a decision not to designate a body or organisation proposed for the management of a global grant.

If the MA decides to designate a body under Article 42, it will conclude an agreement with that body. The provisions of the agreement will detail the matters specified in Article 43. They will be finalised after full consideration of the text prepared by the A 59(2) body and after consultation with the A 59(2) body about any points that arise from that text or any other matters arising. The MA may revoke the designation of an A 42 body according to the terms of the agreement.

As the designation of an A 42 body is the responsibility of the MA, it will not involve any sub-delegation of responsibility by the A 59(2) body. The functions entrusted to the A 59(2) body for the delivery of the OP will exclude functions relating to operations so far as they are entrusted to a body under Article 42.

Instead, the A 59(2) body will exercise some or all of the tasks of the MA in relation to global grants, which will be detailed in the Article 42 agreement and will relate, in particular, to monitoring, evaluating and ensuring financial control of the global grant. For these purposes, it may be appropriate for the A 59(2) body to record and regulate administrative matters relating to its conduct of MA tasks by provisions in the Article 42 agreement or in a separate agreement, and in particular to make clear that the A 42 bodies will report to the MA via the A 59 body (see diagram 1 above). The A 59(2) body cannot become an A 42 body, as conflict of interest.

The selection of projects under the global grant will be made through an advisory group, comprising the appropriate regional and local partners.

If any designations are made under Article 42, the bodies most likely to be designated include universities and local authorities, which already have an appropriate range of public responsibilities or functions, and are likely to be competent for designation.

### **8.4.3 Selection of Operations for ERDF Support**

The PMC is responsible for considering and approving the criteria for selecting the operations financed under the OP. The A 59(2) body will be responsible for putting forward

proposals to the PMC for selection criteria. The role of the PMC is outlined in section 8.3 of these Implementing Provisions.

On behalf of the PMC, the A 59(2) body may set out an Investment Framework which sets the activities and operations that the PMC have agreed they wish to see delivered under the OP. The Investment Framework must be approved by the PMC. It may identify bodies or organisations that it believes are competent to deliver operations in line with the framework. Any framework will comply with Public Procurement Regulations (which implement EC public procurement directives), so far as they are applicable.

The procedure for selecting operations may take a variety of forms. For example:

Open bidding: where an open invitation is published for applications for the support of operations that meet a specified priority or objective of the OP;

Limited bidding: where a limited number of project sponsors is identified and invited to bid for the support of operations or sets of targets or outputs that meet a specified priority or objective of the OP;

Non-competitive selection: where a single project sponsor (or perhaps two or more) is either selected as appearing to be the only suitable and capable vehicle for delivering a specific operation or set of programme targets or outputs and invited to submit an application for financial assistance; or applies for financial assistance on its own initiative for the support of an operation or a set of targets or outputs that appears to meet a priority or objective of the OP.

The MA, in deciding in broad terms the nature and scope of the criteria and processes for the selection and appraisal of projects, and the A 59(2) body in putting forward proposals to the PMC for such criteria, will ensure that all processes and criteria take full account of the need to secure compliance with the requirements of the Public Procurement Regulations (which implement EC Public Procurement Directives) or the need for suitable competitive tendering where the Regulations do not apply.

Once the criteria and investment strategy have been adopted by the PMC, the A 59(2) body will be responsible for managing the processes of developing operations, appraising proposals for operations, and making recommendations to the PMC or its appropriate sub-committees or groups.

## 8.5 Computerised Exchange of Data

The MA, in collaboration with the A 59(2) body, will develop and maintain appropriate data exchange systems to support the provision of information to the Commission and the efficient and effective management of the OP. The MA will ensure that the system allows data to be exchanged electronically with the system used by the Commission. The system will be accessible for use by the MA, the Article 59(2) body, the CA and the AA. The system will record and monitor operation outputs and the results of monitoring, verifications and audits undertaken in relation to programme operations. Such systems will be in place for the OP before the MA makes the first interim application for payment.

## 8.6 Monitoring Arrangements and Systems

### 8.6.1 General

The Secretary of State, for the UK Government, will ensure that the management and control system for the OP sets up an efficient system for monitoring the programme and individual operations supported by the programme, and requires the MA and the PMC to ensure the quality of the implementation of the programme.

Monitoring tasks of the MA both in relation to the OP as a whole and to individual operations will be carried out by the A 59(2) body, which will work with the PMC. In order to assist the PMC to discharge the tasks set out in Article 65, the A 59(2) body will provide updates on the progress of the OP in meeting its targets. Within this update, the A 59(2) body will specifically identify the progress of projects where the A 59(2) body is a beneficiary. Monitoring of operations where the A 59(2) body is a beneficiary will be sample checked and verified by an external body. If, as planned by the UK Government, the A 59(2) body is a regional development agency, the external body will be the National Audit Office, which will undertake this work as part of its annual external financial audit.

Monitoring by the MA and the A 59(2) body under Article 60(b) will be carried out in accordance with Article 13 of Commission Regulation 1828/2006. In the case of A 42 bodies, they will be required to monitor projects which they support. The A 59(2) body will be responsible for quality assuring and verifying the monitoring activity of any A 42 body.

Monitoring will be conducted by reference to the financial indicators and the indicators referred to in Article 37(1)(c) which are specified for the OP and set out in the Indicators section of the programme.

Monitoring will also cover the effectiveness of financial controls and compliance with the Structural Funds Regulations and national rules that regulate matters of finance or propriety. Monitoring will be conducted in line with any guidance or instructions issued by the Commission. The A 59(2) body will also have regard to guidance issued by the MA concerning monitoring and the performance of verification function set out in Article 60(b).

### **8.6.2 Annual Reports and Final Reports**

In accordance with Article 67(1), by 30 June 2008 and by 30 June in each subsequent year the MA will send the Commission an annual report. The MA will send the Commission a final report on the implementation of the OP by 31 March 2017.

Each report will be examined and approved in plenary by the PMC before it is sent to the Commission. The Managing Authority will review the report before it is sent to the Commission.

The reports will contain the information set out in Article 67(2).

In accordance with Article 68, every year, when the annual report on implementation referred to in Article 67 is submitted, the Commission and the MA will examine the progress in implementing the OP, the principal results achieved over the previous year, the financial implementation and other factors with a view to improving implementation.

The operation of the management and control system raised in the last annual control report, referred to in Article 62(1)(d)(i), may also be examined.

## **8.7 Evaluation Arrangements and Systems**

The Secretary of State, for the UK Government, will carry out evaluations in relation to the OP in accordance with Articles 47 and 48, and the MA will have a role under Article 60(e) in ensuring that evaluations are carried out.

An *ex ante* evaluation for the OP has been carried out in accordance with Article 48(2) by an independent consultant. Alongside the *ex ante* evaluation, a Strategic Environmental Assessment was carried out in accordance with the requirements of Directive 2001/42/EC, also by an independent consultant.

In accordance with Article 48(3), during the programme period, the Secretary of State, for the UK Government, will carry out evaluations linked to the monitoring of the OP, in particular where that monitoring reveals a significant departure from the goals initially set

or where proposals are made for the revision of OPs, as referred to in Article 33. The results will be sent to the PMC and to the Commission.

The Commission may carry out strategic evaluations. Under Article 49(2) the Commission may carry out, on its own initiative and in partnership with the UK Government evaluations linked to the monitoring of the OP where monitoring has revealed a significant departure from the goals initially set. The results will be sent to the PMC.

In accordance with Article 49(3), the Commission will carry out an *ex post* evaluation for each objective in close co-operation with the Secretary of State, for the UK Government, and the MA. The *ex post* evaluation will cover the elements required by Article 49(3). It will be carried out by independent assessors and will be completed not later than three years after the end of the programming period.

## 8.8 Financial Implementation

### 8.8.1 Financial Contributions by the Funds

Article 34 provides that operational programmes shall receive financing from only one Fund, save as otherwise provided in paragraph 3 (which is not relevant for the UK). Accordingly, the OP will receive funding only from the European Regional Development Fund.

This programme will not be seeking to use the derogation set out in Article 34(2), whereby the ERDF and the ESF may finance, in a complementary manner and subject to a limit of 10% of community funding for each priority axis of an operational programme, actions falling within the scope of assistance from the other fund, provided that they are necessary for the satisfactory implementation of the operation and are directly linked to it.

The MA will carry out an ongoing assessment of risk that the OP will fail to meet its financial and other targets, in particular the N+2 spend targets, as will the A 59(2) body, in line with guidance issued by the MA.

The MA will require regular updates from the A 59(2) body, increasing in frequency towards the end of the year, on the progress of the OP in meeting its N+2 targets. In consultation with the A 59(2) body, it will take the necessary course of action where the achievement of these targets is under threat.

At project level, risk will be assessed on the track record of the applicant, the nature of the project, the amount of the ERDF intervention and the total cost of the operation. It will take

into account the opinion of the A 59(2) body's appraisal, payment and inspection unit who have knowledge of both the projects and beneficiaries.

### **8.8.2 Differentiation of Rates of Contribution**

In accordance with Article 53(1), the contribution from the Fund at the level of the OP will be calculated with reference to:

- (a) total eligible expenditure including public and private expenditure; or
- (b) public eligible expenditure

and will be subject to the ceilings set out in Annex III to Council Regulation 1083/2006.

The ERDF contribution for the OP will be subject to a maximum of 50% of the total eligible cost of the OP. This will be co-financed by public expenditure only from a variety of sources. Any private sector contributions will be used as leverage and not included within the OP Financial Table.

It will be a requirement of the OP that the provision of co-financing for operations is secured prior to the issue of the formal approval of the operation.

### **8.8.3 Technical Assistance**

Under Article 46 the Fund may, at the initiative of the Secretary of State, for the UK Government, finance the preparatory, management, monitoring, evaluation, information and control activities of the OP, together with activities to reinforce the administrative capacity for implementing the Fund within the limit of 4% of the total amount allocated for the OP (the limit for the Convergence and Regional competitiveness and employment objectives). As a matter of best practice, co-financing of Technical Assistance operations will be secured prior to formal approval of the individual operation.

The PMC will be invited to approve a plan for the use of Technical Assistance during the lifetime of the OP. This will be sent to the Commission for information. The Technical Assistance plan will be kept under review and may be changed, subject to the agreement of the PMC. However, the amount allocated will not exceed the 4% limit set down in Article 46.



#### **8.8.4 Community Budget Commitments**

Article 75 provides that the Community budget commitments in respect of operational programmes shall be effected annually for each Fund and objective during the period between 1 January 2007 and 31 December 2013. The first budget commitment shall be made before the adoption by the Commission of the decision approving the OP. Each subsequent commitment shall be made, as a general rule, by 30 April each year.

#### **8.8.5 De-Commitments**

Provisions and procedures relating to de-commitment are laid down in Articles 93, 94, 95 and 96.

### **8.9 Financial Flows and Payments**

#### **8.9.1 General**

In setting up the system for managing and controlling the payment and expenditure of the ERDF contribution, the Secretary of State, as Member State, will: (a) observe all relevant requirements of the Structural Funds Regulations and these Implementing Provisions; (b) apply the standards of management and control generally applicable to the handling and expenditure of UK public funds; and (c) follow such general guidance and instructions as the UK Government and the Commission may provide from time to time on the management of European Community funds. The MA and the CA will operate the system according to the same requirements and standards, and the A 59(2) body and all A 42 bodies will be required to do so, so far as relevant.

#### **8.9.2 Financial Flows**

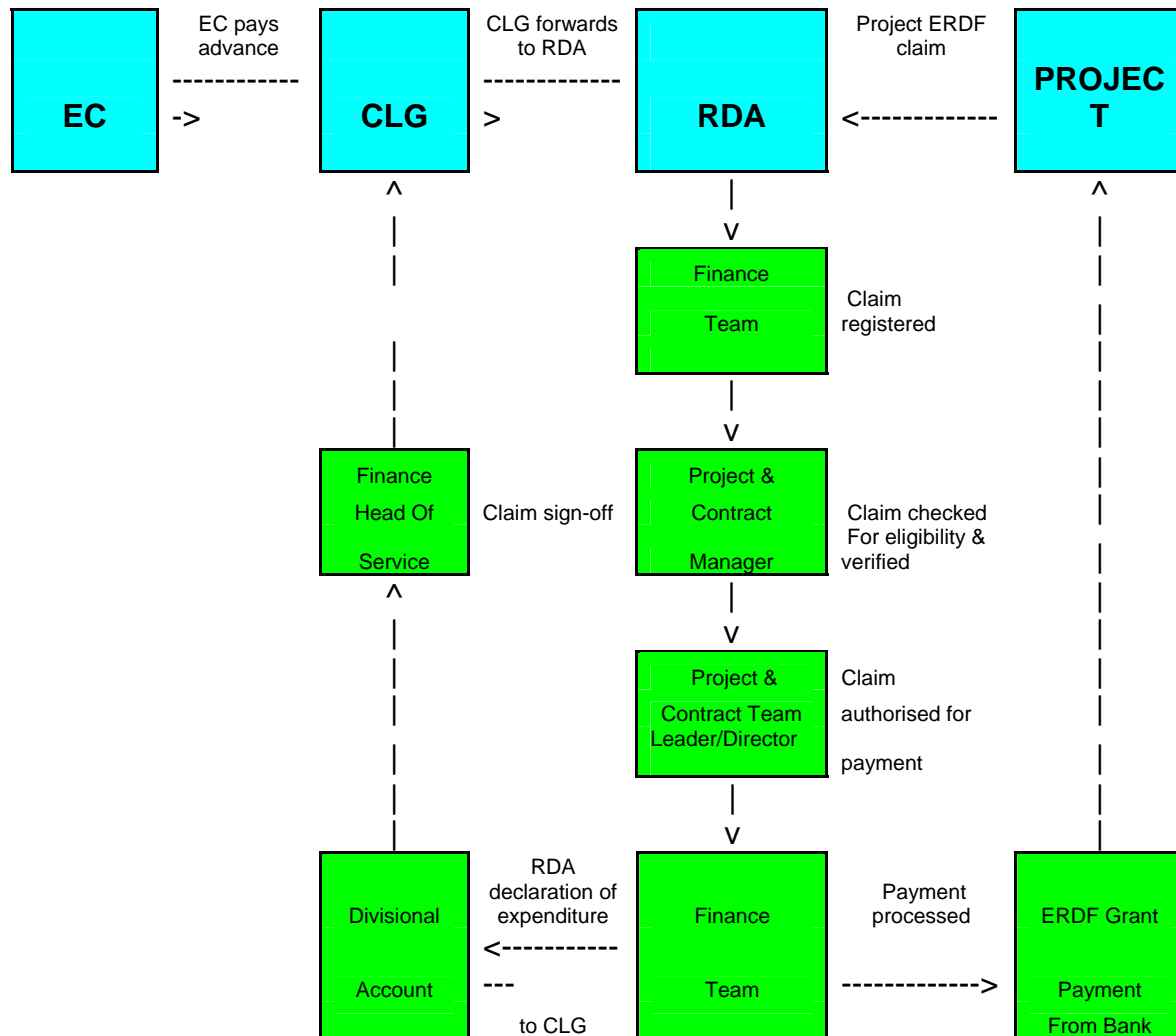
Financial flows will operate in accordance with the Structural Funds Regulations and the following procedures:

The A 59(2) body will be responsible for making offers of ERDF grant to persons responsible for selected operations, except operations supported by global grants. A 42 bodies will be responsible for making offers of ERDF grants to persons responsible for global grant operations. Offers of ERDF support will require grant recipients to comply with EC and national rules on eligibility of expenditure and with the requirements of the Public Procurement Regulations (which implement EC Directives on public procurement) or the need for suitable competitive tendering where the Directives do not apply. Operations and A 42 bodies will make declarations of interim claims expenditure to the A 59(2) body. The

A 59(2) body will be responsible for verifying the validity of declared expenditure against the offer of grant and the eligibility conditions and other conditions set out in the grant offer. Global grant operations will make declarations of interim claims expenditure to the A 42 body, which will verify them before incorporating them within a global declaration to the A 59(2) body.

The A 59(2) body will make payments for operations and to A 42 bodies subject to verifying declarations of eligible expenditure. No amount will be deducted or withheld; no charges will be levied; and no steps will be taken that have the effect of reducing indirectly the amounts that beneficiaries receive.

# **Regional Development Agency ERDF Programme 2007-2013 Financial Flows Overview**



In any instances where the A 59(2) body is a direct applicant for ERDF support (i.e. wishes to use ERDF resources to support an operation for which it is directly responsible), it will use a separate unit within its organisation to act as the grant recipient or project sponsor, except where Technical Assistance is being used to support the programme management tasks. This unit will not have any responsibilities in relation to the management and control of the OP. It will be functionally independent from the unit undertaking MA functions and will be required to maintain such functional independence. It will be accountable for the expenditure of the grant to the unit undertaking MA functions as though it were a separate organisation.

The A 59(2) body will submit to the CA declarations of interim expenditure. These declarations will cover the aggregate of eligible payments claimed by operations, including global grant applications. Submissions will usually be made quarterly and will be accompanied by all the necessary supporting information required to demonstrate the eligibility of expenditure under the Structural Funds Regulations, national eligibility rules, UK financial management requirements and any additional requirements of the CA. The submissions will be copied to the MA.

The submission from the A 59(2) body will be signed by a senior manager of the A 59(2) body, who will be distinct and independent from any unit of the A 59(2) body acting as a beneficiary of ERDF support.

The CA will draw up and submit to the Commission certificates of expenditure and applications for payment, in accordance with Article 78 and in the form prescribed in Annex X to Commission Regulation 1828/2006. The CA will review all information received from the MA and the A 59(2) body under Article 61(c) (concerning procedures and verifications carried out in relation to expenditure) and from the AA under Article 61(d) (results of audits, including the annual control report). It will carry out such checks as it thinks are necessary and appropriate to satisfy itself as to the eligibility of expenditure claimed.

### **8.9.3 Payments**

Payments from the Commission will take the form of: pre-financing; interim payments; and payments of the final balance. Payments will be made to the UK Government and received in a Treasury Account at the Bank of England. The MA will be authorised to draw down amounts from the account for the financing of the OP.

The UK Government will make appropriate arrangements to ensure that sufficient funds are available to enable the MA to meet the A 59(2) body's declarations of eligible expenditure in advance of receiving interim payments from the Commission. Such arrangements will comply with UK Government Accounting and Budgeting requirements.

### **8.9.4 Use of Euro and Conversion Rates**

In accordance with Article 81, all Statements of Expenditure and applications to the Commission for payment will be made in euros. Annual and final implementation reports will use the euro to report on expenditure. Amounts of expenditure incurred in sterling, in delivering operations, will be converted into euros using the monthly accounting exchange

rate of the EC in the month during which the expenditure was registered in the accounts of the CA. This rate will be published electronically by the Commission each month.

## **8.10 Financial Management and Control Arrangements**

### **8.10.1 General Provisions**

Responsibility for providing an effective system of management and control of the OP lies with the Member State. The management and control system will comply with the requirements of Article 58 and will be subject to the reporting requirements laid down in Article 71.

### **8.10.2 Organisation**

The A 59(2) body will ensure that there is an appropriate separation of functions within its organisation between the units which are responsible for the functions of the MA falling within the following broad categories:

- appraising operations and issuing and varying offers of ERDF grant;
- verification of payment claims and monitoring operations; and
- financial matters, including making payments for operations and submitting declarations of expenditure to the CA.

The MA and CA will ensure that this separation of functions within the A 59(2) body is maintained throughout the lifetime of the OP.

### **8.10.3 Accounting Systems**

In order to facilitate the verification of expenditure by Community and national authorities, the MA, in exercising the function in Article 60(c), will ensure that all bodies involved in the management and implementation of the OP maintain either a separate accounting system or an adequate accounting codification capable of providing detailed and complete summaries of all transactions involving Community assistance.

### **8.10.4 Documentation**

The MA and the A 59(2) body will ensure that the requirements of Article 90 regarding the keeping of available documents are complied with.

#### **8.10.5 Audit**

Besides being subject to the activities of the AA, audit by the Commission and audit by the European Court of Auditors, the financial control and management system will be subject to audit by the UK domestic audit authorities (the National Audit Office)

#### **8.10.6 Irregularities and Financial Corrections**

The management and control system of the OP and steps taken by the MA to ensure that it is properly adhered to by all bodies concerned in the management and control of the programme will guard against irregularities while securing that any that do occur are detected, investigated and corrected. The A 59(2) body will have a primary role in the detection, investigation and correction of irregularities (particularly by virtue of its responsibility for monitoring and verification), and will be responsible for recovering grant in appropriate cases.

The Secretary of State, as Member State, will be responsible under Article 98 for investigating irregularities and making financial corrections. The A 59(2) body will notify the MA about irregularities and steps taken or proposed to resolve them. The MA will notify irregularities to the Department for Business Enterprise and Regulatory Reform (BERR), which is the central co-ordinating Department for the Member State with respect to the Structural Funds programmes.

BERR, acting for the Member State, will communicate with the Commission about irregularities and corrections.

The MA will report to the AA any cases involving fraud. BERR will report them to the Commission's OLAF service.

The MA will ensure that the A 59(2) body fulfils its responsibilities for the prevention, detection and investigation of irregularities and that it acts on reports prepared by the AA on any suspicion of irregularity.

### **8.11 Information and Publicity**

The MA and the A 59(2) body will ensure that information and publicity measures conform to the provisions of Article 69 of Council Regulation 1083/2006 and Articles 2 to 10 of

Commission Regulation 1828/2006, to ensure the full visibility of the funds throughout the programming area.

Publicity forms an integral part of the programme strategy and the MA will work with the A 59(2) body to ensure that the benefits of the ERDF is communicated to the wider public.

Innovative publicity activities and campaigns using print, broadcast and creative media will help the Managing Authority to clearly promote and position the ERDF brand. These activities will be developed proactively and implemented in collaboration with the European Commission in Brussels, the Representation Office in London and Information relays and networks in the UK, which will ensure the visibility and transparency of the funds at a local, regional and national level.

Potential project sponsors and final beneficiaries/fund recipients will be informed of funding opportunities and also the publicity requirements linked to receiving ERDF funding during the programming period.

To this end, the A 59(2) body will draw up a budgeted communication plan, which must be agreed by the PMC and submitted through the MA to the Commission within four months of the adoption of the OP.

The Communication plan will set out:

- the objectives of the plan and the target groups;
- activities in support of publicity and information including events, seminars and project launches, for potential applicants, partners and the wider public
- bodies or persons responsible for the implementation of the plan;
- the budget for implementing the plan; and
- evaluation frameworks for the plan.

The A 59(2) body will report on progress in implementing the plan (including examples of publicity activities) to the PMC and also in the annual implementation report. The communication plan will be easily accessible and will be published on the A 59(2) body's website.

Information will be provided by the A 59(2) body to potential beneficiaries in accordance with Article 5 of Commission Regulation 1828/2006, including the publicity and information measures that they are required to undertake to comply with Articles 8 and 9 of that Regulation.

Project sponsors will be required to observe the publicity elements of Commission Regulation 1828/2006, especially with regard to signage, including billboards, plaques and promotional material.

Funding for publicity and communications will be provided through the Technical Assistance budget for the OP. The financial table for the OP will specify the amounts dedicated to the Technical Assistance Priority Axis.

## 8.12 Supplementary Objectives

### 8.12.1 Sustainable Development

The OP will promote the objectives of sustainable development as required by Article 17.

These objectives have been reflected in the programme strategy and objectives. The programme has been subject of a Strategic Environmental Assessment as required under Directive 2001/42/EC.

The Managing Authority will, in accordance with Article 10 of (EC) Directive 2001/42/EC, monitor the significant environmental effects of the OP in order, inter alia, to identify unforeseen adverse effects and be in a position to undertake appropriate remedial action. This monitoring will be undertaken at three levels:-

First, the Environmental Report has suggested a selection of tracking indicators that can be used to monitor the environmental performance of the area. The Managing Authority will monitor against these indicators, where appropriate, to determine changes that occur and potential relationships with programme activities. As stated in the SEA, data for the majority of these indicators can be obtained from readily available sources. Performance against these indicators will be reported in the Annual Implementation Reports.

Secondly, the effectiveness of mainstreaming Environmental Sustainability as a Cross Cutting Theme will be assessed through the relevant Priority level indicators. Progress against the Priority level indicators will be reported in the Annual Implementation Reports and discussed at meetings of the PMC.

Thirdly, the Environmental Report proposes checking criteria to appraise the appropriateness of individual supported activities where they would result in a physical development. These criteria will be used, where appropriate, at project development stage so that potential adverse effects of supported activities are appropriately managed. Projects



that have significant negative effects that can not be mitigated and outweigh positive benefits will not be supported by the OP.

Procedures will be in place to detect any project with a potentially negative effect on Natura 2000 sites and other sites designated for nature conservation. These will be scrutinized by the A 59(2) body in consultation with the Competent Environmental Authorities to ensure that no activities will be supported that will cause damage to designated sites. The appraisal process will also cover opportunities to strengthen the environmental aspects of projects and the guidance that is being developed will advise on how this is to be done and how it will be monitored.

The MA, PMC, A 59(2) body and all A 42 bodies will be required to implement the OP having regard to the objectives of sustainable development. In particular, the selection criteria for operations, outputs and indicators will take account of the need to protect and promote environmental sustainability. This will also involve assessing the impact of operations on these objectives, on appraisal and during the course of project monitoring and evaluation.

### **8.12.2 Gender Equality and Equal Opportunities**

The OP will promote the objectives of equal opportunities and non-discrimination on the basis of race, ethnic origin, religion or belief, disability age or sexual orientation, as required by Article 16.

These objectives have been reflected in the programme strategy and priorities. The programme has been subject to an Equality Impact Screening as required by UK legislation, which are in Annex B to the OP

The MA, the PMC, the A 59(2) body and all A 42 bodies will be required to implement the OP having regard to the objectives of equal opportunities and non-discrimination. This will involve assessing the impact of operations on these objectives, on appraisal and during the course of project monitoring and evaluation.

### **8.12.3 Major Projects**

Financial assistance may be given under the OP for the support of major projects. A major project is defined in Article 39 as an operation:

- Which comprises an series of works, activities or services intended in itself to accomplish an indivisible task of a precise economic or technical nature;

- Which has clearly identified goals; and
- Whose total cost exceeds €25 million in the case of the environment and €50 million in other fields.

When the A 59(2) body appraises a major project, it will inform the Commission before deciding to approve support under the OP and provide the information necessary for appraisal of the project by the Commission as set out in Article 40 using Annex XXI to Commission Regulation 1828/2006).

#### **8.12.4 Complementarity with the European Social Fund**

The MA and A 59(2) body will work with the MA for the national ESF programme (the Department for Work and Pensions) to ensure effective co-ordination of decisions taken in the implementation of the OP and the national ESF programme.

The A 59(2) body will be responsible for advising the PMC on what co-ordination with the ESF programme is necessary for meeting the objectives of the OP. The A 59(2) body will put in place appropriate communication and liaison arrangements with the MA for the ESF programme. The A 59(2) body and regional partners will consider whether a joint ERDF and ESF monitoring committee to aid co-ordination would benefit the OP.

The PMC may at any time meet jointly with any committee or group set up by the MA of the national ESF programme to discuss matters of mutual interest and to ensure effective co-ordination.

#### **8.12.5 Complementarity with the European Agricultural Fund for Rural Development**

The MA and A 59(2) body will work with the MA for the EAFRD (the Department for Environment, Food and Rural Affairs) to ensure effective co-ordination of decisions taken in the implementation of the OP and the national EAFRD programme.

The A 59(2) body will be responsible for advising the PMC what co-ordination with the EAFRD is necessary for meeting the objectives of the OP. The A 59(2) body will put in place appropriate communication and liaison arrangements with the MA for the EAFRD programmes.

The PMC may at any time meet jointly with any committee or group set up by the MA of the EAFRD programme to discuss matters of mutual interest and to ensure effective co-ordination.

## 8.13 Use of Reserves

### 8.13.1 National Performance Reserve

A Member State may establish a National Performance Reserve for each of the Convergence or Regional Competitiveness objectives, consisting 3% of its total allocation for each objective. The UK Government has decided not to operate a national performance reserve for the OP.

### 8.13.2 National Contingency Reserve

A Member State may reserve an amount of 1% of the annual Convergence allocation and 3% of the annual Regional Competitiveness allocation to cover unforeseen local or sectoral crises linked to economic and social restructuring. The UK Government has decided not to operate a National Contingency Reserve for the OP.

## 8.14 Financial Engineering

In accordance with Article 44 of 1083/06, the ERDF may be used to co-finance financial engineering schemes for enterprises, primarily small and medium enterprises. The A 59(2) body will ensure that financial engineering operations supported by the ERDF are set up and implemented in compliance with Articles 43, 44 and 45 of Commission Regulation 1828/06.

Any proposal to set up financial engineering instruments will have to be agreed by the MA.

## 8.15 State Aid

Any public support under this programme must comply with the procedural and material rules applicable at the point in time when the public support is granted. The Member State, and in particular the MA of each OP, is fully responsible for compliance of the Structural Funds operations within the programme with the EC state aid rules.

The Member State, the MA and the A 59(2) body are responsible for ensuring that operations and activities supported under the OP are compatible with the common market.

## 9. ABBREVIATIONS

	Explanation
<b>AA</b>	Audit Authority
<b>AIR</b>	Annual Implementation Report
<b>AWM</b>	Advantage West Midlands
<b>BME</b>	Black Minority Ethnic
<b>BPS</b>	Business and Professional Services
<b>BREEAM</b>	Building Research Establishment's Environmental Assessment Method
<b>CA</b>	Certifying Authority
<b>CAP</b>	Common Agricultural Policy
<b>CCT</b>	Cross Cutting Themes
<b>CHP</b>	Combined Heat and Power
<b>CIP</b>	Competitive Innovation Programme
<b>CSGs</b>	Community Strategic Guidelines
<b>DCLG</b>	Department for Communities and Local Government
<b>DEFRA</b>	Department for Environmental Food and Rural Affairs
<b>DTI</b>	Department for Trade and Industry
<b>DWP</b>	Department for Work and Pensions
<b>EAFRD</b>	European Agricultural Fund for Regional Development
<b>EFF</b>	European Fisheries Fund
<b>EIAP</b>	European International Affairs Partnership
<b>EIB</b>	European Investment Bank
<b>EIF</b>	European Investment Fund
<b>ERDA</b>	European Research and Development Award
<b>ERDF</b>	European Regional Development Fund
<b>ES</b>	Environmental Sustainability
<b>ESF</b>	European Social Fund
<b>EU</b>	European Union
<b>EU RDI</b>	European Research, Development and Innovation Group
<b>FDI</b>	Foreign Direct Investment
<b>FE</b>	Further Education
<b>FECs</b>	Further Education Colleges
<b>FP7</b>	7 <sup>th</sup> Framework Programme
<b>GBP</b>	Great British Pounds
<b>GDP</b>	Gross Domestic Product

<b>GO</b>	Government Office
<b>GOWM</b>	Government Office for the West Midlands
<b>GEM</b>	Global Entrepreneurship Monitor
<b>GVA</b>	Gross Value Added
<b>HE</b>	Higher Education
<b>HEIF</b>	Higher Education Innovation Fund
<b>HMA</b> s	Housing Market Areas
<b>ICN</b>	Industrial Change Network
<b>ICT</b>	Information and Communication Technologies
<b>IMD2004</b>	Index of Multiple Deprivation 2004
<b>ITC</b>	Innovation and Technology Council
<b>JEREMIE</b>	Joint European Resources for Micro to Medium Enterprises
<b>JESSICA</b>	Joint European Support for Sustainable Investment in City Areas
<b>KITTS</b>	Knowledge Innovation Technology Transfer Scheme
<b>KTPs</b>	Knowledge Transfer Partnerships
<b>LAD</b>	Local Authority District
<b>LEGI</b>	Local Enterprise Growth Initiative
<b>LSC</b>	Learning and Skills Council
<b>MA</b>	Managing Authority
<b>MI</b>	Management Information
<b>MUAs</b>	Major Urban Areas
<b>NRP</b>	National Reform Programme
<b>NSRF</b>	National Strategic Reference Framework
<b>NVQs</b>	National Vocational Qualification
<b>PMC</b>	Programme Monitoring Committee
<b>R &amp; D</b>	Research and development
<b>R&amp;TD</b>	Research and Technological Development
<b>RAE</b>	Research Assessment Exercise
<b>RCE</b>	Regional Competitiveness and Employment
<b>RDAs</b>	Regional Development Agencies
<b>RHS</b>	Regional Housing Strategy
<b>RIP</b>	Regional Implementation Plan
<b>RDPE</b>	Rural Development Programme for England
<b>RSS</b>	Regional Spatial Strategy
<b>RZs</b>	Regeneration Zones
<b>SBS</b>	Small Business Service
<b>SEA</b>	Strategic Environmental Assessment
<b>SIP</b>	Strategic Investment Plan
<b>SMEs</b>	Small and Medium Enterprises

<b>SOA</b>	Super Output Areaa
<b>SPD</b>	Single Programming Document
<b>STEP</b>	Shell Technology and Enterprise Programme
<b>SUD</b>	Sustainable Urban Development
<b>SWOT</b>	Strengths Weaknesses Opportunities and Threats analysis
<b>TEA</b>	Total Entrepreneurship Activity
<b>WiFi</b>	Wireless Fidelity
<b>WMES</b>	West Midlands Economic Strategy
<b>WMRA</b>	West Midlands Regional Assembly
<b>ZIP</b>	Zone Implementation Plan

# 10. DEFINITIONS

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**Operational Programme** - document submitted by the Member State and adopted by the Commission. The Operation Programme sets out the strategy and priorities for spending structural funds in the region.

**Strategic Programme Objective** - is the identified need of the region and should be consistent with the priorities identified at the National Strategic Reference Framework (NSRF) and with the National Lisbon Reform Plan developed under the Lisbon process as a response to the Integrated Employment and Economic Guidelines.

**Specific Programme Priorities** - which the Programme's priorities aim to achieve in line with the strategic programme objective. The link between the Programme's specific objectives and the priority axes should be clearly established. The achievement of specific objectives should be measured by result and impact indicators as appropriate, when they lend themselves to quantification. The indicators must be achievable by the interventions carried out under the respective priority axis. The Lisbon indicators may be used for this purpose.

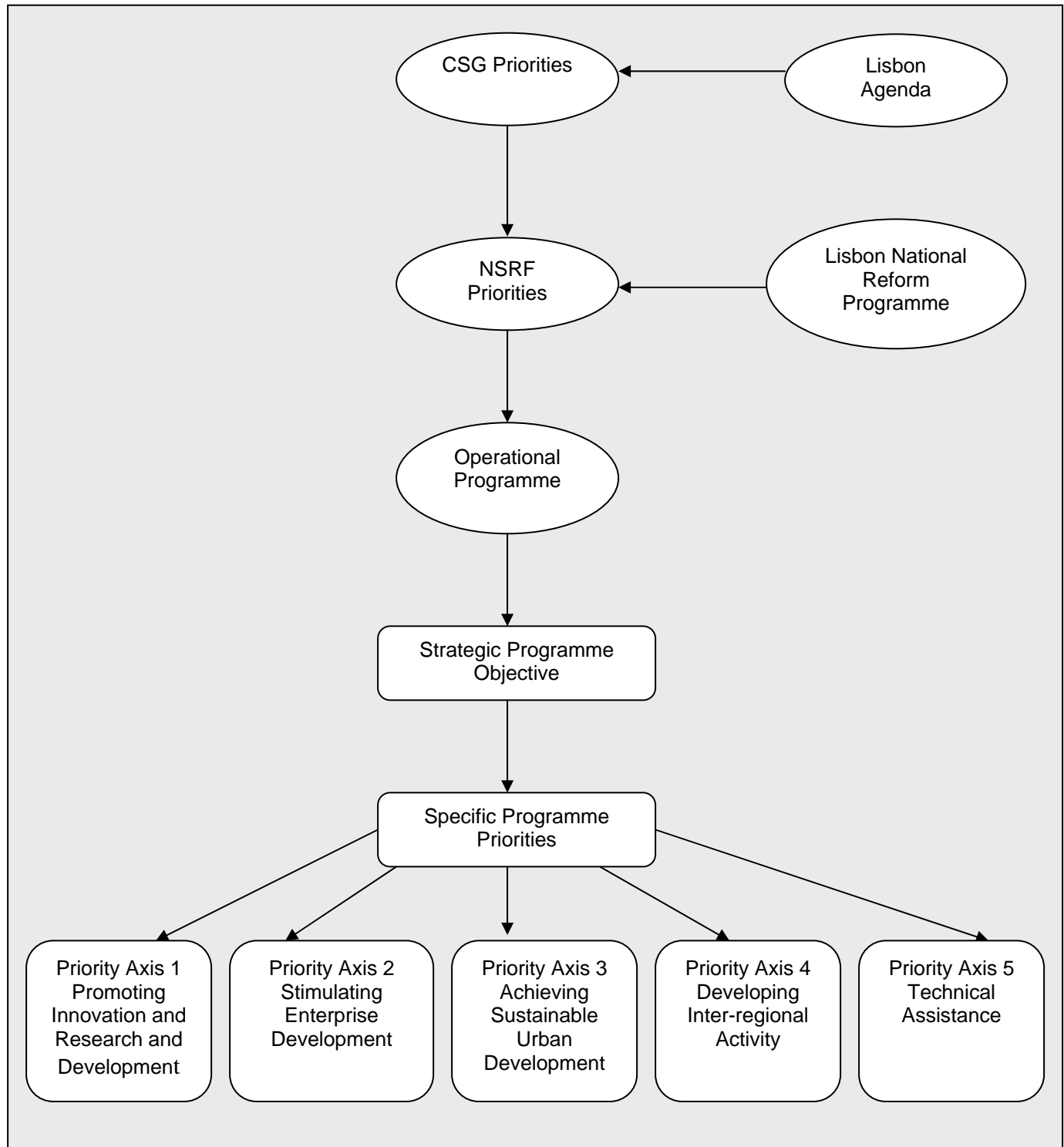
**Priority Axes** - the choice of priority axes should be justified in light of the NSRF thematic priorities and the specific objectives of the Programme. The financial allocation priority axis should be justified by the programme strategy. DCLG would envisage a maximum of 3 priority axes plus an additional priority axis for technical assistance.

**Output Indicators** - relate to activity and are measured in physical or monetary units, for example, length of railway or motorway constructed, number of firms financially supported.

**Result Indicators** - relate to the direct and immediate effect on direct beneficiaries, such as improved performance, brought about by a Programme. These can be physical (e.g. reduction in journey times) or financial leverage of private sector resources).

**Impact Indicators** - relate to longer term impacts of the Programme, but directly linked to actions taken under the Programme. There might also be global longer term impacts affecting a wider population.

# 11. EC COHESION POLICY FLOW DIAGRAM





## 12. ANNEXES

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### Annex A1 – Data Annex - Original

Sources: The majority of the data in this annexe is sourced from recent research and analysis commissioned by Advantage West Midlands as part of the evidence base for the review of the Regional Economic Strategy. Unless otherwise stated the data comes from the following document: 'Factors Influencing the Relative Performance of the West Midlands' Aston University Business School and West Midlands Regional Observatory. August 2006.

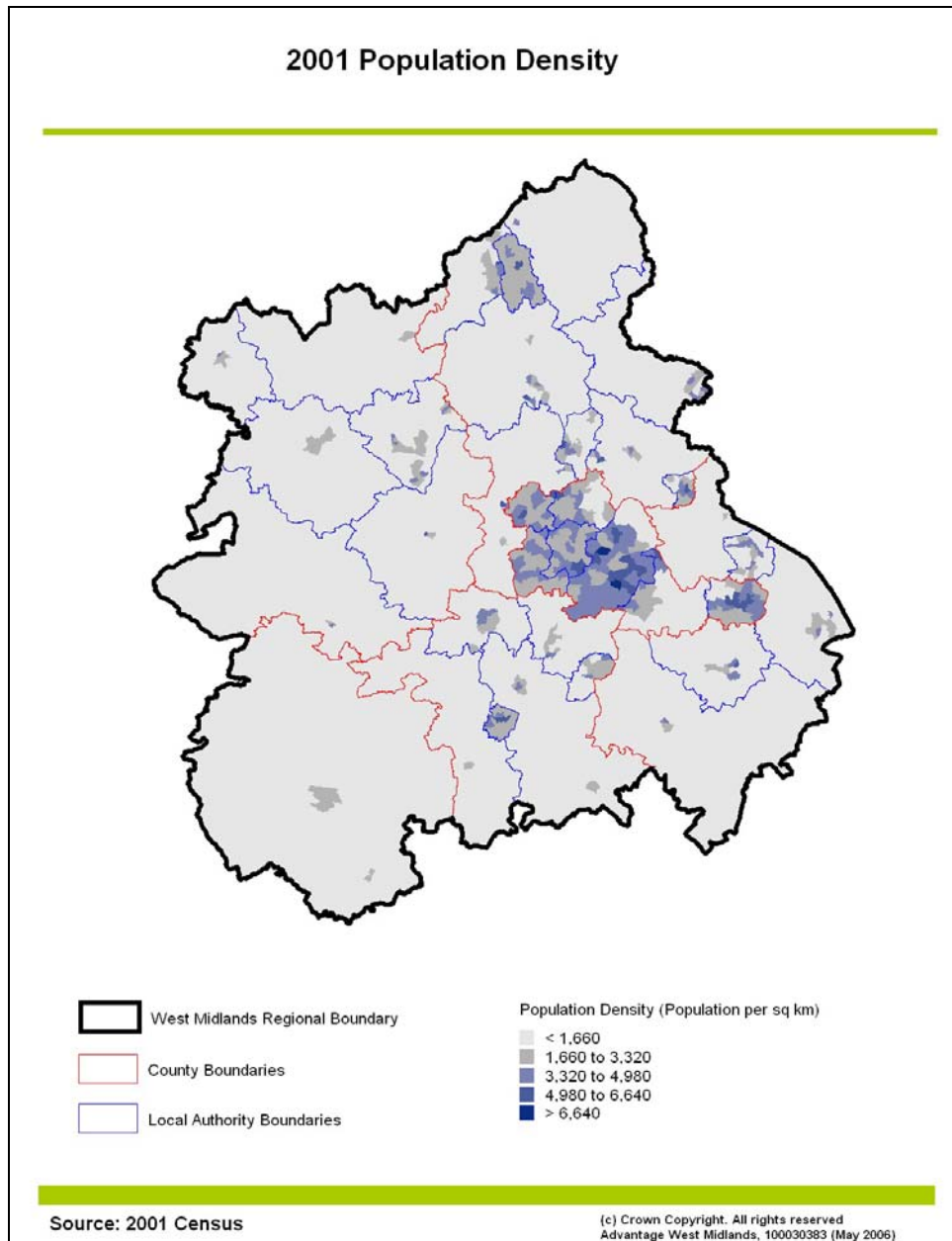
### Annex A2 – Data Annex – Updated 2010

In 2010 Annex A was updated to reflect changes to the indicators used for the socio economic data contained within the Operational Programme. Annex A2 reflects data which is correct up to end of 2010. This data was used as a source to inform the work of the Mid Term Evaluation carried out by Regeneris Consulting Limited in 2011.

## Annex A1

### 2.1 Eligible Area Strengths and Challenges

Figure 1.1



Source: *The Functioning Economic Geography of the West Midlands*. University of Birmingham and West Midlands Regional Observatory. August 2006

**Table 1.1: Population Characteristics of the West Midlands**

	Population <sup>1</sup>	People per (sq km) <sup>2</sup>	Economically Active <sup>3</sup>	
			Male	Female
Birmingham	992,400	3647	243,800	193,700
Herefordshire	177,800	80	47,100	39,400
Shropshire	287,900	89	74,900	61,400
Staffordshire	812,600	308	220,200	179,900
Warwickshire	525,500	256	138,200	115,300
Worcestershire	552,000	312	144,800	119,900
West Midlands (Met. County)	2,579,200	2833	645,500	512,500

Notes:

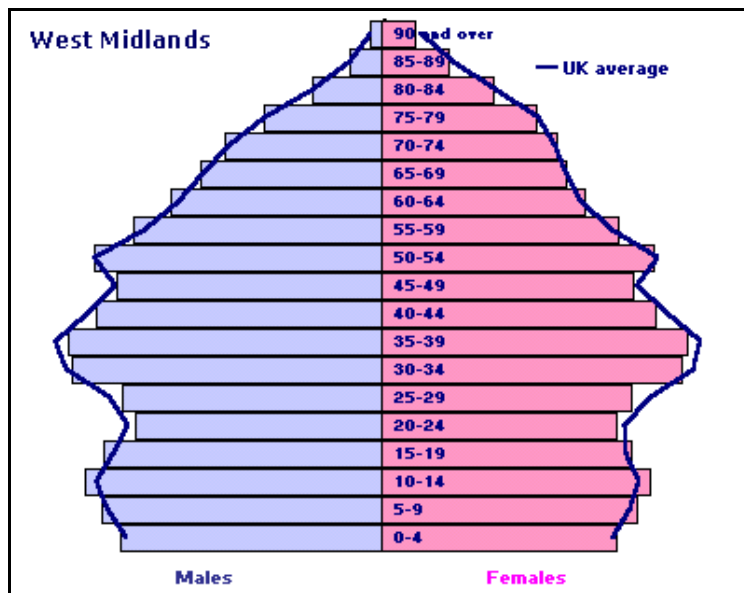
1) Midyear population estimates, 2004

2) 2001, Regional Trends, ONS.

3) Annual Population Survey (Apr 2004-Mar 2005).

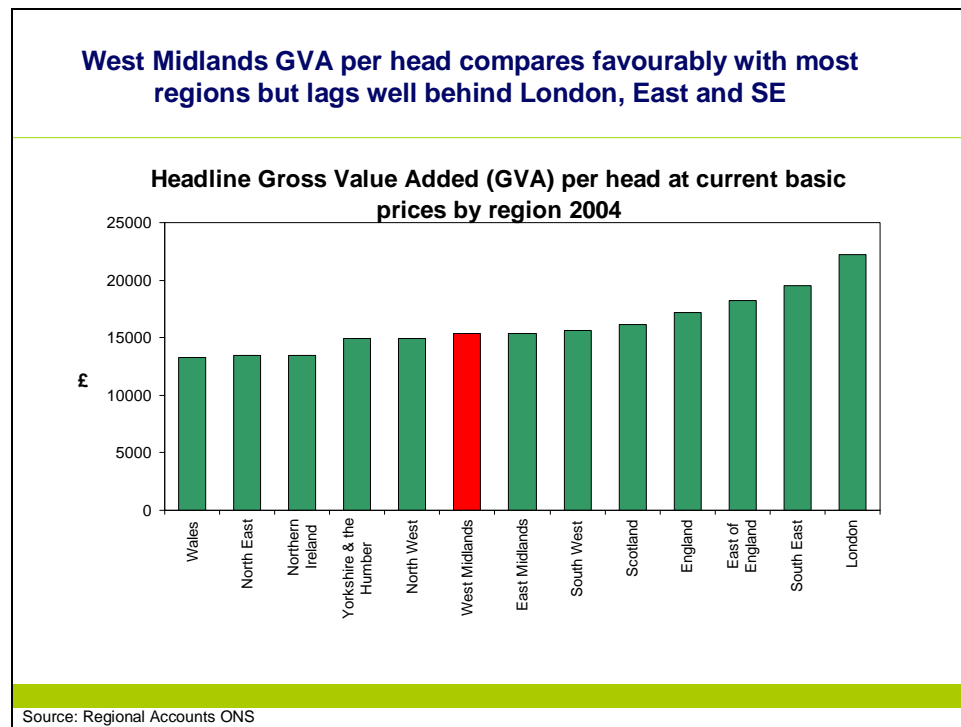
Source: *The Functioning Economic Geography of the West Midlands*. University of Birmingham and West Midlands Regional Observatory. August 2006

**Figure 1.2 The Population profile of the West Midlands**

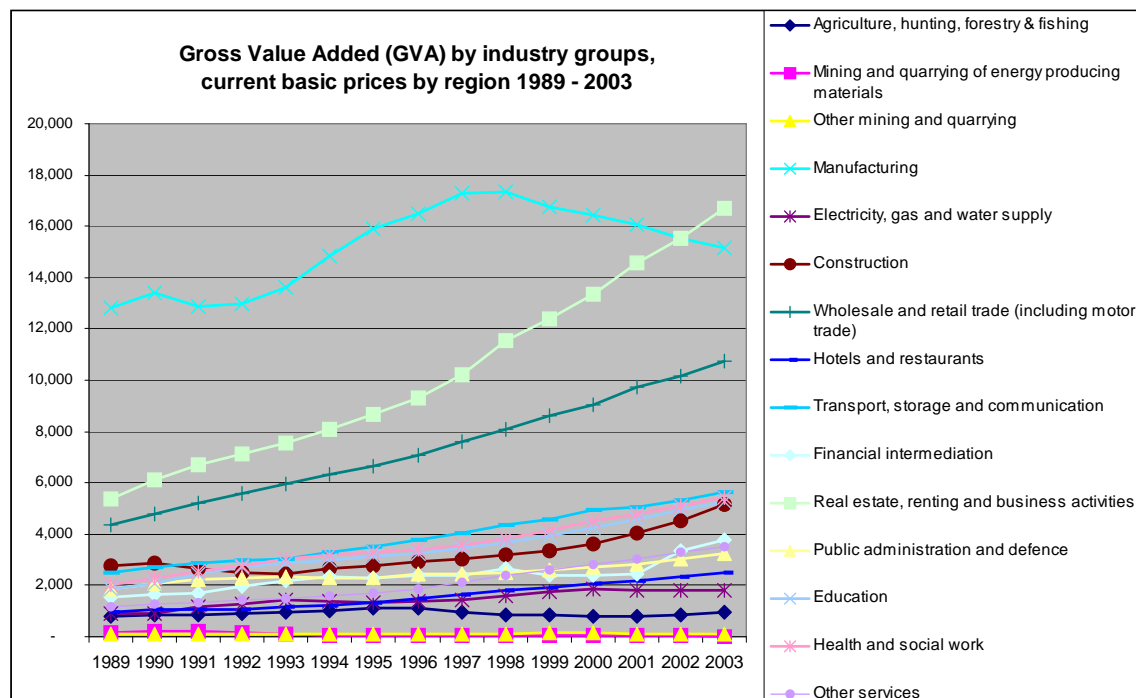


Source: *West Midland Regional Assembly and West Midlands Regional Observatory*. August 2006

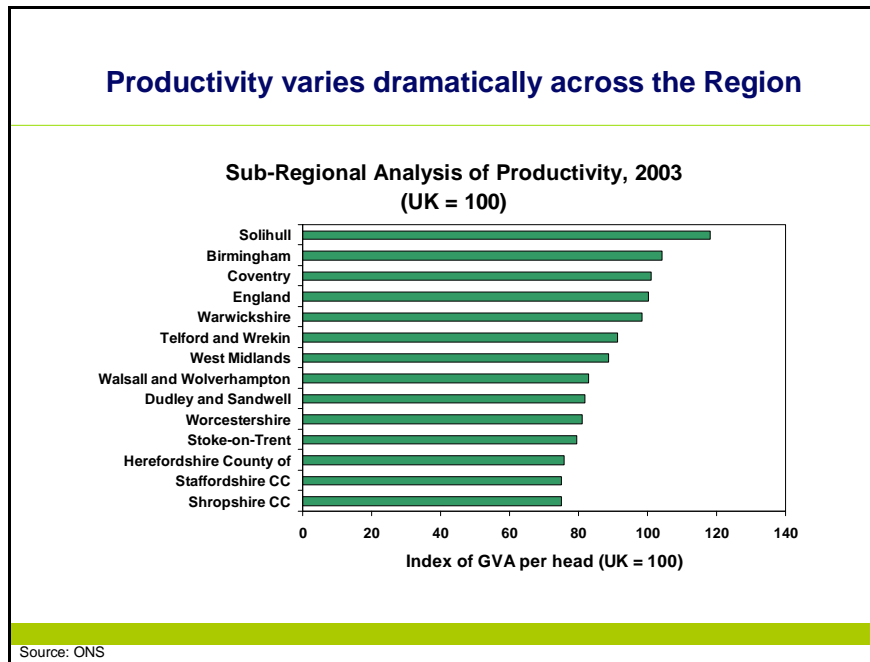
**Figure 1.3**



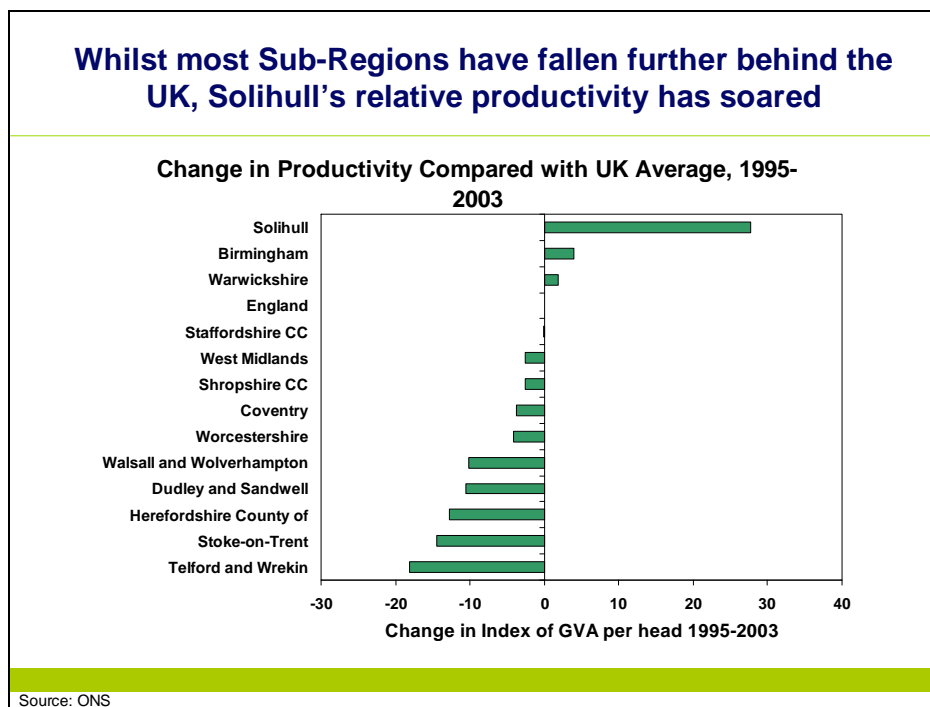
**Figure 1.4**



**Figure 1.5**



**Figure 1.6**



**Table 1.2 Annual Survey of Hours and Earnings. Workplace Analysis.  
2005 – Full Time Workers - Weekly Pay – gross**

Area	Median	Mean	Rural Local Authority	Median	Mean
United Kingdom	431.2	517.0	Stratford-on-Avon	443.7	523.8
West Midlands	402.5	475.5	Warwick	440.0	513.1
			Stafford	433.0	490.7
			North Warwickshire	432.6	484.2
<b>Urban Local Authority</b>	<b>Median</b>	<b>Mean</b>	Rugby	424.1	497.7
Solihull	467.9	524.6	South Staffordshire	419.4	502.2
Coventry	453.1	545.3	Oswestry	412.1	432.8
Birmingham	424.6	488.4	Malvern Hills	407.8	463.2
Worcester	408.9	481.9	Lichfield	400.5	470.1
Tamworth	406.5	478.0	Staffordshire Moorlands	394.2	442.0
Sandwell	403.1	508.9	Shrewsbury and Atcham	389.1	499.9
Wolverhampton	400.2	477.6	East Staffordshire	387.5	437.9
Telford and Wrekin	389.4	443.4	Bromsgrove	379.4	420.1
Redditch	386.4	500.8	Wychavon	372.8	474.0
Nuneaton and Bedworth	380.6	439.9	North Shropshire	372.0	459.9
Newcastle-under-Lyme	376.6	431.6	Cannock Chase	362.1	489.4
Dudley	369.2	424.8	Wyre Forest	352.1	420.2
Walsall	358.7	422.9	Herefordshire, County of	351.2	418.1
Stoke on Trent	345.5	417.3	South Shropshire	333.7	383.5
			Bridgnorth	318.9	357.5

NB The 'mean' figure is the average salary, whilst the 'median' is the central figure if all income earners were ranked in order.

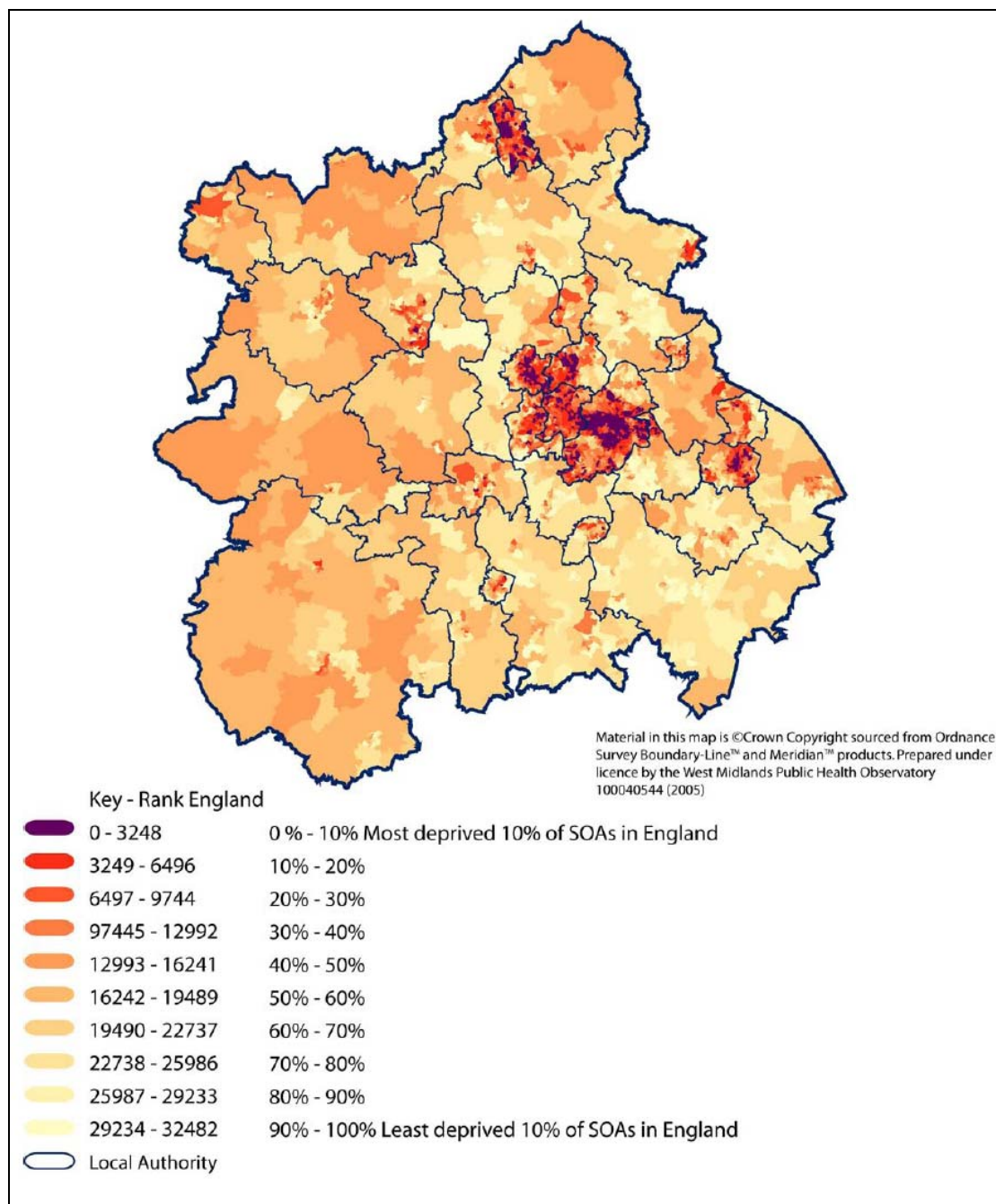
Source: NOMIS

**Table 1.3 Overall IMD 2004 – Proportion of SOAs in the most deprived 10% of England, by Region**

Region	No of SOAs	SOAs as percentage of England total	No of SOAs in 10% most deprived	Share of national 10% most deprived
East	3550	10.9	73	2.2
East Midlands	2732	8.4	220	6.8
London	4765	14.7	462	14.2
North East	1656	5.1	355	10.9
North West	4459	13.7	920	28.3
South East	5319	16.4	77	2.4
South West	3226	9.9	95	2.9
West Midlands	3482	10.7	474	14.6
Yorkshire & Humber	3293	10.1	572	17.6
<b>England</b>	<b>32482</b>		<b>3248</b>	

*Source: Indices of Multiple Deprivation 2004 an Overview of the West Midlands Data. West Midlands Public Health Observatory et al. 2005*

**Figure 1.7 IMD 2004 for the West Midlands by SOA & LA Boundaries**



*Source: Indices of Multiple Deprivation 2004 an Overview of the West Midlands Data. West Midlands Public Health Observatory et al. 2005*



## 2.2 Employment

Figure 2.1 Employment by Sector

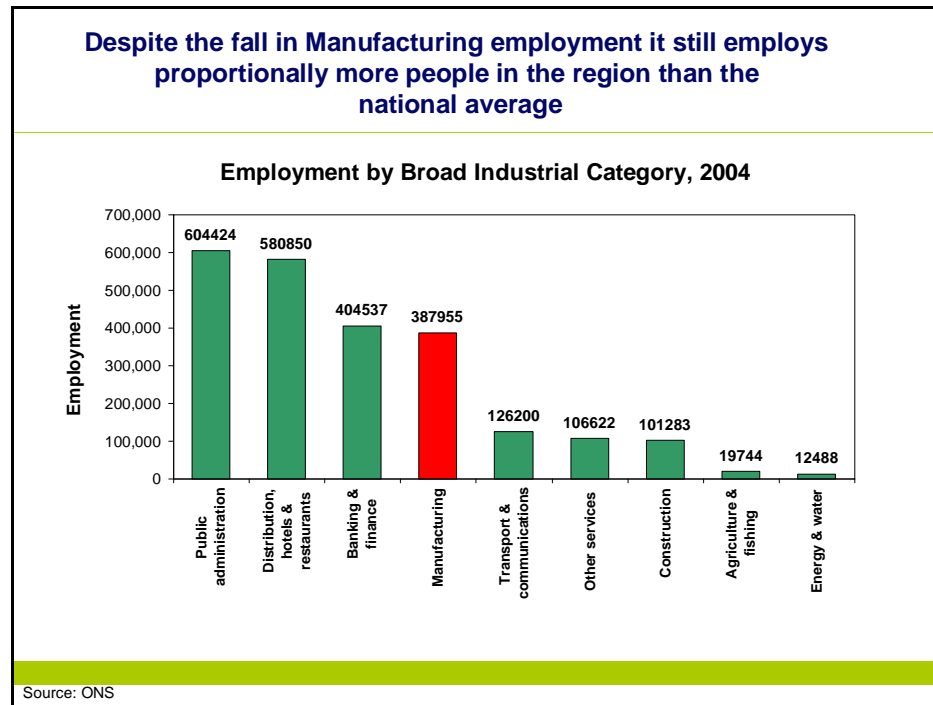
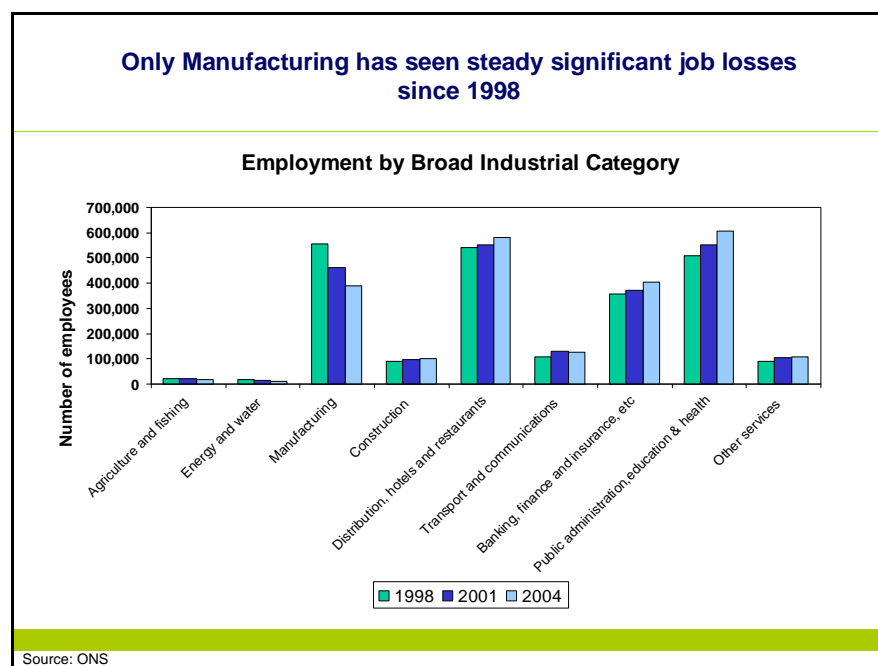
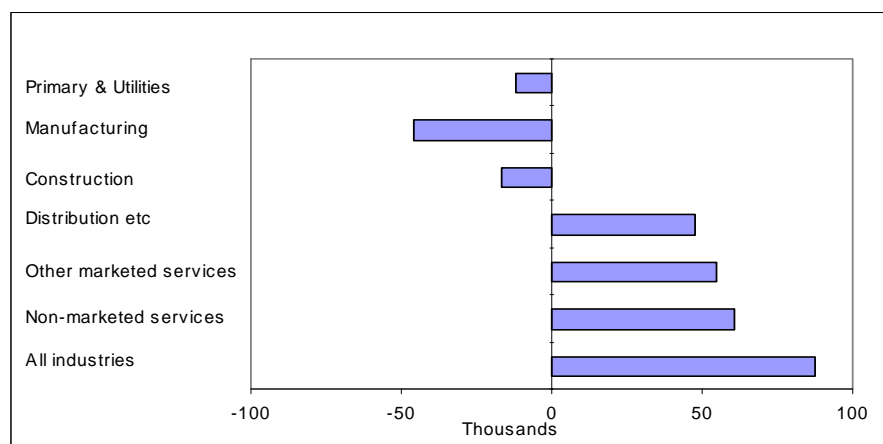


Figure 2.2 Employees by Industry



**Figure 2.3 Employment growth by broad industrial sector (000s), 2006 – 2015**



*Source: Future Prospects for the West Midlands Economy and Employment. Warwick Institute for Employment Research and West Midlands Regional Observatory. August 2006 IER/WMRO estimates based on the REEIO model.*

**Table 2.1 Unemployment by Local Authority Area – May 2006**

Local Authority Area	Number	Rate	Local Authority Area	Number	Rate
Birmingham	36,550	6.0	Rugby	1,083	2.0
Wolverhampton	7,933	5.5	Stafford	1,484	2.0
Sandwell	8,731	5.1	East Staffordshire	1,231	1.9
Walsall	6,759	4.5	South Staffordshire	1,229	1.9
Dudley	6,997	3.8	Newcastle-under-Lyme	1,400	1.8
Coventry	6,951	3.7	North Warwickshire	665	1.7
Stoke-on-Trent	5,077	3.4	Shrewsbury and Atcham	968	1.7
Cannock Chase	1,636	2.8	Herefordshire, County of	1,674	1.6
Redditch	1,393	2.7	Lichfield	914	1.6
Nuneaton and Bedworth	1,918	2.6	Warwick	1,342	1.5
Telford and Wrekin	2,530	2.5	Wychavon	1,022	1.5
Tamworth	1,119	2.4	North Shropshire	502	1.4
Bromsgrove	1,234	2.3	Stratford-on-Avon	878	1.3
Solihull	2,643	2.2	Bridgnorth	389	1.2
Worcester	1,302	2.2	Malvern Hills	498	1.2
Wyre Forest	1,319	2.2	South Shropshire	286	1.2

Local Authority Area	Number	Rate	Local Authority Area	Number	Rate
Oswestry	459	2.0	Staffordshire Moorlands	661	1.2

Source: ONS, 2006

**Table 2.2 Claimant Count 1994 and 2005**

	1994		2005	
	Number	Rate	Number	Rate
<b>West Midlands Region</b>	<b>246,199</b>	<b>7.7</b>	<b>94,922</b>	<b>2.9</b>
Herefordshire County	5,564	5.7	1,552	1.5
Shropshire	8,282	5.1	2,168	1.3
Staffordshire	27,761	5.6	7,869	1.6
Stoke-on-Trent	10,091	6.7	4,262	2.9
Telford and Wrekin	5,741	6.3	1,980	2.0
Warwickshire	16,859	5.5	4,783	1.5
Birmingham	68,017	11.5	32,544	5.4
Coventry	16,787	9.3	5,943	3.1
Dudley	13,892	7.3	5,776	3.1
Sandwell	18,170	10.6	7,640	4.4
Solihull	7,942	6.5	2,231	1.9
Walsall	13,657	8.7	5,481	3.7
Wolverhampton	15,081	10.3	6,594	4.6
Worcestershire	18,356	5.7	6,099	1.8

Source: Nomis

**Table 2.3 West Midlands Take up of Incapacity and Other Benefits (2004)**

Benefit	Definition	WM population and %	England & Wales %
Attendance allowance	Those aged 65 or over who have needed help with personal care because of a physical or mental disability for six months	144,865 17.2% of the over 65 population	1,244,470 17.4% of the over 65 population
Disability Living Allowance	For children and adults who need help with personal care or have walking difficulties because they are physically or mentally disabled.	255,705 4.9% of the population	2,341,615 4.5% of the England & Wales population
Incapacity benefit	People of working age who cannot work because of illness or disability	248,690 7.5% of the relevant population 185,565 (> 24 months)	2,421,940 7.2% of working age population 1,820,760 (>24 months)
Income support	For people aged 16 to 59 who can't be available for full-time work and don't have enough money to live on	248,690 6.4% of the relevant population	1,946,020 6.3% of the relevant population
Pension credits	To guarantee a minimum income to those aged over 60	993,458 24.3% of the relevant population	2,334,895 21.5% of the relevant population
State Pension	Available to men over 65 and women over 60 who have paid enough national insurance over their working lives	981,785 88.6% of the potentially eligible population.	9,554,030 88% of the potentially eligible population.

*Source: Department of Work and Pensions. August 2006*

## 2.3 Competition

Figure 3.1

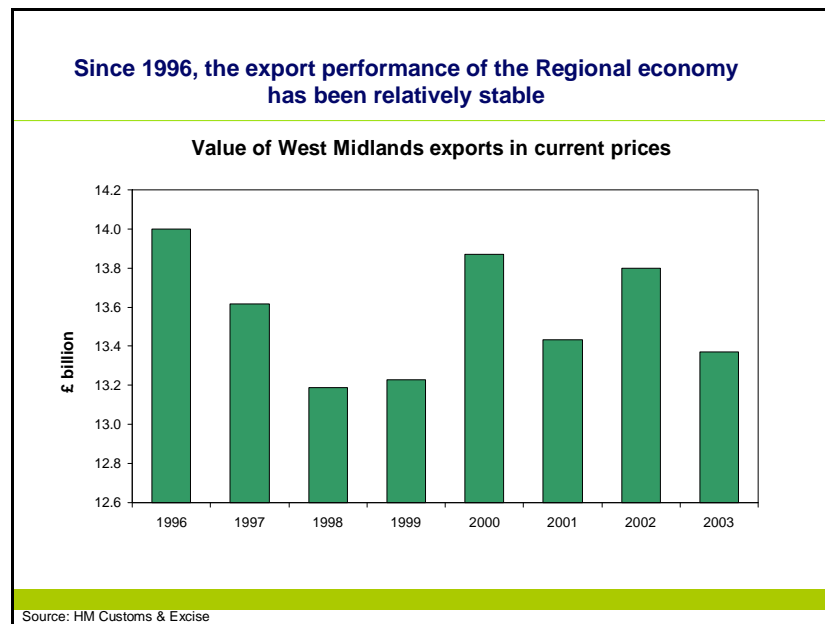
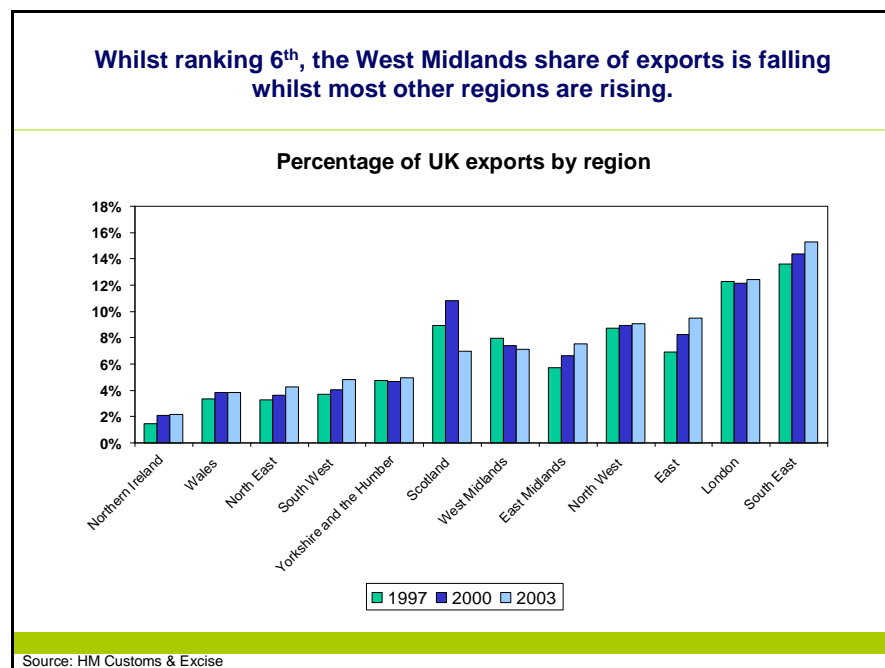
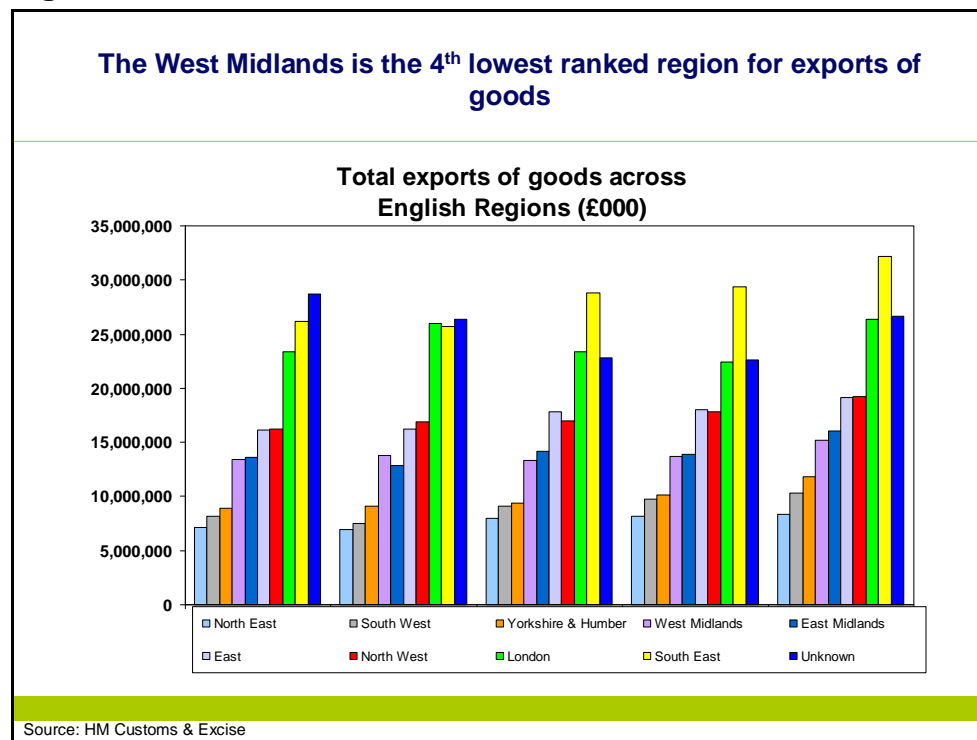


Figure 3.2 <sup>138</sup>

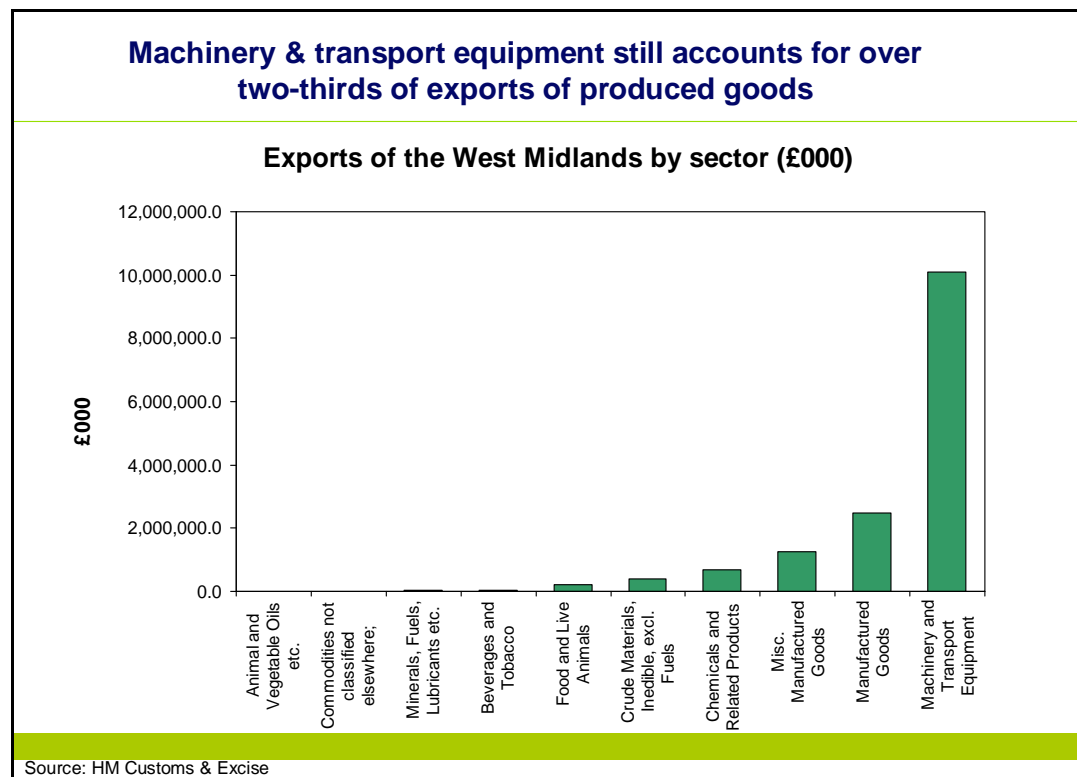


<sup>138</sup> This ignores exports that cannot be allocated to a region by ONS. These account for approximately 12-15% of the total.

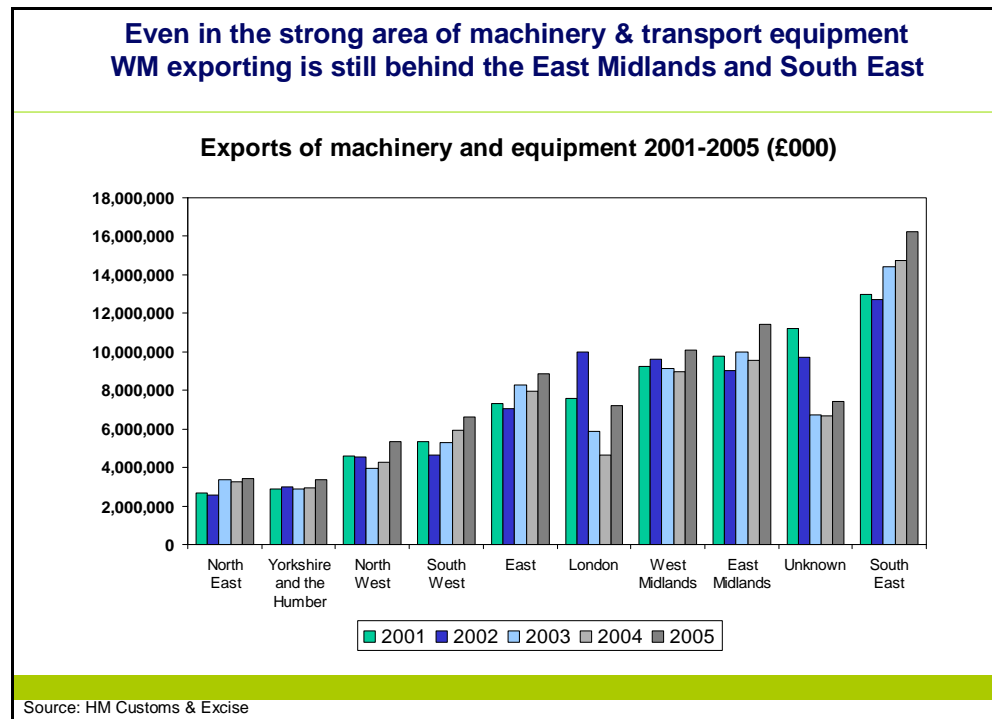
**Figure 3.3**



**Figure 3.4**



**Figure 3.5**



**Table 3.1 Number of companies and employees in each cluster in the West Midlands, 2004**

	Companies	Employees
<b>Established</b>		
Building Technologies	28,367	202,790
Food & Drink	2,599	57,099
Tourism & Leisure	17,111	191,551
Transport Technologies	4,035	118,843
High Value Added Consumer Products	2,808	35,382
<b>Growing</b>		
Specialist Business Services	19,595	92,168
ICT	8,907	65,372
Environmental Technologies	1,400	28,039
<b>Embryonic</b>		
Media (Screen, Image and Sound)	1,700	10,348
Medical Technologies	422	7,537
<b>Total</b>	<b>86,944</b>	<b>809,128</b>

## 2.4 Enterprise

**Table4.1 Regional Size Summary of Businesses: 2003**

		Employment Sizeband				
		Total Number	None %	1-49 %	50-249 %	250+ %
(a) Number/Percentage of Businesses						
United Kingdom		4,021,390	71.3	27.9	0.6	0.2
North East		98,960	65.9	33.0	0.9	0.2
North West		386,745	69.1	30.0	0.8	0.2
Yorkshire and the Humber		278,400	68.1	31.0	0.8	0.2
East Midlands		263,560	68.7	30.4	0.7	0.2
West Midlands		315,380	68.3	30.8	0.7	0.2
East of England		430,850	73.2	26.1	0.6	0.1
London		642,060	74.5	24.8	0.6	0.2
South East		682,380	74.0	25.3	0.5	0.1
South West		379,705	71.1	28.3	0.5	0.1
England		3,478,035	71.5	27.7	0.6	0.2
Wales		172,335	71.2	28.1	0.6	0.1
Scotland		266,990	69.8	29.3	0.7	0.2
Northern Ireland		104,030	68.0	31.1	0.8	0.1
(b) Percentage of Employment (%)						
United Kingdom		21,654	14.6	31.6	12.0	41.8
North East		653	11.0	32.2	13.8	43.0
North West		2,132	13.8	34.0	13.8	38.5
Yorkshire and the Humber		1,786	12.0	30.4	11.9	45.6
East Midlands		1,663	12.2	30.1	11.8	45.9
West Midlands		1,841	13.0	33.1	12.8	41.1
East of England		2,113	16.4	31.8	11.1	40.7
London		3,986	12.5	23.2	9.7	54.6



		Employment Sizeband				
South East	3,228	17.1	31.5	11.7	39.7	
South West	1,620	18.9	39.3	11.9	29.9	
England	19,030	14.3	30.7	11.7	43.3	
Wales	703	20.2	40.5	14.5	24.8	
Scotland	1,452	14.5	34.3	13.9	37.3	
Northern Ireland	469	16.4	46.7	16.6	20.3	
(c) Percentage of Turnover (£m/%)						
United Kingdom	2,240,345	7.9	30.4	14.0	47.6	
North East	65,935	5.9	24.4	14.4	55.3	
North West	182,980	8.6	35.0	16.2	40.3	
Yorkshire and the Humber	147,784	7.3	31.3	14.8	46.6	
East Midlands	138,139	7.2	32.7	14.8	45.3	
West Midlands	174,086	8.0	31.2	14.4	46.5	
East of England	231,371	7.5	27.6	12.6	52.2	
London	558,620	7.7	27.9	12.8	51.6	
South East	389,902	8.0	27.6	13.3	51.1	
South West	135,175	9.9	36.7	13.0	40.4	
England	2,023,991	7.9	29.8	13.7	48.7	
Wales	55,659	10.1	37.6	17.3	35.0	
Scotland	121,774	8.2	32.1	16.2	43.5	
Northern Ireland	38,921	7.4	48.8	20.7	23.1	

Source: Small Business Service Analytical Unit

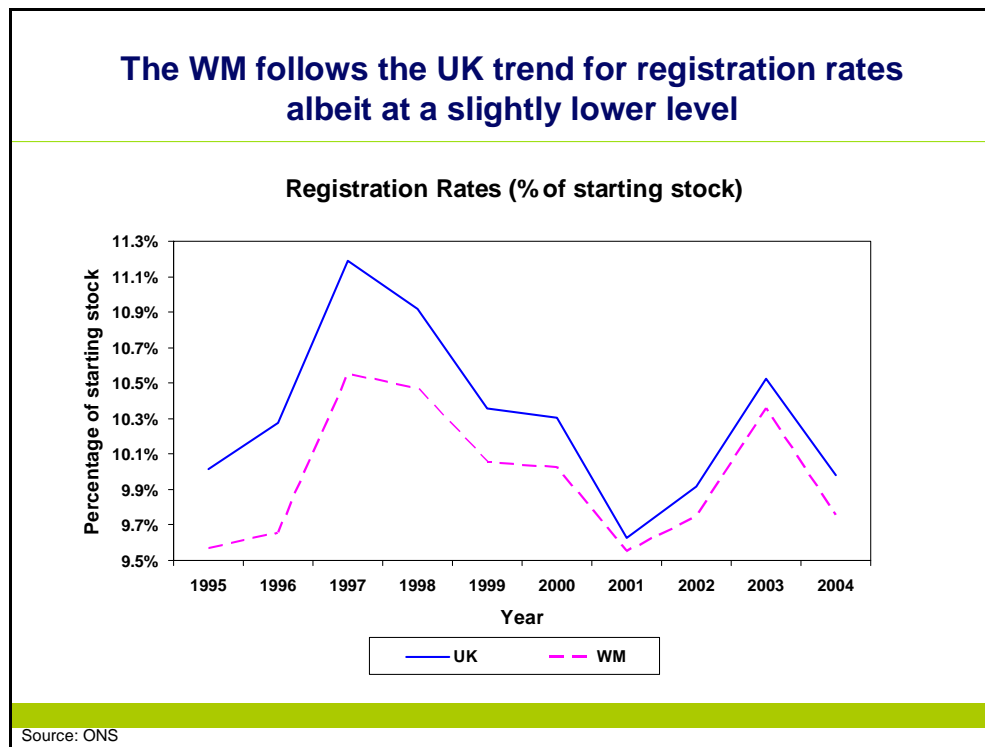
**Table 4.2 Trends in regional firm stock in the West Midlands**

	<b>=100%</b>	<b>None</b>	<b>1-49</b>	<b>50-249</b>	<b>250+</b>
<b>(a) Firm Stock (000, %)</b>					
2001	289	65.9%	33.0%	0.9%	0.2%
2003	315	68.3%	30.8%	0.7%	0.2%
<b>(b) Employment (000/%)</b>					
2001	1,997	10.6%	33.1%	12.7%	45.8%
2003	1,841	13.0%	30.8%	12.8%	41.1%

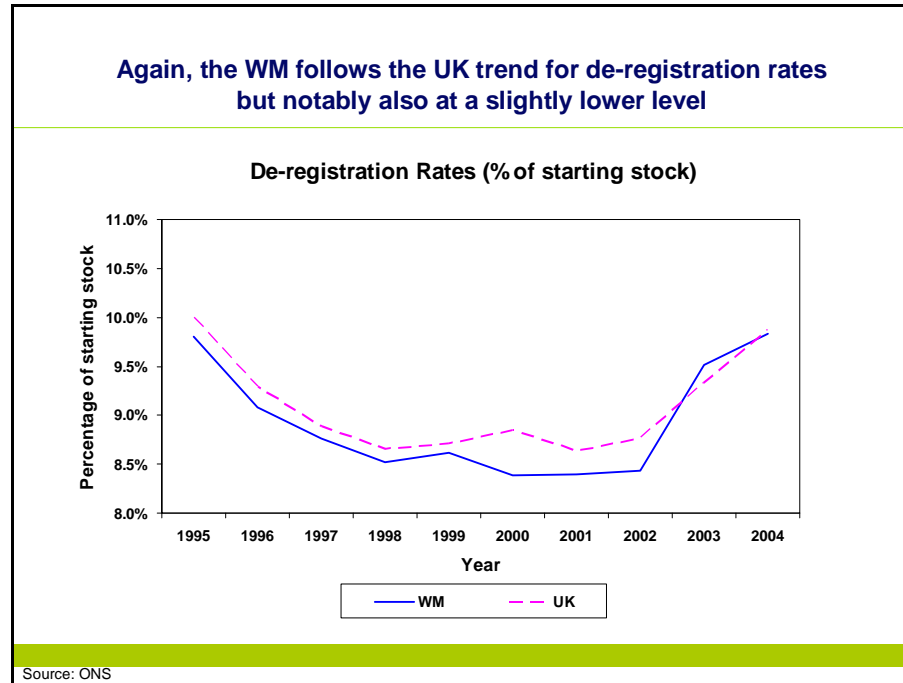
*Source: SBS Analytical Unit*

**Figure 4.1 VAT Registration rates, De-Registration rates and change in business stock: WM & the UK**

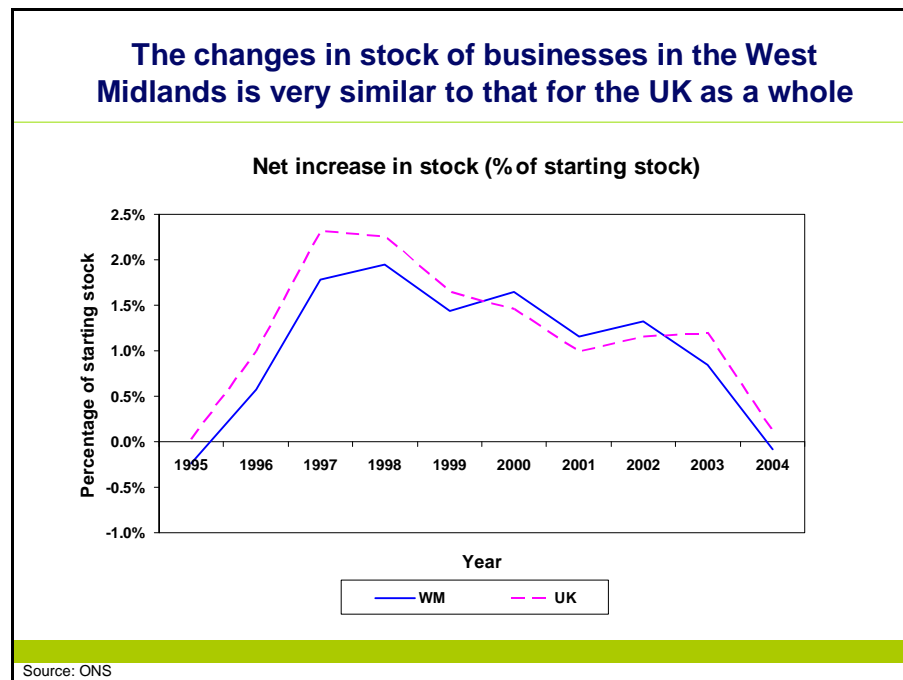
(a)



(b)



(c)

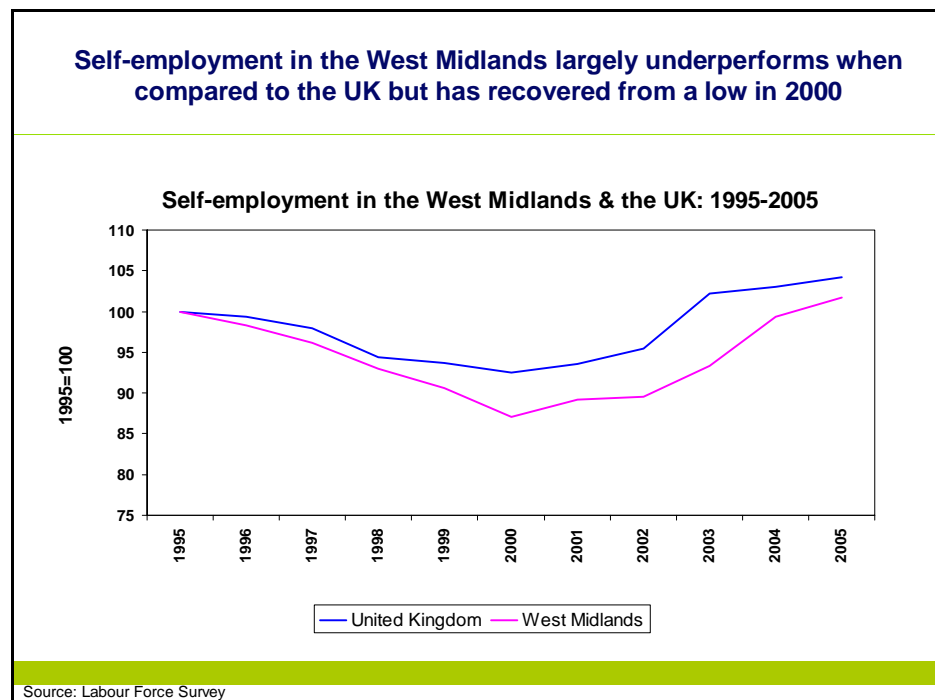


**Table 4.3 West Midlands VAT Registrations by Sector**

	1994	2004	Change	%
Agriculture and Fishing	275	235	-40	-14.5
Energy and Water	10	20	10	100.0
Manufacturing	1,545	955	-590	-38.2
Construction	1,445	1,900	455	31.5
Distribution	3,465	3,230	-235	-6.8
Hotels and restaurants	1,395	1,740	345	24.7
Transport and Communications	660	950	290	43.9
Financial Intermediation	130	80	-50	-38.5
Real estate renting and business	3,130	4,770	1,640	52.4
Public administration	1,375	775	-600	-43.6
Education and Social services	265	195	-70	-26.4
Registrations Total	13,695	14,855	1,160	8.5

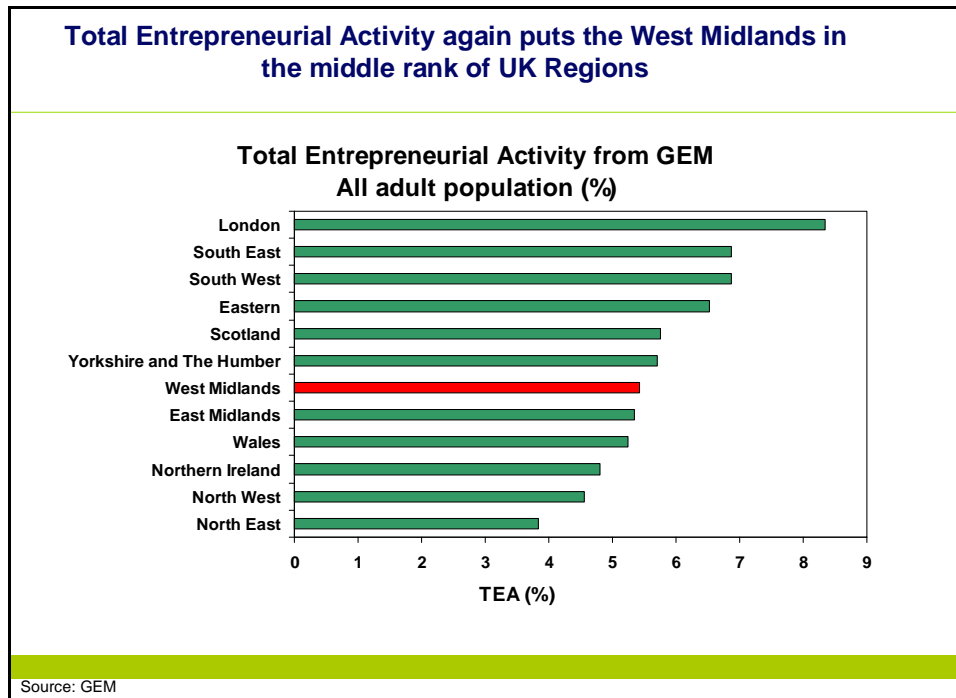
*Source: Nomis / West Midlands Regional Observatory*

**Figure 4.2**

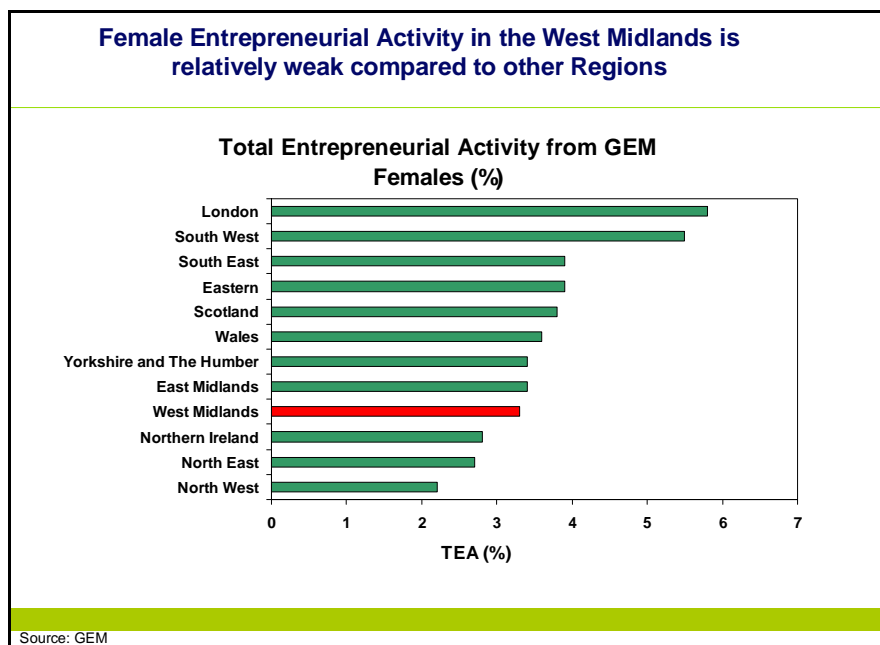


**Figure 4.3 Total Entrepreneurial Activity from GEM**

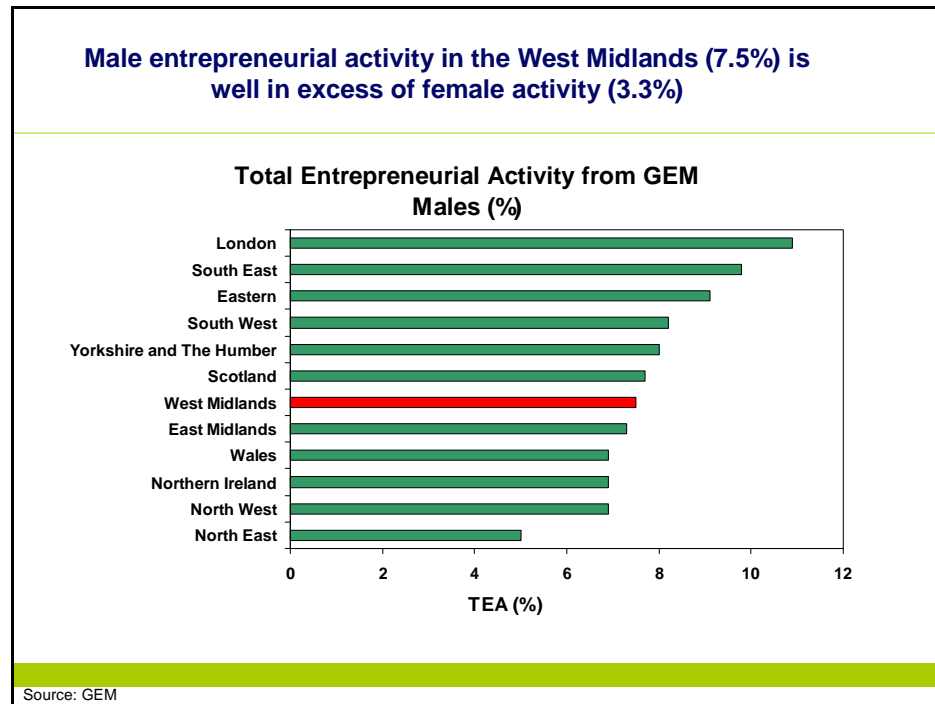
(a)



(b)



(c)



**Table 4.4 Necessity & Opportunity TEA by Gender by UK Region (%)**

	Female		Male	
	Opportunity	Necessity	Opportunity	Necessity
East Midlands	3.0	0.3	6.3	1.0
East of England	3.2	0.5	8.5	0.6
London	5.7	0.1	8.4	2.1
North East	2.5	0.2	3.0	1.2
North West	2.1	0.1	6.1	0.8
Northern Ireland	2.2	0.5	6.1	0.8
Scotland	3.5	0.3	6.3	1.2
South East	3.5	0.3	8.9	1.0
South West	5.0	0.6	6.5	1.7
Wales	3.1	0.5	5.7	1.1
West Midlands	3.1	0.2	6.5	1.0
Yorkshire & Humber	3.0	0.4	6.4	1.5

Source: GEM 2005

**Table 4.5 Proportion of Ethnic Groups involved in different enterprise activities (%)**

	Independent Start-up		Job related start-up		Owner-manager	
	West Midlands	UK	West Midlands	UK	West Midlands	UK
White British	4	4	2	2	12	11
White Irish	8	4	5	2	5	12
Other White	4	6	4	3	16	14
Mixed	6	7	9	4	16	12
Indian sub-continent	5	8	2	3	12	11
Other Asian	0	6	0	2	0	12
Black	8	9	3	4	7	9
Other	15	7	4	1	9	13

*Source: GEM West Midlands Report 2004, Table 13.*

## 2.5 Innovation

Figure 5.1

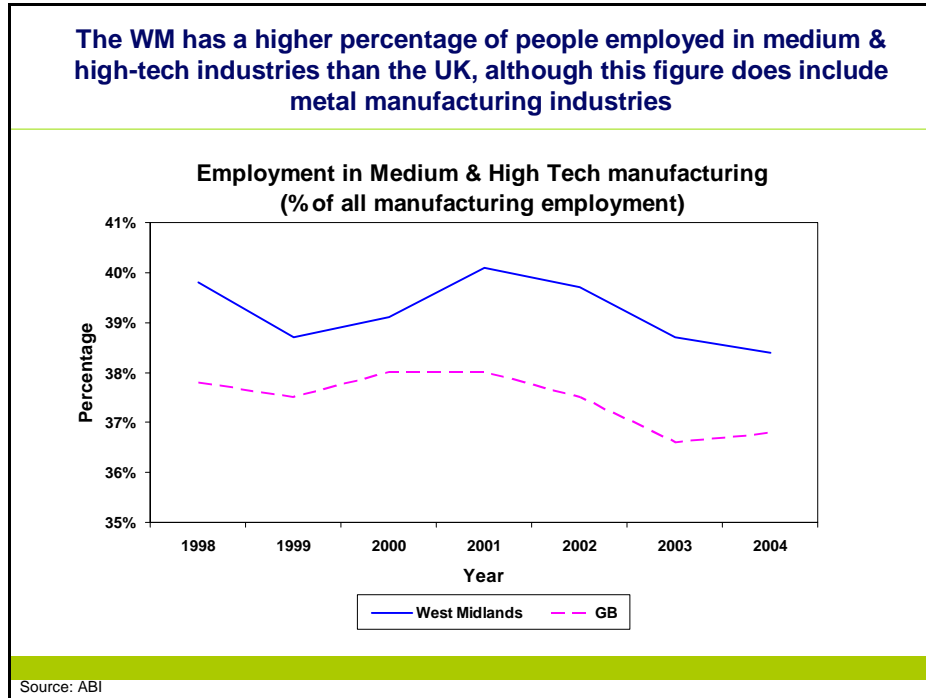
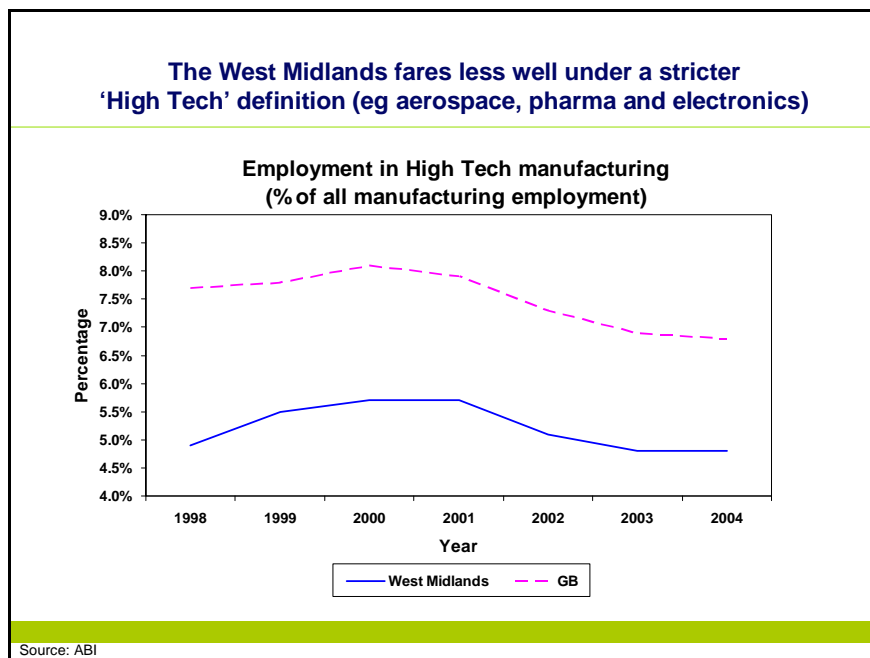
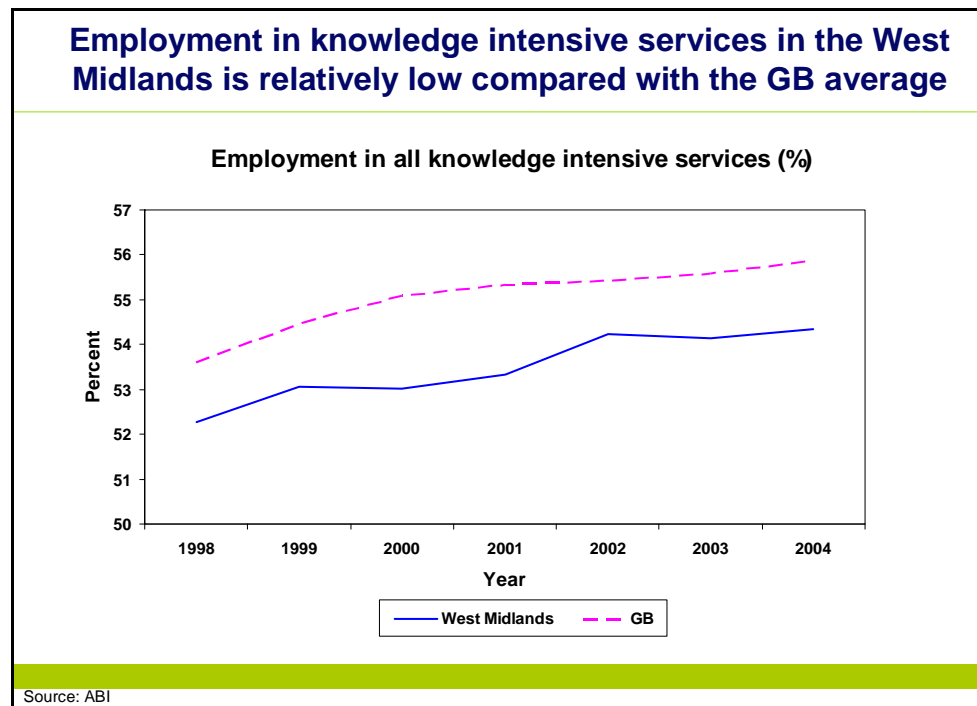


Figure 5.2 Employment in High-Tech Manufacturing

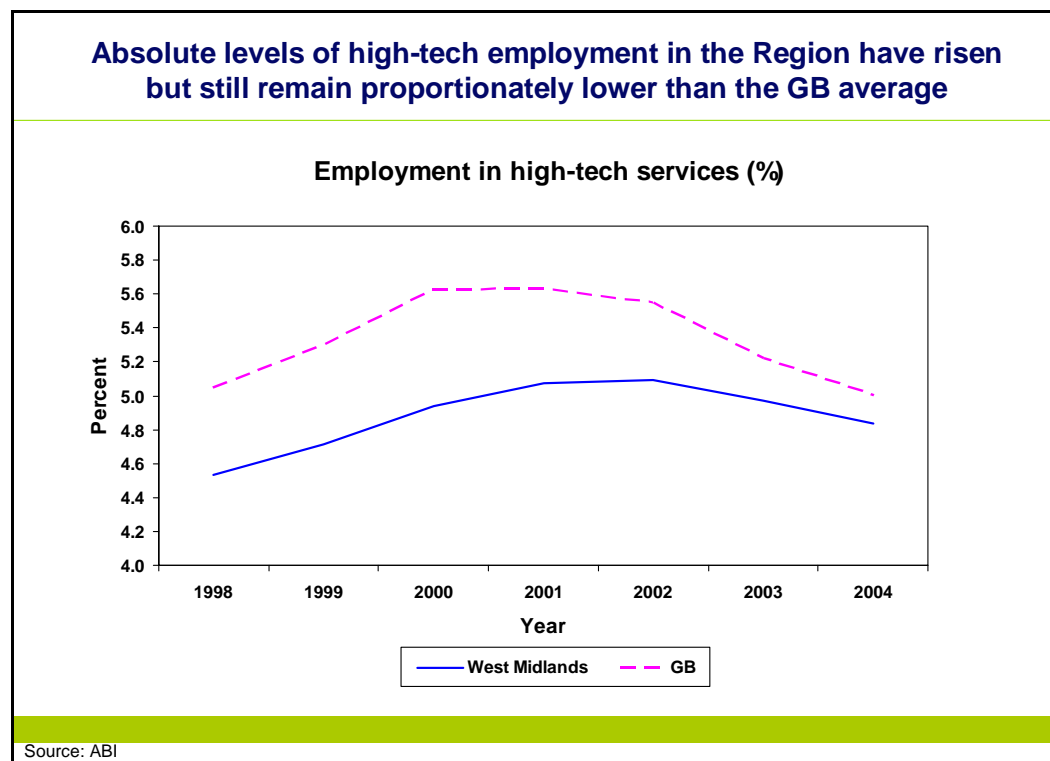




**Figure 5.3 Employment in Knowledge Intensive Services**

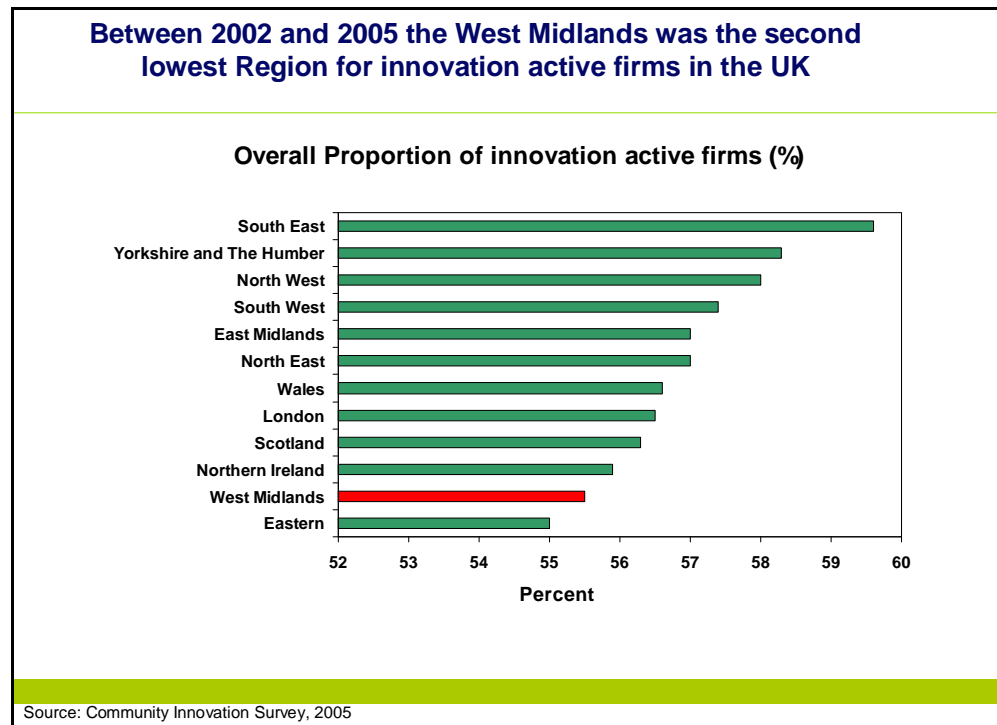


**Figure 5.4 Employment in high-tech services (%)**

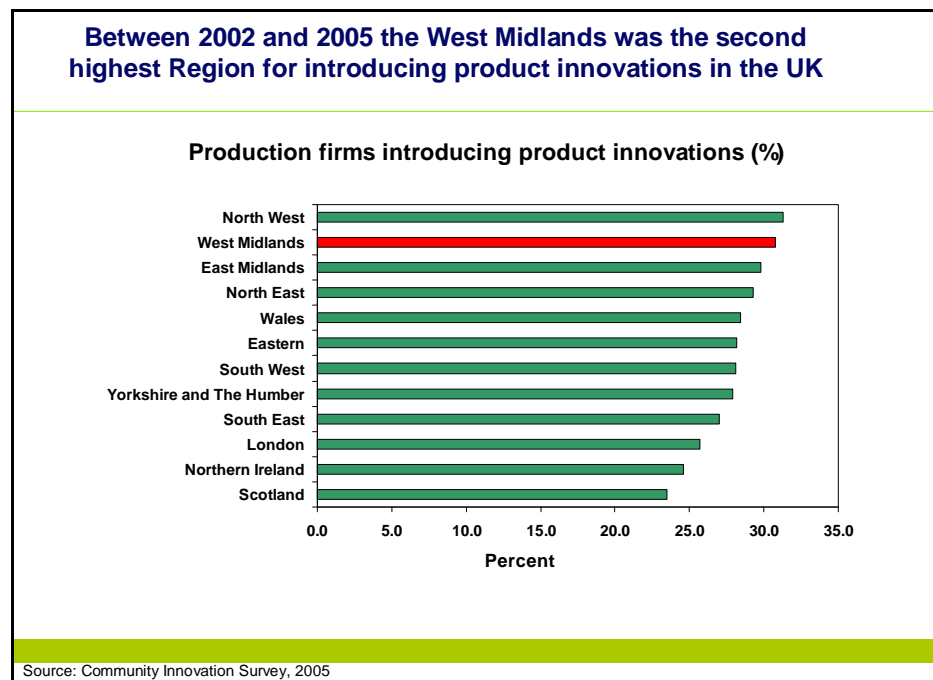


**Figure 5.5 Innovation Output Indicators – West Midlands and UK Regions**

(a)



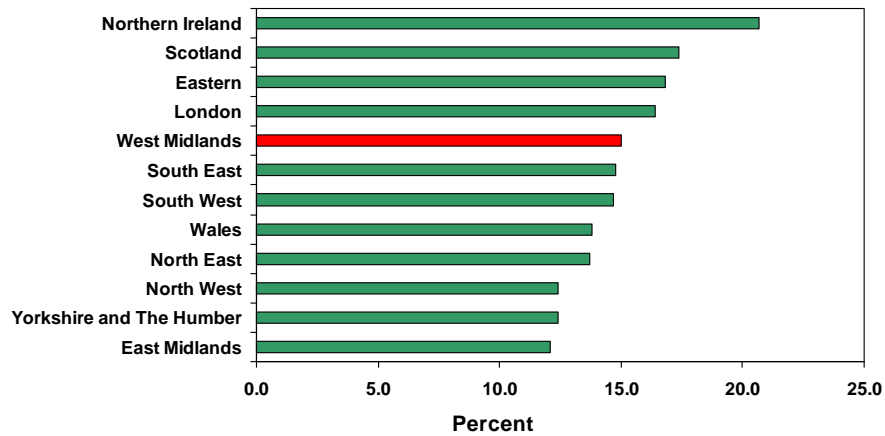
(b)



(c)

**In terms of services, the Region came 5<sup>th</sup> out of the 12 UK Regions for introducing service innovations**

**Service firms introducing service innovations (%)**

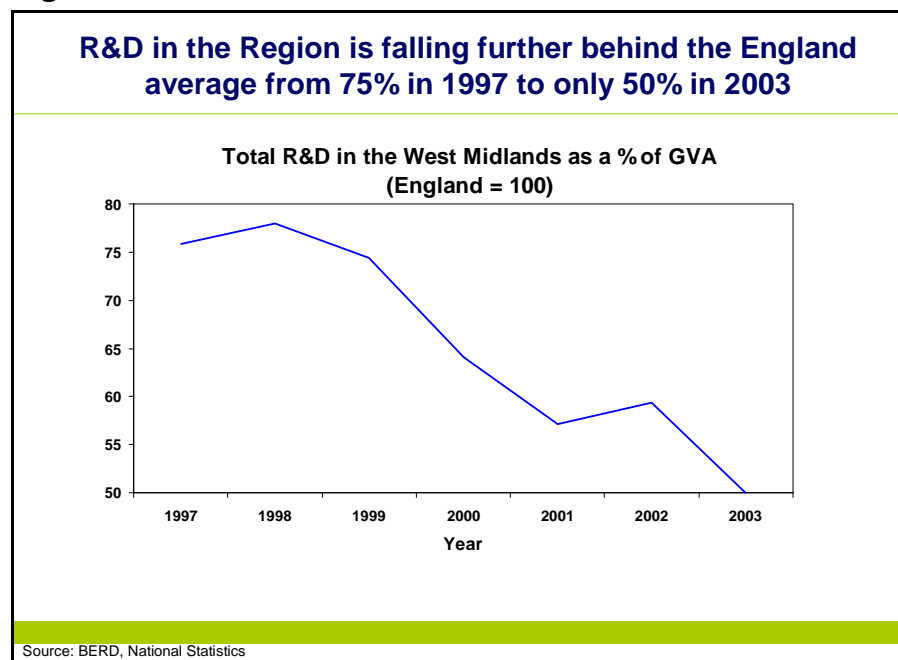


Source: Community Innovation Survey, 2005

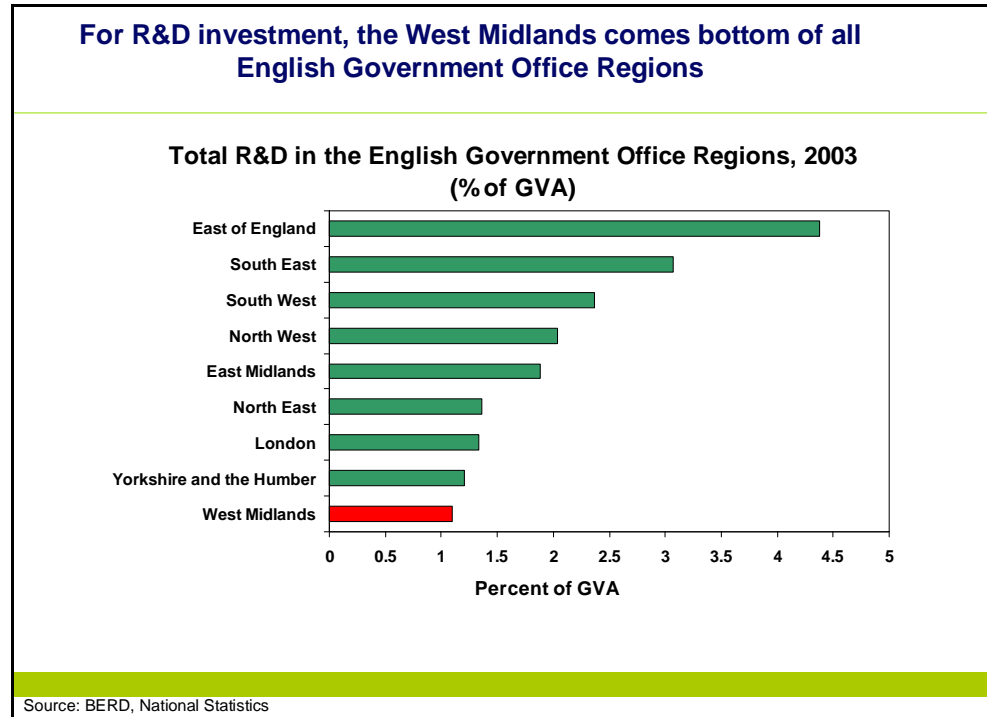
**Table 5.1: Business R&D Spend per Employee by Sector: West Midlands and UK: 2003 and 2004**

	West Midlands		UK		West Midlands	
	2003	2004	2003	2004	2003	2004
	£pe pa	£pe pa	£pe pa	£pe pa	% of UK	% of UK
Total	252.7	341.3	532.3	518.9	47.5	65.8
Manufactured Products: Total	1143.1	1590.4	3262.1	3347.9	35.0	47.5
Chemicals	1746.2	1709.4	17756.0	19069.5	9.8	9.0
Mechanical Engineering	306.9	830.3	1682.1	1833.8	18.2	45.3
Electrical Machinery	3906.7	4171.7	6264.8	5866.6	62.4	71.1
Transport	3411.9	4386.3	5492.0	4218.9	62.1	104.0
Aerospace	10362.7	19238.0	18046.4	22473.7	57.4	85.6
Other Manufactured	236.9	255.5	689.0	662.0	34.4	38.6
Services	58.1	93.8	137.2	133.6	42.4	70.2
Other (energy, construction)	59.4	97.4	179.7	190.3	33.0	51.2

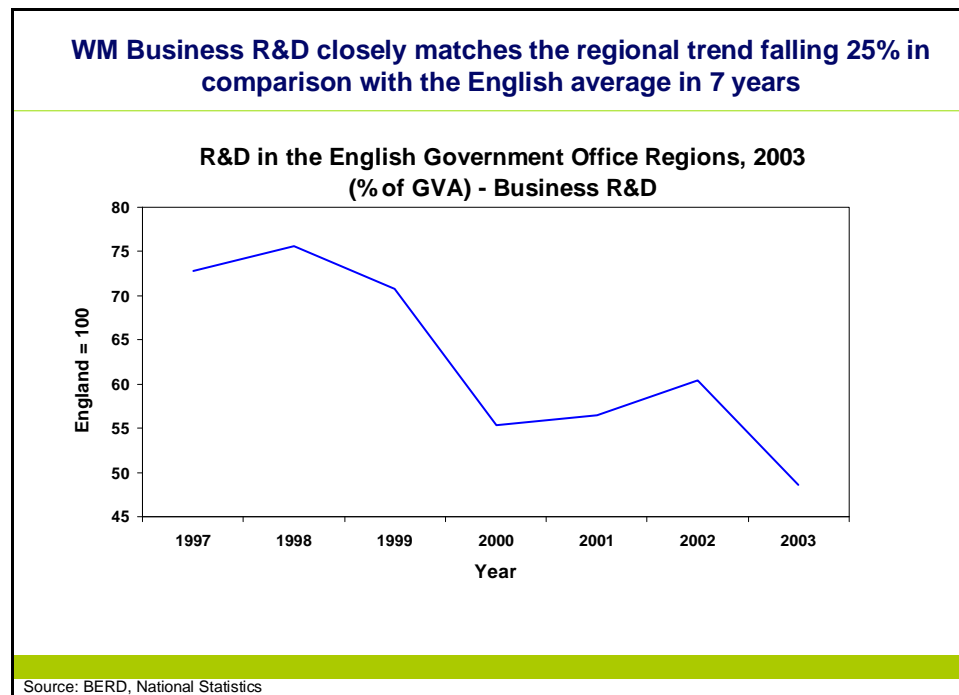
**Figure 5.6**



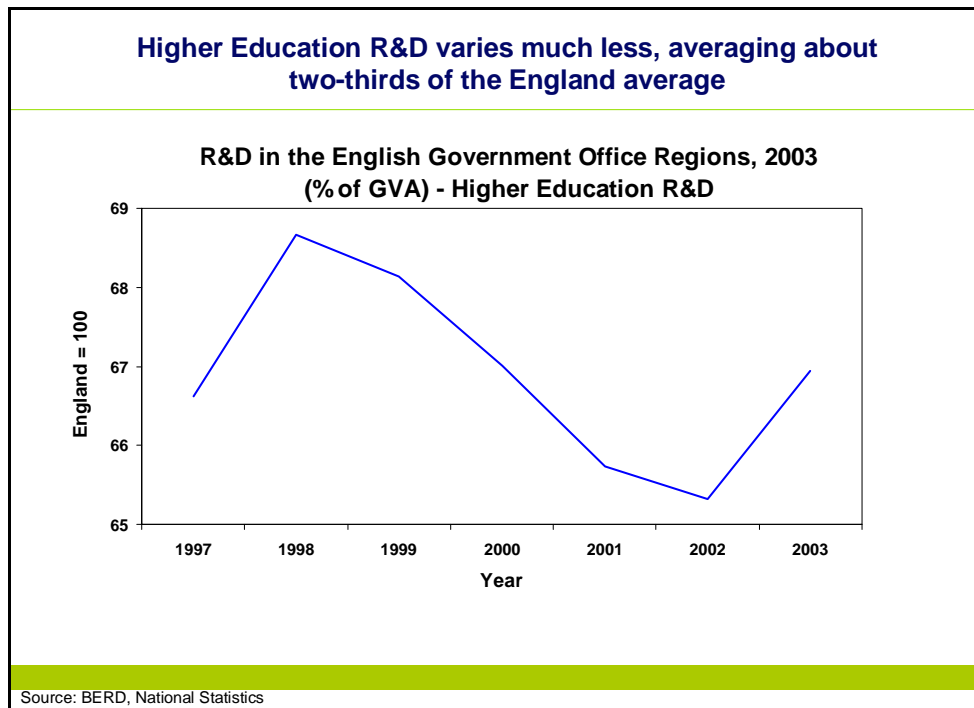
**Figure 5.7**



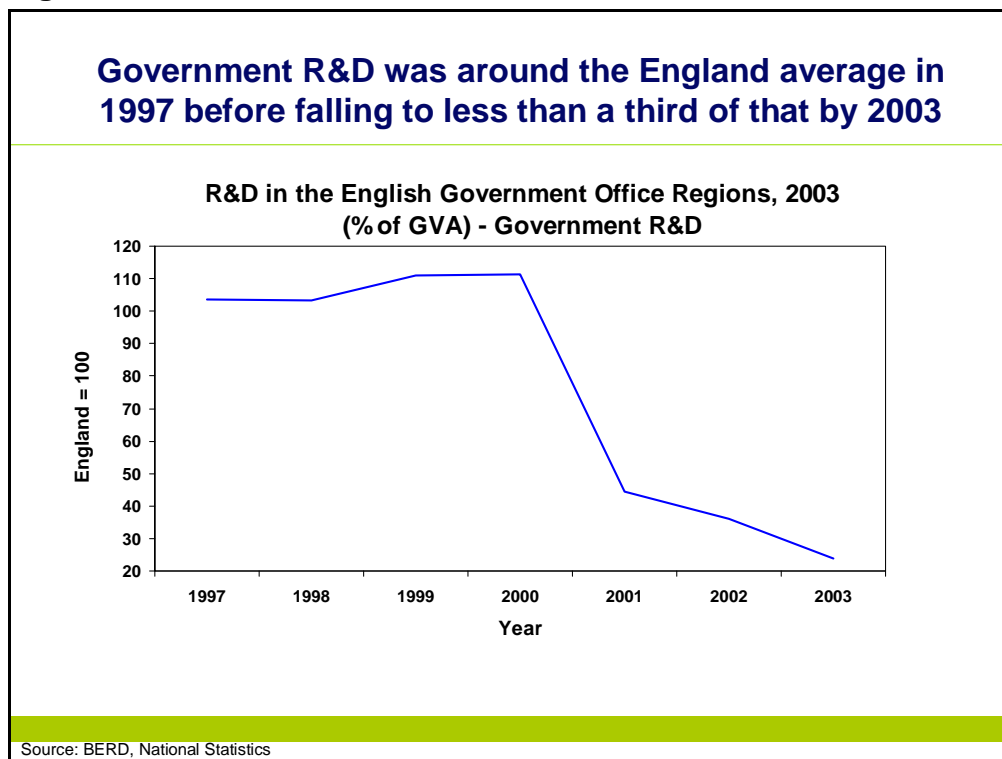
**Figure 5.8: Business R&D**



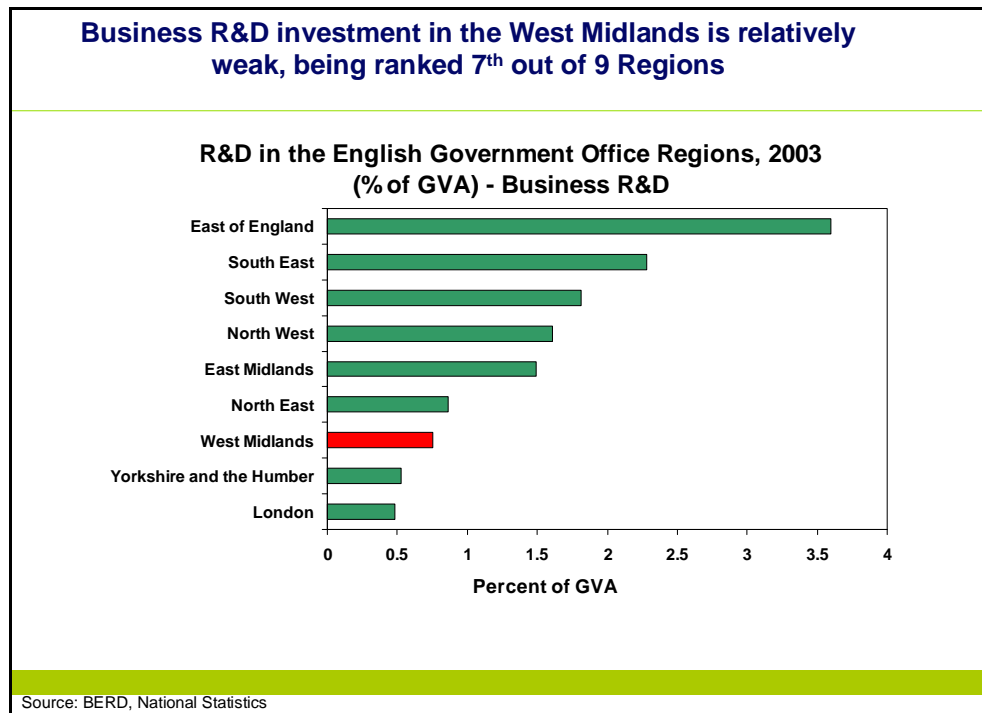
**Figure 5.9: Higher Education R&D**



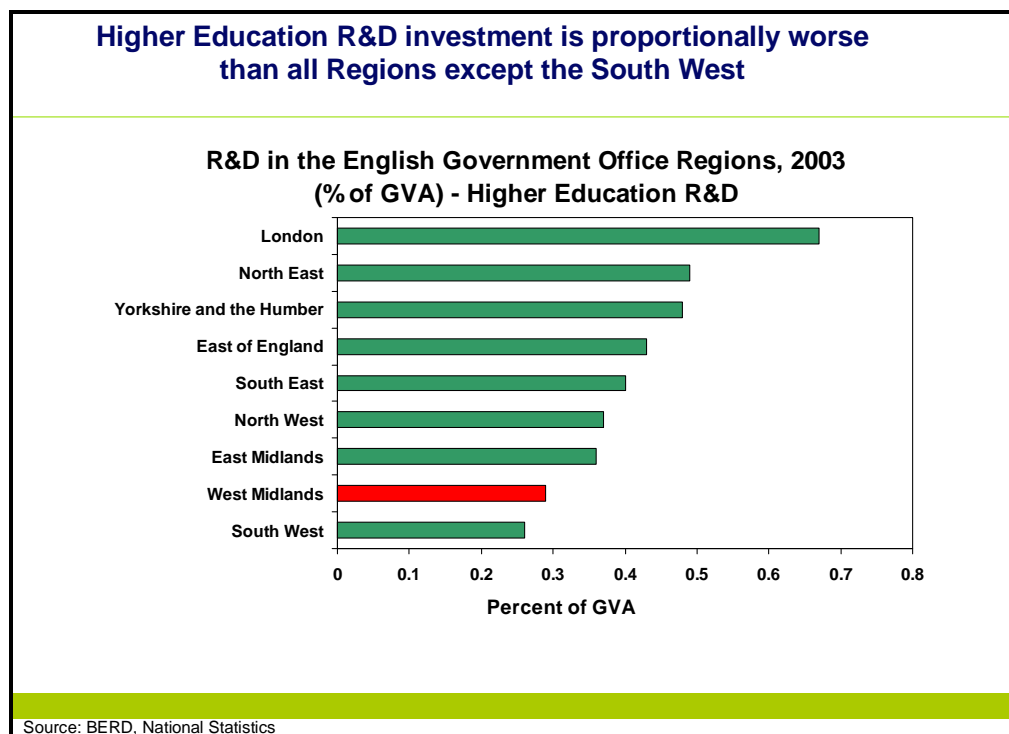
**Figure 5.10: Government R&D**



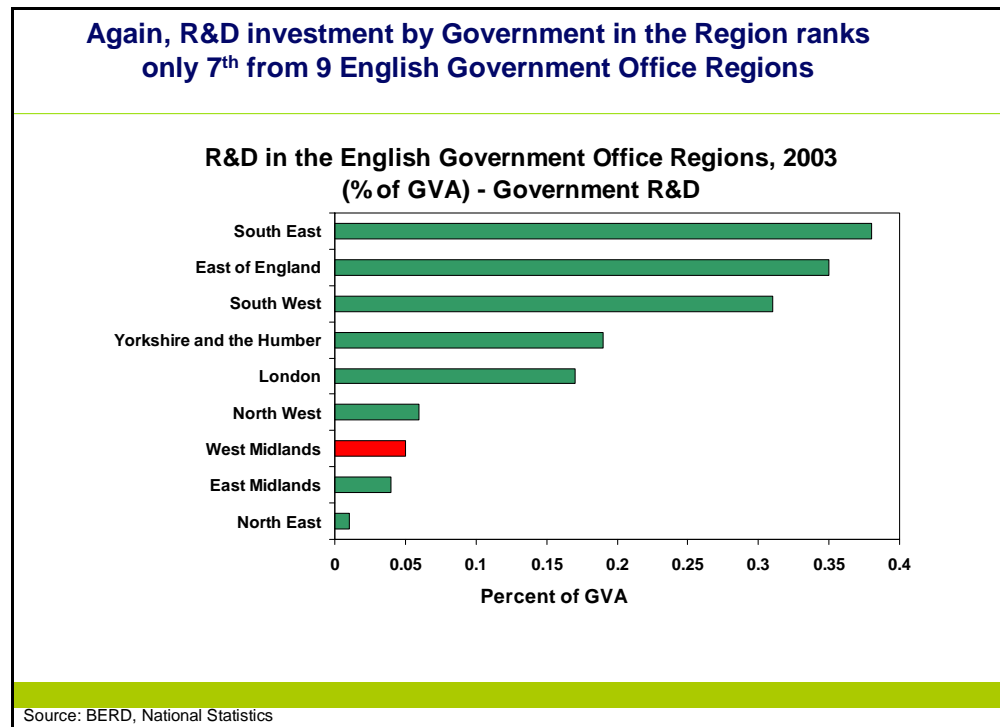
**Figure 5.11: Business R&D, Regional Comparisons**



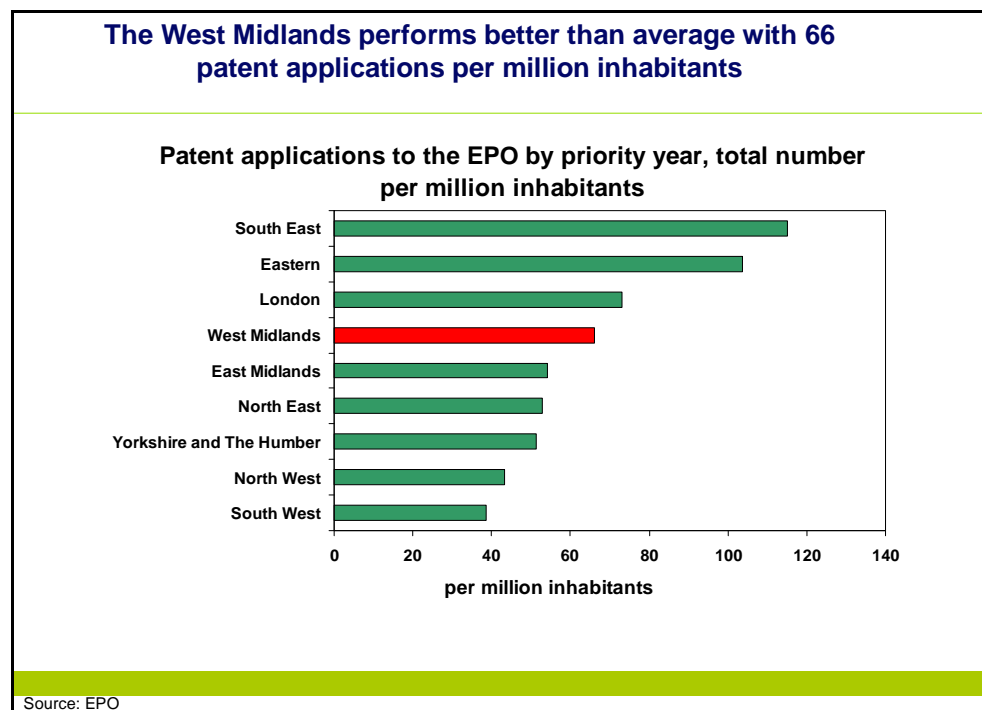
**Figure 5.12: Higher Education R&D, Regional Comparisons**



**Figure 5.13: Government R&D, Regional Comparisons**



**Figure 5.14**

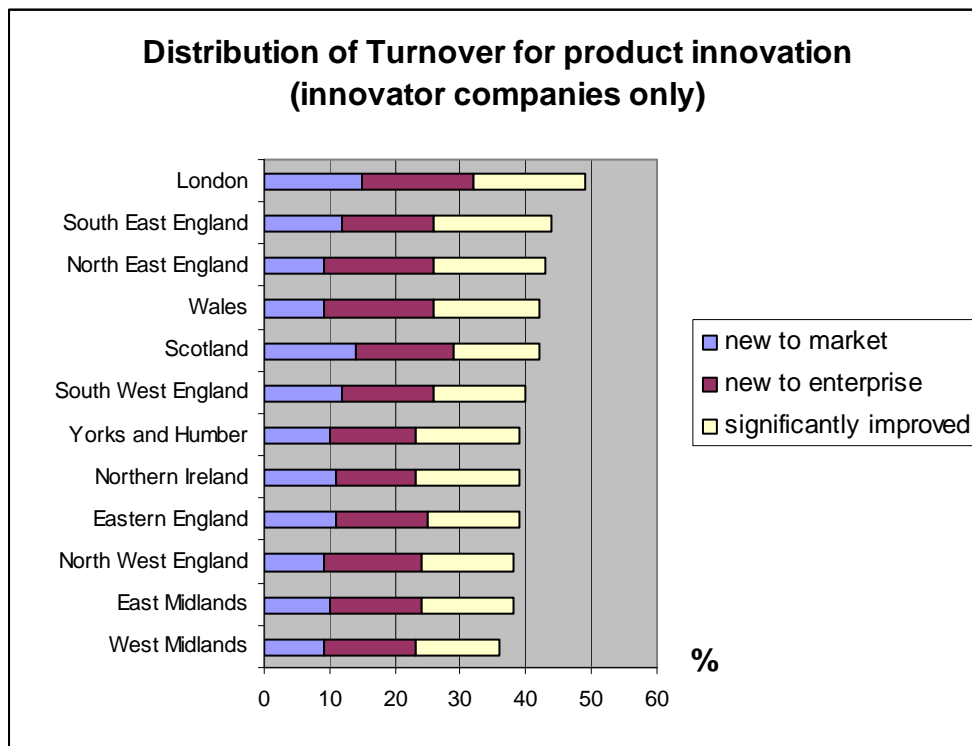




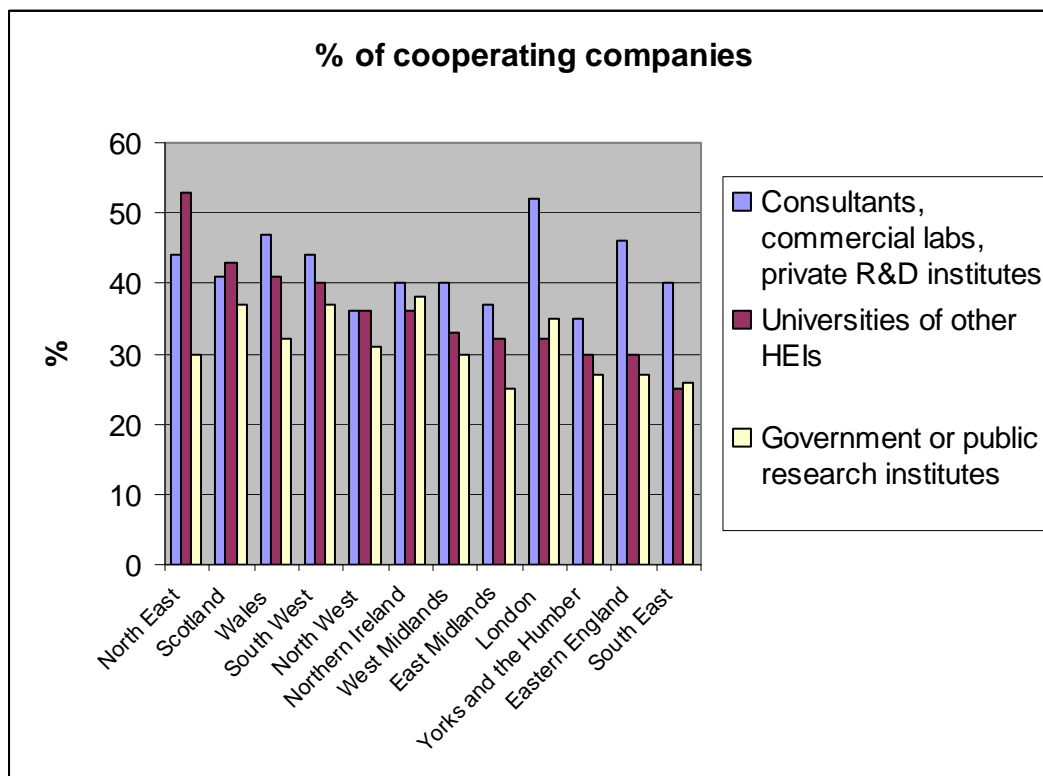
**Table 5.2: Innovation Active Firms: By Sector and Sizeband: 2002-2004**

Sector			West Midlands			UK=100		
		SIC Code	SME	Large	Total	SME	Large	Total
Mining and quarrying		11-14	50.0		50.0	88.9		86.3
Mfr of food, clothing, wood, paper, publish & print		15-22	67.4	90.0	68.4	101.1	106.9	101.0
Mfr of fuels, chemicals, plastic metals & minerals		23-29	66.1	82.7	66.8	94.2	96.7	94.3
Mfr of electrical and optical equipments		30-33	83.1	100.0	84.2	98.6	110.8	99.5
Mfr of transport equipments		34-35	82.2	90.3	83.7	118.5	104.9	116.6
Mfr not elsewhere classified		36-37	69.6	100.0	70.3	94.0	120.5	94.7
Electricity, gas & water supply		40-41	50.0		50.0	147.5		136.2
Construction		45	42.6	54.5	42.8	96.8	85.2	96.4
Wholesale Trade (incl cars & bikes)		50&51	47.3	71.4	47.8	80.6	111.0	81.4
Retail Trade (excl cars & bikes)		52	34.1	69.6	35.2	86.8	124.2	88.2
Hotels & restaurants		55	32.2	57.1	32.6	82.8	96.0	83.2
Transport, storage & communication		60-64	50.8	59.1	51.2	87.5	80.4	87.3
Financial intermediation		65-67	69.1	85.7	70.2	104.1	108.0	104.2
Real estate, renting & business activities		70-74	61.6	58.8	61.5	99.8	89.8	99.4
All Firms			54.8	74.4	55.5	96.8	103.2	97.1

**Figure 5.15**



**Figure 5.16**



## 2.6 Investment

Figure 6.1

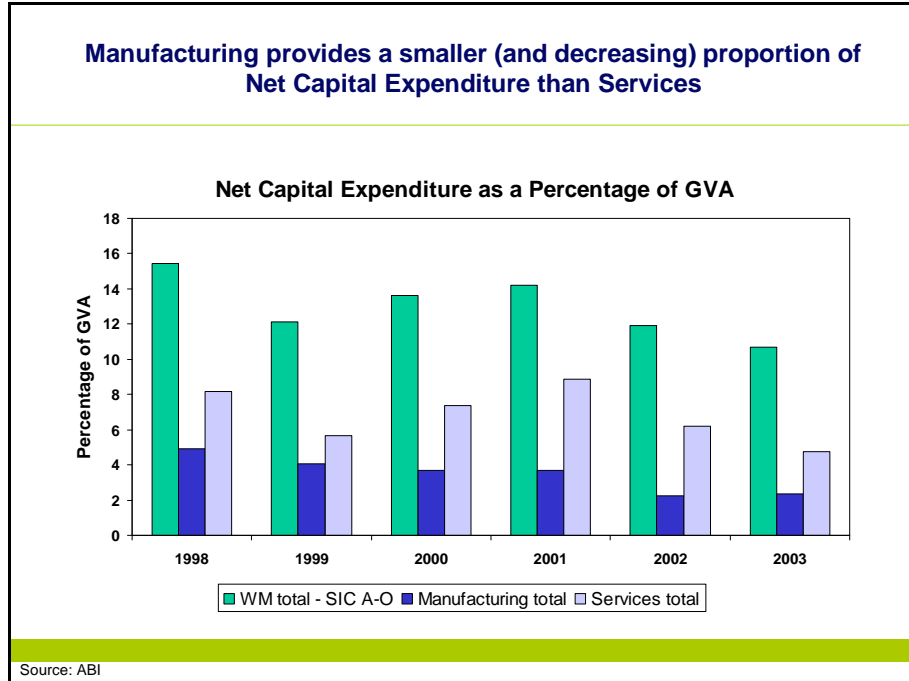
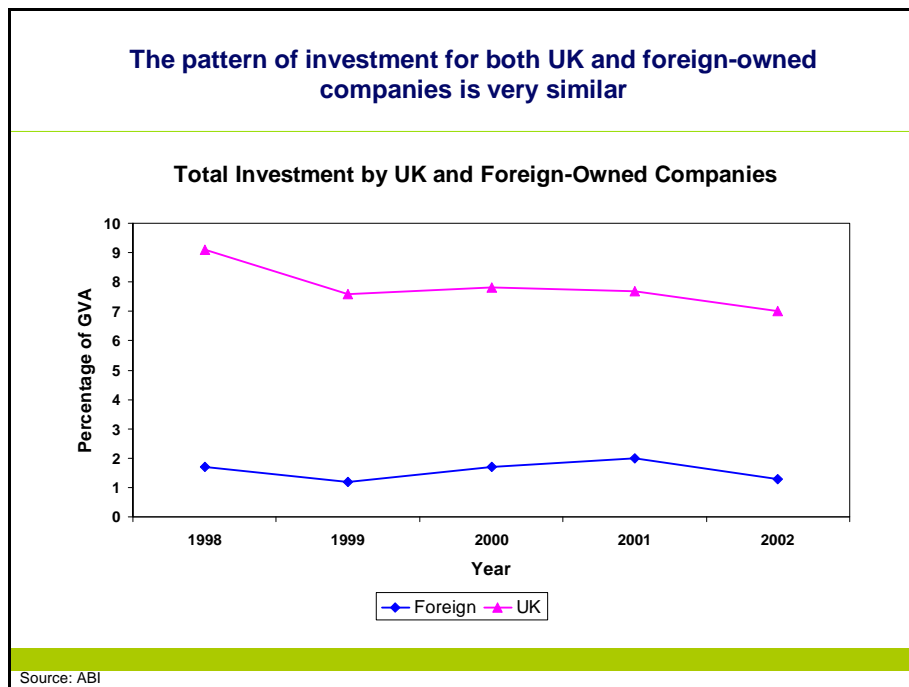
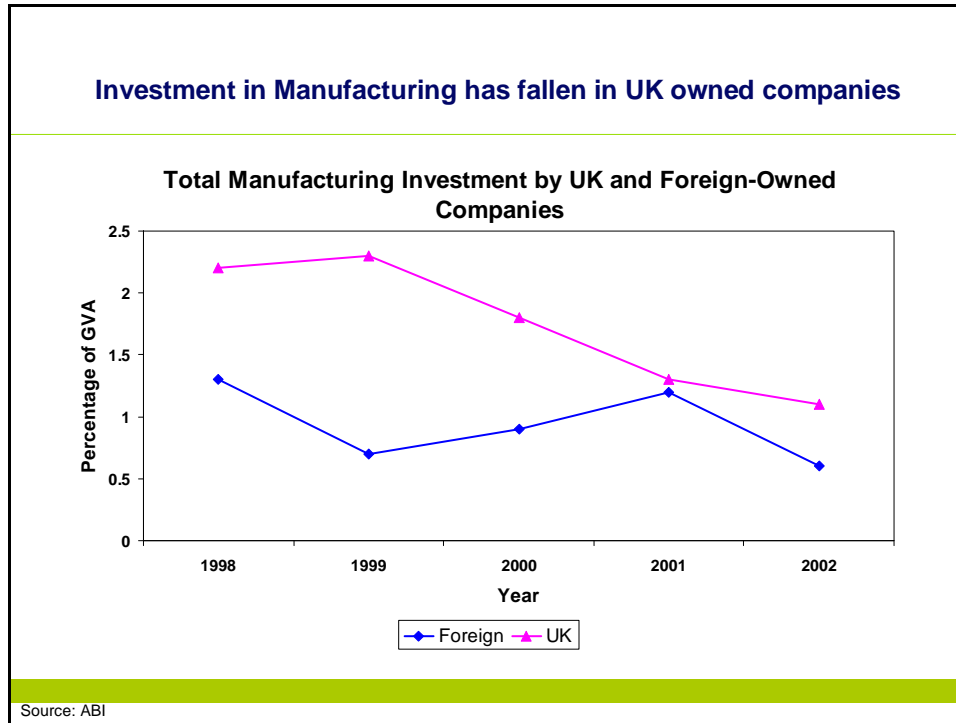


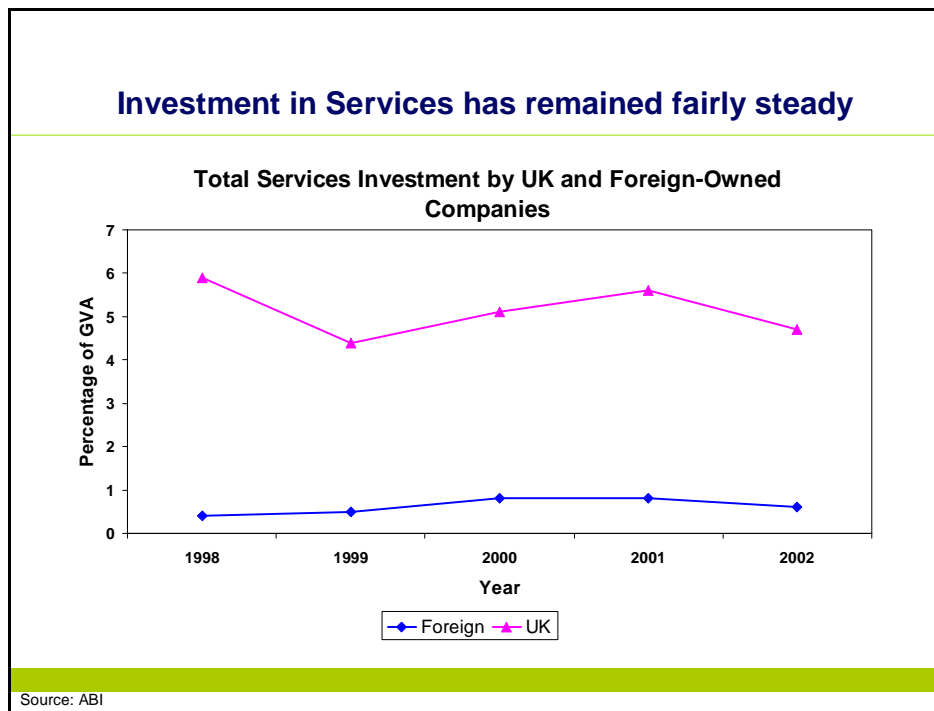
Figure 6.2



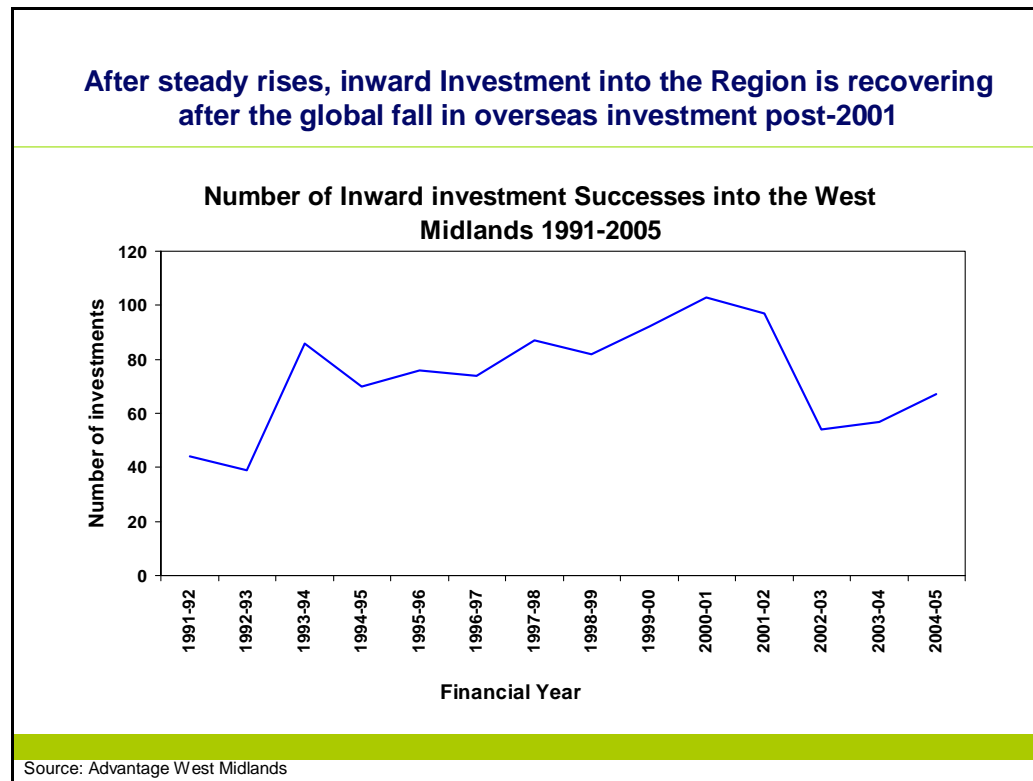
**Figure 6.3**



**Figure 6.4**

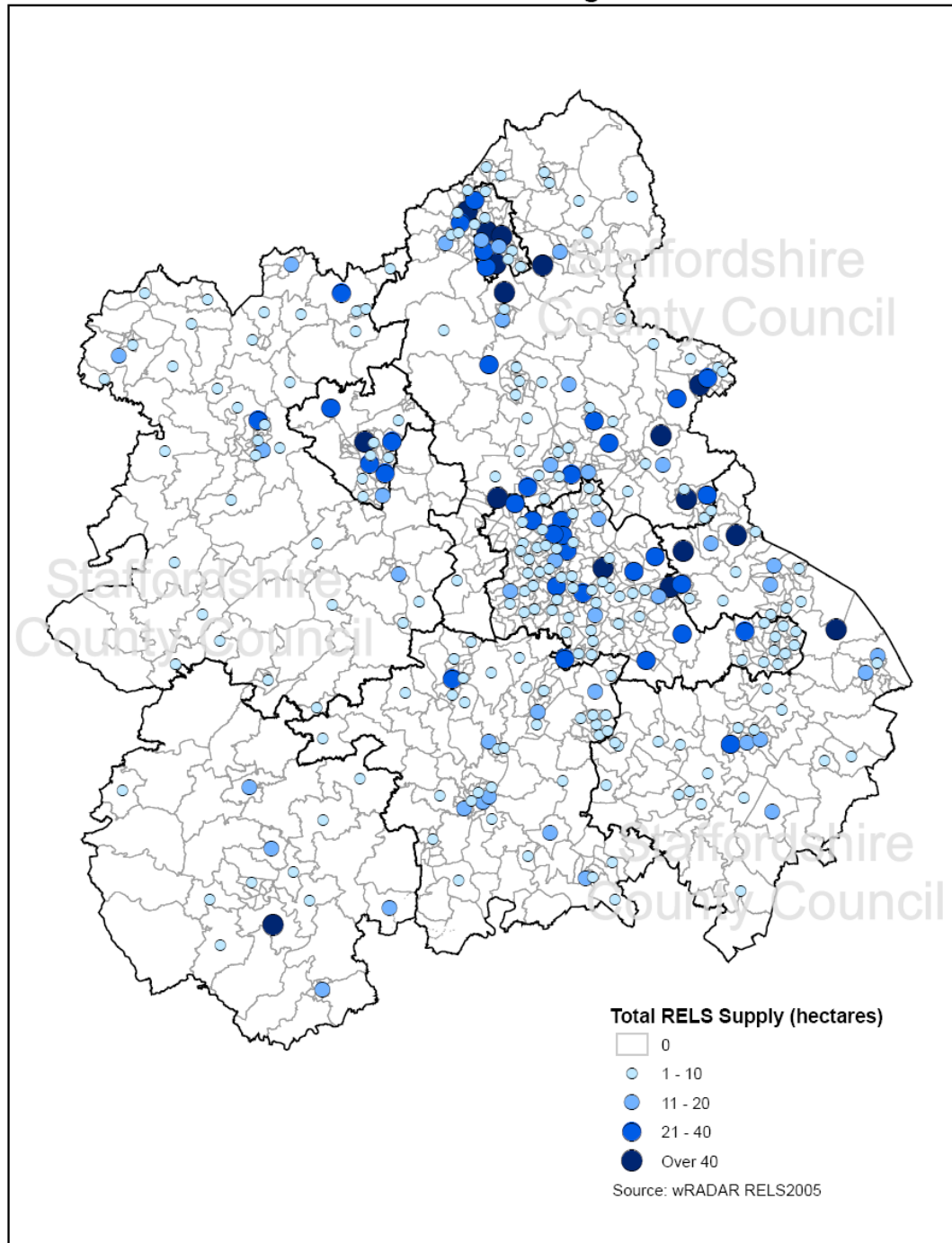


**Figure 6.5**



**Figure 6.6**

**Location of Regional Employment Sites  
in the West Midlands Region 2005**



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*Source: Staffordshire County Council*

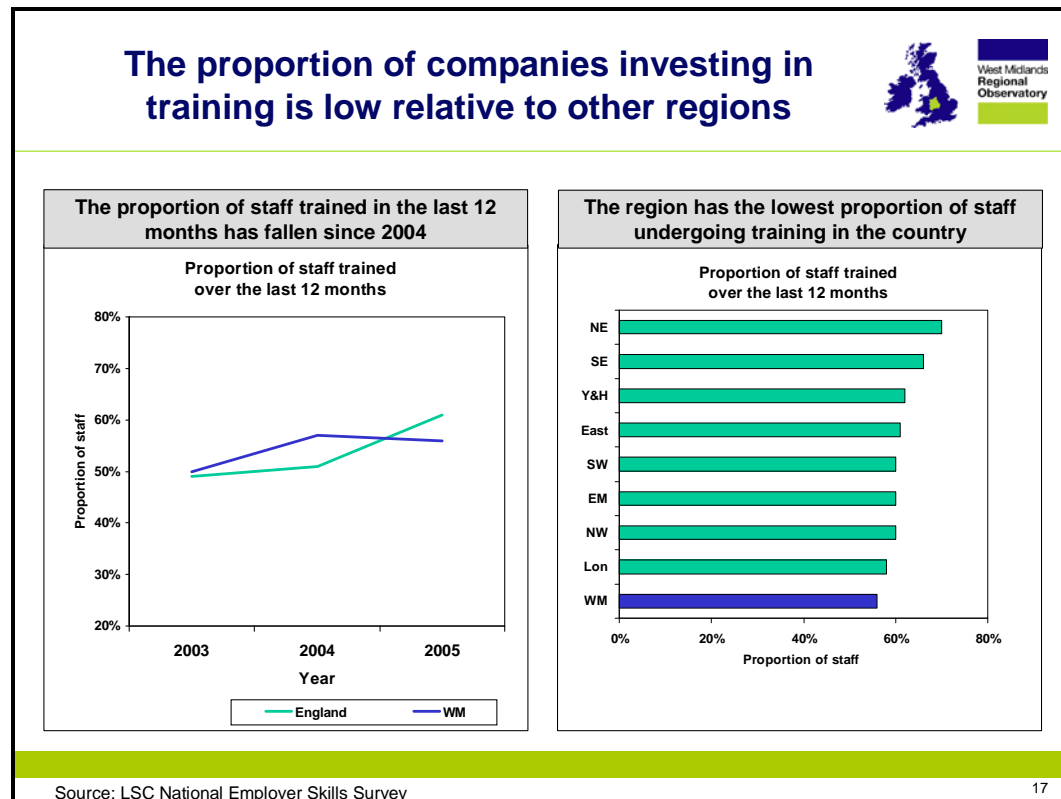
**Table 6.1**

**Table APP.QE1: Derelict Land in the West Midlands, April 2005**

	Derelict (ha)	Reclaimed (ha)	Reclaimed (%)	Soft End Uses (ha)
Birmingham	105.5	0.8	0.8	-
Coventry	19.7	0	0.0	-
Dudley	227.0	3.4	1.5	-
Sandwell	130.3	4	3.1	-
Solihull	6.2	0	0.0	-
Walsall	205.2	4.1	2.0	-
Wolverhampton	96.4	7.6	7.9	-
Herefordshire	0	0	0.0	-
Shropshire	476.2	0.2	0.0	-
Telford & Wrekin	286.2	16.2	5.7	-
Staffordshire	583.7	36.9	6.3	-
Stoke-on-Trent	268.5	13.3	5.0	-
Warwickshire	365.4	56.1	15.4	20
Worcestershire	158.2	1.5	0.9	-
<b>West Midlands Region</b>	<b>2,928.5</b>	<b>144.1</b>	<b>4.9</b>	<b>20</b>

Source: West Midlands Derelict Land Survey 2005

**Figure 6.7**



Source: Regional Skills Partnership, West Midlands Regional Observatory. August 2006

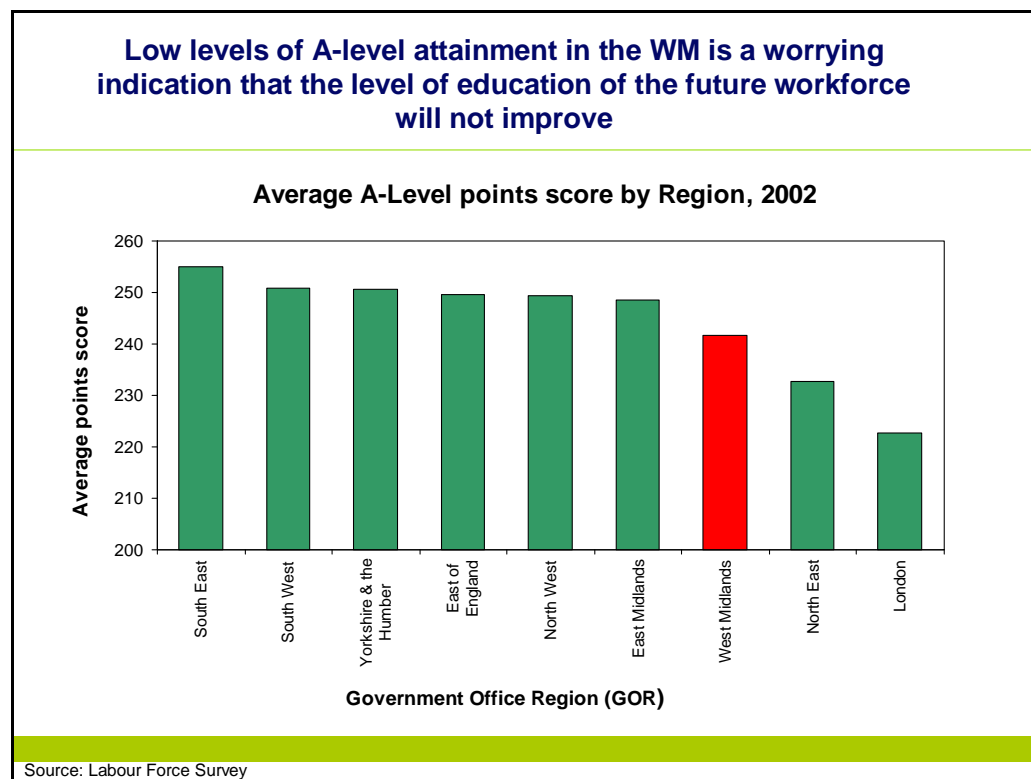
## 2.7 Skills

**Table 7.1 Highest Qualification Level of Working Age Population**

Highest level qualification	% of the working age population - WM	% of the working age population - UK	WM rank whole UK
NVQ level 4/5 (degree & higher)	23.6	26.7	8
NVQ level 3 (A level or equivalent)	15.3	15.6	9
NVQ level 2 (GCSE or Equivalent)	17.0	16.0	6
NVQ level 1	14.9	14.2	7
Trade and other qualifications	12.8	14.2	9
None	16.4	13.3	2

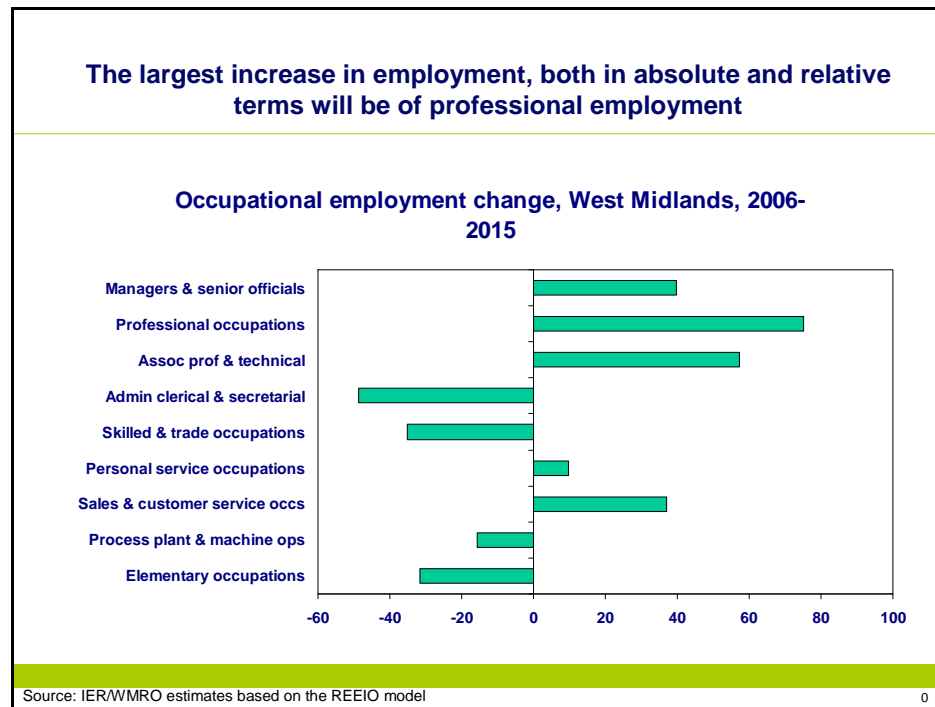
*Source: Q4/2005 LFS SuperCROSS (ONS) 11 May 2006. Regional Skills Partnership, West Midlands Regional Observatory*

**Figure 7.1**



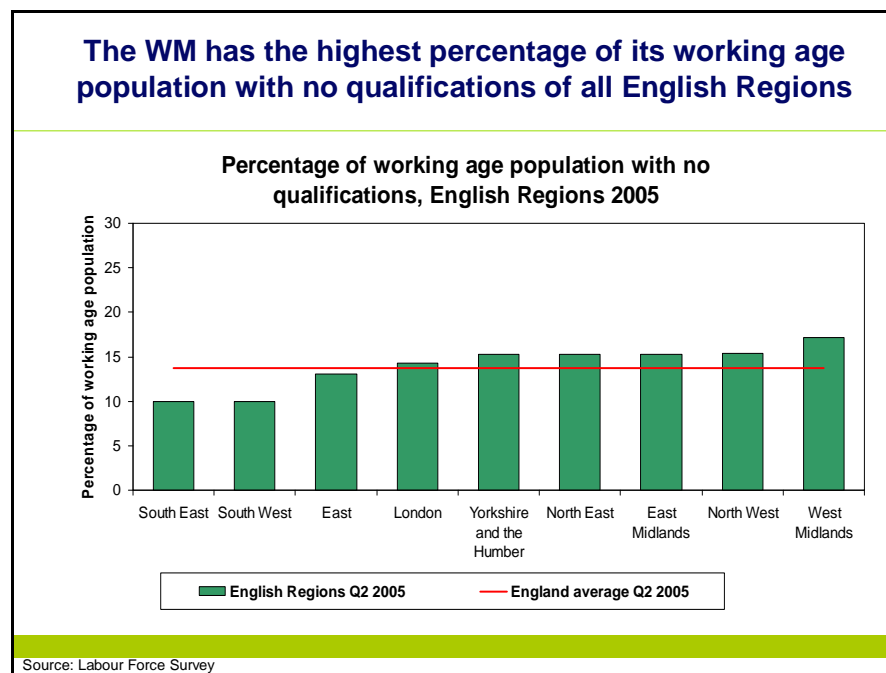


**Figure 7.2**

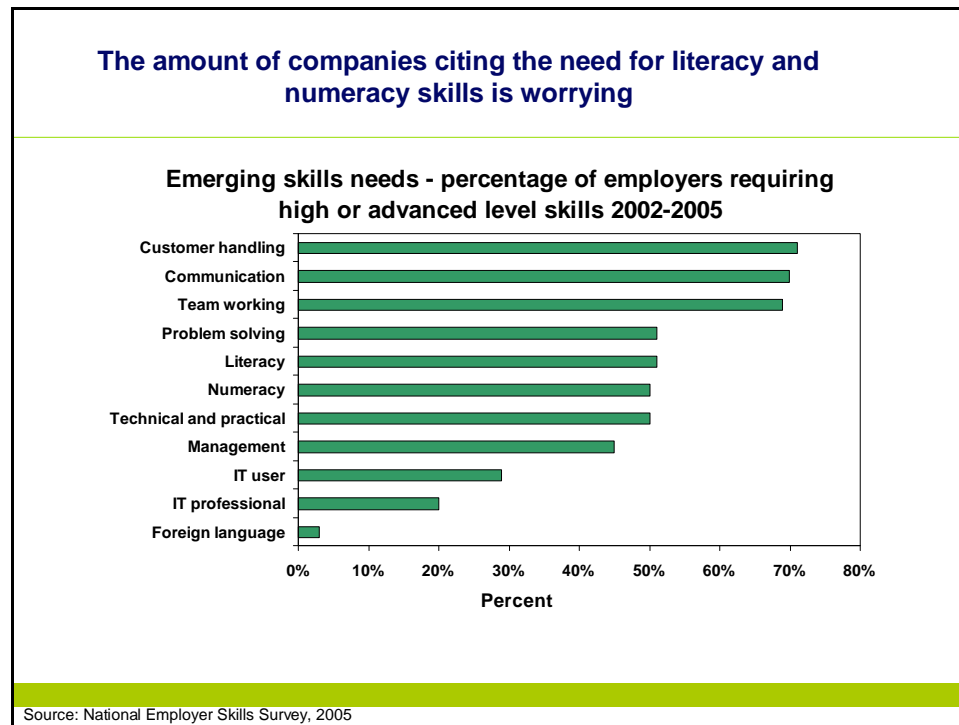


Source: *Future Prospects for the West Midlands Economy and Employment*. Warwick Institute for Employment Research and West Midlands Regional Observatory. August 2006

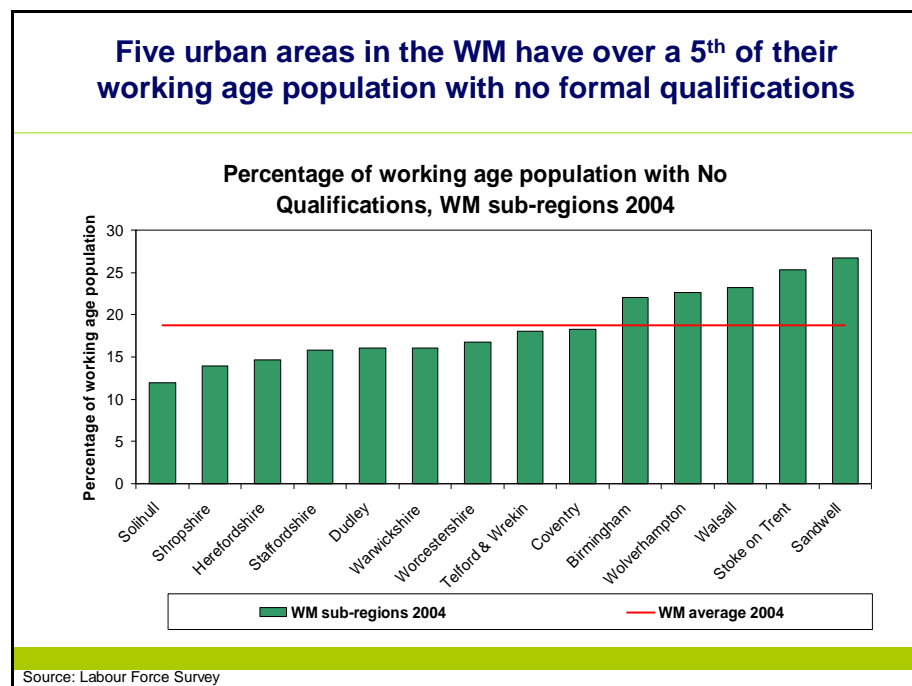
**Figure 7.3**



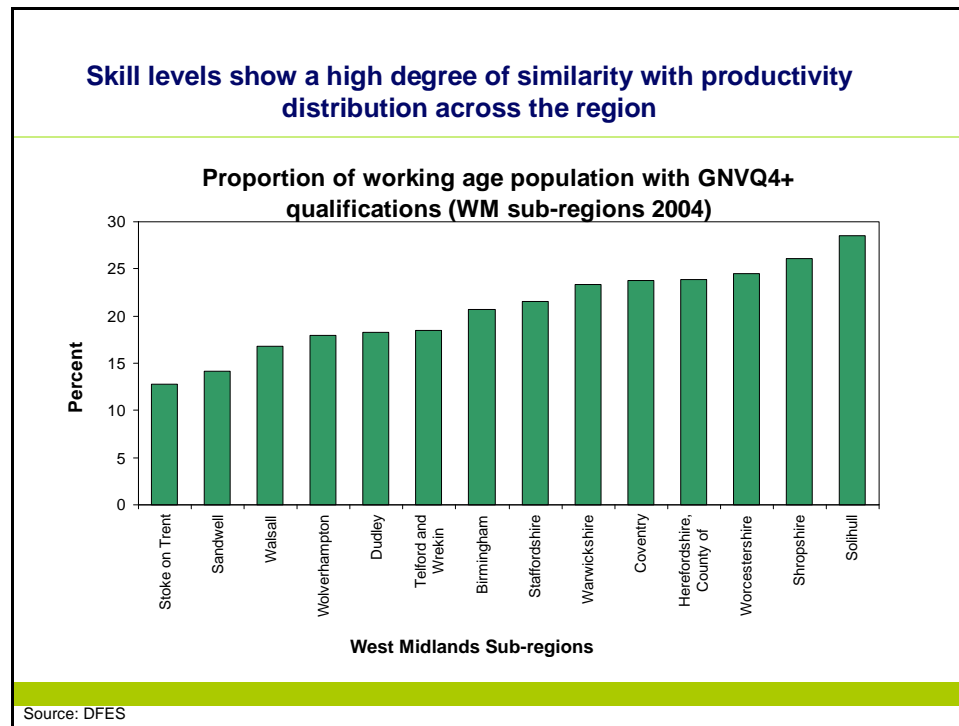
**Figure 7.4**



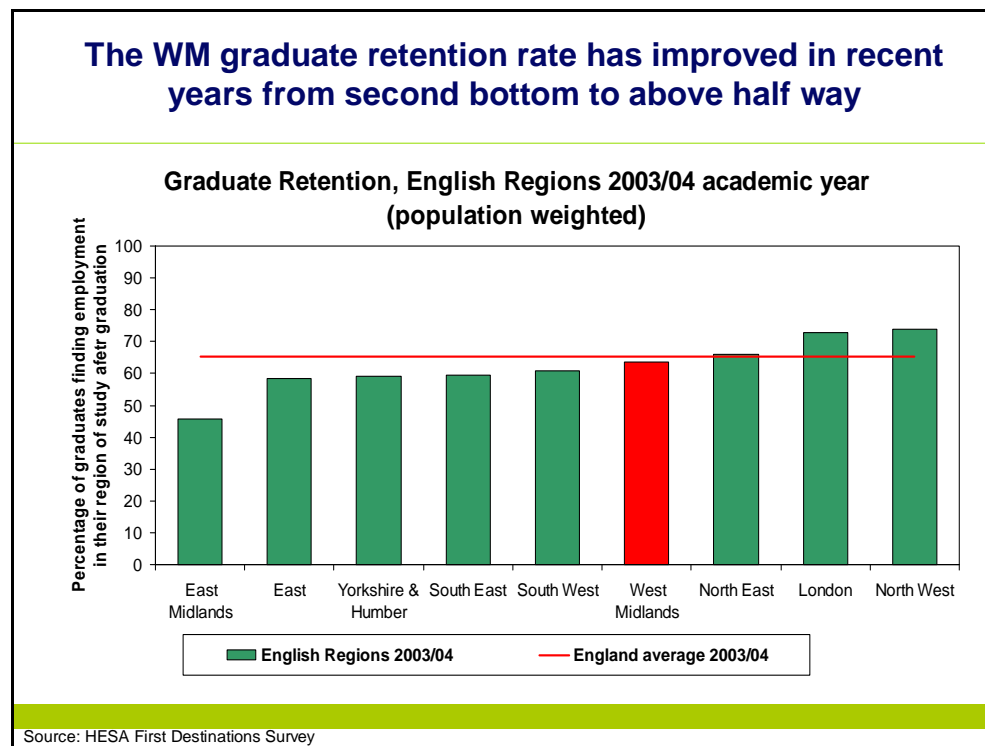
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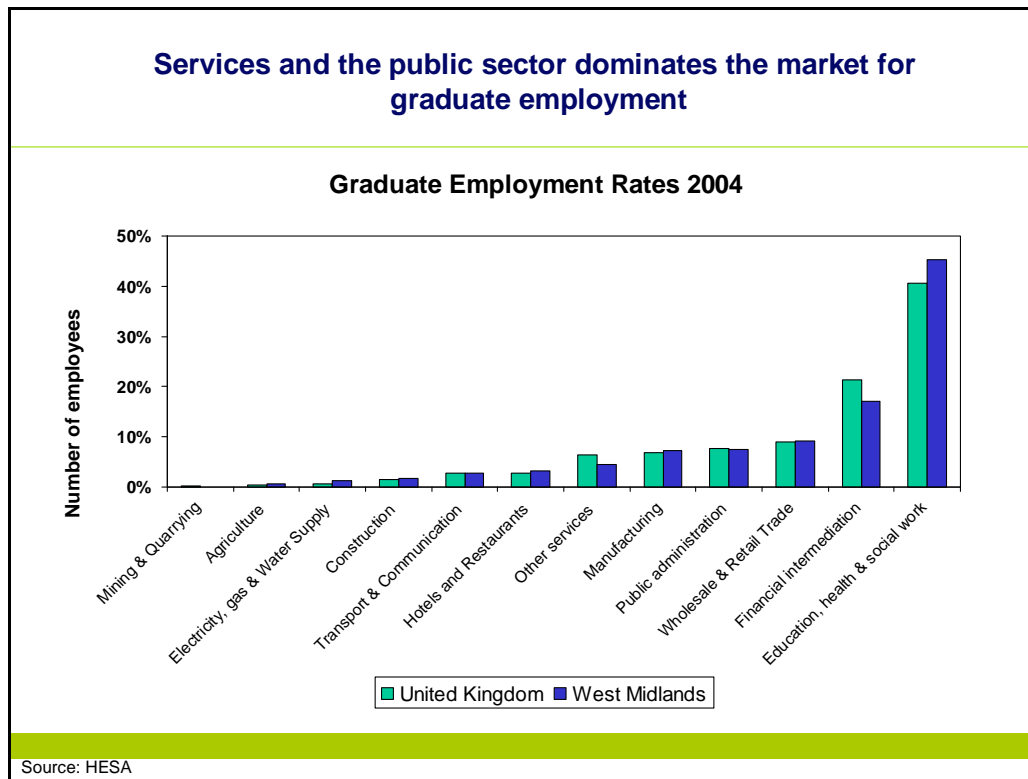
**Figure 7.6**



**Figure 7.7**



**Figure 7.8**



**Figure 7.9**

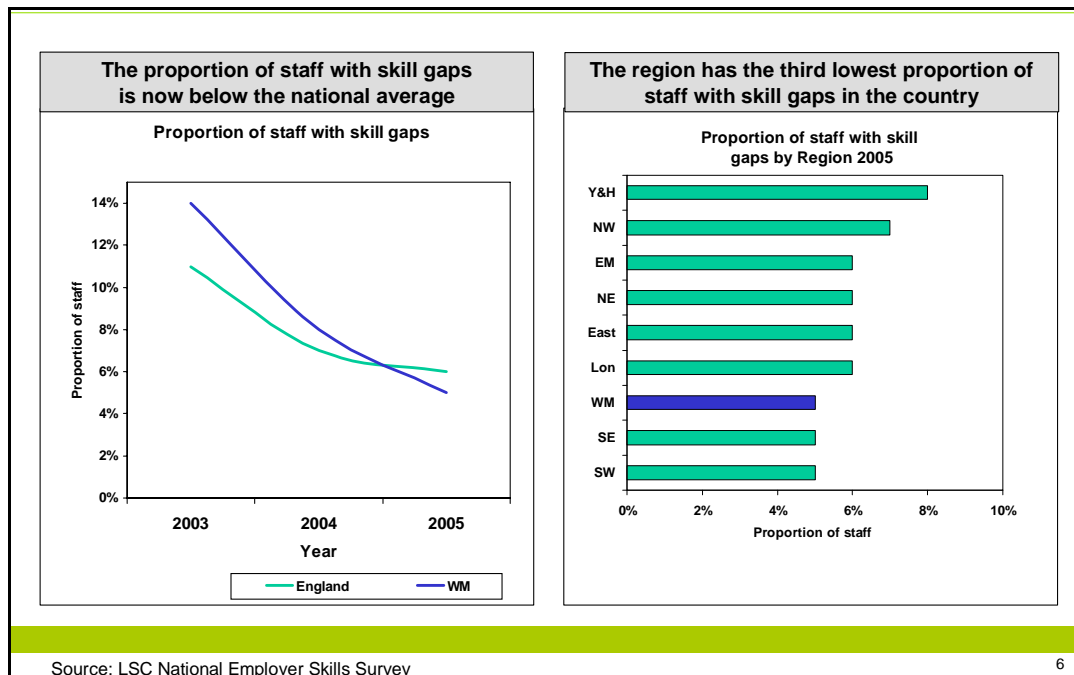
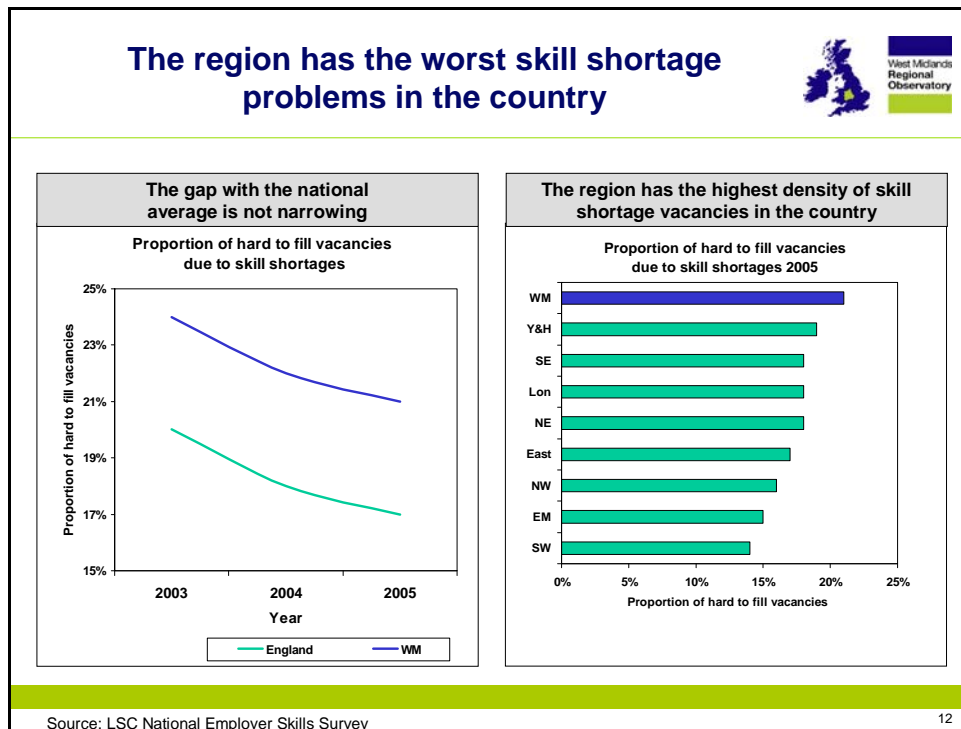


Figure 7.10



## 2.8 Environment and Attractiveness

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### Table 8.1 EA Baseline Data

*Source: Ex-ante evaluation and SEA for the West Midlands Regional Competitiveness and Employment Programme. Scoping Study, August 2006*

#### 8.1.1 Climate Change

##### **Greenhouse Gas Emissions**

Carbon dioxide, methane and nitrous oxide are the most important greenhouse gases related to human activity. In 2002 the energy used by people and businesses in the West Midlands resulted in the use of approximately 42 million tonnes (Mt) of CO<sub>2</sub> being released; this is approximately 10% of the UK total and is split between sectors as follows:

- Transport 24%
- Industry 32% (the cement industry being the most resource intensive sector)
- Commerce and public 14%
- Domestic: 30%

Between 2002 and 2004 there was a 1.2% increase in CO<sub>2</sub> emissions which is representative of a gradual increase in emissions in the region. This is opposite to the wider UK trend which saw a decrease of 5% between 1990 and 2001. Based on the implementation of all the energy policies within the region it is predicted that energy use in all sectors will decrease by 2050 by approximately 25%. To be in line with the national target for tackling climate change - a 60% reduction in emissions by 2050 – the 2002 total consumption needs to reduce to approximately 38 Mt by 2010, to 33 Mt by 2020 and to 17 Mt by 2050.

##### **Renewable Energy**

In 2004 the West Midlands generated 174.5MW of electricity from renewable sources. This can be broken down into hydro: 1.3MW; landfill gas 45.3MW; and other biofuels 127.9MW. This total represents 9% of the English total but is less than half of that generated by the highest renewable energy generating Region.

There is a national target that 10% of UK consumption met from renewable resources by 2010 and 15% by 2015. The Regional Energy Strategy published in 2004 sets a more modest target for renewable energy for the Region of 5%, reflecting its low baseline of renewable energy and the potential opportunities. This 5% target does not include any

contribution from mass burn waste incineration or generation from co-firing at the large power stations.

### ***Energy Consumption***

The most energy intensive sector in the West Midlands is the domestic sector followed by transport, industry and then commerce and the public sector with a total of 165,614GWh of energy being consumed in 2004.

There has been a gradual increase in energy consumption in the last few years with increasing consumption in all sectors except for the industrial sector which saw a fall between 2003 and 2004 by 1.7%

## **8.1.2 Natural Resources**

### ***Waste***

Waste generation in the West Midlands has steadily increased over the period 2000/1 to 2003/4 and approximately 18 million tonnes of waste was generated in 2002-2003 representing 10% of the English total.

Of this 44% was generated from construction and demolition, 39% from industry and commerce and 12% municipal. The generation of municipal waste is 5% lower than the England average. The West Midlands has experienced a steady increase in the amount of household waste that is recycled and this is set to increase with the West Midlands Regional sustainability Action Framework setting a target for households and businesses to recycle or compost 30% of all waste by the end of 2010.

The introduction of the Landfill Directive has significantly affected the way in which hazardous waste can be disposed of as it has banned the co-disposal of hazardous wastes with other wastes. This is likely to have cost implications for industry and also waste transfer within the region.

Use of secondary and recycled materials sold as aggregates show a total of 4.26 million tonnes in 2001, a six-fold increase in the total for 2000. In 2004 this was estimated to be 4.29 million tonnes. This represents less than 1% of the total amount of aggregate sourced from the West Midlands.

### ***Previously Developed Land***

In 2004, 76% of the year's housing completions were on previously developed land, a rise of 6% from 2003 and in line with the RSS target which states that at least 76% of housing

provision must be on previously developed land between 2001-2011. In the West Midlands there has been only a marginal reduction in the area of derelict land and only small amounts being reclaimed. This suggests that the policy emphasis on the re-use of previously developed land has still to bring forward this potential resource.

### ***Ecological Footprint***

The West Midlands total ecological footprint - an aggregate indicator of environmental impact - is 5.36 global hectares per capita. This is roughly equivalent to the national average (source: West Midlands Counting Consumption (WWF 2006))

### **8.1.3 Transport**

In the West Midlands Region, the average commuting trip length increased from 5.7 miles in 1985/86 for both Metropolitan and non-Metropolitan mileage to 7.6 and 8.5 respectively in 2002/03. In addition people in the West Midlands use their cars more and walk less than in the rest of the UK. However, bus use is slightly higher than the national average as is the number of people sharing car trips with others. Despite this, the number of bus passengers has actually been steadily decreasing since 2000/01 whilst users of the light rail network have been increasing over the same period, even though compared with the rest of England and Wales tram use is much lower than average.

Overall public transport modal share has increased since 2000. The local transport plan predicts that journeys by all forms of transport will increase by 13% between 2001 and 2011. This has led to a forecast being made that there will be an extra 165million car trips a year by 2011 but there will not be enough extra road space in the region to accommodate these. Congestion is therefore likely to increase in the Region.

### **8.1.4 AIR**

Within the region 29 Air Quality Management Areas have been declared and a number of Air Quality Action Plans (AQAPs) which detail the strategies that will be used to bring air quality to levels back within acceptable limits. All AQMA have been declared due to high levels of NO<sub>2</sub> although in the case of Stokeon-Trent and Wolverhampton high levels of particulate matter (PM<sub>10</sub>) have also contributed to the need to declare an AQMA

The number of days in which air pollution levels were recorded as being moderate or high was below the national average although air quality has shown a slight downward trend in the last couple of years.



### **8.1.5 Biodiversity, Flora & Fauna, & Nature Conservation**

The West Midlands has a rich wildlife resource and has a range of sites designated for their biodiversity value. Many of the designations fall within both international and national designations.

European designations: the West Midlands Region contains 22 areas (or part areas) that are designated as Special Areas of Conservation (SAC), one Ramsar site and one Special Protection Area (SPA).

National designations: There are 14 National Nature Reserves in the West Midlands. In addition part of the Peak District National Park is included within the West Midlands and there are five Areas of Outstanding Natural Beauty.

There are 439 Sites of Special Scientific Interest (SSSI), which is one of the lowest number of designations for the English Regions.

Despite the rich wildlife resource, biodiversity in the region has been very much reduced and is under continuing threat.

### **8.1.6 Landscape**

The West Midlands has a wide ranging landscape with numerous designations. The Region has one of England's fourteen World Heritage sites: Ironbridge Gorge, Shropshire which was designated in 1986. One of the twelve sites in England on the UK Government's tentative list is in the West Midlands: Shakespeare's Stratford. The Spatial Strategy for the West Midlands (2006) states that the Green Belt is to be retained, but that an adjustment of the boundaries should be considered where this is necessary to support urban regeneration. Since 1997 there have been 27 developments permitted in the West Midlands Green Belt area.

### **8.1.7 Cultural Heritage**

In 2005 the West Midlands had 34,307 entries on the List of Buildings of Special Architectural or Historic Interest which was 9.2% of the national total. 5.2% of Grade I and II\* listed buildings in the region were considered to be 'at Risk' in 2002 which was significantly above the national average of 3.7% even though it had fallen from 5.8% in the base year of 1999 and from 5.4% in 2001.

In addition to listed buildings the West Midlands had 1,426 scheduled monuments in 2005, a little below the average for a typical region (2,204) and has a total of 761 conservation areas, which again is below the average number of conservation areas for English Regions (1003 in 2001/2).

### **8.1.8 Health and Society**

#### ***Life Expectancy***

Over the last 100 years the life expectancy in the region has been increasing and currently stands at 76 for men and 82 for females. This increased life expectancy has increased at a similar pace to the national increase although it lags slightly behind the national average of 81 for men and 84 for women. It is likely that the population will gradually become older with less and less young people and people of all ages in the labour market.

#### ***Illness and Mortality***

The 2001 census put the number of people in the region of working age who have a limiting long term illness at 14.2% (993,458 people) which represents 1 in 8 people. The number of people with long-term illness has increased in the West Midlands between 1991 and 2001 by 39%. Less than half of this increase can be simply explained by the ageing population; in 1991 there were 339,000 people aged 75 and over. By 2001 this had increased by only 15% to 390,000.

There is considerable variation in levels of illness across the region; In Stoke-on-Trent, which has the highest rate, no less than 24% or nearly one in four of its population has a limiting long-term illness and nearly 20% of those of working age also have a limiting long-term illness. Stratford-on-Avon and Warwick have the lowest proportion, but still there are 15.4% of their population suffering from a limiting long-term illness. The increase from 1991 varies from 25% in Warwick to 61% in Tamworth.

The highest rates are found in two areas, Stoke and North Staffordshire and Sandwell, Wolverhampton and Walsall. The lowest rates are found in Solihull, Warwickshire and Worcestershire. The health of the region shows some interesting rural/urban contrasts. Rural areas have lower than regional mortality rates for some diseases and cancers, but higher than regional rates for accidents and suicide.

Remoteness and isolation, in addition to the economic downturn, bring significant stress to the rural population.

Cancer and circulatory diseases are the most common causes of mortality in England and Wales and rates of these diseases for the West Midlands are slightly above the England comparator although there has been a general decrease since 1996-8.

In terms of lifestyle that has an impact on health smoking rates in the region are noticeably lower than the average rates for England. Within the region smoking rates are highest in Birmingham Health Authority and lowest in Shropshire Health Authority. Obesity rates and

alcohol consumption are all below the national average although rates of exercise are relatively low.

### ***Housing***

Average household size (2.41 people) is slightly more than the England average (2.36 people) and the type of housing in the region broadly follows that of the rest of the country with the exception that there are more semi-detached properties and flats.

The proportion of houses being classed as being in a 'poor condition', i.e. below the statutory minimum standards for housing in the private sector is 37.4%, slightly higher than the national figure of 31.9%.

### ***Crime***

Compared with the rest of England and Wales the level of recorded crime in the Region was equivalent to the average per 1,000 population. However, certain types of crime such as violence against a person is more prevalent the region having the second highest rate of violence against the person in the English Regions and Wales. Rates of other recorded crime types (robbery, theft, vehicle theft, criminal damage and drug offences) were similar to the national average.

### ***Accidents***

The number of people killed or seriously injured (KSI) in road accidents in the West Midlands has seen a year on year improvement between 2000 and 2004. In 2004, the total killed or seriously injured was 2,851 people. This represents a decrease in KSI of 40.1% from the 1994-1998 average and a 4.5% decrease from 2003. This reduction is well above the England figures which have improved by 27%. In terms of the figures for pedestrians, cyclists and motorcyclists (deaths and serious injuries) the regional average number of incidents is lower than the England average for cyclists and motorcyclists but slightly higher for accidents involving pedestrians.

### ***Light and Noise***

Recent satellite data obtained by CPRE shows how much night time light is beaming upwards from each square kilometre of the West Midlands. The data shows that light pollution is both a major problem and one that is growing. Warwickshire, West Midlands Met and Staffordshire are all now without truly dark night time skies. Light pollution is rapidly spreading in the region. In terms of noise there are no regional data; however on the national level more people are reporting that they are becoming affected by noise with 50%

of those surveyed (1999) hearing road traffic noise (with 30% being affected by it), 43% hearing aircraft noise and 38% hearing neighbours. Two thirds of those who heard neighbours were affected by it whereas 14 per cent of those who had heard noise from agriculture were affected by it and of those who had heard noise from railways a quarter were affected by it. Despite the lack of data specifically for the West Midlands, it is likely that the situation is similar.

### **8.1.9 Soil**

Approximately 80% of the land in the West Midlands is in agricultural use with the vast majority of land (48%) being of Grade 3 quality (MAFF Agricultural land classification scheme).

### **8.1.10 Water**

Water quality in the region has improved over the last 15 years (achieving 91% of its improvement targets set since 1990) and rivers and canals classified as being of good or fair biological quality was 89%; slightly lower than the England and Wales average of 91%. However, most of the rural areas of the West Midlands water quality is considered to be of good quality.

The region is supplied with drinking water from three companies; Severn Trent, South Staffordshire and Welsh Water. Under the Ofwat 'headroom index', an index that assesses water resource availability and leakage issues, Severn Trent is in band C (significant deficit against target headroom), South Staffordshire in band A (no deficit against target headroom in any resource zone) and Welsh Water in band B (marginal deficit against target headroom). Severn Trent moved down one band since 2001/2, Welsh Water moved up one band and S.Staffordshire did not move.

### **8.1.11 Flooding**

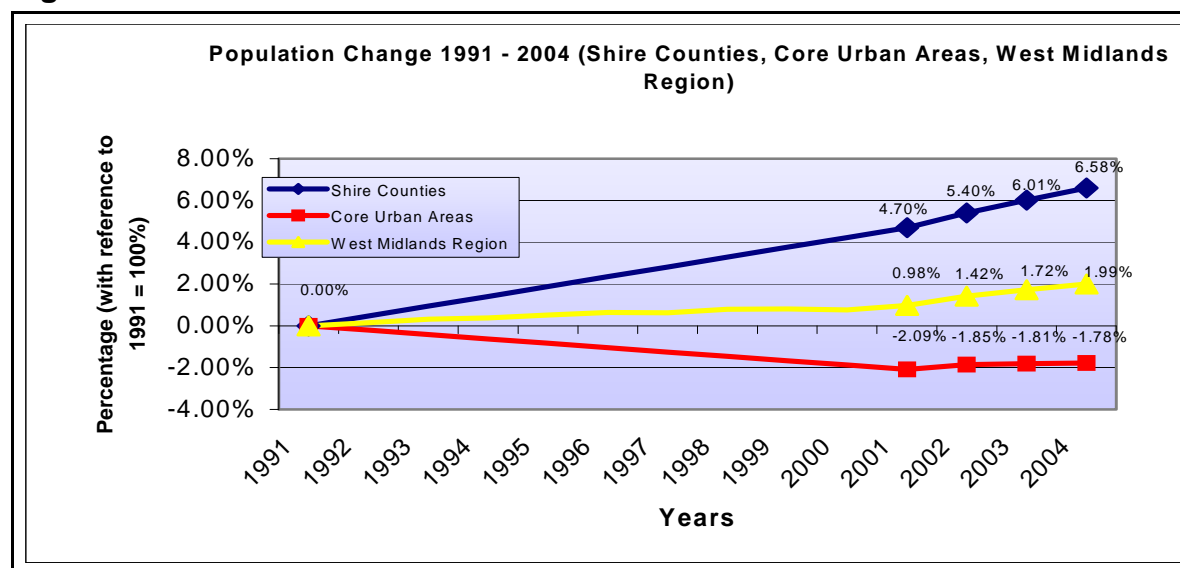
Approximately 6% of the land area in the West Midlands is at risk of flooding which includes around 57,000 properties and over 130,000 people.

## 2.9 Rural

**Table 9.1**

Population Change in the West Midlands 1991-2004					
	1991	2001	2002	2003	2004
Birmingham	1,004,500	984,600	989,900	992,100	992,400
Coventry	303,900	302,800	304,000	305,000	304,200
Dudley	307,700	305,100	305,400	304,800	304,500
Sandwell	292,600	284,600	284,700	285,000	285,800
Solihull	200,400	199,600	200,100	200,300	204,400
Walsall	261,300	253,300	252,800	252,400	252,800
Wolverhampton	248,500	238,000	239,200	238,900	239,100
West Midlands Met Area	2,618,900	2,568,000	2,576,100	2,578,500	2,579,200
Herefordshire	160,400	174,900	175,900	176,900	177,800
Shropshire	268,700	283,300	285,400	286,700	288,000
Telford & Wrekin	141,300	158,600	160,000	160,300	161,000
Staffordshire	791,600	807,200	808,700	811,000	812,600
Stoke on Trent	249,400	240,400	239,000	238,000	238,000
Warwickshire	487,100	506,200	513,300	519,300	525,500
Worcestershire	512,400	542,200	545,700	549,300	552,100
West Midlands Region	5,229,700	5,280,700	5,304,100	5,319,900	5,334,000

**Figure 9.1**



**Table 9.2 Rural Development Programme Funds by County 2000-2006**

<b>County</b>	<b>Amount</b>
Herefordshire	£5,946,923
Worcestershire	£3,789,246
Warwickshire	£2,619,782
Staffordshire	£3,846,867
West Midlands	£226,703
Shropshire	£4,997,331
Every County	£76,728
<b>Total</b>	<b>£21,503,580</b>

## 2.10 Urban

**Table 10.1. Most deprived Super Output Areas by Local Authority Area**

Districts	No of SOAs in England's most deprived	Total number of SOAs in District/Region	Percentage of District's/Region's SOAs in England's 10% most deprived
Birmingham	243	641	37.9%
Stoke-on-Trent	48	160	30.0%
Sandwell	44	187	23.5%
Wolverhampton	34	158	21.5%
Coventry	34	197	17.3%
Walsall	29	169	17.2%
Solihull	10	133	7.5%
Dudley	12	202	5.9%
Telford & the Wrekin	5	108	4.6%
East Staffordshire	3	70	4.3%
Worcester	2	61	3.3%
Wyre Forest	2	65	3.1%
Newcastle-under-Lyme	2	81	2.5%
Nuneaton & Bedworth	2	82	2.4%
Tamworth	1	50	2.0%
Redditch	1	55	1.8%
Cannock	1	60	1.7%
Staffordshire Moorlands	1	59	1.7%
<b>REGION</b>	<b>474</b>	<b>3482</b>	<b>13.6%</b>

**Table 10.2. Job Losses UK Councils 2001-2004**

<b>Manufacturing Job Losses 2001-2004 by Local Authority - UK</b>				
<b>Rank</b>	<b>Local Authority</b>	<b>Losses</b>	<b>2001</b>	<b>2005</b>
1	Birmingham	17,269	82,515	65,246
2	Bristol	11,841	25,585	13,744
3	Leicester City	9,589	34,602	25,013
4	Coventry	8,596	31,466	22,870
5	Bradford	7,718	41,486	33,768
6	Leeds	7,553	51,786	44,233
7	Sandwell	7,195	36,172	28,977
8	Glasgow City	6,570	30,280	23,710
9	Derby City	6,452	29,616	23,164
10	Kirklees	6,029	41,305	35,276
11	Stoke on Trent	6,003	28,517	22,514
12	Bracknell Forest	5,861	8,541	2,680
13	Nottingham	5,651	19,749	14,098
14	Walsall	5,622	29,342	23,720
15	Fife	5,544	26,368	20,824
16	Sunderland	5,406	24,423	19,017
17	North Lincolnshire	5,233	19,270	14,037
18	Luton	5,022	15,735	10,713
19	Swindon	4,936	19,109	14,173
20	Dudley	4,889	24,965	20,076
21	Sheffield	4,745	35,555	30,810
22	Wolverhampton	4,275	21,534	17,259



**Table 10.3: Wards with Unemployment Rate Twice or More the regional average (May 2006)**

Local Authority	Ward	number	rate
Birmingham	Aston	2,040	12.7
Birmingham	Sparkbrook	1,937	11.8
Birmingham	Ladywood	1,844	11.0
Birmingham	Soho	1,755	10.9
Birmingham	Washwood Heath	1,727	10.9
Birmingham	Handsworth	1,624	10.3
Birmingham	Nechells	1,694	9.9
Sandwell	Soho and Victoria	428	9.8
Wolverhampton	Heath Town	656	9.5
Walsall	St. Matthew's	666	8.8
Wolverhampton	St. Peter's	891	8.8
Sandwell	West Bromwich Central	501	7.8
Walsall	Blakenall	531	7.8
Wolverhampton	Ettingshall	508	7.7
Birmingham	Small Heath	1,522	7.6
Birmingham	Sparkhill	1,397	7.5
Dudley	St. Thomas's	561	7.5
Coventry	Foleshill	831	7.4
Wolverhampton	Bilston East	465	7.4
Wolverhampton	Low Hill	569	7.4
Birmingham	Kingstanding	1,056	7.3
Birmingham	Stockland Green	1,053	7.3
Dudley	Netherton and Woodside	408	7.3
Sandwell	Princes End	552	7.1
Sandwell	Smethwick	473	7.1
Wolverhampton	Graiseley	531	7.1
Birmingham	Kingsbury	634	6.9
Birmingham	Shard End	867	6.8

Local Authority	Ward	number	rate
Birmingham	Weoley	861	6.8
Wolverhampton	Blakenhall	485	6.8

Source: Nomis

**Table 10.4 Rate of New Firm Formation**

New Firm Formation within the West Midlands 2004	
High Firm Formation, 45-60 registrations/10,000 Above English rate	Low Firm Formation, Less than 30 registrations /10,000 Below West Midlands rate
Stratford-on-Avon (60)	Coventry (27)
Malvern Hills (51)	Stoke-on-Trent (28)
Wychavon (49)	Wolverhampton (29)
Warwick (47)	Newcastle under Lyme (30)
Lichfield (45)	Sandwell (30)
	Walsall (30) Nuneaton and Bedworth (30)

Source: Nomis

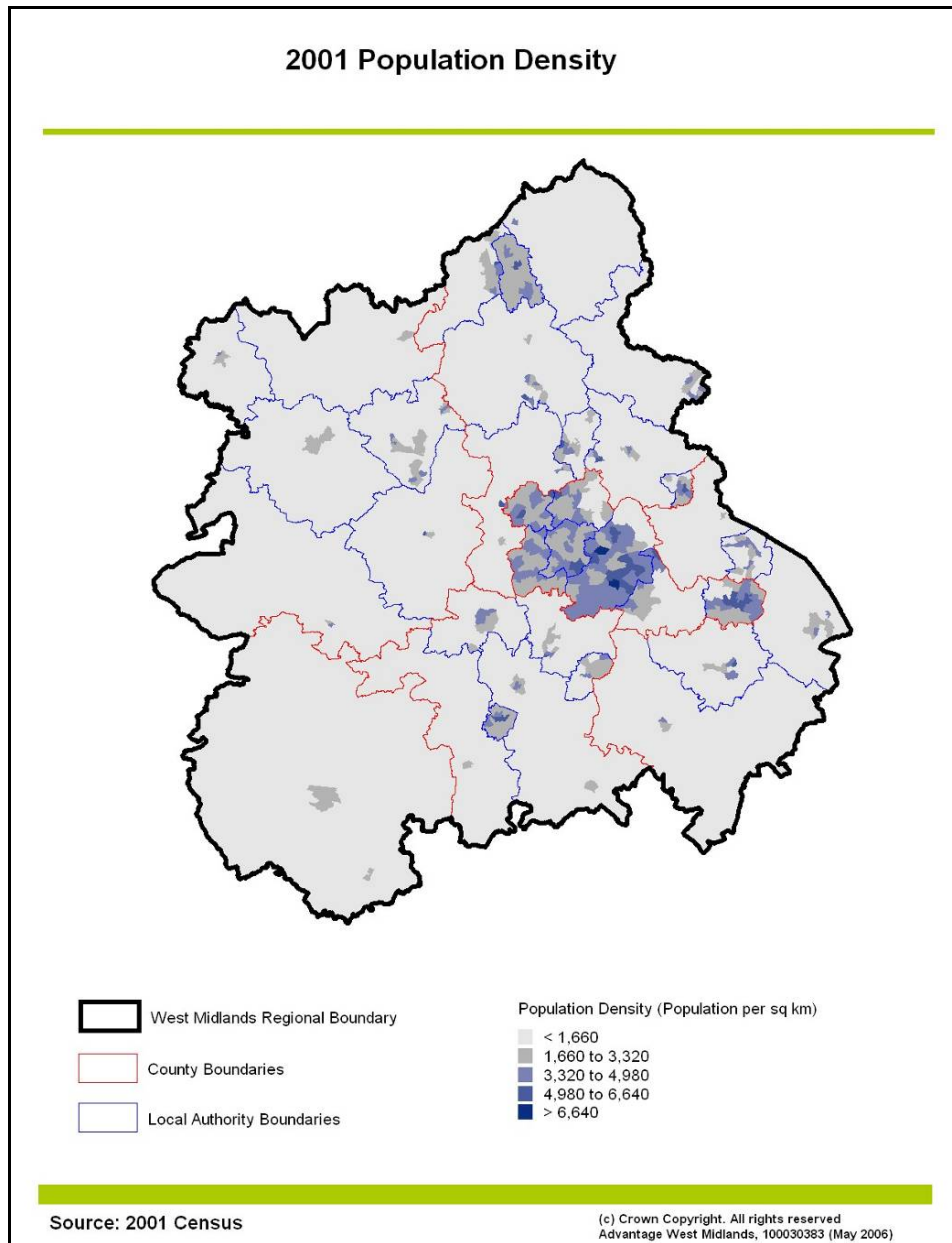
**Table 10.5. Qualifications of W. Midlands working population by LSC area**

Region	NVQ4+	NVQ3	NVQ2	NVQ1	Other	None	Ranking of None by LSC region Rank
Herefordshire and Worcestershire	25.1	15.6	16.3	14.3	6.2	14.9	22
Shropshire	25.8	14.4	16.2	13.2	10.2	13.8	28
Staffordshire	19.4	14.5	15.9	16.9	7.8	17.6	15
Coventry and Warwickshire	24.2	14.8	15.6	14	8.2	16.4	20
The Black Country	16.8	12.8	15.4	15.9	10.4	22.1	2
Birmingham and Solihull	19.3	14.3	14.9	14.9	10.2	22	3

## Annex A2

### 2.1 Eligible Area Strengths and Challenges

**Figure 1.1 Population Density**



Source: *The Functioning Economic Geography of the West Midlands*. University of Birmingham and West Midlands Regional Observatory. August 2006

**Table 1.1: Population Characteristics of the West Midlands**

	Populatio n <sup>1</sup>	People per sq km <sup>2</sup>	Economically Active <sup>3</sup>		Workless <sup>3</sup>	
			Number	% of working age pop.	Number	% of working age pop.
Birmingham	1,016,800	3794	435,500	69.3%	251,500	40.0%
Herefordshire	179,300	82	84,900	82.3%	21,100	20.4%
Shropshire	292,800	92	138,500	82.2%	36,700	21.8%
Staffordshire	828,900	316	413,300	82.0%	115,700	23.0%
Warwickshire	530,700	269	265,700	82.1%	76,400	23.6%
Worcestershire	557,600	320	277,700	82.8%	74,500	22.2%
West Midlands (Met. County)	2,619,500	2904	1,165,200	73.0%	571,000	35.8%

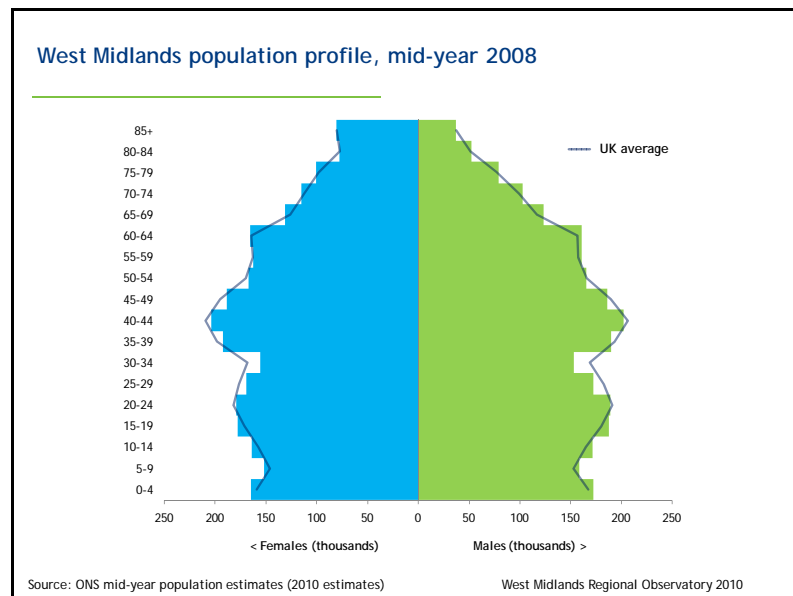
Notes:

1) Midyear population estimates, 2008

2) Local Authority Areas, Regional Trends, ONS. 2001; Midyear population estimates, 2008

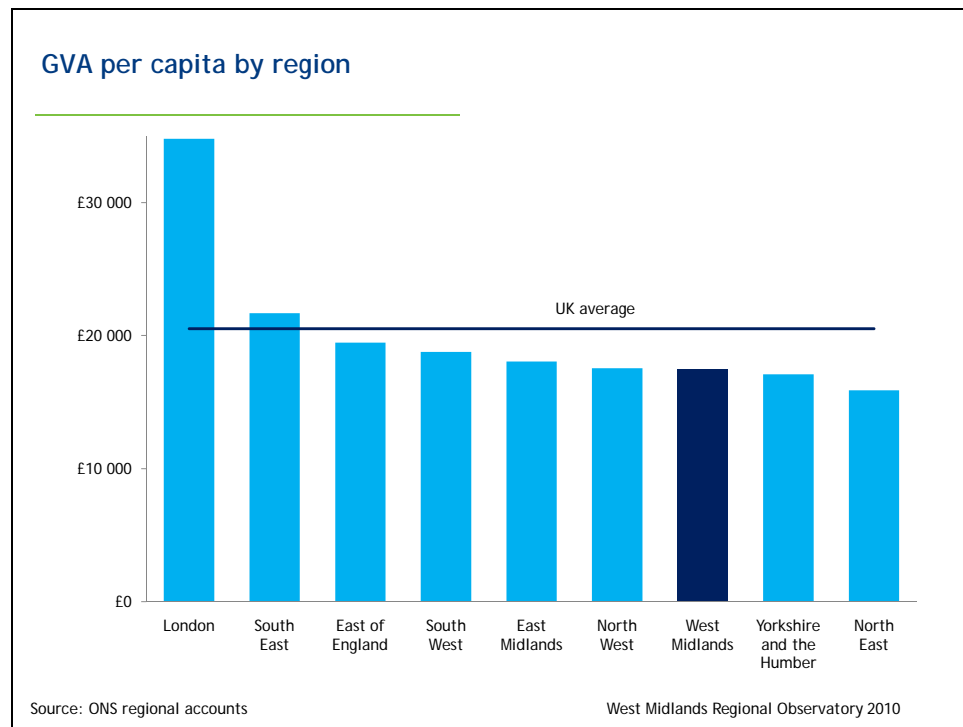
3) Annual Population Survey (Jul 2008-Jun 2009).

**Figure 1.2 The Population profile of the West Midlands relative to UK**

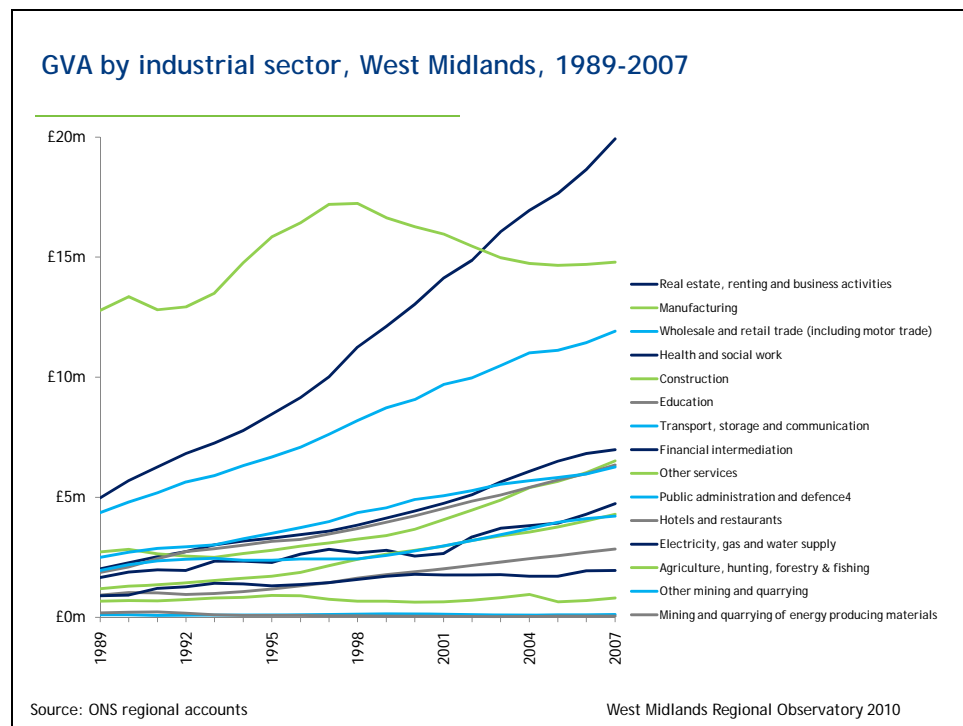


Source: West Midlands Regional Observatory. 2010

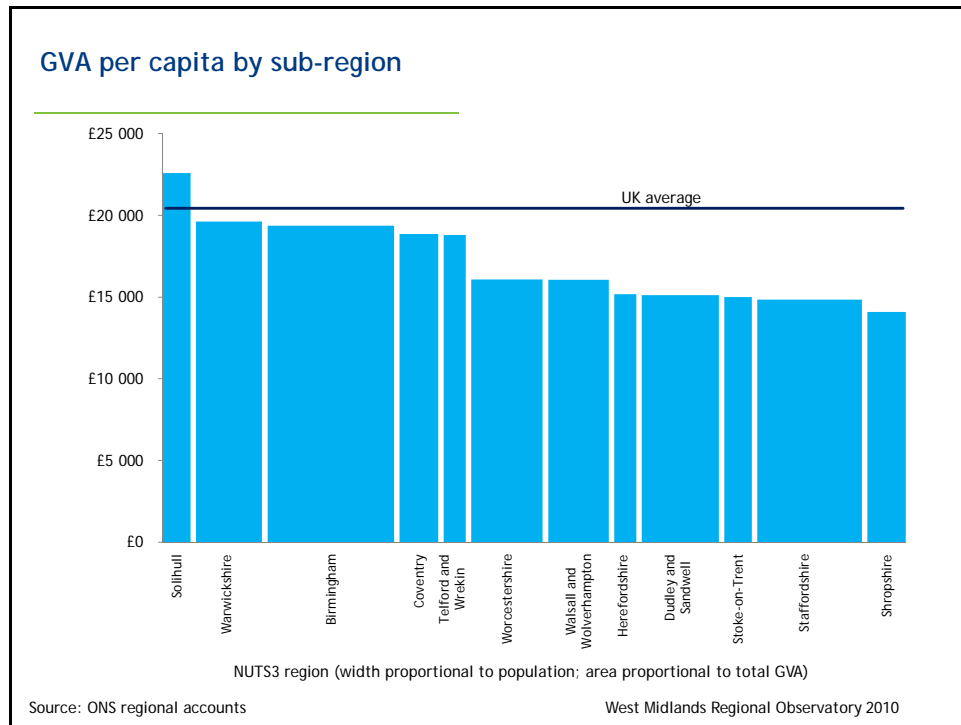
**Figure 1.3**



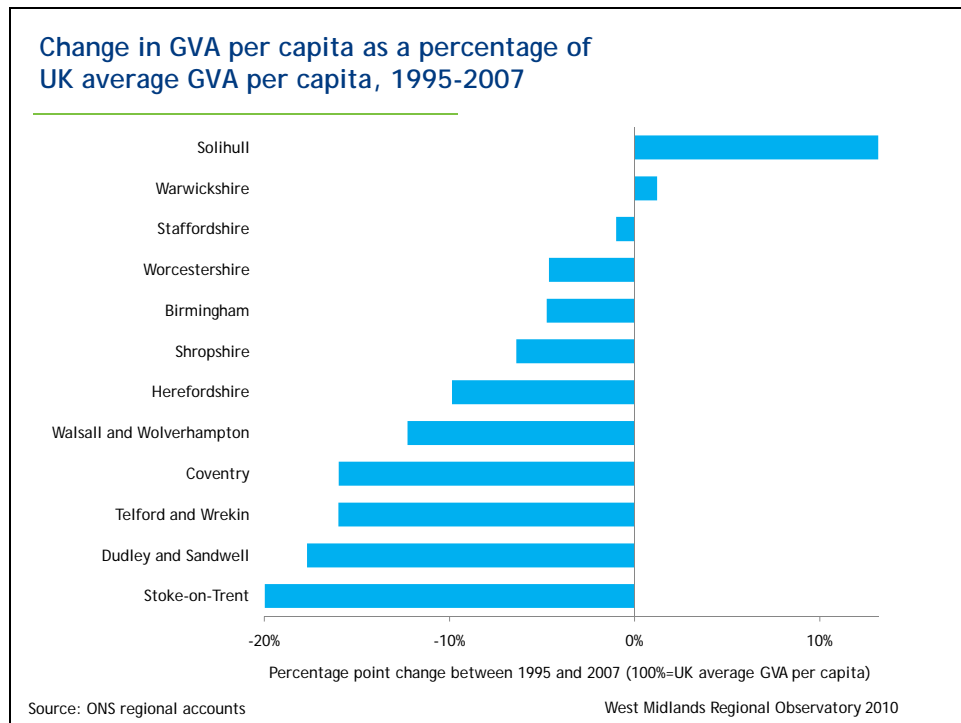
**Figure 1.4**



**Figure 1.5**



**Figure 1.6**



**Table 1.2 Gross Annual Income by Local Authority<sup>139</sup>**

Local authority	2009	Change on 2007
Bromsgrove	£30,544	9%
Malvern Hills	£29,522	6%
Warwick	£28,655	11%
Solihull	£28,468	7%
Lichfield	£28,016	18%
Stratford-on-Avon	£27,951	-1%
Rugby	£26,841	7%
Tamworth	£26,049	9%
North Warwickshire	£25,717	1%
Wychavon	£25,342	14%
South Staffordshire	£25,188	3%
Stafford	£24,694	4%
Shropshire	£24,677	6%
Staffordshire Moorlands	£24,510	3%
Nuneaton and Bedworth	£24,256	2%
<b>West Midlands</b>	<b>£23,948</b>	<b>6%</b>
Worcester	£23,819	1%
Birmingham	£23,651	6%
Coventry	£23,506	8%
Newcastle-under-Lyme	£23,273	-3%
East Staffordshire	£23,083	7%
Cannock Chase	£22,723	1%
Redditch	£22,691	11%
Telford and Wrekin	£22,472	2%
Herefordshire, County of	£22,186	6%
Walsall	£21,971	7%
Dudley	£21,942	0%
Wolverhampton	£21,752	3%
Sandwell	£21,714	7%
Wyre Forest	£21,390	-2%
Stoke-on-Trent	£21,238	9%

*Source: Annual Survey of Hours and Earnings, 2009*

<sup>139</sup> In published ONS reports, median earnings rather than the mean will generally be used. The median is the value below which 50% of employees fall. It is preferred over the mean for earnings data as it is influenced less by extreme values and because of the skewed distribution of earnings data.

**Table 1.3a Number of LSOAs in the most deprived 20% of LSOAs in England on the IMD 2007, by Government Office Region**

	Number of LSOAs in 'most deprived 20% of LSOAs in England'	Number of LSOAs in the Region	% of LSOAs in each Region falling in 'most deprived 20% of LSOAs in England'
East	223	3,550	6.3
East Midlands	460	2,732	16.8
London	1,351	4,765	28.4
North East	566	1,656	34.2
North West	1,420	4,459	31.8
South East (excluding London)	318	5,319	6.0
South West	300	3,226	9.3
West Midlands	951	3,482	27.3
Yorkshire & the Humber	907	3,293	27.5
<b>Total</b>	<b>6,496</b>	<b>32,482</b>	<b>20.0</b>

**Source: The English Indices of Deprivation 2007**

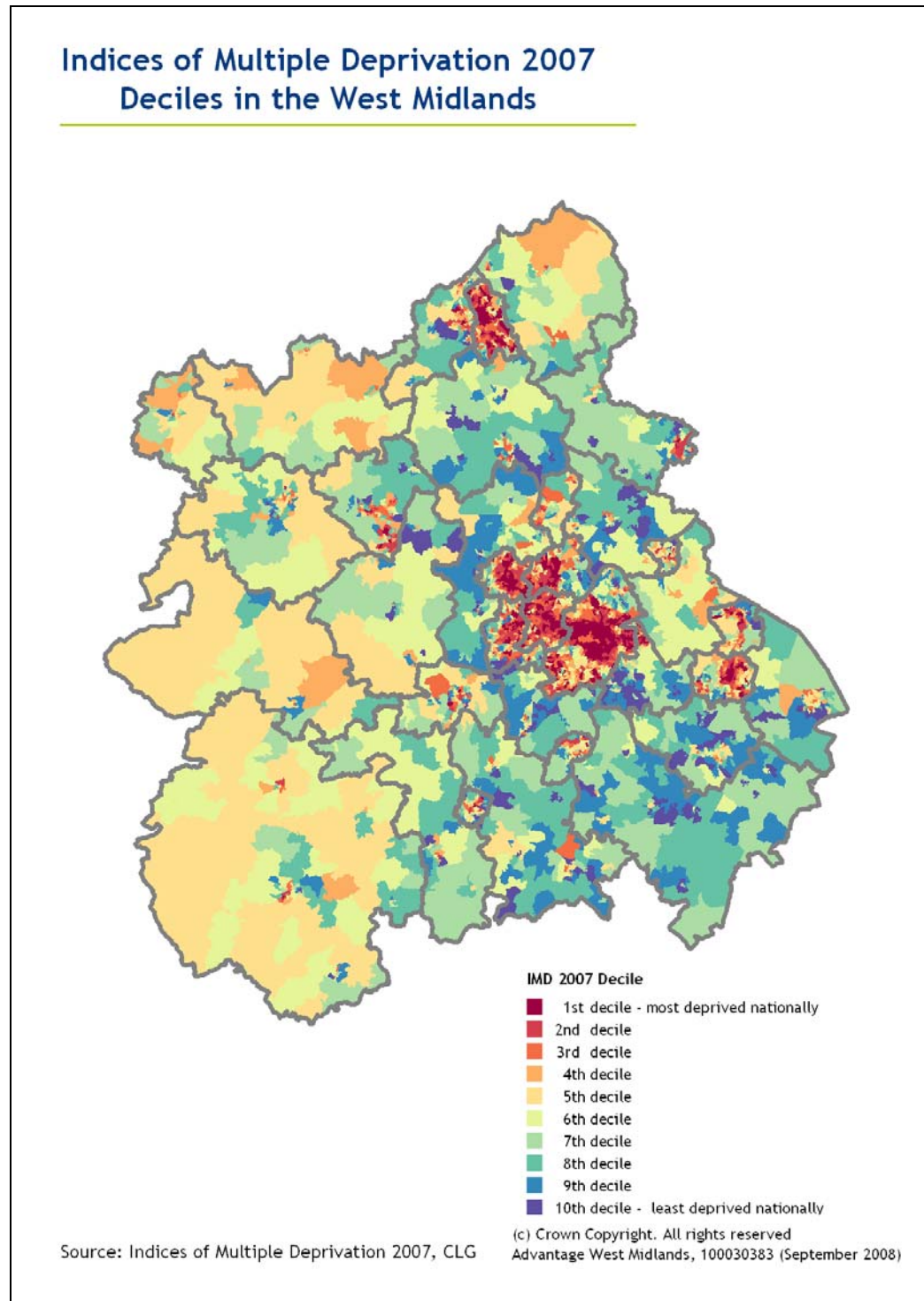


**Table 1.3b Indices of Multiple Deprivation 2004 - 2007 : LSOAs in the most deprived 10% of England in the West Midlands**

	Total no. SOAs	2004		2007		Change in No. Of SOA in bottom 10%
		No. In bottom 10%	Percentage	No. In bottom 10%	Percentage	
Birmingham	641	243	38%	254	40%	11
Coventry	197	34	17%	33	17%	-1
Dudley	202	12	6%	19	9%	7
East Staffordshire	70	3	4%	2	3%	-1
Herefordshire, County of	116	0	-	1	1%	1
Newcastle-under-Lyme	81	2	2%	3	4%	1
Nuneaton and Bedworth	82	2	2%	6	7%	4
Redditch	55	1	2%	2	4%	1
Sandwell	187	44	24%	55	29%	11
Shrewsbury and Atcham	61	0	-	1	2%	1
Solihull	133	10	8%	10	8%	0
Stoke-on-Trent	160	48	30%	53	33%	5
Tamworth	50	1	2%	1	2%	0
Telford and Wrekin	108	5	5%	6	6%	1
Walsall	169	29	17%	33	20%	4
Wolverhampton	158	34	22%	37	23%	3
Worcester	61	2	3%	3	5%	1
Wyre Forest	65	2	3%	2	3%	0
Cannock	60	1	2%	0	-	-1
Staffordshire Moorlands	59	1	2%	0	-	-1

*Source: West Midlands Regional Observatory February 2010: ERDF Priority 3 Research*

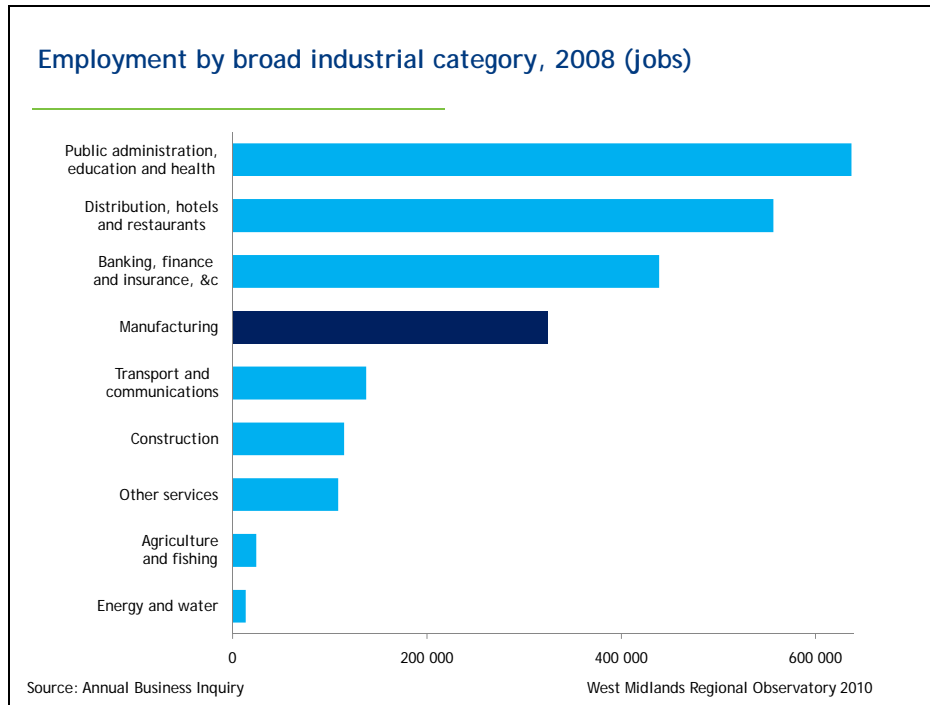
**Figure 1.7 IMD 2007 for the West Midlands by SOA &LA Boundaries**



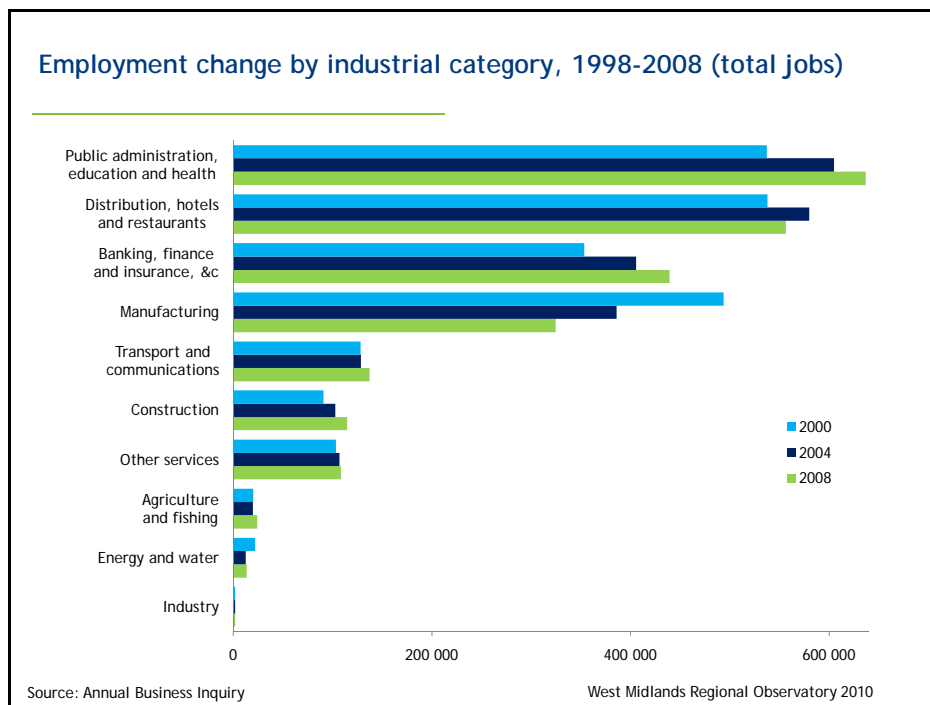
*Source: West Midlands Regional Observatory, Feb 2010*

## 2.2 Employment

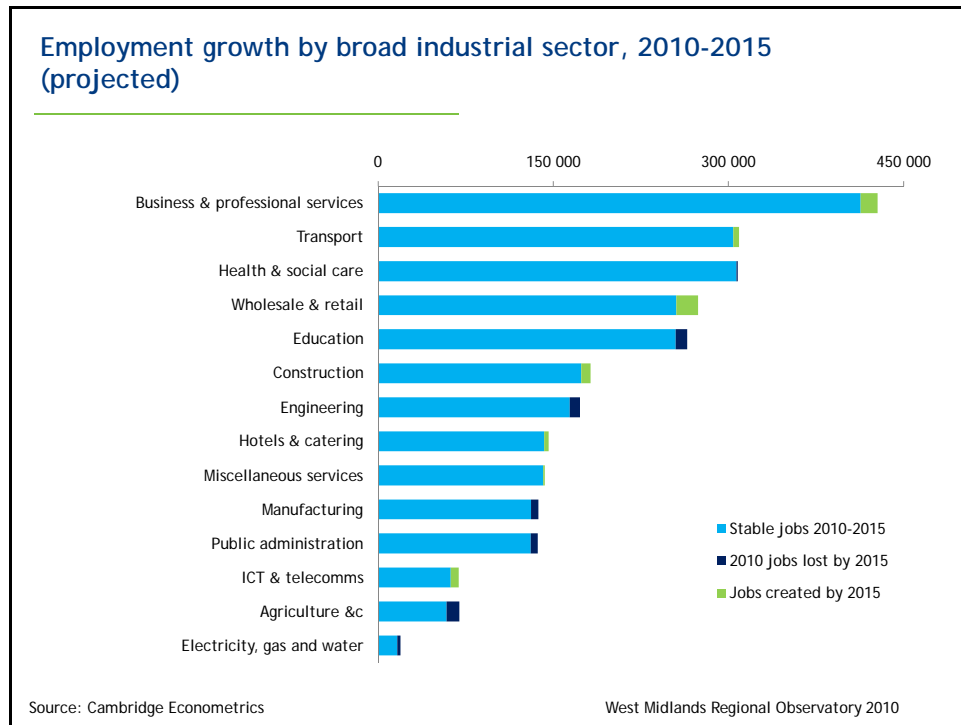
**Figure 2.1 Employment by Sector**



**Figure 2.2 Employees by Industry**



**Figure 2.3 Employment growth by broad industrial sector, 2010 – 2015**



*Source: Cambridge Econometrics*

**Table 2.3 Unemployment by Local Authority Area – December 2009 Job Seekers' Allowance Rates by Ward**

<b>Local authority</b>	<b>Ward</b>	<b>JSA claimants (%)</b>
<b>Birmingham</b>	Aston	13.6
<b>Walsall</b>	St. Matthew's	13.5
<b>Birmingham</b>	Sparkbrook	12.2
<b>Birmingham</b>	Washwood Heath	12.2
<b>Sandwell</b>	Soho and Victoria	11.9
<b>Solihull</b>	Chelmsley Wood	11.6
<b>Wolverhampton</b>	Bilston East	11.6
<b>Birmingham</b>	Handsworth	11.4
<b>Wolverhampton</b>	Heath Town	11.4
<b>Sandwell</b>	Princes End	11.3
<b>Wolverhampton</b>	Low Hill	11.2
<b>Birmingham</b>	Soho	11.0
<b>Birmingham</b>	Shard End	10.9
<b>Wolverhampton</b>	Ettingshall	10.9
<b>Birmingham</b>	Nechells	10.8
<b>Walsall</b>	Blakenall	10.8
<i>Other selected wards outside the major urban areas</i>		
<b>Wyre Forest</b>	Oldington and Foley Park	9.6
<b>Telford and Wrekin</b>	Woodside	9.3
<b>Telford and Wrekin</b>	Cuckoo Oak	8.9
<b>Telford and Wrekin</b>	Malinslee	8.4
<b>Nuneaton and Bedworth</b>	Camp Hill	8.0
	Wem Brook	8.0
<b>Cannock Chase</b>	Cannock South	7.9
<b>Nuneaton and Bedworth</b>	Abbey	7.8
<b>Cannock Chase</b>	Cannock North	7.7

**Table 2.4 Claimant Count 1994 and 2005, 2009**

		1994		2005		2009	
		Number	Rate	Number	Rate	Number	Rate
<b>West Midlands Region</b>		<b>246,199</b>	<b>7.7</b>	<b>94,922</b>	<b>2.9</b>	<b>174,382</b>	<b>5.3</b>
Herefordshire County		5,564	5.7	1,552	1.5	2,922	2.8
Shropshire		8,282	5.1	2,168	1.3	4,901	2.9
Staffordshire		27,761	5.6	7,869	1.6	18,673	3.7
Stoke-on-Trent		10,091	6.7	4,262	2.9	8,722	5.9
Telford and Wrekin		5,741	6.3	1,980	2.0	4,687	4.7
Warwickshire		16,859	5.5	4,783	1.5	11,601	3.6
Birmingham		68,017	11.5	32,544	5.4	48,576	7.7
Coventry		16,787	9.3	5,943	3.1	10,859	5.5
Dudley		13,892	7.3	5,776	3.1	10,416	5.7
Sandwell		18,170	10.6	7,640	4.4	12,871	7.3
Solihull		7,942	6.5	2,231	1.9	5,230	4.3
Walsall		13,657	8.7	5,481	3.7	10,694	7.1
Wolverhampton		15,081	10.3	6,594	4.6	11,173	7.8
Worcestershire		18,356	5.7	6,099	1.8	13,057	3.9

Source: Nomi: Claimant Count with rates and proportions

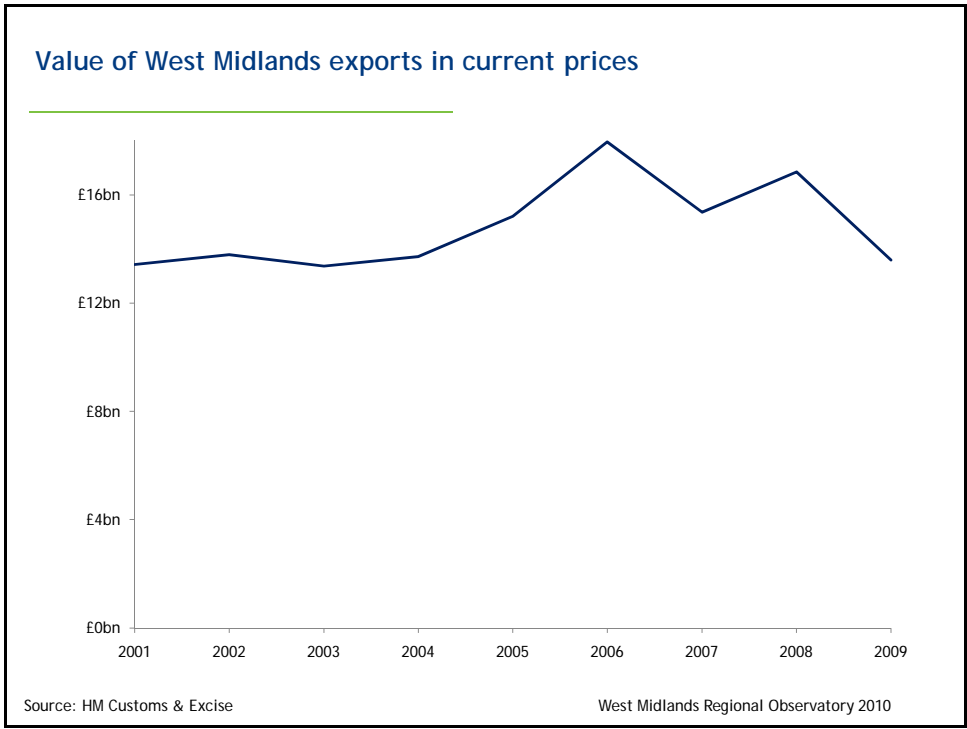
**Table 2.5 West Midlands Take up of Out of Work Benefits (year to Aug 2009)**

Benefit	Definition	WM population and %	England & Wales %
Job Seekers Allowance	For people aged 16 to pension age who are actively seeking and available for full-time work or working under 16 hours per week	159,120. 4.9% of the working age population	1,159,180. 3.6% of the working age population
Lone Parent benefit	To guarantee a minimum income to people of working age who can't be available for full time work due to lone caring for young children.	72,100. 2.2% of the working age population	630,258 2% of the England & Wales population
Employment Support Allowance and Incapacity Benefit	People of working age who cannot work because of illness or disability. From Oct 2008 Employment and Support Allowance replaced Incapacity Benefit and Income Support paid on incapacity grounds for new customers	238,875. 7.3 % of the working age population	2,124,373. 6.7% of working age population
Others on Income-related benefit	Including Pension Credits (which guarantee a minimum income to those aged over retirement age) and Income Support disability premium.	18,325. 0.6% of the working age population	156,910 0.5% of the working age population
Total Out of Work Benefits		488,423. 14.8% of the working age population	4,070,718. 12.8% of the working age population

Source: Department of Work and Pensions working age client group data. Downloaded from NomisJune 2010

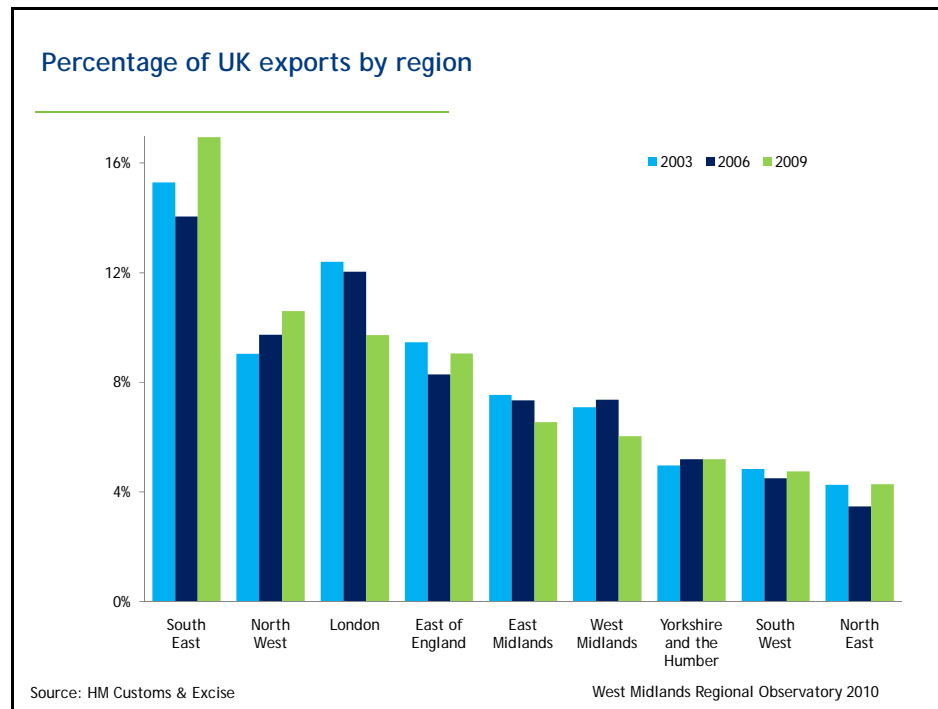
# 2.3 Competition

Figure 3.1

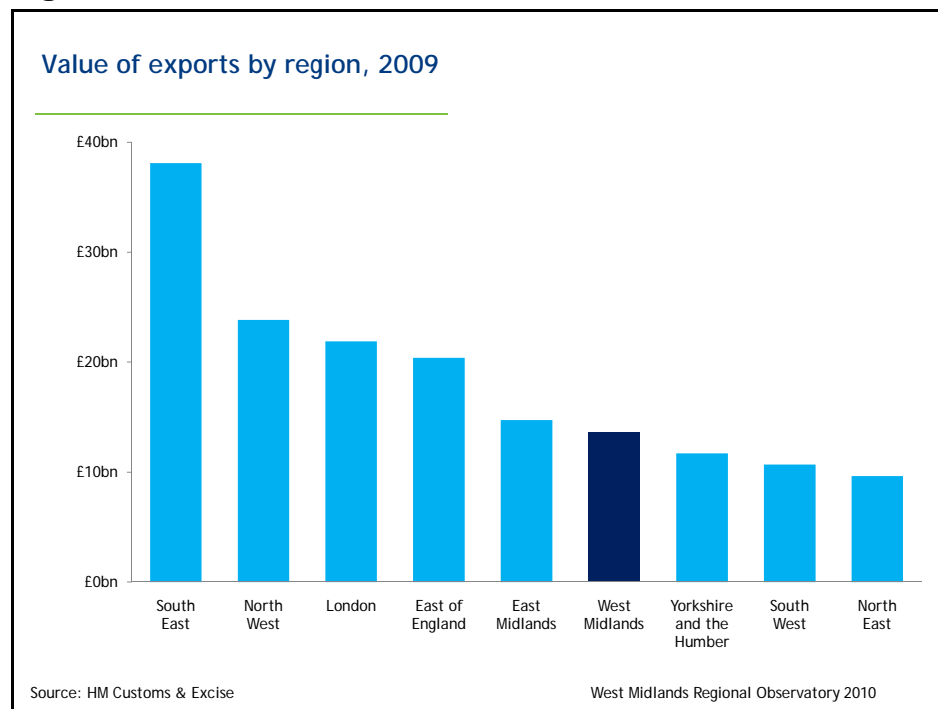




**Figure 3.2** <sup>140</sup>

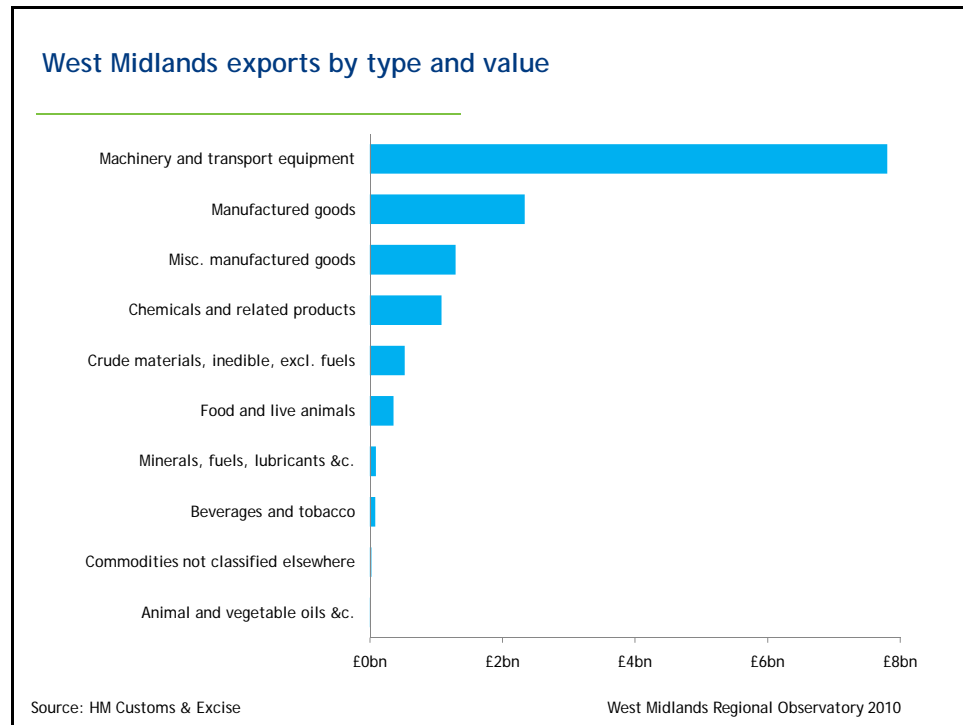


**Figure 3.3**

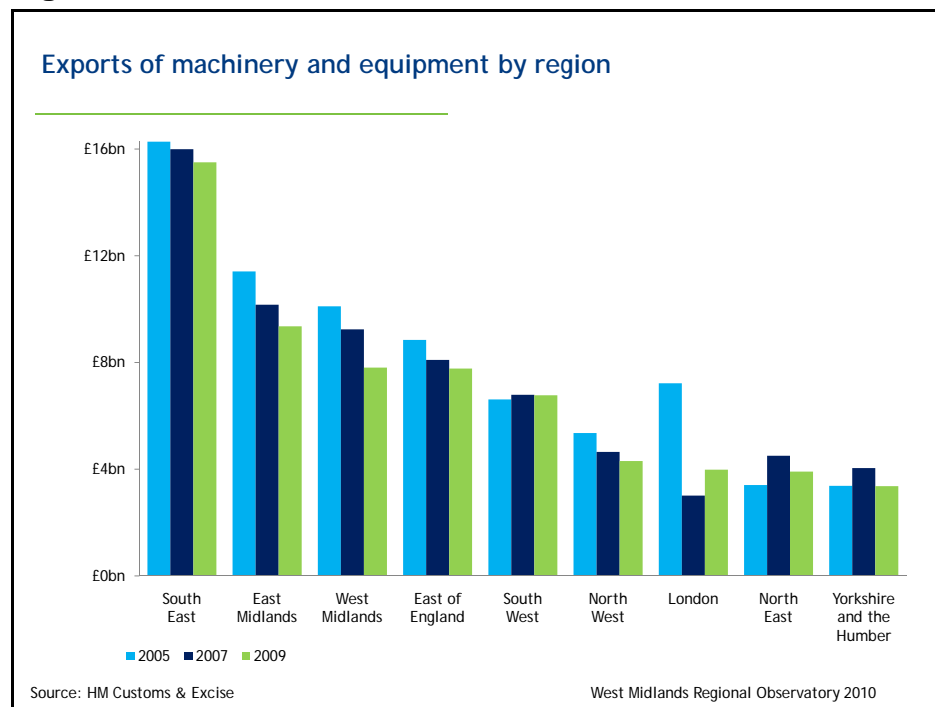


<sup>140</sup> This ignores exports that cannot be allocated to a region by ONS. These account for approximately 12-15% of the total.

**Figure 3.4**



**Figure 3.5**



**Table 3.1 Number of companies and employees in each cluster in the West Midlands, 2008**

	Companies	Employees
Building technologies	32 532	221 641
Food and drink	2 804	58 182
Tourism and leisure	17 627	192 010
Transport technologies	3 674	92 347
Interiors and lifestyle	2 643	25 749
Business and professional services	25 047	109 192
Information and communications technologies	9 723	65 588
Environmental technologies	1 628	35 065

	Companies	Employees
Digital media	1 785	9 444
Medical technologies	400	7 283
<b>Total</b>	<b>97 863</b>	<b>816 501</b>

*Source: ABI 2008*

## 2.4 Enterprise

**Table4.1 Regional Size Summary of Businesses: 2008**

			Employment Sizeband			
		Total Number	None %	1-49 %	50-249 %	250+ %
(a) Number/Percentage of Businesses						
United Kingdom		4 783 285	74.1	25.2	0.6	0.1
North East		136 255	72.7	26.4	0.7	0.2
North West		453 565	71.2	28.1	0.6	0.1
Yorkshire and the Humber		345 805	72.7	26.5	0.7	0.1
East Midlands		319 290	72.1	27.2	0.6	0.1
West Midlands		364 635	70.7	28.5	0.6	0.1
East of England		488 335	74.5	24.9	0.5	0.1
London		800 050	78.7	20.6	0.5	0.2
South East		768 920	75.6	23.8	0.5	0.1
South West		456 295	74.0	25.4	0.5	0.1
England		4 133 150	74.4	24.9	0.5	0.1
Wales		201 355	73.1	26.3	0.5	0.1
Scotland		322 140	73.2	26.0	0.7	0.1
Northern Ireland		126 640	70.1	29.1	0.8	0.1
(b) Percentage of Employment (%)						
United Kingdom		23 128	16.8	31.1	11.5	40.6
North East		685	15.9	32.6	13.1	38.2
North West		2 162	16.4	35.3	13.2	35.1
Yorkshire and the Humber		1 893	14.7	30.0	11.9	43.5

			Employment Sizeband			
East Midlands		1 721	14.9	30.2	11.4	43.3
West Midlands		1 902	14.9	32.8	11.8	40.5
East of England		2 474	16.2	28.4	10.1	45.4
London		4 213	15.8	22.7	9.5	52.0
South East		3 412	18.6	31.0	11.0	39.4
South West		1 732	21.9	39.4	12.0	26.7
England		20 193	16.6	30.2	11.2	42.0
Wales		756	22.2	41.4	13.8	22.9
Scotland		1 626	16.1	32.7	13.0	38.1
Northern Ireland		552	17.9	44.9	16.7	20.7
(c) Percentage of Turnover (£m/%)						
United Kingdom		2 994 978	7.7	28.8	13.6	49.9
North East		68 427	7.8	29.0	13.3	49.9
North West		233 138	8.8	35.3	16.1	39.9
Yorkshire and the Humber		188 273	8.0	29.8	17.2	45.1
East Midlands		188 832	6.7	30.0	13.3	50.0
West Midlands		216 724	7.7	29.3	15.0	47.9
East of England		317 523	7.2	23.9	10.9	57.9
London		824 310	6.7	27.5	12.6	53.1
South East		491 484	7.8	24.3	12.0	56.0
South West		163 610	10.6	36.6	13.3	39.5
England		2 692 321	7.6	28.2	13.2	50.9

			Employment Sizeband			
Wales		75 228	9.5	33.8	17.0	39.7
Scotland		171 942	8.4	29.7	14.9	47.1
Northern Ireland		55 487	10.6	46.5	21.9	21.1

*Source: BIS Enterprise Directorate Analytical Unit*

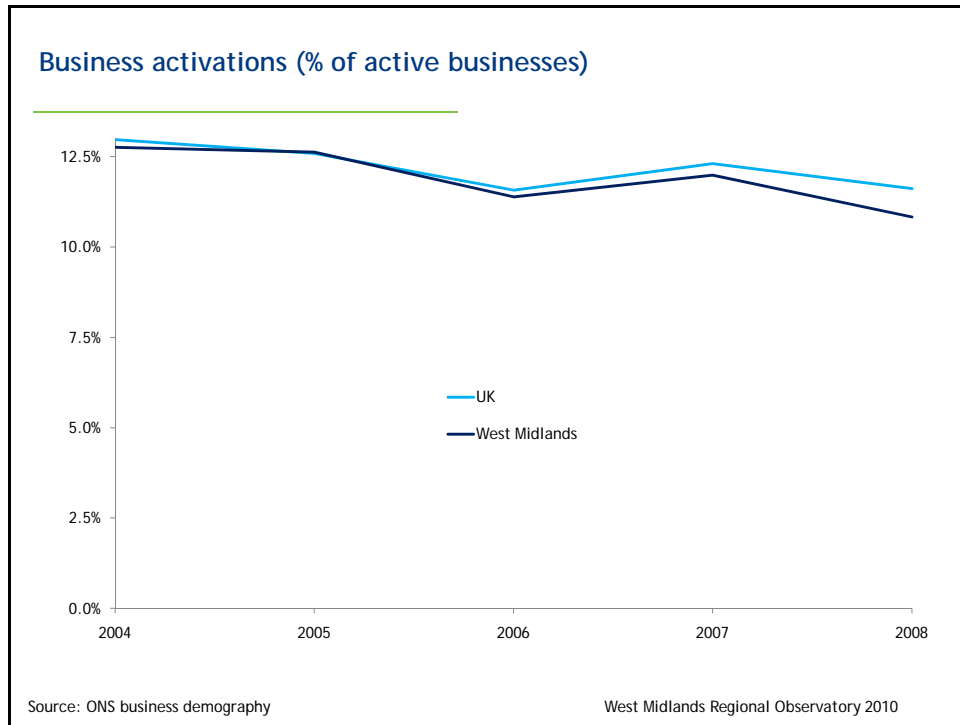
**Table 4.2 Trends in regional firm stock in the West Midlands**

	<b>=100%</b>	<b>None</b>	<b>1-49</b>	<b>50-249</b>	<b>250+</b>
<b>(a) Firm Stock</b>					
2001	289 000	65.9%	33.0%	0.9%	0.2%
2003	315 000	68.3%	30.8%	0.7%	0.2%
2005	353 400	71.1%	28.1%	0.7%	0.2%
2007	376 315	72.1%	27.2%	0.6%	0.1%
2008	364 635	70.7%	28.5%	0.6%	0.1%
<b>(b) Employment</b>					
2001	1 997 000	10.6%	33.1%	12.7%	45.8%
2003	1 841 000	13.0%	30.8%	12.8%	41.1%
2005	1 933 000	14.4%	31.4%	12.0%	42.3%
2007	1 938 000	15.5%	31.6%	11.8%	41.2%
2008	1 902 000	14.9%	32.8%	11.8%	40.5%

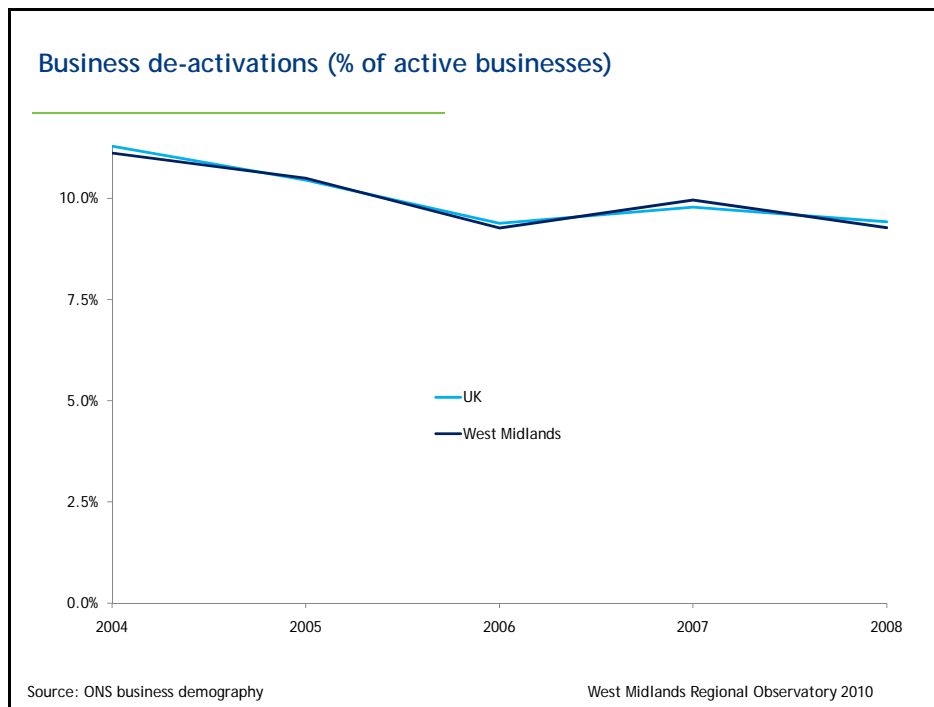
*Source: SBS Analytical Unit*



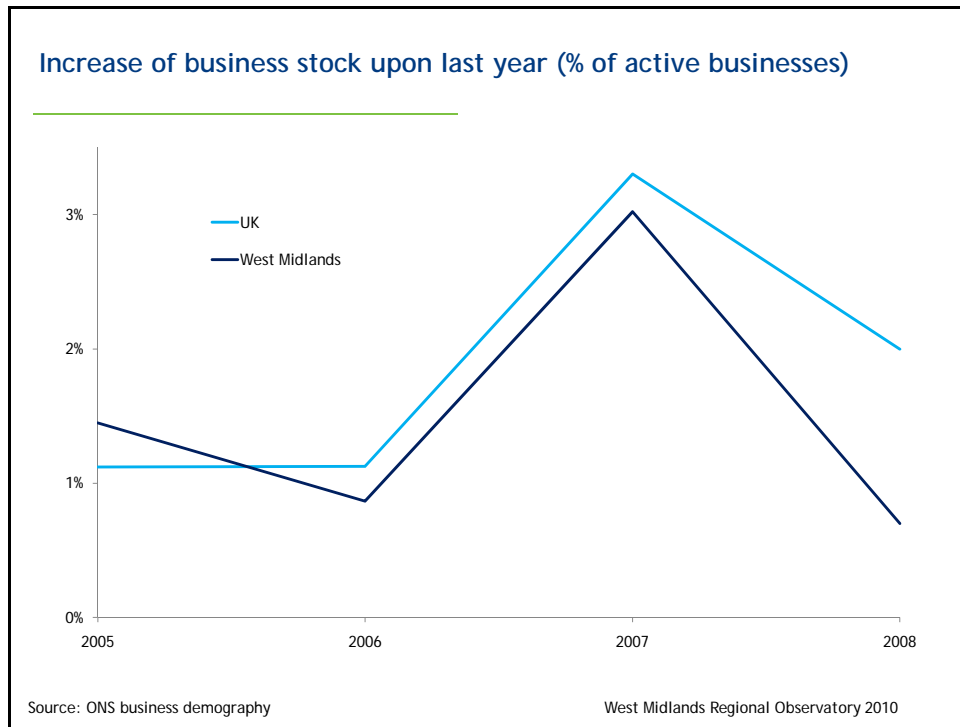
**Figure 4.1a Business Demography statistics: WM & the UK**



**Figure 4.2b**



**Figure 4.3c**

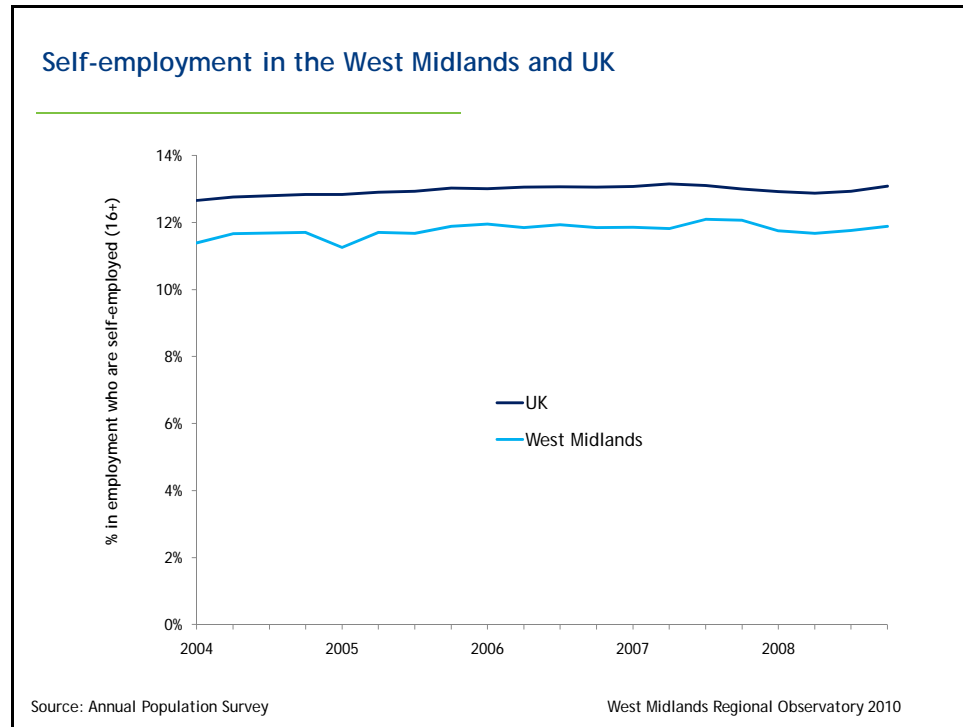


**Table 4.3 West Midlands VAT Registrations by Sector**

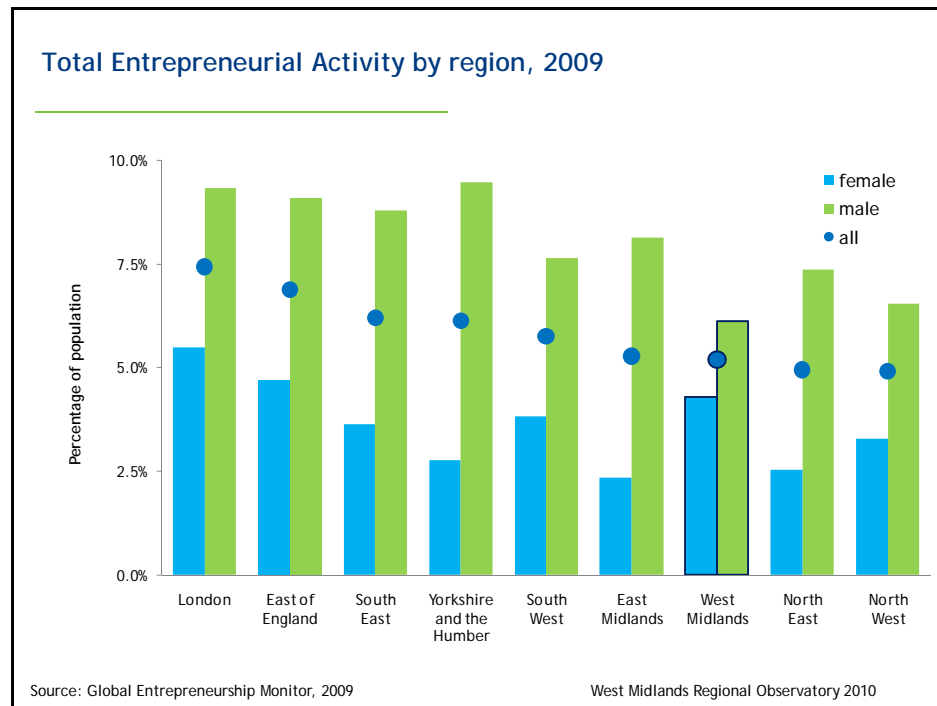
	1994	2004	Change	%
Agriculture and Fishing	275	235	-40	-14.5
Energy and Water	10	20	10	100.0
Manufacturing	1,545	955	-590	-38.2
Construction	1,445	1,900	455	31.5
Distribution	3,465	3,230	-235	-6.8
Hotels and restaurants	1,395	1,740	345	24.7
Transport and Communications	660	950	290	43.9
Financial Intermediation	130	80	-50	-38.5
Real estate renting and business	3,130	4,770	1,640	52.4
Public administration	1,375	775	-600	-43.6
Education and Social services	265	195	-70	-26.4
Registrations Total	13,695	14,855	1,160	8.5

Source: Nomis / West Midlands Regional Observatory

**Figure 4.4**



**Figure 4.5 Total Entrepreneurial Activity from GEM**



(a)

	Female		Male	
	Opportunity	Necessity	Opportunity	Necessity
East Midlands	3.0	0.3	6.3	1.0
East of England	3.2	0.5	8.5	0.6
London	5.7	0.1	8.4	2.1
North East	2.5	0.2	3.0	1.2
North West	2.1	0.1	6.1	0.8
Northern Ireland	2.2	0.5	6.1	0.8
Scotland	3.5	0.3	6.3	1.2
South East	3.5	0.3	8.9	1.0
South West	5.0	0.6	6.5	1.7
Wales	3.1	0.5	5.7	1.1
West Midlands	3.1	0.2	6.5	1.0
Yorkshire & Humber	3.0	0.4	6.4	1.5

Source: GEM 2005

**Table 4.4 Proportion of Ethnic Groups involved in different enterprise activities (%)**

	Independent Start-up		Job related start-up		Owner-manager	
	West Midlands	UK	West Midlands	UK	West Midlands	UK
White British	4	4	2	2	12	11
White Irish	8	4	5	2	5	12
Other White	4	6	4	3	16	14
Mixed	6	7	9	4	16	12
Indian sub-continent	5	8	2	3	12	11
Other Asian	0	6	0	2	0	12
Black	8	9	3	4	7	9
Other	15	7	4	1	9	13

Source: GEM West Midlands Report 2004, Table 13.

# 2.5 Innovation

Figure 5.1

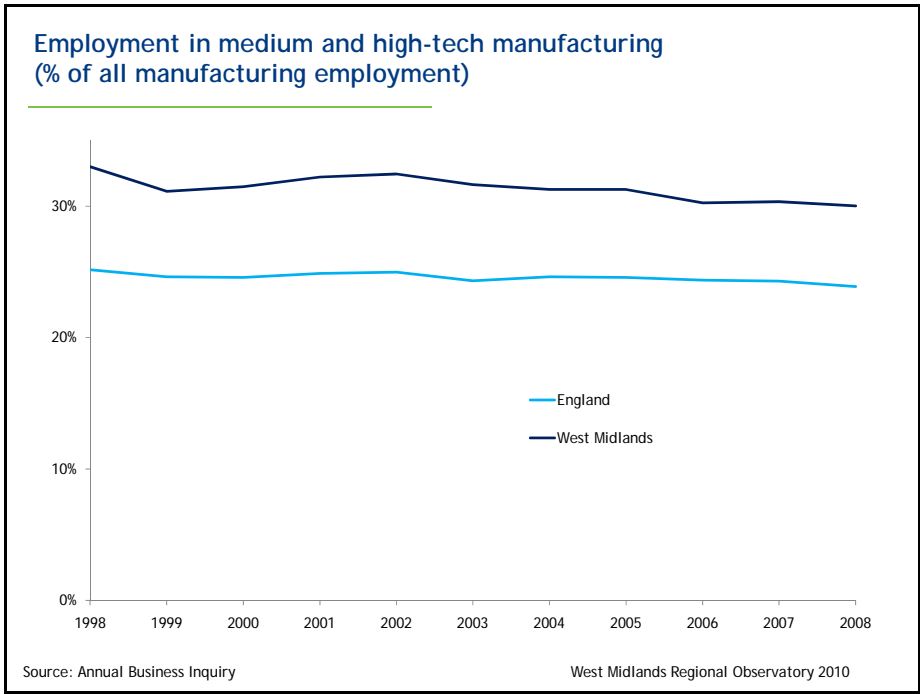
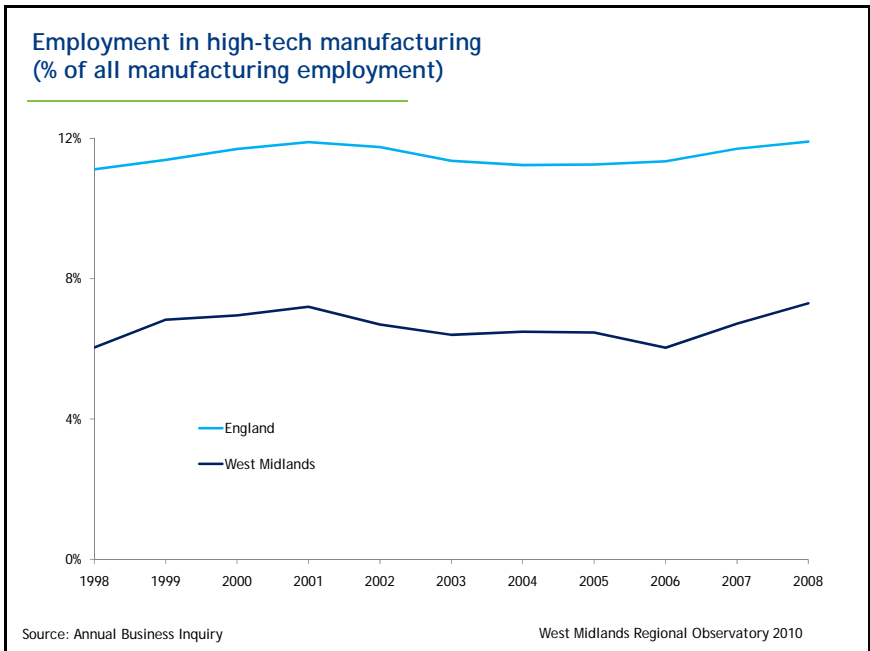
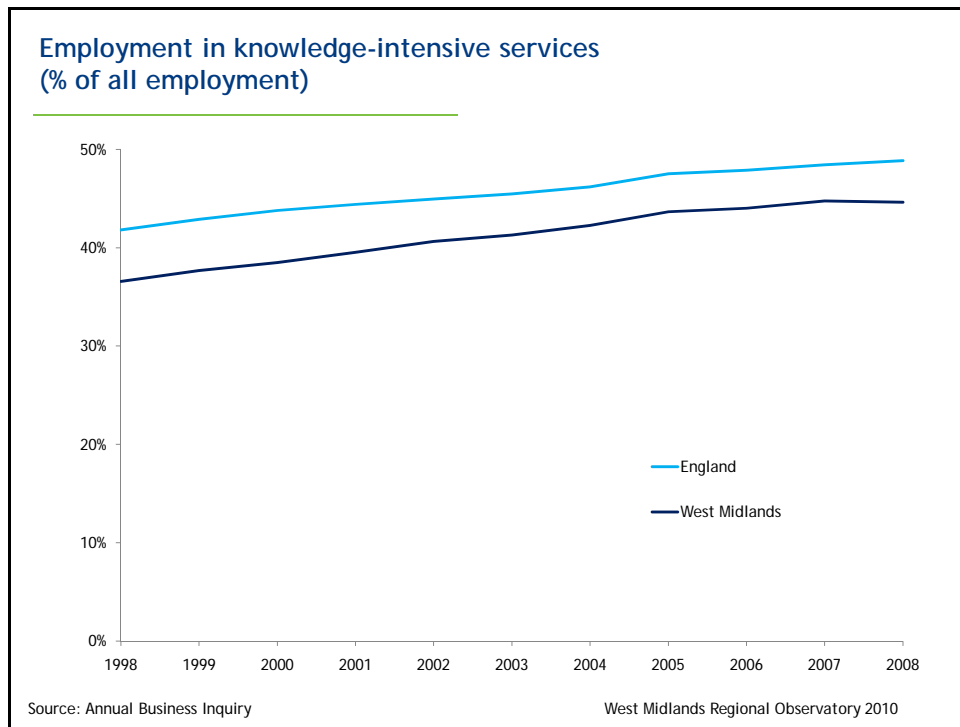


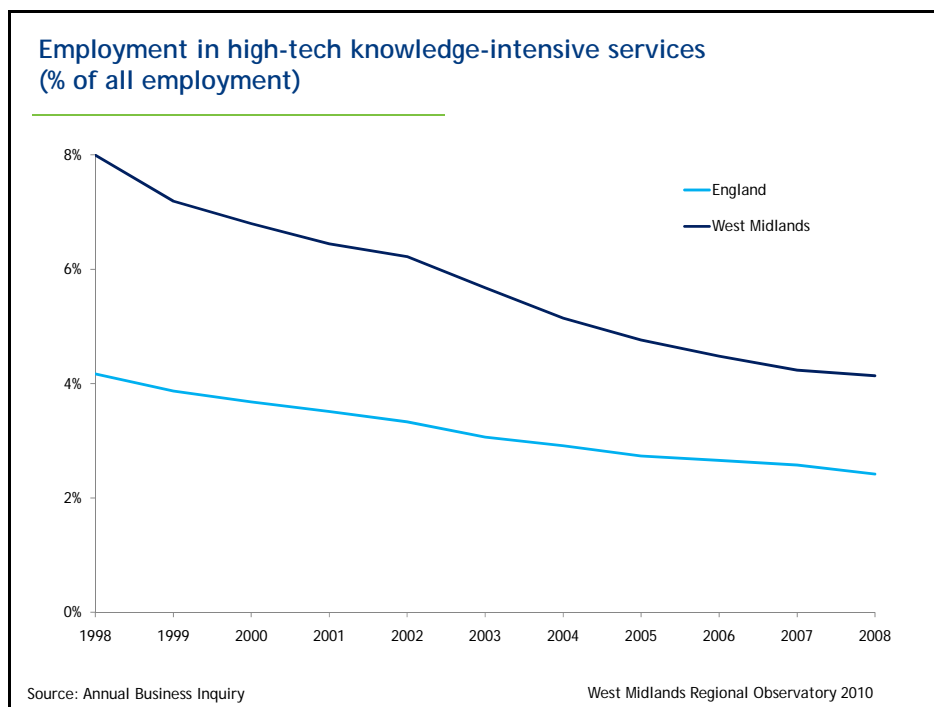
Figure 5.2 Employment in High-Tech Manufacturing



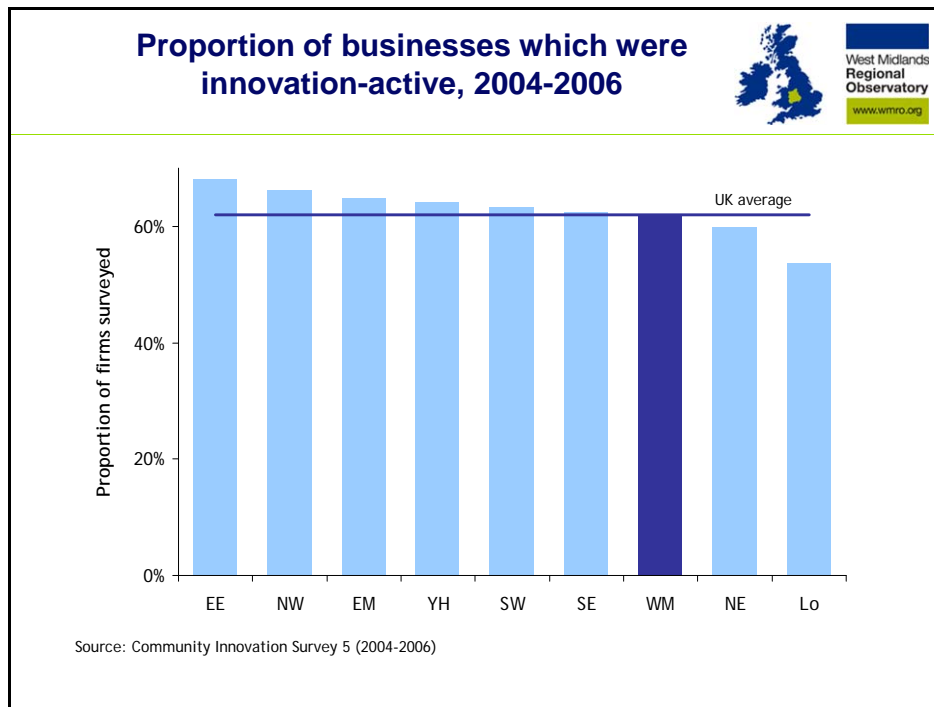
**Figure 5.3 Employment in Knowledge Intensive Services**



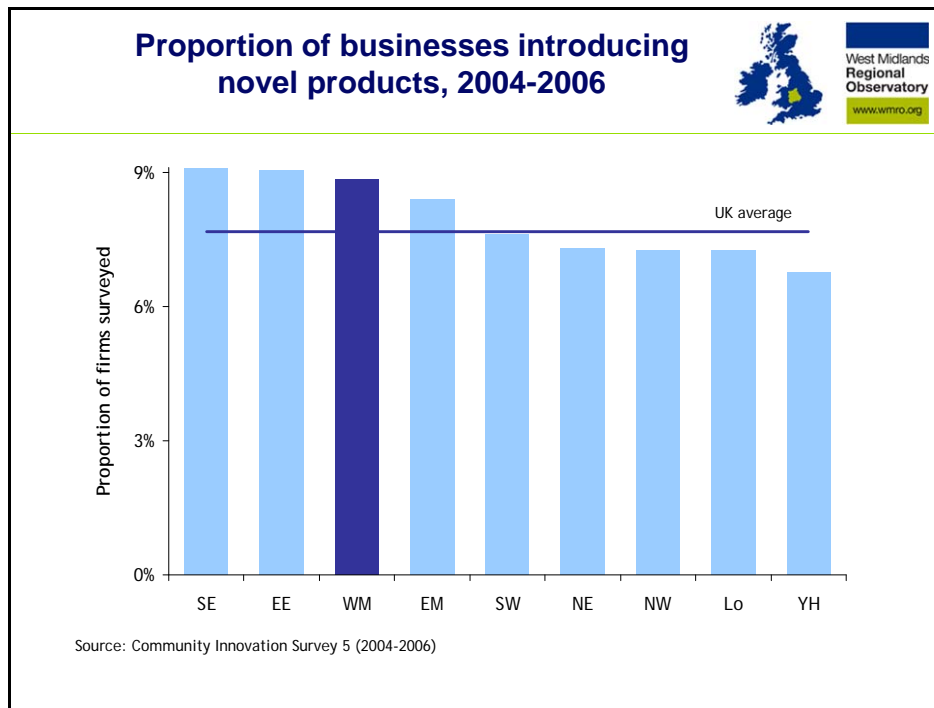
**Figure 5.4 Employment in high-tech services (%)**



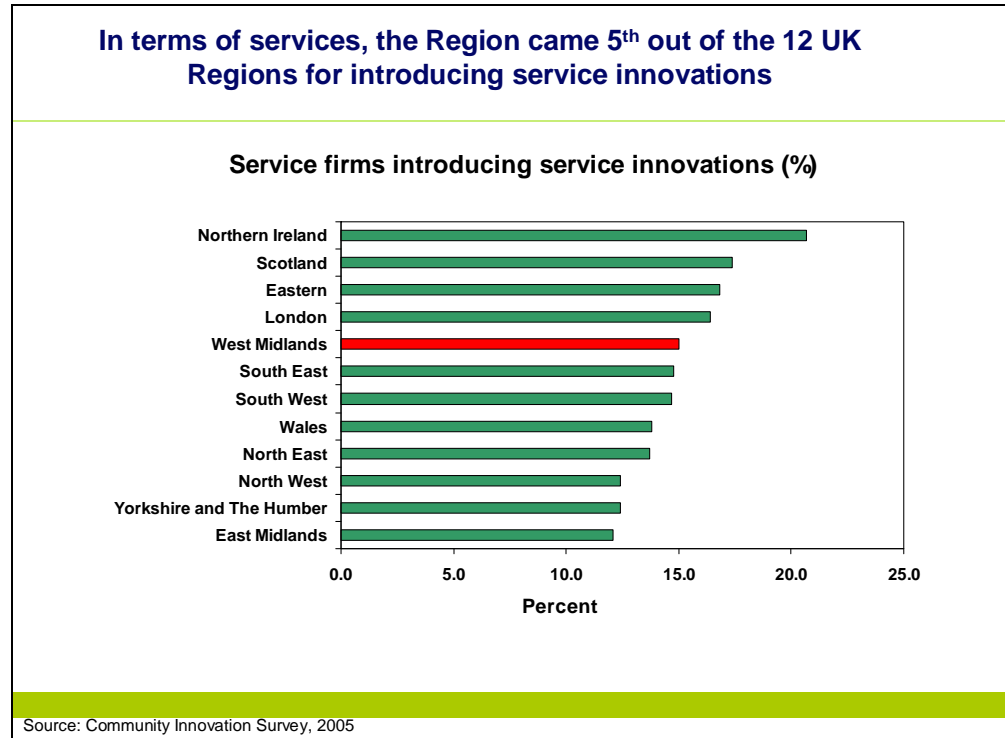
**Figure 5.5a Innovation Output Indicators – West Midlands and UK Regions**



**Figure 5.6b**



**Figure 5.7c**

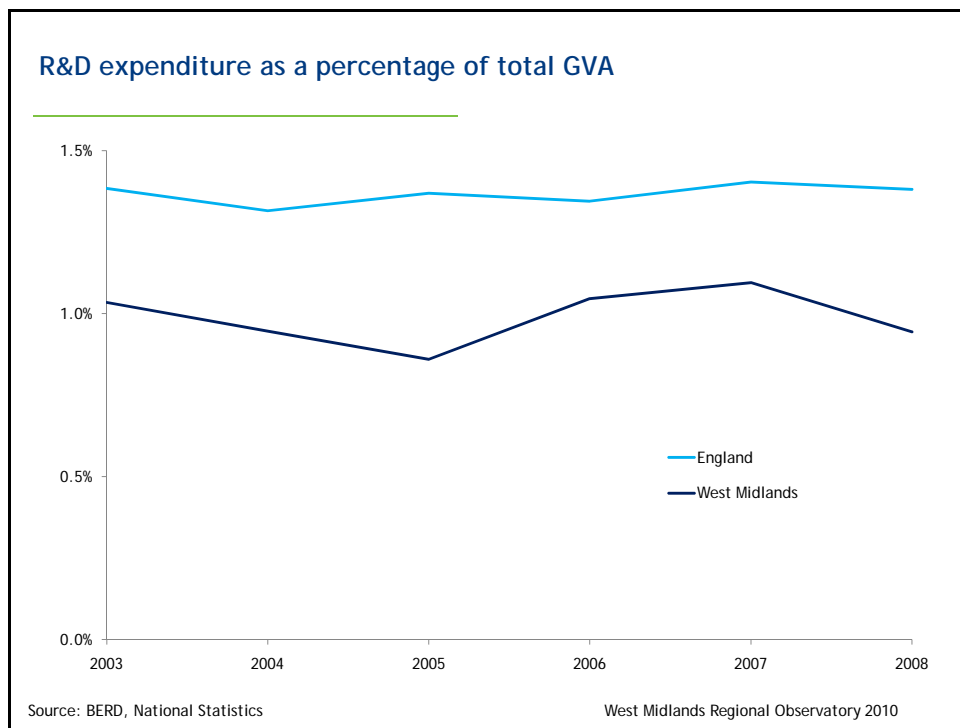




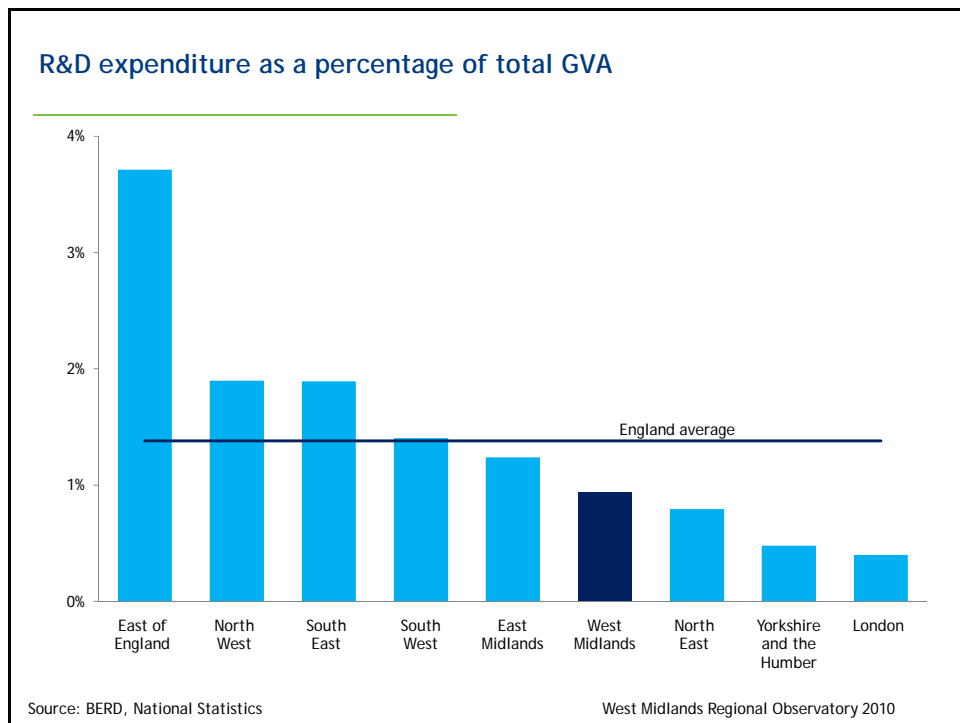
**Table 5.1: Business R&D Spend per Employee by Sector: West Midlands and UK: 2003 and 2004**

	West Midlands		UK		West Midlands	
	2003	2004	2003	2004	2003	2004
	£pe pa	£pe pa	£pe pa	£pe pa	% of UK	% of UK
Total	252.7	341.3	532.3	518.9	47.5	65.8
Manufactured Products: Total	1143.1	1590.4	3262.1	3347.9	35.0	47.5
Chemicals	1746.2	1709.4	17756.0	19069.5	9.8	9.0
Mechanical Engineering	306.9	830.3	1682.1	1833.8	18.2	45.3
Electrical Machinery	3906.7	4171.7	6264.8	5866.6	62.4	71.1
Transport	3411.9	4386.3	5492.0	4218.9	62.1	104.0
Aerospace	10362.7	19238.0	18046.4	22473.7	57.4	85.6
Other Manufactured	236.9	255.5	689.0	662.0	34.4	38.6
Services	58.1	93.8	137.2	133.6	42.4	70.2
Other (energy, construction)	59.4	97.4	179.7	190.3	33.0	51.2

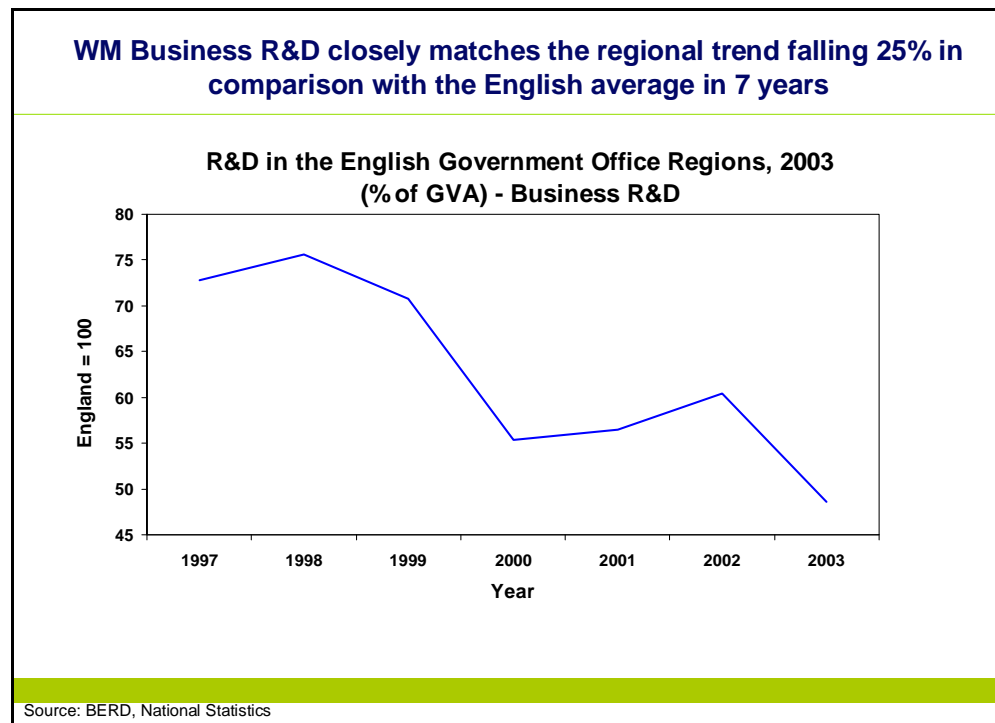
**Figure 5.8**



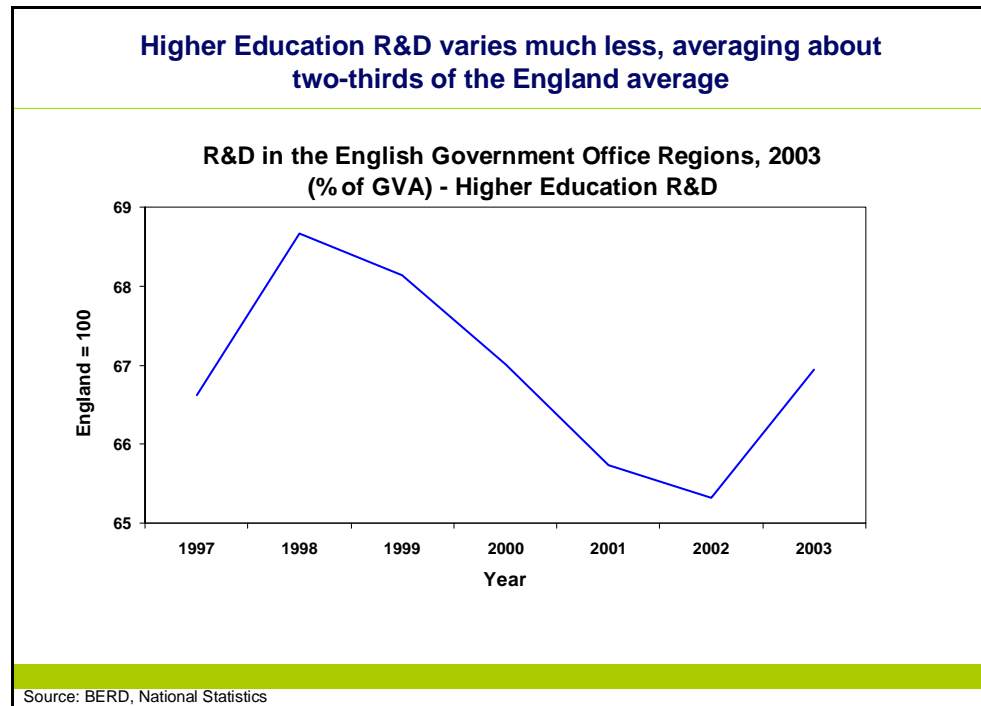
**Figure 5.9**



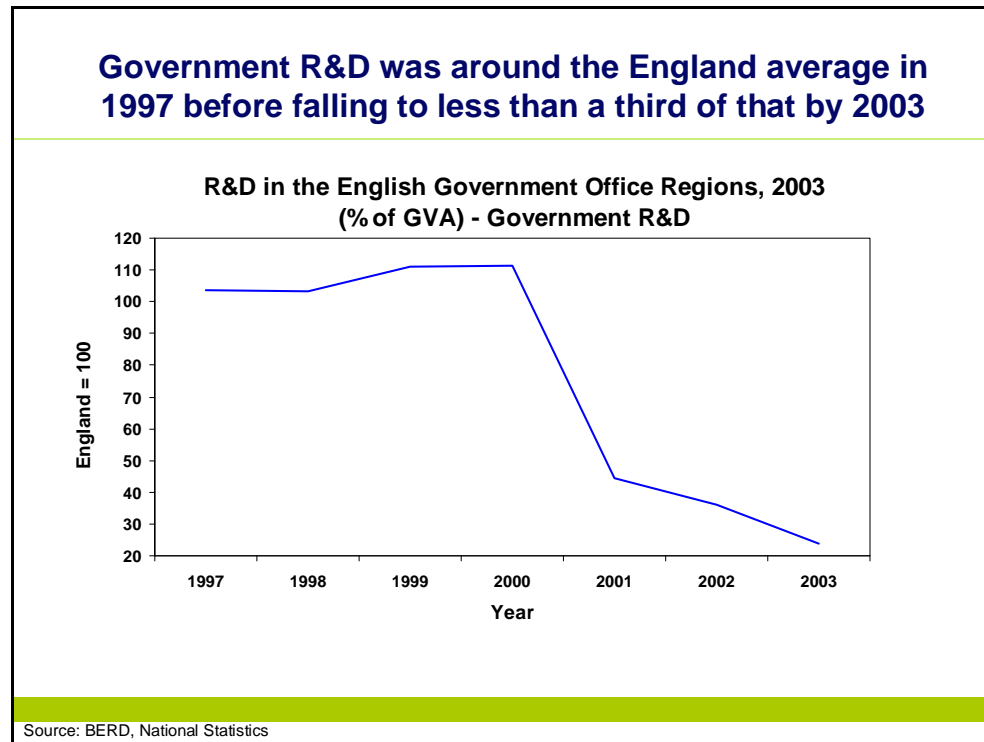
**Figure 5.10: Business & R&D**



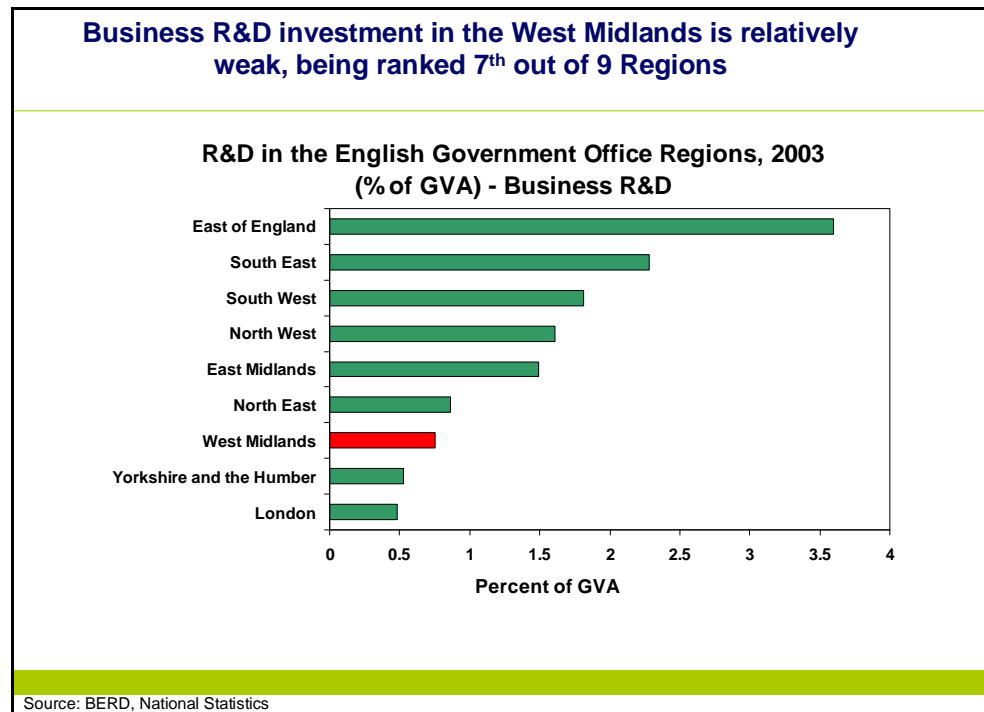
**Figure 5.11: Higher Education R&D**



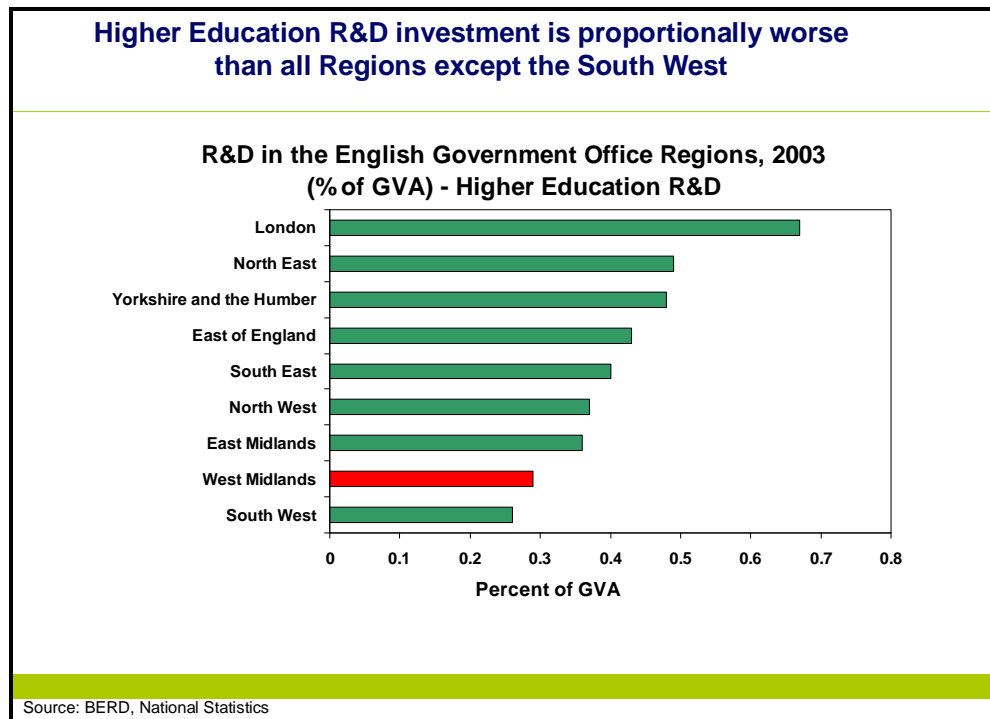
**Figure 5.12: Government R&D**



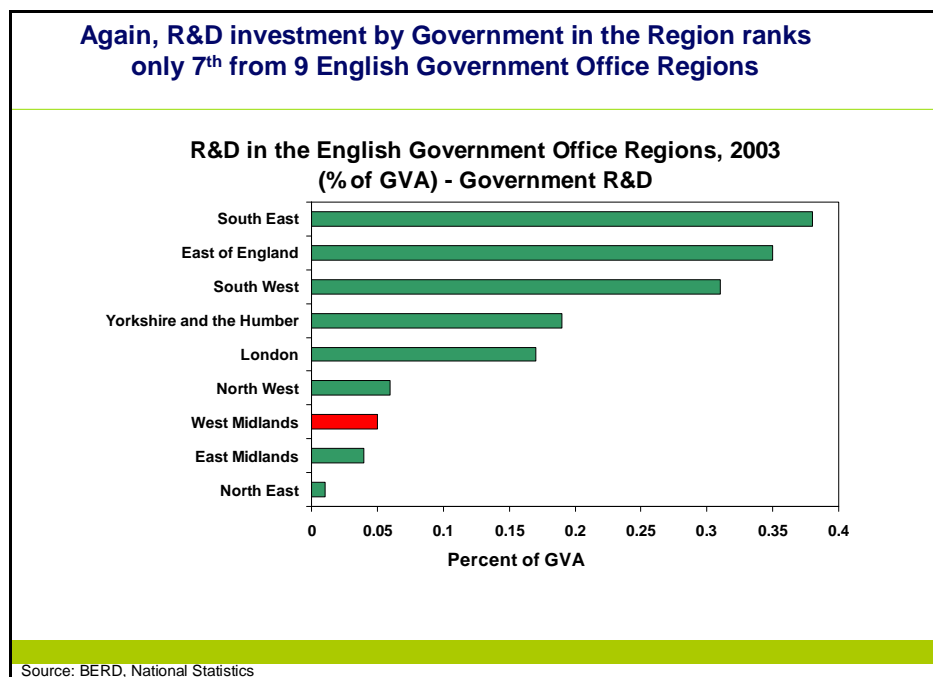
**Figure 5.13: Business R&D, Regional Comparisons**



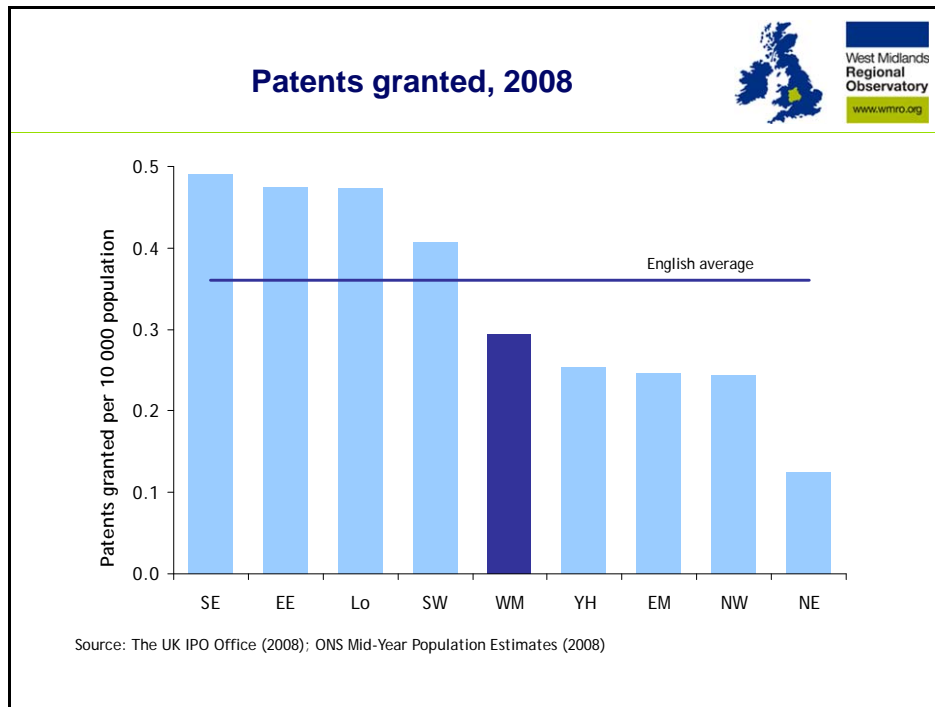
**Figure 5.14: Higher Education R&D, Regional Comparisons**



**Figure 5.15: Government R&D, Regional Comparisons**



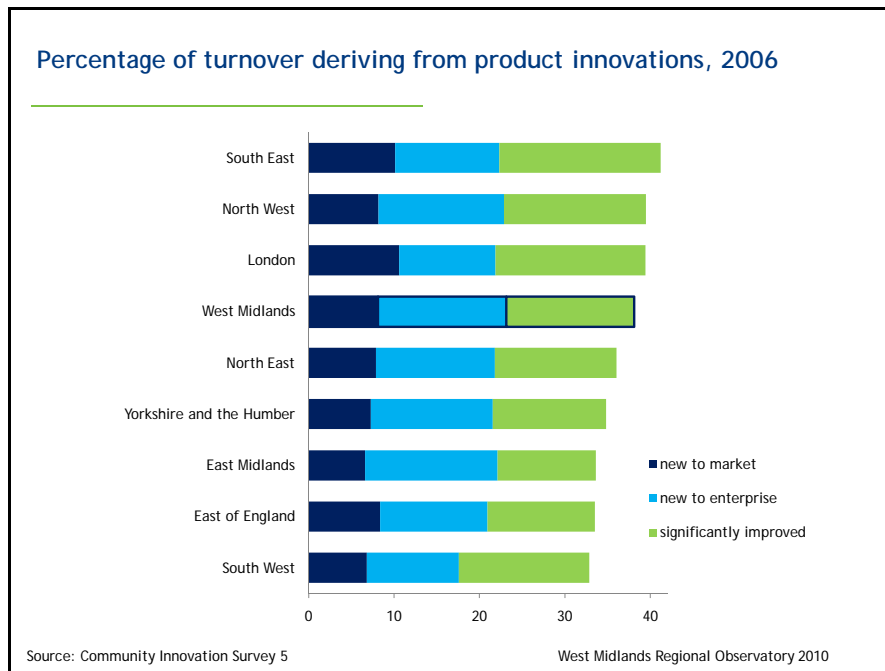
**Figure 5.14**



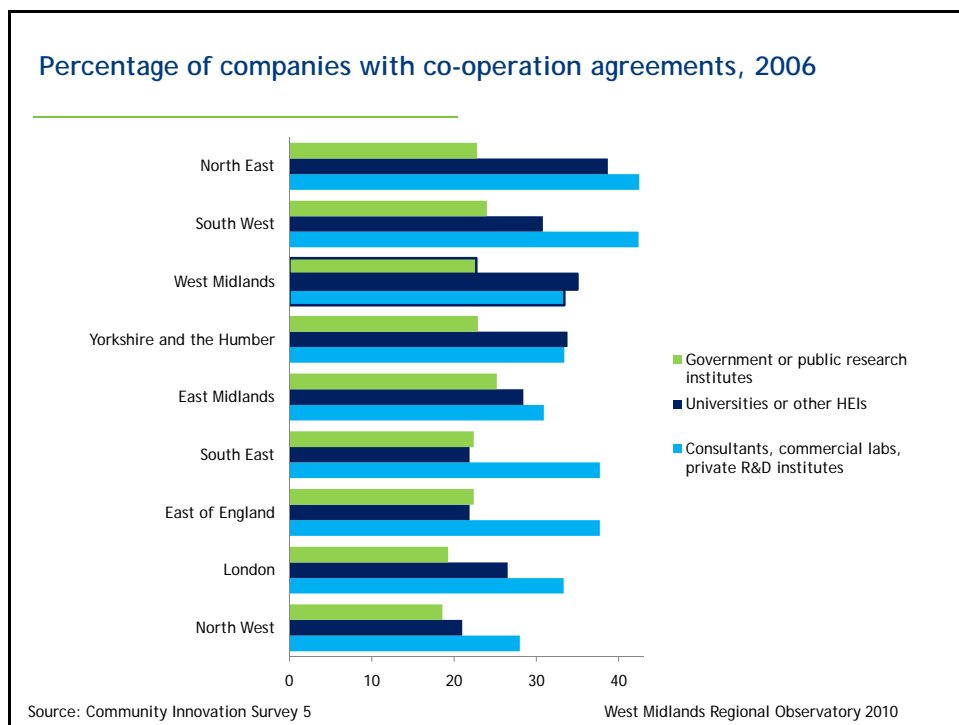
**Table 5.2: Innovation Active Firms: By Sector and Sizeband: 2002-2004**

Sector			West Midlands			UK=100		
		SIC Code	SME	Large	Total	SME	Large	Total
Mining and quarrying		11-14	50.0		50.0	88.9		86.3
Mfr of food, clothing, wood, paper, publish & print		15-22	67.4	90.0	68.4	101.1	106.9	101.0
Mfr of fuels, chemicals, plastic metals & minerals		23-29	66.1	82.7	66.8	94.2	96.7	94.3
Mfr of electrical and optical equipments		30-33	83.1	100.0	84.2	98.6	110.8	99.5
Mfr of transport equipments		34-35	82.2	90.3	83.7	118.5	104.9	116.6
Mfr not elsewhere classified		36-37	69.6	100.0	70.3	94.0	120.5	94.7
Electricity, gas & water supply		40-41	50.0		50.0	147.5		136.2
Construction		45	42.6	54.5	42.8	96.8	85.2	96.4
Wholesale Trade (incl cars & bikes)		50&51	47.3	71.4	47.8	80.6	111.0	81.4
Retail Trade (excl cars & bikes)		52	34.1	69.6	35.2	86.8	124.2	88.2
Hotels & restaurants		55	32.2	57.1	32.6	82.8	96.0	83.2
Transport, storage & communication		60-64	50.8	59.1	51.2	87.5	80.4	87.3
Financial intermediation		65-67	69.1	85.7	70.2	104.1	108.0	104.2
Real estate, renting & business activities		70-74	61.6	58.8	61.5	99.8	89.8	99.4
All Firms			54.8	74.4	55.5	96.8	103.2	97.1

**Figure 5.15**



**Figure 5.16**





## 2.6 Investment

Figure 6.1

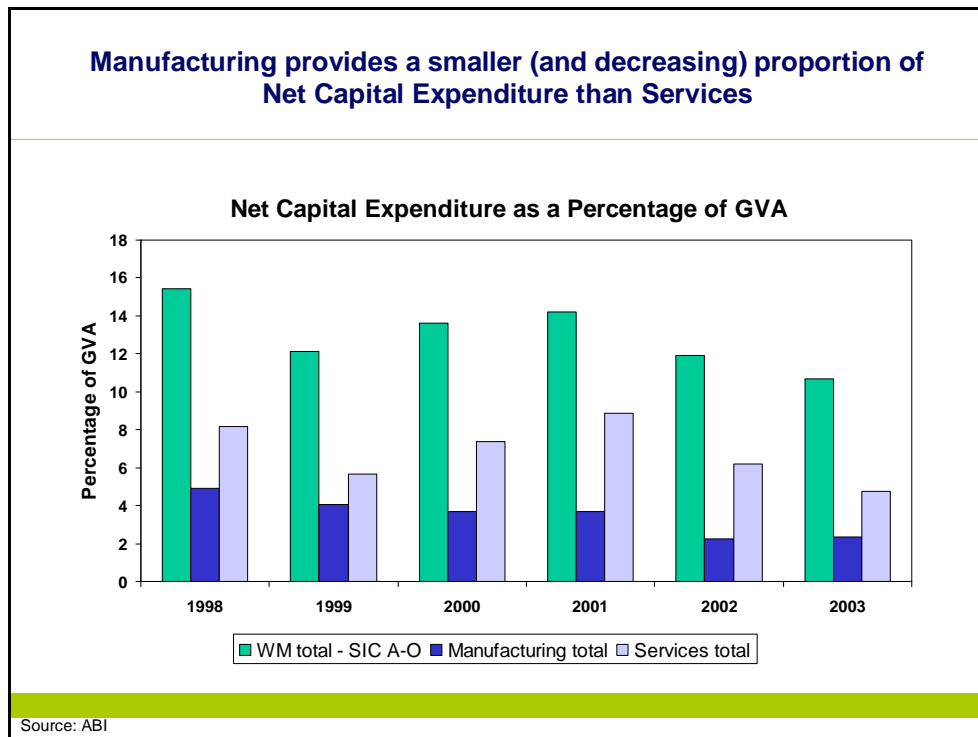
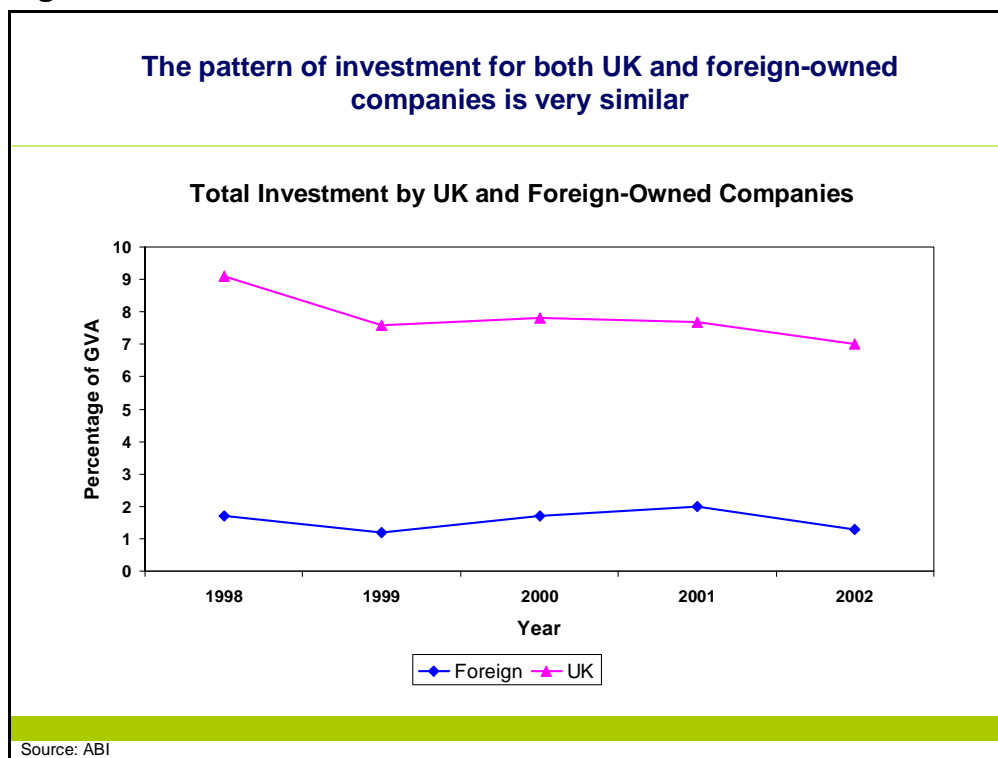
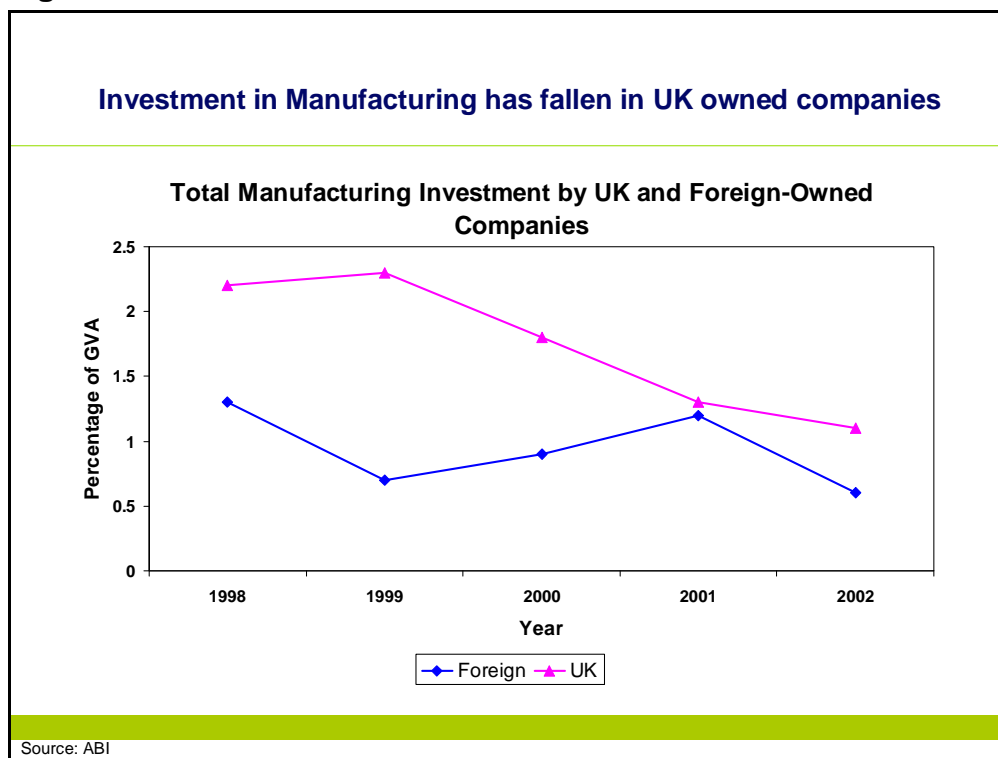


Figure 6.2



**Figure 6.3**



**Figure 6.4**

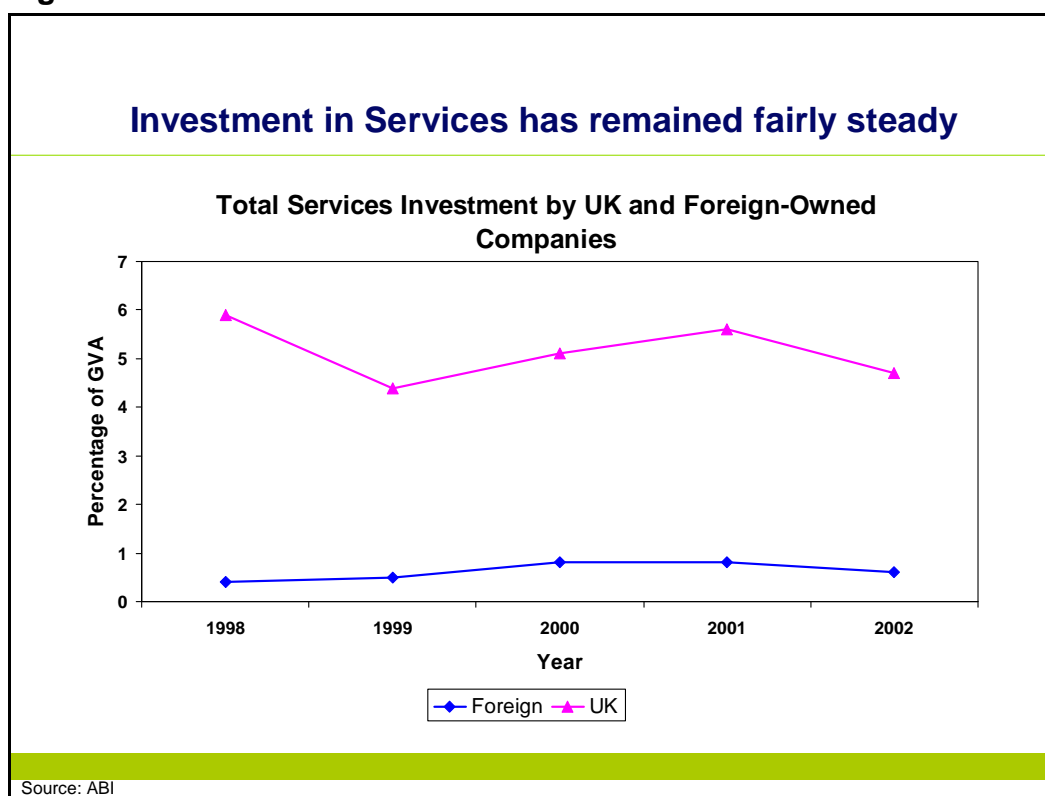
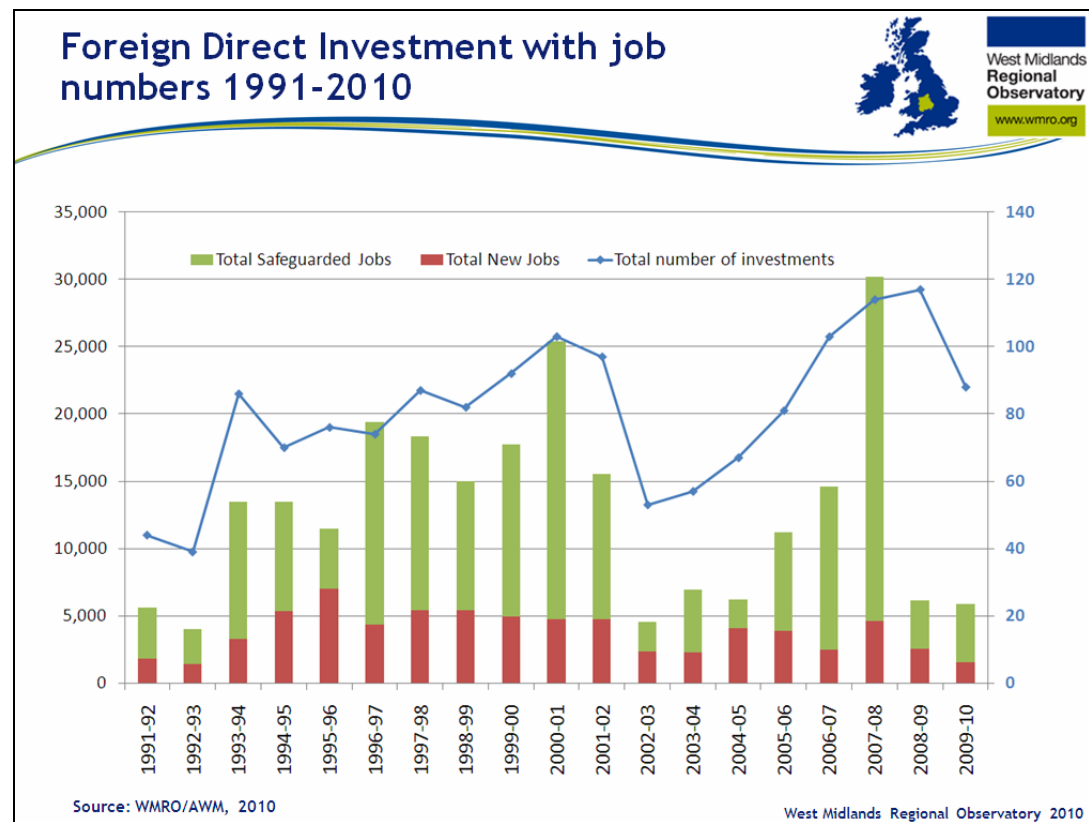
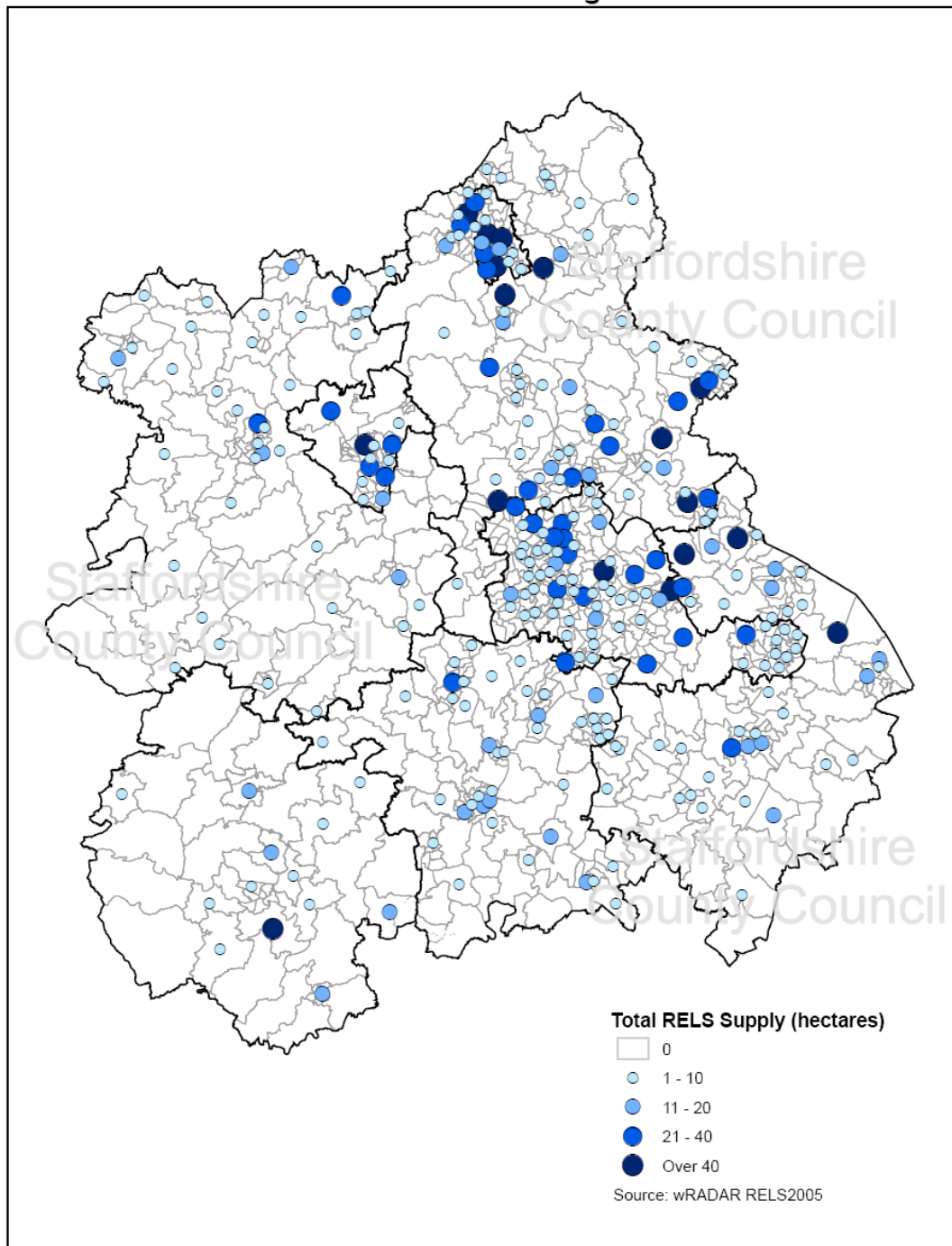


Figure 6.5



**Figure 6.6**

**Location of Regional Employment Sites  
in the West Midlands Region 2005**



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Produced by the Research Unit, Development Services Directorate, Staffordshire County Council, 2006.



*Source: Staffordshire County Council*

**Table 6.1 Derelict Land**

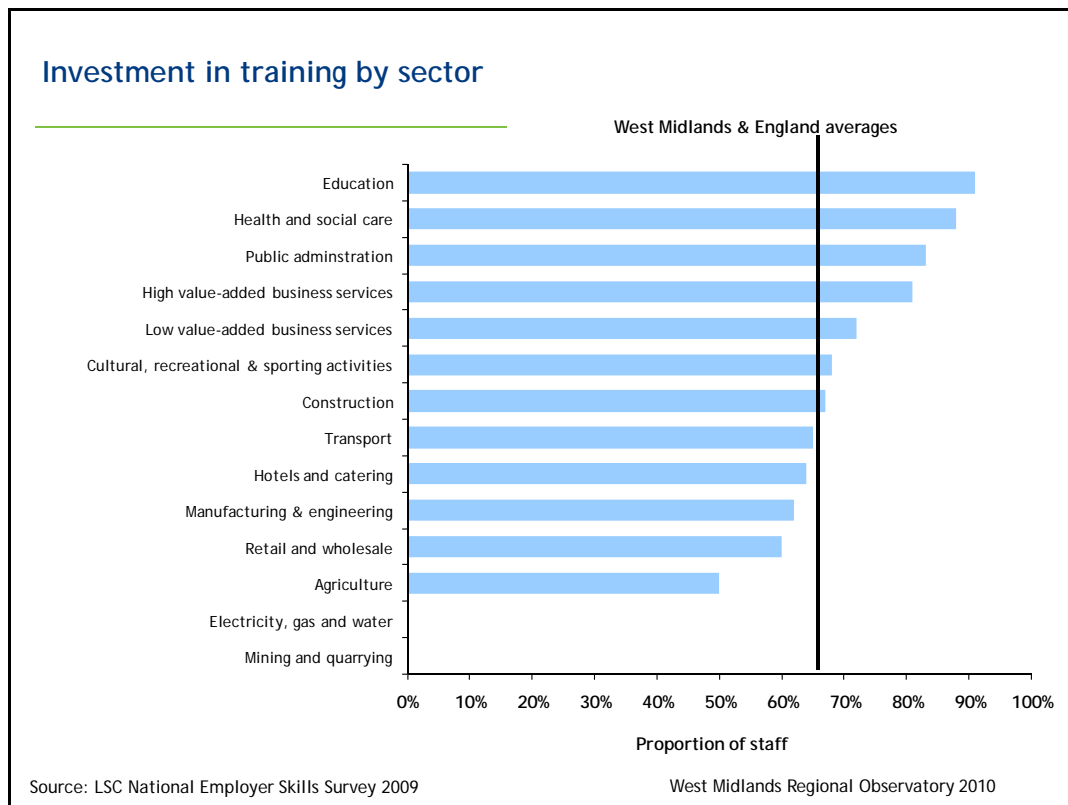
<b>Derelict Land in the West Midlands, April 2008</b>			
	<b>Derelict(ha)</b>	<b>Reclaimed(ha)</b>	<b>Reclaimed(%)</b>
Birmingham	70.4	2.7	3.8%
Coventry	19.7	0	0.0%
Dudley	109.1	59.2	54.3%
Sandwell	82.6	13.3	16.1%
Solihull	0.7	0	0.0%
Walsall	191.8	0	0.0%
Wolverhampton	96.4	0	0.0%
Herefordshire	0	0	0.0%
Shropshire	531.1	18.4	3.5%
Telford & Wrekin	278.8	1.4	0.5%
Staffordshire	369.7	19.3	5.2%
Stoke-on-Trent	222.6	71.8	32.3%
Warwickshire	298.4	6.3	2.1%
Worcestershire	136.6	38.2	28.0%
West Midlands Region	2407.9	230.6	9.6%

*Source West Midlands Derelict Land Survey, 2008*

<b>Derelict Land in the West Midlands 2007-08</b>				
	<b>Derelict</b>	<b>Reclaimed</b>	<b>Reclaimed</b>	<b>Soft End</b>
	<b>(ha)</b>	<b>(ha)</b>	<b>(%)</b>	<b>Uses</b>
				<b>(ha)</b>
MUAs	793	147	16.6	29
Non-MUAs	1,615	84	4.7	3
Total	2,408	231	8.7	32

*Source: Regional Derelict Land Survey, 2008*

**Figure 6.7**



*Source: The West Midlands Economy Post-Recession: Key Issues and Challenges. WMRO, June 2010*

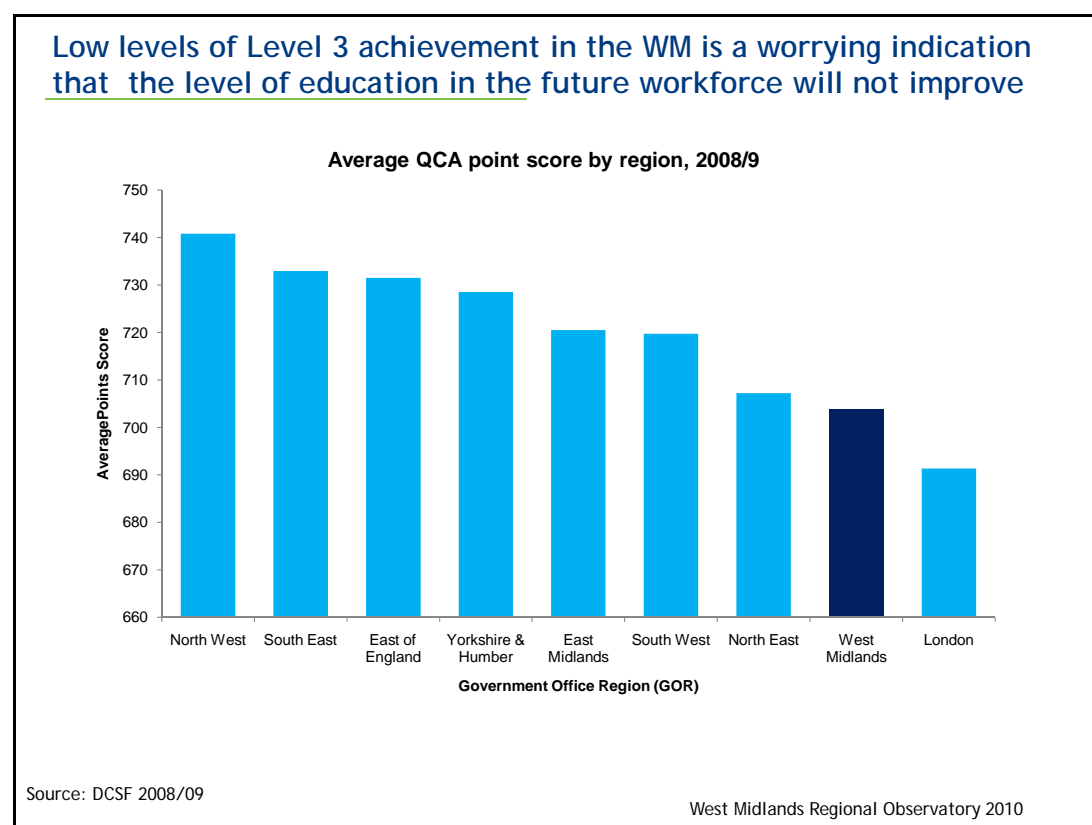
## 2.7 Skills

**Table 7.1 Highest Qualification Level of Working Age Population**

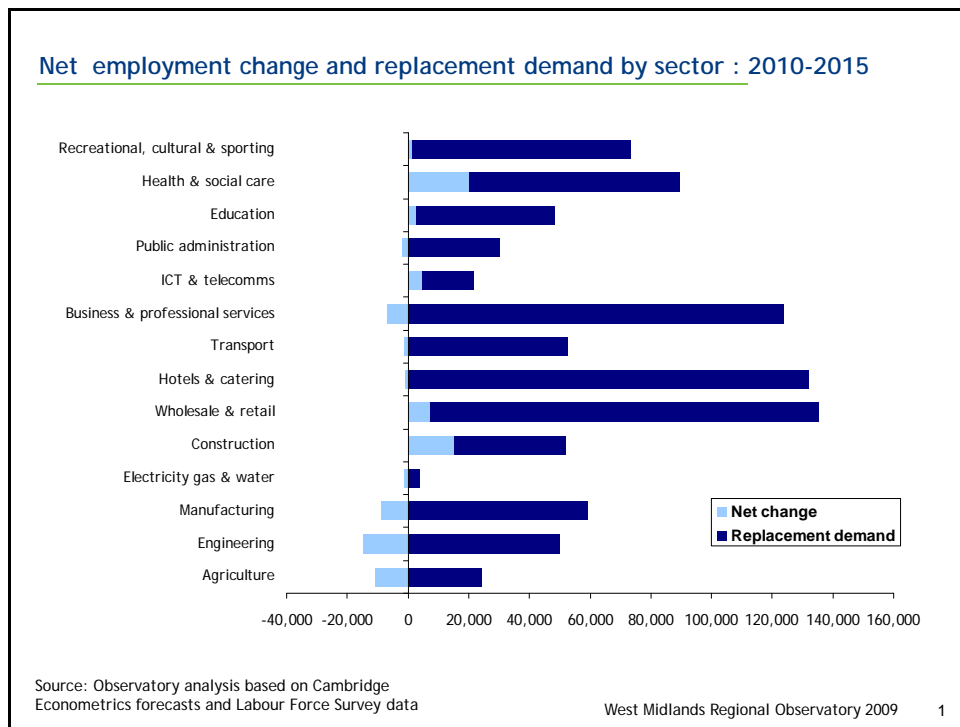
Highest level qualification	% of the working age population - WM	% of the working age population - UK	WM rank whole UK
NVQ level 4/5 (degree & higher)	28.0%	32.9%	8
NVQ level 3 (A level or equivalent)	16.3%	16.5%	7
NVQ level 2 (GCSE or Equivalent)	16.7%	15.0%	2
NVQ level 1	14.2%	12.9%	2
Trade and other qualifications	12.6%	13.4%	6
None	12.2%	9.3%	8

Source: Labour Force Survey Oct-Dec 2009

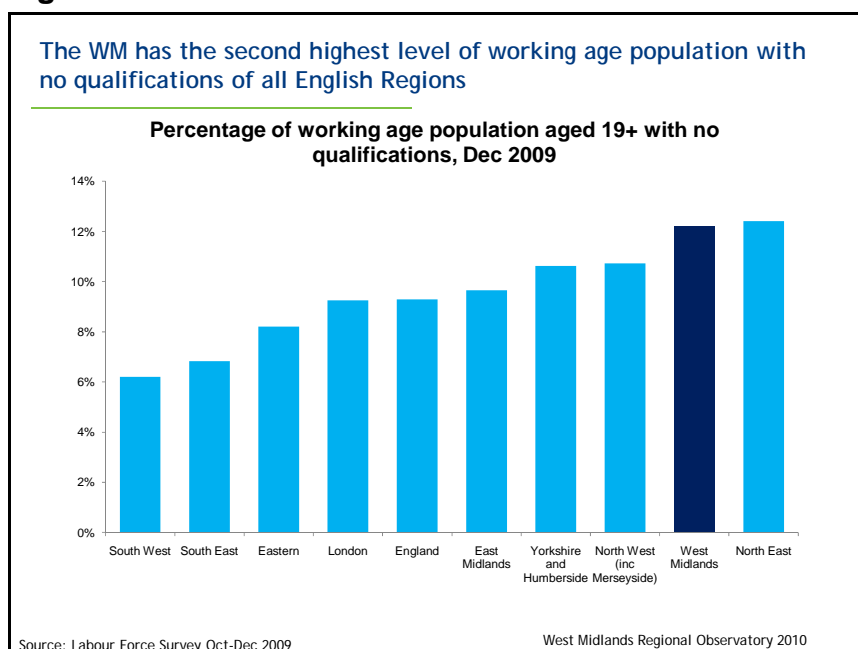
**Figure 7.1**



**Figure 7.2**

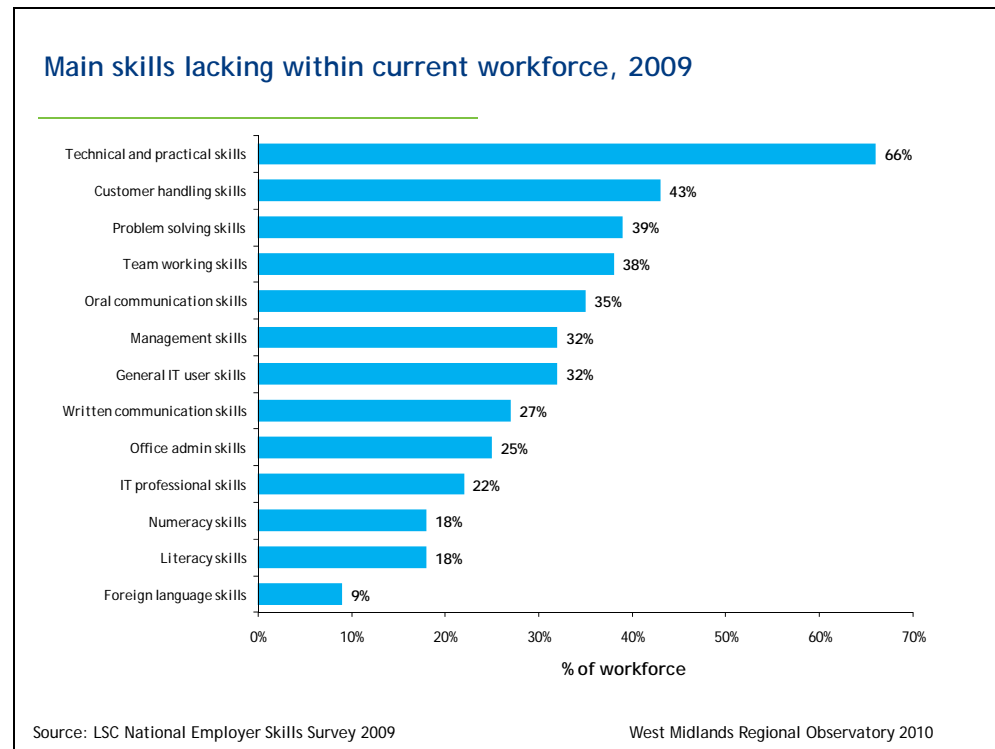


**Figure 7.3**

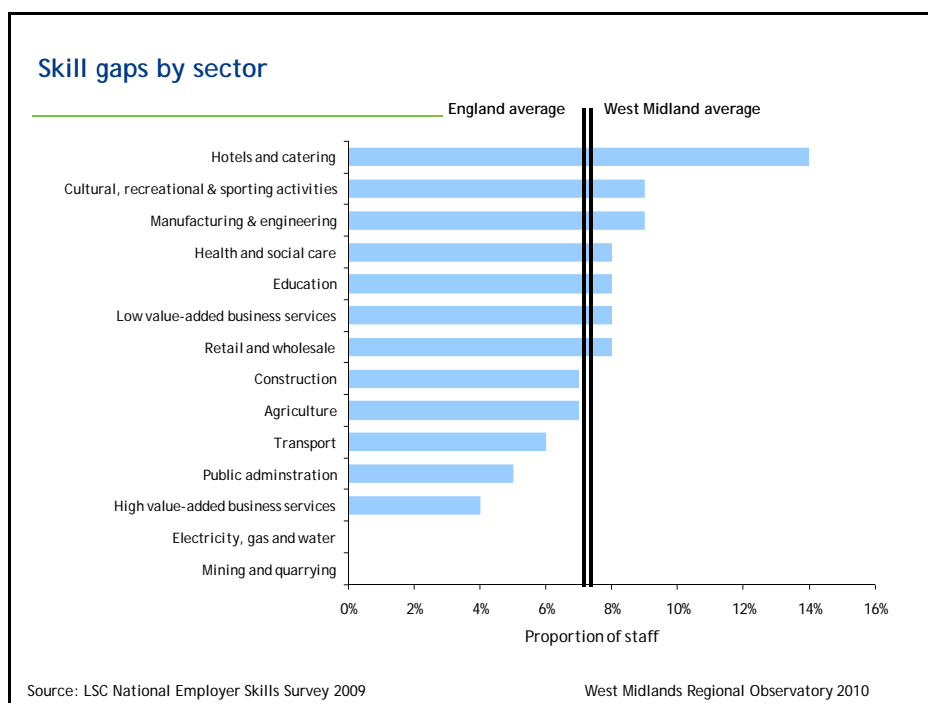




**Figure 7.4a**

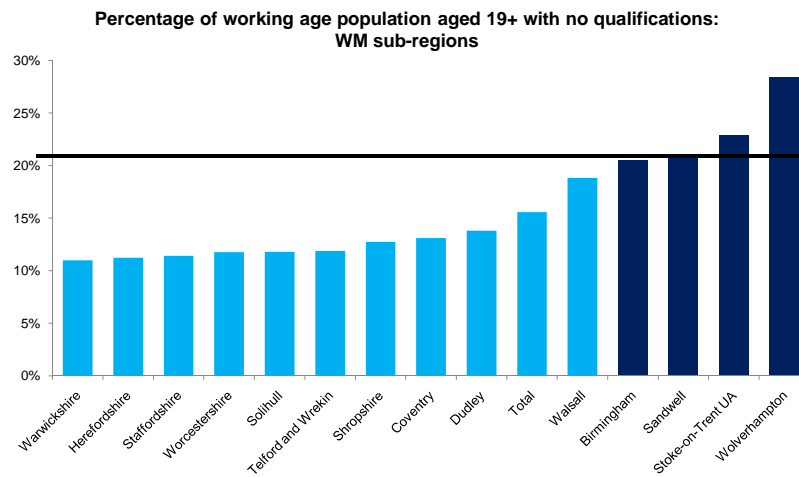


**Figure 7.4b**



**Figure 7.5**

In four areas in the WM, over a fifth of the working age population has no formal qualification

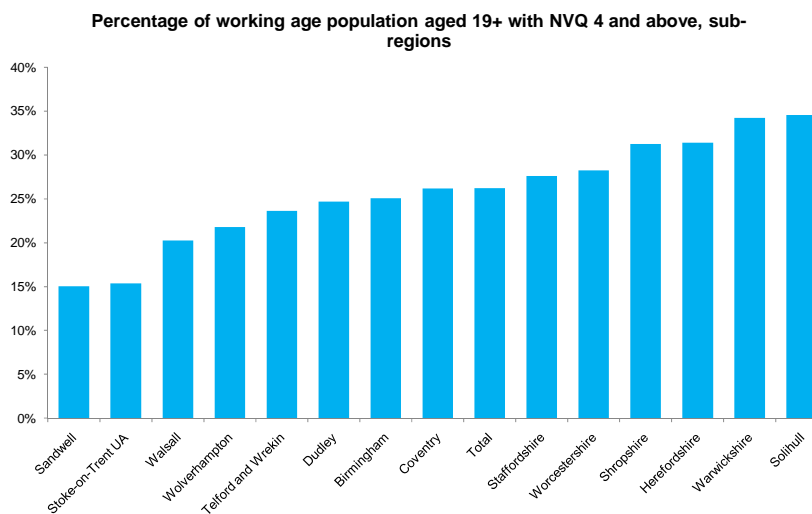


Source: January-December 2008 Annual Population Survey

West Midlands Regional Observatory 2010

**Figure 7.6**

Skills levels show a high degree of similarity with productivity distribution across the region



Source: January-December 2008 Annual Population Survey

West Midlands Regional Observatory 2010

Figure 7.7

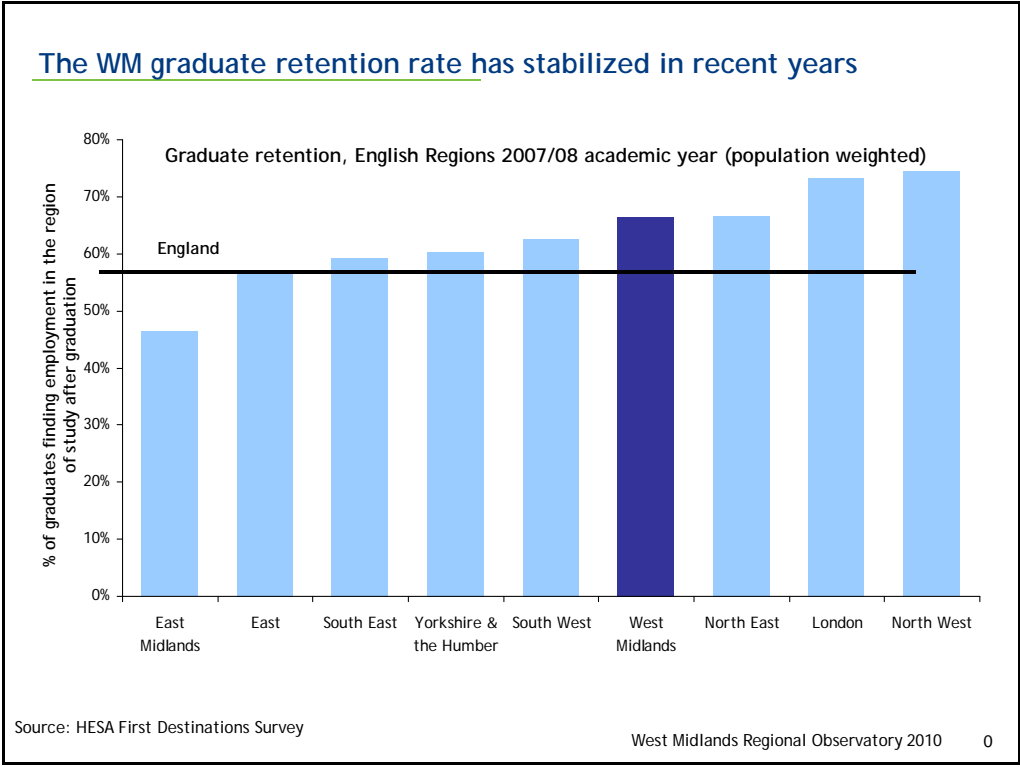
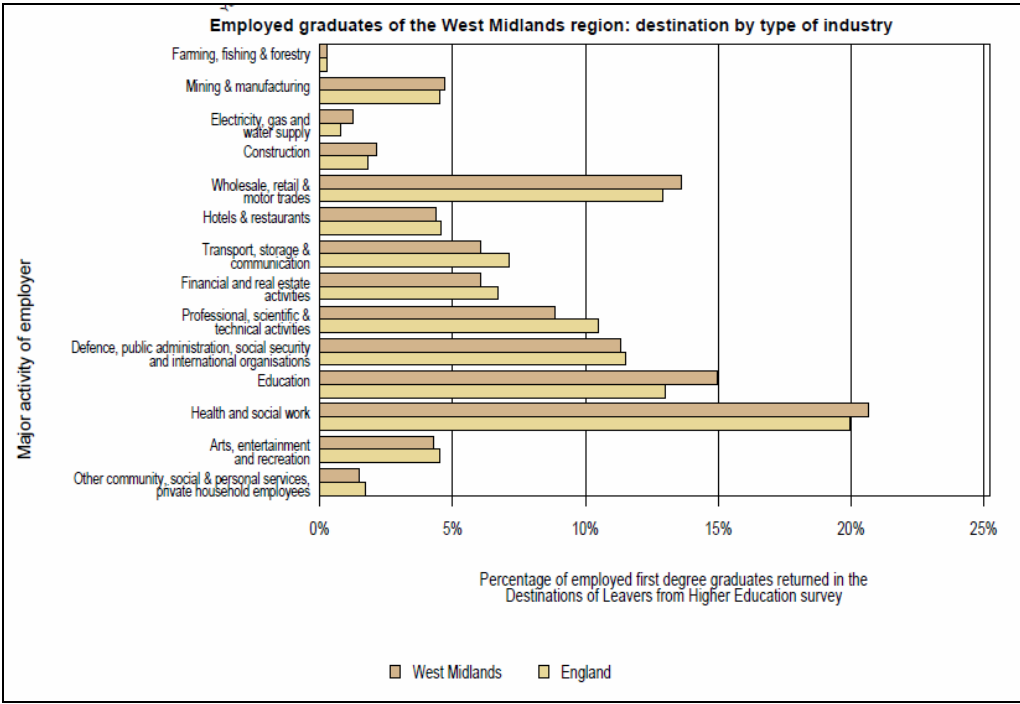


Figure 7.8



Source: HEFCE 2007-08 Regional profiles West Midlands

Figure 7.9

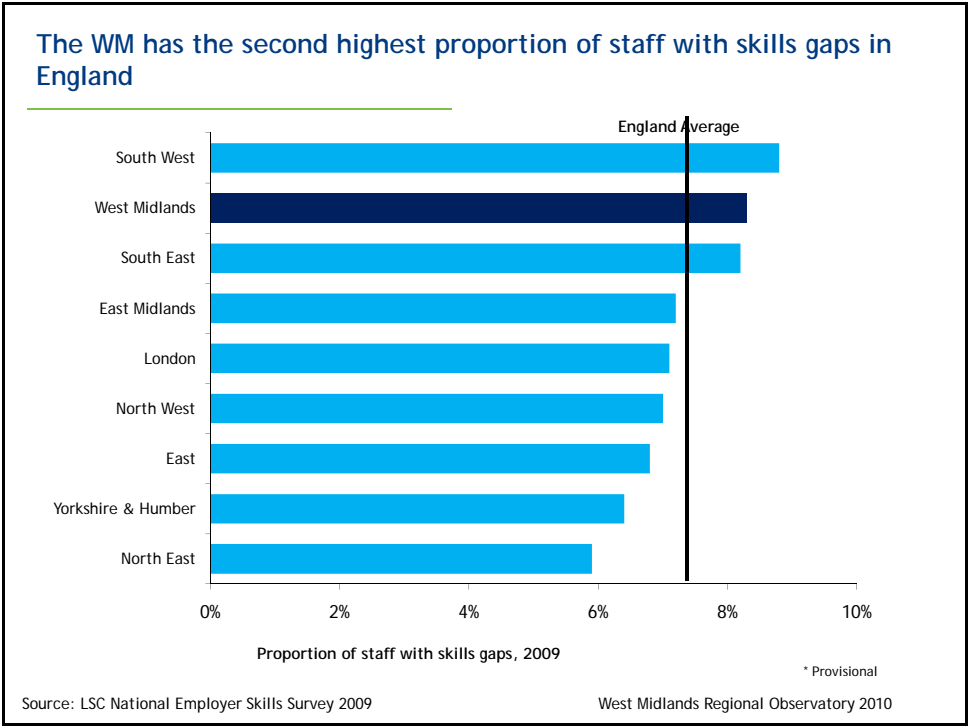
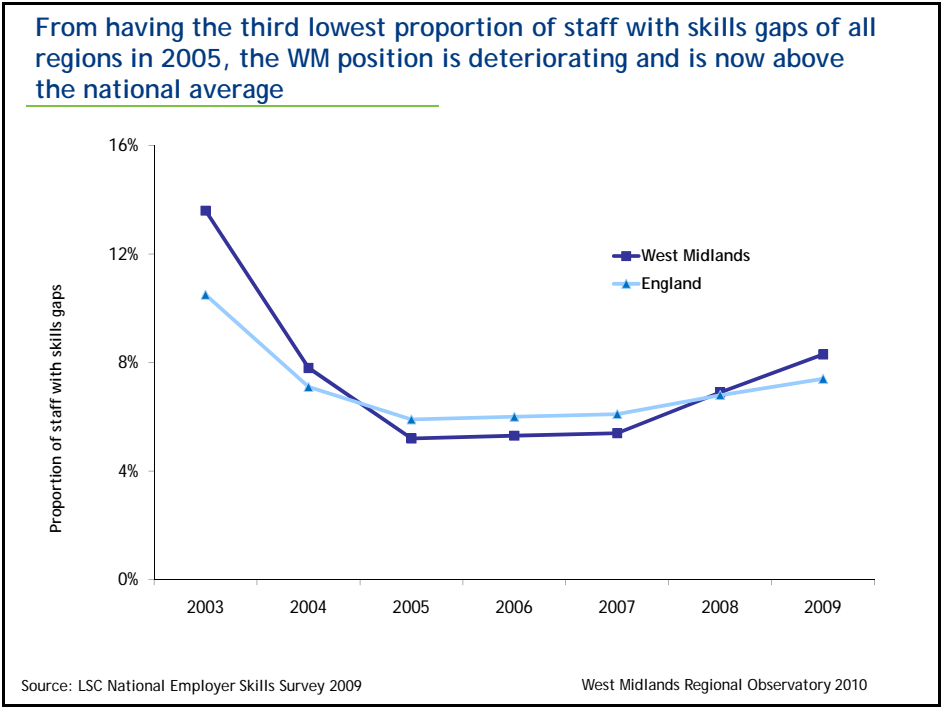
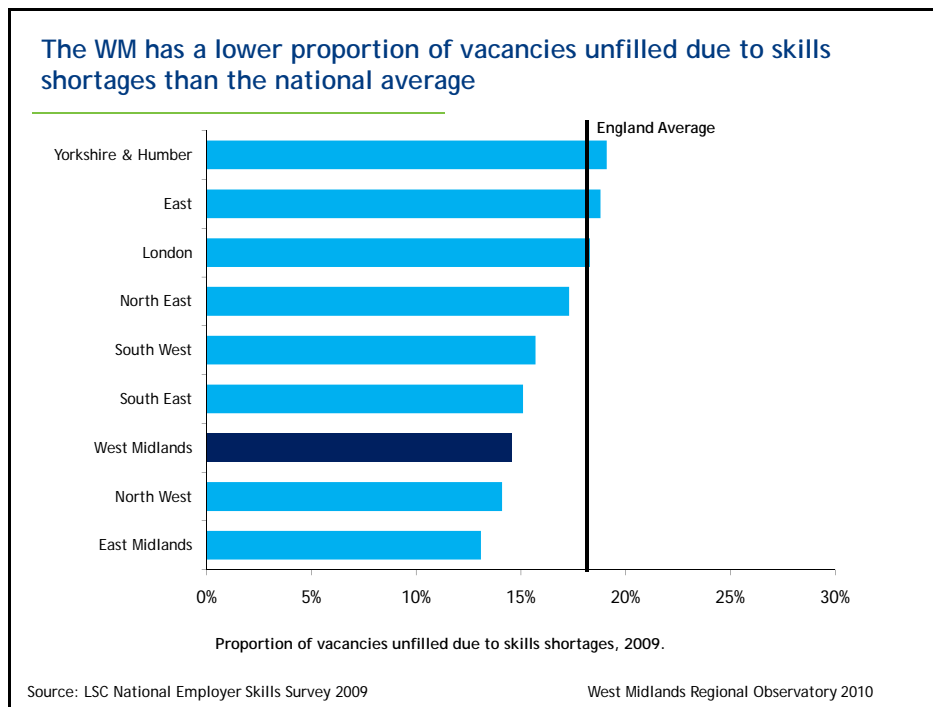


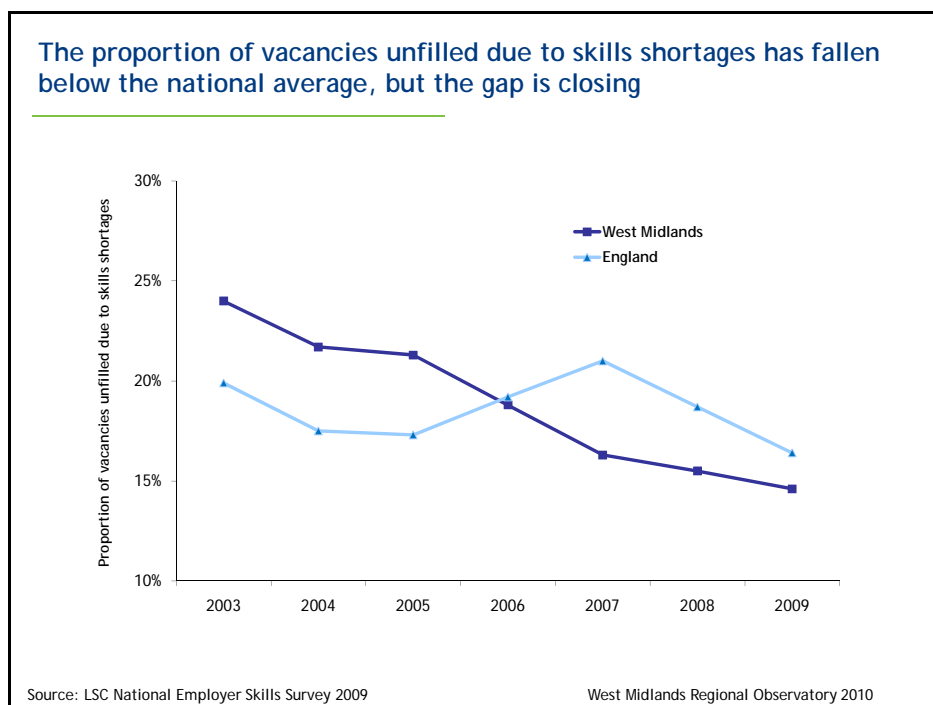
Figure 7.10



**Figure 7.11**



**Figure 7.12**



## 2.8 Environment and Attractiveness

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### 8.1.1 Climate Change

#### ***Greenhouse Gas Emissions***

Carbon dioxide, methane and nitrous oxide are the most important greenhouse gases related to human activity. In 2007, the West Midlands emitted 44 Mt of Carbon Dioxide (CO<sub>2</sub>). This figure was the sixth highest level of CO<sub>2</sub> emissions of the English regions in 2007.

In the West Midlands, the industrial and commercial sector makes the highest contribution to the region's CO<sub>2</sub> emissions (40.7 per cent). The domestic sector contributes 28.3 per cent of the region's emissions. Finally, road and transport is responsible for 30.2 per cent of the CO<sub>2</sub> emissions in the region.

In comparison with last year, the West Midlands reduced its CO<sub>2</sub> emissions by 1.5 per cent. In addition, the two main sectors (industrial and commercial and domestic) achieved a slight reduction on their emissions. The road transport sector on the other hand, increased its level of emissions.

To be in line with the national target for tackling climate change - a 60% reduction in emissions by 2050 – the total consumption needs to reduce to approximately 33 Mt by 2020 and to 17 Mt by 2050.

#### ***Renewable Energy***

In 2008 the West Midlands generated 697 GWh of electricity from renewable sources. This is the fourth lowest across the English regions. The lack of a coastline represents a clear disadvantage for the region making the generation of electricity from offshore wind farms and wave sources impossible.

The East of England is the region with the highest electricity generation from renewable sources (2164 GWh) while London is at the other end of the scale with only 384 GWh of electricity produced from renewable sources.

In the West Midlands the majority of the electricity produced through renewable energy comes from other biofuels and waste (61 percent) and from landfill gases (38 percent).

#### ***Energy Consumption***

Energy consumption in the West Midlands fell between 2003 and 2007 from 155,993 GWh to 148,755 GWh. In 2007, the West Midlands had the 4th lowest energy consumption level of the English regions. The South East had the highest level (232,796 GWh) and the North East had the lowest one (74,643 GWh).

For the West Midlands, the consumption of energy per person fell from 29.4 MWh in 2003 to 27.6 MWh in 2007. London was the best performing region with 20.6 MWh per person of energy consumption and Yorkshire and the Humber was the worst performing region with 31.8 MWh per person of energy consumed.

The balance of consumption between sectors in 2007 was relatively even. Domestic consumption was the lowest at 32.8% of total consumption with Industry & Commercial using 33.6% and Transport 33.7%.

## **8.1.2 Natural Resources**

### ***Waste***

Total municipal waste arisings in the West Midlands have reduced in recent years from a peak in 2004/05. In 2008/09 2.87 million tonnes of waste were generated in the region. In 2004/05 it had reached 3.12 million tonnes. In 2008/09 the region's municipal waste represented 10.5% of the total waste arisings for England - this was a slight increase from the 10.3% of 2000/01.

33% of the region's municipal waste went to landfill in 2008/09 - a significant reduction from the 58% in 2000/01. The proportion of waste sent to landfill is well below the national average in 2008/09 (50%). Over the same period the amount of waste sent for recycling or composting has risen from 9.1% to 36.6%. The region's recycling rate is slightly lower than the England average (37.7%).

The introduction of the Landfill Directive has significantly affected the way in which hazardous waste can be disposed of as it has banned the co-disposal of hazardous wastes with other wastes. This is likely to have cost implications for industry and also waste transfer within the region.

### ***Previously Developed Land***

In 2008/09 87.2% of housing completions in the West Midlands were on previously developed land. This is well above the stated aim of the Regional

Spatial Strategy which set a target of 70% of new houses to be built on previously developed land.

The amount of previously developed land that is vacant and derelict has fallen steadily in the West Midlands from 4,380 hectares in 2002 to 3,490 hectares in 2007. The West Midlands had the highest proportion among regions of previously-developed land available for redevelopment in 2006 that was developed by 2007, at 8%.

This suggests that the policy emphasis on the re-use of previously developed land is bearing fruit.

### ***Ecological Footprint***

The West Midlands total ecological footprint - an aggregate indicator of environmental impact - is 5.36 global hectares per capita. This is roughly equivalent to the national average (source: West Midlands Counting Consumption (WWF 2006) The West Midlands' total ecological footprint has not been recalculated since this first report was produced.

### **8.1.3 Transport**

The West Midlands has one of the higher proportions of people travelling to work by car of the English regions, with 76% of commuters travelling by car in 2008. This was a slight fall from 78% in 2004. At the same time the region has one of the higher rates of bus use for travel to work with 13% of commuters using the bus. Overall public transport modal share has increased since 2000

### **8.1.4 Air**

Within the West Midlands, 17 local authorities have designated Air Quality Management Areas (AQMAs) and established a number of Air Quality Action Plans (AQAPs) which detail the strategies that will be used to bring air quality to levels back within acceptable limits. Nitrogen dioxide (NO<sub>2</sub>) from traffic is the main reason for failure of standards in this region.

The number of days in which air pollution levels were recorded as being moderate or high was below the national average although air quality has shown a slight downward trend in the last couple of years.

Pollution was moderate or higher on 36 days in Birmingham centre, 30 days in Wolverhampton, 68 days in Stoke-on-Trent, and 55 days in Leamington in 2006.



### **8.1.5 Biodiversity, Flora & Fauna, & Nature Conservation**

The West Midlands has a rich wildlife resource and has a range of sites designated for their biodiversity value. Many of the designations fall within both international and national designations.

The West Midlands currently has a number of sites that are designated for national or international protection including:

- 19 Special Areas of Conservation (SAC);
- 1 Special Protection Areas (SPA);
- 16 National Nature Reserves (NNR);
- 129 Local Nature Reserves (LNR);
- 1 National Park;
- 5 Areas of Outstanding Natural Beauty (AONBs);
- 441 Sites of Special Scientific Interest (SSSI), covering an area of 26,000 hectares; this is the smallest area of SSSI land in any government region except London.

Despite the rich wildlife resource, biodiversity in the region has been very much reduced and is under continuing threat.

### **8.1.6 Landscape**

The West Midlands has a wide ranging landscape with numerous designations. The Region has one of England's fourteen World Heritage sites: Ironbridge Gorge, Shropshire which was designated in 1986. One of the twelve sites in England on the UK Government's tentative list is in the West Midlands: Shakespeare's Stratford. The Spatial Strategy for the West Midlands (2006) states that the Green Belt is to be retained, but that an adjustment of the boundaries should be considered where this is necessary to support urban regeneration. Since 1997 there have been 27 developments permitted in the West Midlands Green Belt area.

### **8.1.7 Cultural Heritage**

In 2005 the West Midlands had 34,307 entries on the List of Buildings of Special Architectural or Historic Interest which was 9.2% of the national total. 5.2% of Grade I and II\* listed buildings in the region were considered to be 'at Risk' in 2002 which was significantly above the national average of 3.7% even though it had fallen from 5.8% in the base year of 1999 and from 5.4% in 2001.

In addition to listed buildings the West Midlands had 1,426 scheduled monuments in 2005, a little below the average for a typical region (2,204) and has a total of 761 conservation areas, which again is below the average

number of conservation areas for English Regions (1003 in 2001/2). Recent 2008 data shows a decline in the number of buildings at risk, although the Region performs poorly against the national average, whilst new data on scheduled monuments and other designated assets indicates that other historic environment resources are at risk.

### **8.1.8 Health and Society**

#### ***Life Expectancy***

Over the last 100 years the life expectancy in the region has been increasing and currently stands at 76 for men and 82 for females. This increased life expectancy has increased at a similar pace to the national increase although it lags slightly behind the national average of 81 for men and 84 for women. It is likely that the population will gradually become older with less and less young people and people of all ages in the labour market.

#### ***Illness and Mortality***

The 2001 census put the number of people in the region of working age who have a limiting long term illness at 14.2% (993,458 people) which represents 1 in 8 people. The number of people with long-term illness has increased in the West Midlands between 1991 and 2001 by 39%. Less than half of this increase can be simply explained by the ageing population; in 1991 there were 339,000 people aged 75 and over. By 2001 this had increased by only 15% to 390,000.

There is considerable variation in levels of illness across the region; In Stoke-on-Trent, which has the highest rate, no less than 24% or nearly one in four of its population has a limiting long-term illness and nearly 20% of those of working age also have a limiting long-term illness. Stratford-on-Avon and Warwick have the lowest proportion, but still there are 15.4% of their population suffering from a limiting long-term illness. The increase from 1991 varies from 25% in Warwick to 61% in Tamworth.

The highest rates are found in two areas, Stoke and North Staffordshire and Sandwell, Wolverhampton and Walsall. The lowest rates are found in Solihull, Warwickshire and Worcestershire. The health of the region shows some interesting rural/urban contrasts. Rural areas have lower than regional mortality rates for some diseases and cancers, but higher than regional rates for accidents and suicide.

Remoteness and isolation, in addition to the economic downturn, bring significant stress to the rural population.

Cancer and circulatory diseases are the most common causes of mortality in England and Wales and rates of these diseases for the West Midlands are slightly above the England comparator although there has been a general decrease since 1996-8.

In terms of lifestyle that has an impact on health smoking rates in the region are noticeably lower than the average rates for England. Within the region smoking rates are highest in Birmingham Health Authority and lowest in Shropshire Health Authority. Obesity rates and alcohol consumption are all below the national average although rates of exercise are relatively low.

### ***Housing***

Average household size (2.41 people) is slightly more than the England average (2.36 people) and the type of housing in the region broadly follows that of the rest of the country with the exception that there are more semi-detached properties and flats.

The proportion of houses being classed as being in a 'poor condition', i.e. below the statutory minimum standards for housing in the private sector is 37.4%, slightly higher than the national figure of 31.9%.

### ***Crime***

Compared with the rest of England and Wales the level of recorded crime in the Region was equivalent to the average per 1,000 population. However, certain types of crime such as violence against a person is more prevalent the region having the second highest rate of violence against the person in the English Regions and Wales. Rates of other recorded crime types (robbery, theft, vehicle theft, criminal damage and drug offences) were similar to the national average.

### ***Accidents***

The number of people killed or seriously injured (KSI) in road accidents in the West Midlands has seen a year on year improvement between 2000 and 2004. In 2004, the total killed or seriously injured was 2,851 people. This represents a decrease in KSI of 40.1% from the 1994-1998 average and a 4.5% decrease from 2003. This reduction is well above the England figures which have improved by 27%. In terms of the figures for pedestrians, cyclists and motorcyclists (deaths and serious injuries) the regional average number of incidents is lower than the England average for cyclists and motorcyclists but slightly higher for accidents involving pedestrians.

## ***Light and Noise***

Recent satellite data obtained by CPRE shows how much night time light is beaming upwards from each square kilometre of the West Midlands. The data shows that light pollution is both a major problem and one that is growing. Warwickshire, West Midlands Met and Staffordshire are all now without truly dark night time skies. Light pollution is rapidly spreading in the region. In terms of noise there are no regional data; however on the national level more people are reporting that they are becoming affected by noise with 50% of those surveyed (1999) hearing road traffic noise (with 30% being affected by it), 43% hearing aircraft noise and 38% hearing neighbours. Two thirds of those who heard neighbours were affected by it whereas 14 per cent of those who had heard noise from agriculture were affected by it and of those who had heard noise from railways a quarter were affected by it. Despite the lack of data specifically for the West Midlands, it is likely that the situation is similar.

### **8.1.9 Soil**

Approximately 80% of the land in the West Midlands is in agricultural use with the vast majority of land (48%) being of Grade 3 quality (MAFF Agricultural land classification scheme).

### **8.1.10 Water**

Water quality in the region has improved over the last 15 years (achieving 91% of its improvement targets set since 1990). In 2008 57.1% of the region's rivers were classed as being of 'good' biological water quality. This compares poorly with the England average of 72.0% and represents a decline 3.3% from 1990.

The region is supplied with drinking water from three companies; Severn Trent, South Staffordshire and Welsh Water. Under the Ofwat 'headroom index', an index that assesses water resource availability and leakage issues, Severn Trent is in band C (significant deficit against target headroom), South Staffordshire in band A (no deficit against target headroom in any resource zone) and Welsh Water in band B (marginal deficit against target headroom). Severn Trent moved down one band since 2001/2, Welsh Water moved up one band and South Staffordshire did not move.

### **8.1.11 Flooding**

Around 6% of land in the West Midlands has a 1% chance of flooding in any one year. Around 94,000 properties in the region are at risk from flooding -

approximately 4% of properties. Nearly 83% of these properties (~78,000) are residential properties; around 17% (~16,000) are commercial properties.

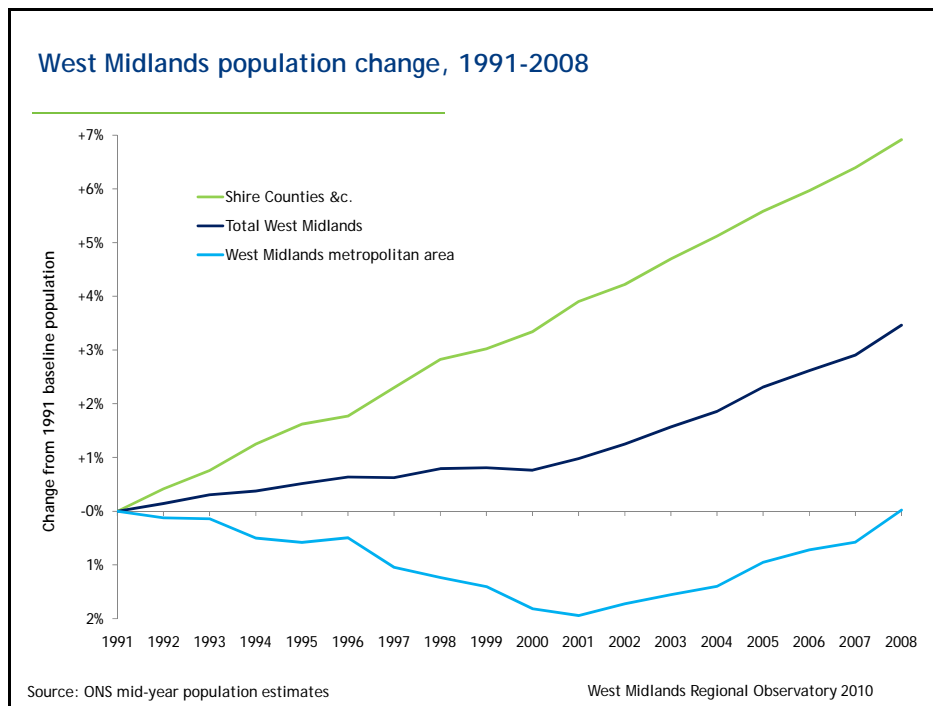
## 2.9 Rural

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**Table 9.1**

<b>Population Change in the West Midlands 1991-2008</b>						
	1991	2001	2002	2003	2004	Mid-2008
Birmingham	1,004,500	984,600	989,900	992,100	992,400	1,016,800
Coventry	303,900	302,800	304,000	305,000	304,200	3,09,800
Dudley	307,700	305,100	305,400	304,800	304,500	306,500
Sandwell	292,600	284,600	284,700	285,000	285,800	289,100
Solihull	200,400	199,600	200,100	200,300	204,400	205,500
Walsall	261,300	253,300	252,800	252,400	252,800	255,400
Wolverhampton	248,500	238,000	239,200	238,900	239,100	236,400
West Midlands Met Area	2,618,900	2,568,000	2,576,100	2,578,500	2,579,200	2,309,700
Herefordshire	160,400	174,900	175,900	176,900	177,800	179,300
Shropshire	268,700	283,300	285,400	286,700	288,000	292,800
Telford & Wrekin	141,300	158,600	160,000	160,300	161,000	162,100
Staffordshire	791,600	807,200	808,700	811,000	812,600	828,900
Stoke on Trent	249,400	240,400	239,000	238,000	238,000	240,100
Warwickshire	487,100	506,200	513,300	519,300	525,500	530,700
Worcestershire	512,400	542,200	545,700	549,300	552,100	557,600
West Midlands Region	5,229,700	5,280,700	5,304,100	5,319,900	5,334,000	5,411,100

**Figure 9.1**



**Table 9.2 Rural Development Programme Funds by County 2000-2006**

County	Amount
Herefordshire	£5,946,923
Worcestershire	£3,789,246
Warwickshire	£2,619,782
Staffordshire	£3,846,867
West Midlands	£226,703
Shropshire	£4,997,331
Every County	£76,728
<b>Total</b>	<b>£21,503,580</b>

## 2.10 Urban

**Table 10.1. Most deprived Super Output Areas by Local Authority Area 2007**

Districts	Total number of SOAs in District/ Region	No of Urban SOAs	No. of SOAs in England's most deprived10 %	% of SOAs in England's most deprived10 %
Birmingham	641	641	254	40%
Coventry	197	197	33	17%
Dudley	202	202	19	9%
East Staffordshire	70	51	2	3%
Herefordshire, County of	116	54	1	1%
Newcastle-under-Lyme	81	67	3	4%
Nuneaton and Bedworth	82	81	6	7%
Redditch	55	54	2	4%
Sandwell	187	187	55	29%
Shrewsbury and Atcham	61	43	1	2%
Solihull	133	121	10	8%
Stoke-on-Trent	160	160	53	33%
Tamworth	50	50	1	2%
Telford and Wrekin	108	101	6	6%
Walsall	169	168	33	20%
Wolverhampton	158	158	37	23%
Worcester	61	61	3	5%
Wyre Forest	65	50	2	3%
<b>REGION</b>	<b>2596</b>	<b>2446</b>	<b>521</b>	<b>20%</b>



**Table 10.2. Job Losses UK Councils 2004-2008**

Rank	Local Authority	Manuf. Empl 2004	Manuf. Empl 2008	Losses
1	<b>Birmingham</b>	<b>64,807</b>	<b>48,646</b>	<b>-16,161</b>
2	Cheshire East	31,236	22,193	-9,043
3	Leeds	43,109	36,015	-7,094
4	County Durham	33,517	27,419	-6,098
5	<b>Stoke-on-Trent</b>	<b>22,512</b>	<b>16,880</b>	<b>-5,632</b>
6	Kingston upon Hull, City of	25,432	19,813	-5,619
7	<b>Walsall</b>	<b>23,698</b>	<b>18,274</b>	<b>-5,424</b>
8	Rhondda, Cynon, Taff	18,297	12,958	-5,339
9	Oldham	16,764	11,792	-4,972
10	Fife	21,067	16,332	-4,735
11	<b>Coventry</b>	<b>22,843</b>	<b>18,212</b>	<b>-4,631</b>
12	Cheshire West & Chester	19,352	14,901	-4,451
13	Edinburgh, City of	14,285	10,108	-4,177
14	Tameside	17,199	13,224	-3,975
15	Kirklees	34,247	30,292	-3,955
16	Bradford	33,036	29,102	-3,934
17	<b>Telford and Wrekin</b>	<b>18,780</b>	<b>15,087</b>	<b>-3,693</b>
18	Sheffield	30,801	27,134	-3,667
19	Doncaster	14,516	10,969	-3,547
20	South Gloucestershire	20,934	17,448	-3,486
21	Southwark	11,696	8,212	-3,484
22	Manchester	16,794	13,330	-3,464

**Table 10.3: Wards with JSA Claimant Rate Twice or more the regional average (April 2010)**

			% of working age population claiming Jobseekers Allowance (%)
		Rank/rate in May 2006*	Apr 2010
<b>England</b>		-	<b>4.1</b>
<b>West Midlands</b>		<b>3.3</b>	<b>5.2</b>
1. Birmingham	Aston	1 (12.7)	13.1
2. Walsall	St. Matthew's	10 (8.8)	13.0
3. Sandwell	Soho and Victoria	8 (9.8)	12.3
4. Birmingham	Sparkbrook	2 (11.8)	12.2
5. Birmingham	Washwood Heath	5 (10.9)	12.1
6. Wolverhampton	Heath Town	9 (9.5)	12.0
7. Birmingham	Handsworth	6 (10.3)	11.4
8. Birmingham	Soho	4 (10.9)	11.2
9. Wolverhampton	St. Peter's	11 (8.8)	11.1
10. Wolverhampton	Bilston East	19 (7.4)	10.9
11. Birmingham	Stockland Green	22 (7.3)	10.7
12. Birmingham	Chelmsley Wood	-	10.7
13. Solihull	Fordbridge	-	10.7
14. Wolverhampton	East Park	-	10.7
15. Birmingham	Nechells	7 (9.9)	10.6
16. Sandwell	Princes End	24 (7.1)	10.6
17. Birmingham	Shard End	28 (6.8)	10.5
18. Wolverhampton	Ettingshall	14 (7.7)	10.5
19. Wolverhampton	Low Hill	20 (7.4)	10.5
20. Birmingham	Ladywood	3 (11.0)	10.3
21. Walsall	Birchills Leamore	-	10.3
22. Birmingham	Kingstanding	21 (7.3)	10.0
23. Wolverhampton	Blakenall	30 (6.8)	10.0

*\*Unemployment rates, May 2006, in wards with unemployment rate over twice regional level*

*Source: ONS Claimant Count, Nomis. West Midlands Regional Observatory*

**Selected additional wards which in 2006 had unemployment rates of more than twice the regional average**

24	Graiseley	25 (6.3)	9.8
25	West Bromwich Central	12 (5.6)	9.7
29	Smethwick	25 (6.5)	9.4
30	Foleshill	18(6.2)	9.2
33	Small Heath	15 (6.7)	9.1
34	Sparkhill	16 (6.8)	9.1
43	Netherton and Woodside	23 (5.5)	8.8
55	Kingsbury	27 (4.9)	8.2

**Table 10.4 Rate of New Firm Formation**

<b>New Firm Formation within the West Midlands 2008</b>	
<i>High Firm Formation, 45-60 registrations/10,000 Above English rate</i>	<i>Low Firm Formation, Less than 30 registrations /10,000 Below West Midlands rate</i>
<b>Stratford-on-Avon (62)</b> <b>Warwick (59)</b> Rugby (55) Bromsgrove ( 51) <b>Malvern Hills (50)</b> <b>Lichfield (46)</b> <b>Wychavon (46)</b>	<b>Newcastle-under-Lyme (30)</b> <b>Walsall (30)</b> <b>Stoke-on-Trent (30)</b> Telford and Wrekin (31) <b>Sandwell (32)</b> <b>Nuneaton and Bedworth (33)</b> Tamworth (34) <b>Wolverhampton (34)</b> Staffordshire Moorlands (36) Dudley (36) Birmingham (36) Worcester (37) South Staffordshire (38) <b>Coventry (38)</b>

*Source: Business Demography Statistics; NOMIS mid-year population estimates.*

**Table 10.5. Qualifications of W. Midlands working population by sub-region, 2008**

	NVQ Level 4 and above	NVQ Level 3	NVQ Level 2	Below NVQ Level 2	No qualifications
Birmingham & Solihull	26.6%	17.6%	18.7%	18.1%	19.1%
Coventry & Warwickshire	31.2%	20.1%	19.6%	17.2%	11.8%
The Black Country	20.4%	17.2%	22.2%	20.1%	20.1%
Herefordshire & Worcestershire	29.0%	20.4%	22.4%	16.6%	11.6%
Shropshire CC	28.4%	17.9%	20.9%	20.4%	12.4%
Staffordshire CC	24.8%	20.9%	20.7%	19.6%	14.0%

*Source: ONS*

# Annex B – Equality Impact Assessment Screening

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The screening of policy, strategy, process, project or function should be undertaken at an early stage as policy or legislative proposal is being developed. Information provided should be based on existing research and statistics studies.

## 1. Name of Policy

Regional Competitiveness and Employment Objective: West Midlands European Regional Development Fund Operational Programme 2007-13

This is:

- ☐ New Policy
- ☐ A change to existing policy
- ☐ Existing policy
- ☒ A pilot or programme

## 2. Screening undertaken by:

Director or Divisional Manager

Mark Foley,  
Deputy Director, Economic and Organisational Development Directorate,  
Government Office for the West Midlands  
Richard Corfield,  
Equality of Opportunity Horizontal Theme Manager,  
Government Office for the West Midlands  
Carmel Kerr,  
Equality & Diversity Director,  
West Midlands Regional Assembly.

Policy Writer / Lead

Other people involved in the screening

Anna Vinsen, European Programmes Policy Officer, Advantage West Midlands

West Midlands Regional Strategic Partnership for Equality & Diversity – Annex A refers

## 3. Brief description of policy

### Executive Summary

This document outlines the structure of the West Midlands ERDF Operational Programme

2007-13 with particular emphasis on the National Strategic Reference Framework for England covering the West Midlands, and the subsequent priorities which have been highlighted for the region.

It also looks briefly at the Partnership Arrangements Framework for the Programme and its relationship with the European Social Fund. In order to ensure that both equalities and sustainability remain key driving factors alongside economic growth through competitiveness and employment, the Programme's work will have the added strategic overview and support from the West Midlands Regional Assembly's Regional Strategic Partnership for Equality and Diversity, which includes members from Government Office for the West Midlands and Advantage West Midlands – Annex A refers. The work of the Programme will also be co-ordinated with that of the new Commission for Equality and Human Rights which is due to have a regional presence in late 2007.

This document does not address the methodology, processes or administration of the Programme in any depth as this is outlined in the Programme application. It simply acts as a first level Equality Impact Assessment of the Programme as required by UK Government to ensure that these key issues are being addressed and that procedures are in place to address these issues during the life of the Programme.

### 3.1 Background

The vision for the West Midlands ERDF Operational Programme is to boost the productivity of businesses and reduce inequalities by ensuring that everyone has the opportunity to contribute to and benefit from the region's economic growth.

Assessing new policies for race equality and disability are currently legal requirements - the gender duty will be statutory from April 2007. It is considered good practice to assess not only new policies but also processes, programmes and services that are provided by public authorities, and to include age, sexual orientation, transgender and religion/belief. Equality duties require that public authorities:

- Eliminate Discrimination and Harassment
- Tackle disadvantage
- Promote equality of opportunity
- Promote good relations between different racial groups
- Promote positive attitudes towards disabled people
- Increase the participation of disabled people and other under-represented groups in civic and community life.

Article 16 of the Structural Funds Regulation 1083/2006 provides a key context, laying down general provisions for the funds, and with particular regard to the promotion of equality:

*“The Member States and the Commission shall ensure that equality between men and women and the integration of the gender perspective is promoted during the various stages of implementation of the Funds. The Member states and the Commission shall take appropriate steps to prevent any discrimination based on sex, racial or ethnic origin, religion or belief, disability, age or sexual orientation during the various stages of implementation of the Funds and, in particular, in the access to them. In particular, accessibility for disabled persons shall be one of the criteria to be observed in designing operations co-financed by the Funds and to be taken into account during the various*

*stages of implementation.”*

This Equality Impact Assessment Screening has been made against relevant and available chapters of the West Midlands ERDF Operational Programme 2007-2013, principally those chapters relating to the strategy of the Programme and cross-cutting themes.

## **4. Partnership Arrangements Framework**

### **4.1 Introduction**

The National Strategic Reference Framework (NSRF) is a requirement of the new European Commission Regulations for the Structural and Cohesion Funds for 2007 – 2013 and establishes the broad priorities for future Structural Funds Programmes in the UK.

Within the draft NSRF, which formed part of the consultation process on future Structural Funds programmes in the UK, the Government made proposals for the administrative arrangements for the funds. Within England these proposals included an increased role for the Regional Development Agencies (RDAs) and alignment of European Regional Development Funds (ERDF) directly with domestic funding through common management arrangements, providing a more coordinated approach to regional investment.

In October 2006, the Government announced that RDAs will take a lead role in delivering regional ERDF programmes, working in partnership with local stakeholders, taking on the day to day strategic management and delivery of ERDF as an Intermediate Body, with Government retaining the formal legal status of Managing Authority. As a result, Advantage West Midlands (AWM - the RDA for the West Midlands) is the organisation responsible for management and administration of the ERDF funding allocated under the Regional Competitiveness and Employment Objective (RCE) in the region for the period 2007–13. The Government Office for the West Midlands (GOWM) continues to retain responsibility for completion of the Objective 2 programme (2000–06). The European Social Fund (ESF) will continue to be managed on a national basis.

The West Midlands Operational Programme (OP) has been developed in full alignment with the West Midlands Economic Strategy (WMES) and Regional Spatial Strategy (RSS), which themselves have been developed through extensive consultation. Other influences include an analysis of the West Midlands' challenges, needs, strengths and weaknesses; policy frameworks and drivers set down in the European Commission's Community Strategic Guidelines, and the UK's National Strategic Reference Framework. Although the Impact Assessment is a requirement of the UK Government, the OP recognises the European Social Agenda 2005-2010, which was launched as a pillar of the Lisbon Growth and Jobs strategy. The Agenda has a key role in promoting the social dimension of economic growth and a focus on poverty, discrimination, inequality and fostering equal opportunities between women and men.

A public 12-week consultation on the OP was completed on 12<sup>th</sup> March 2007, the outcome of which will need to be compatible with the Communities and Local Government department framework which defines the programme management arrangements and implementing provisions.

### **4.2 Programme Monitoring Committee**

The West Midlands ERDF Programme will be overseen by **Programme Monitoring Committee** (PMC). This will be composed of senior representatives of the bodies of the regional partnership. The membership will reflect the sub regional and sectoral interests in the programme, and the increased emphasis on innovation and the knowledge economy.

The PMC will be responsible for ensuring the Programme's overall strategic direction; driving it forward so that it meets agreed targets; and redirecting the work of the

Programme as and when necessary over its 7-year life. The PMC will also fulfil a number of formal duties set by the European Commission and the Regulations.

### **4.3 Priority Working Groups**

Three Priority Working Groups will be established to reflect the three major priority axes.

- o Group 1: Promoting Innovation and Research & Development;
- o Group 2: Stimulating Enterprise Development; and
- o Group 3: Achieving Sustainable Urban Development.

The role of the Priority Working Groups will be to ensure:

- The requirements of the programme and indicative actions described in the Operational Programme Document are effectively converted into robust proposals in the form of Action Plans, Packages and projects; and
- That the most suitable proposals are selected and recommended for approval by the Investment Decision Group or PMC where necessary.

### **4.4 Sub-Regional Groups**

**Five Sub-Regional Groups** will provide overall support and assistance to the Programme. They will contribute to the development of project proposals where required; they will act as a two-way communication channel between the PMC and many of the regional and local partners, and they will help to monitor and evaluate the Programme's progress and contribute to the Annual Implementation Reports.

### **4.5 Regional Strategic Overview**

The West Midlands Regional Assembly's Regional Strategic Partnership for Equality and Diversity Partnership will fulfil the role of supporting the PMC, and ensuring that equality issues are being addressed within the Programme, as well as sustainability issues, through its role as the Steering Body for the region's Social Capital, Equality and Diversity Programme. It is anticipated that the equalities role will be taken over by the Commission for Equality and Human Rights (CEHR) when it is established regionally at the end of 2007.

### **4.6 Integration between ERDF and ESF**

The Programme is split organisationally with ERDF being managed within the regions and ESF being managed nationally. For the purpose of strategic coherence, it is proposed that the PMC is a combined committee and represents both the ERDF and ESF programmes for the West Midlands region.

### **4.7 Cross Cutting Themes**

Sustainable development and equality will be two cross-cutting themes in the Programme. These dimensions will be integrated within the overall activity of the Programme and reinforced through the screening and monitoring of the Equality Impact Assessment. The cross cutting theme requirements in terms of project selection will be incorporated into the criteria laid down by the PMC and given due consideration in appraisal; Cross cutting theme requirements will be incorporated into the project management documentation, including items such as application and appraisal forms, project monitoring checklists and



progress update pro formas. Officers responsible for these issues will participate in the three Priority Working Groups.

#### **4.8 Next Steps**

These arrangements are designed to reflect the range of interests engaged within this European programme and to ensure the efficient implementation of its main priorities.

### **5. Priorities for the West Midlands**

#### **5.1 Priority 1: Promoting Innovation, Research and Development**

The socio-economic analysis set alongside the EU, national and regional policy context makes it imperative that the Programme develops the innovation potential of the region particularly through knowledge transfer between the region's high class science base and its businesses. That is why the Programme has made Promoting Innovation, Research and Development its first priority with an allocation of €145 million. In terms of innovation, research and development this approach has led the partners to focus on the five clusters which have been identified by the region's Innovation and Technology Council as offering the most potential for the West Midlands to take a lead in new markets, processes or technologies, namely health and medical technologies; energy; digital media and ICT; transport technologies; and advanced materials/nano-technology.

#### **5.2 Priority 2: Stimulating Enterprise Development**

The socio-economic analysis clearly indicates that the West Midlands remains a region in transition, where the legacy of its manufacturing history still weighs heavily. This is why the Programme has made stimulating enterprise development its second major priority with an allocation of €135 million. This is designed to support business creation and diversification into higher-value knowledge based activities and improves access to finance for business investment in order to facilitate this transition. In terms of stimulating overall enterprise development the partners have selected a broader but still concentrated focus with an emphasis on the ten economic clusters identified within the current West Midlands Economic Strategy. Also identified the relatively weak engagement of women in entrepreneurial activity and new firm formation and that the number of ethnic minorities involved in new business activity is below the national average. The partners wish to concentrate an element of enterprise growth activity here in order to address these current shortcomings.

#### **5.3 Priority 3: Achieving Sustainable Urban Development**

The socio-economic analysis repeatedly highlights the sharp concentrations of disadvantage and deprivation within the two major conurbations. Both the general and ward data on unemployment and the generic poverty indicators of the Super Output Areas confirm this picture. That is why the partners believe that this merits a sustainable urban development priority which will address the significant concentrations of economic need and seek to generate major employment opportunities. To encourage enterprise in these areas of greatest need in the region, ensuring that the potential of all individuals is harnessed will act as a major contributor to help the region to achieve its productivity goals. This priority will be allocated approximately €102 million just over one-quarter of the Programme's resources.

#### **5.4 Priority 4: Developing Inter-regional Activity**

The desire to integrate the rural, urban and regional networking experiences of the 2000-2006 EU programmes, for example, Leader, Urban and Equal into the mainstream

Structural Fund programme has led the partners to develop a small inter-regional priority within this RCE programme. This will be allocated €6 million. This will help the West Midlands to learn how other regions across Europe have achieved a step change in productivity improvements and economic cohesion and apply those lessons to policy interventions in the Programme. All parts of the region will be eligible to apply for this priority.

### **5.5 Priority 5: Technical Assistance**

12M€ will be allocated to the technical assistance priority to ensure the smooth management, administration and delivery of the programme.

## **6. Relevance to Equality and Diversity Duties**

- ☒ Race Equality Scheme?
- ☒ Disability Equality Scheme?
- ☒ Gender Equality Action Plan?
- ☒ Other (departmental or national) equality priorities? – when appropriate

Think about the policy from the perspectives of different groups in society. Will the policy affect any group(s) differently to others? In particular, will it differentially affect:

- ☒ Black, Asian or other minority ethnic and / or cultural groups?
- ☒ Disabled people?
- ☒ Women or men or transgender people?
- ☒ Lesbians, gay men, and / or bisexual people?
- ☒ Different religious communities / groups?
- ☒ Older people or children & young people?

Are any of these groups likely to have different needs?      Yes/ ~~No~~

NB: This funding is likely to affect individuals from all of the categories mentioned above, although some groups will be more obviously affected than others and raise more issues. The related-effects of this funding will become more apparent as it is delivered.

## **7. Evidence Base for Screening**

List evidence sources used to make the screening assessment (i.e. the known evidence)

### **7.1 Consultation Events and Meetings**

A consultation event with stakeholders to look at the Programme in relation to social capital, equality & diversity within the West Midlands was held on 12<sup>th</sup> March – Annexes B and C refer.

A number of consultation events were held over the last 12 months looking at:

- Equality and diversity issues
- The new Commission for Equality and Human Rights within the West Midlands

- The West Midlands Economic Strategy
- The Regional Spatial Strategy

The West Midlands Regional Leaders' Summit on Equality & Diversity was held on 25<sup>th</sup> January – key note speaker, Meg Munn, MP

Quarterly meetings of the West Midlands Regional Strategic Partnership for Equality & Diversity.

Social Capital, Equality and Diversity Programme events.

## **7.2 Research Documents**

Equalities and Diversity in the West Midlands Region by the West Midlands Regional Observatory

Equalities and Diversity Strategic Review of the West Midlands by the West Midlands Regional Assembly

Fairness and Freedom – The Final Report of the Equalities Review by Trevor Philips

Equality and Diversity – A Study for the West Midlands Regional Assembly by CVAR – Centre for Voluntary Action Research

Articulating Equalities Activities in Area Based Strategy and Delivery Partnerships – CSR Partnership

Consider whether there are any significant gaps in the known evidence base and list here your recommendations for how those gaps will be filled.

All of the areas mentioned above are represented by key stakeholders in the region on the Equality and Diversity Partnership – each member has his/her own network from which to canvass for views/ information and cascade information to.

Several of the research documents mentioned above state that data is very poor in relation to sexual orientation and transgender – understand that the next census is looking to put in place questions to address these issues.

## 8. Remembering the requirements of the equality duties:

- Elimination of Discrimination and Harassment
- Tackling disadvantage and promoting Equality of Opportunity
- Promoting Good Relations between different racial groups
- Promoting positive attitudes towards disabled people
- Increasing the participation of disabled people and other under-represented groups in civic and community life

From the known evidence and strategic thinking, what are the key risks (adverse impacts) and opportunities (positive impacts & opportunities to promote equality) this policy might present?

	Risk	Opportunities
Race	Entrepreneurial activity is through necessity and in low value/low growth industries e.g. food and drink (High)	Links into new markets (High)
	BME groups could be hidden in rural areas without established support groups (Med)	Enable links into mainstream business support provision through initial engagement (High)
	Language barriers (High)	Potential for growth (High)
	Exploitation of migrant workers (High)	Increase the numbers of BME involved in research (High)
	Accessing services for new arrivals (Med)	Changing demographic (High)
	Changing groups including expansion of mixed race (not necessarily traditional African-Caribbean/Asian) (Med)	
	Low take up of science and technology (High)	

	Changing demographic (High)	
	Perception that some ethnic groups receive higher levels of funding over others, aggravating intra-racial tension (High)	
	Access to support (High)	Use of young (disabled) advisers (Low)
	Isolation (High)	New technology allows access to work (High)
	Barriers created by policies (High)	More disabled people into employment (Med)
	Disability Discrimination Act 1995 & 2005 (Med)	More disabled people to start-up business (Low)
<b>Disability</b>	Disability is not always notified (Low)	
	Business start-up may lead to a reduction in benefits (High)	
	Lack of suitable transport options (High)	
	Employers perceptions (High)	
	Pay gap (High)	Encouraging female entrepreneurs (High)
	Little information available on transgender (Low)	Women may be more involved in community projects (Med)
	Low numbers of female entrepreneurs (High)	Increase the numbers of women involved in research (High)
<b>Gender</b>	Barriers to involvement in science and technology through the perception that it is a masculine environment (High)	Mentoring (High)
	Low numbers of women in higher management/director/CEO positions (High)	
<b>Sexual Orientation</b>	Discrimination (High)	New markets (Med)
	Lack of data (Low)	The development of new clusters (Med)

<b>Age</b>	Loss of skills (High)	Higher incomes among LGBT (Med)
	Changing demographic (High)	Utilize skills held by older people (High)
	No age related data in current Programme (Low)	Changing demographic (Med)
	Age related legislation (Med)	Age related legislation (High)
<b>Religion Belief</b>	Preconceived perceptions (High)	Access to hard to reach groups (Med)
	Media (High)	
	Projects run by faith groups could be perceived as exclusive (High)	
	Danger of re-inventing the wheel when setting up network groups (High)	Opportunities to increase growth, skills and develop succession planning (High)
<b>General</b>	How to gain engagement and representation and establish credibility (High)	Established networks to tap in to (High)
	Excluded groups and women use public transport the most (High)	Opportunities to develop new networks (High)
	Safety and security (High)	Use of target groups to act as mentors/intermediaries to increase engagement (High)
	Need to gain knowledge of sectors (High)	
	Decline in learning languages (High)	
	Lack of knowledge of Structural Funds and how to access them (High)	
	Employer perceptions (High)	
	Lack of available data collected on target groups in current Programme (Med)	

## **9. Proportionality**

Describe the scale and likelihood of these risks and opportunities: proportionality outlined in brackets next to each action.

## **10. Decision**

Set out the rational for deciding whether or not to proceed to full impact assessment (refer to paragraph 5 of guidance notes)

Considerable work has been undertaken by the West Midlands Regional Assembly and through its Equality and Diversity Partnership (Annex A refers) over the last 12 months. This work has looked at European and national legislation as well as the development of regional strategies, in relation to areas such as the economy, health, housing and transport. Stakeholders were satisfied that a wealth of information had already been gathered recently in this area. Moreover, this work continues to be developed and monitored through the work of the West Midlands Regional Strategic Partnership for Equality and Diversity and through the region's Social Capital, Equality and Diversity Programme, sponsored by Defra, of which the Equality and Diversity Partnership is the Steering Body.

The Equality Impact Assessment will continue to be monitored throughout the life of the Programme by the Equality & Diversity Partnership and others (such as the Commission for Equality and Human Rights) as appropriate.

Should it become apparent that a full assessment is required then the Equality and Diversity Partnership will raise this with Advantage West Midlands.

## Annex C – Indicative List of Strategies and Evidence Data Sources which have been used for OP Production

Strategy	Author & Date	Link
<b>European Strategies</b>		
Lisbon Agenda	EC revised March 2005	<a href="http://www.europarl.eu.int/summits/lis1_en.htm">http://www.europarl.eu.int/summits/lis1_en.htm</a>
Gothenburg Agenda	EC 2001	<a href="http://www.europa.eu.int/summits/pdf/got1_en.pdf">www.europa.eu.int/summits/pdf/got1_en.pdf</a>
<b>National Strategies</b>		
The UK National Reform Programme	HM Treasury October 2005	<a href="http://www.hm-treasury.gov.uk/media/093/DD/lisbon_jobs131005.pdf">http://www.hm-treasury.gov.uk/media/093/DD/lisbon_jobs131005.pdf</a>
Securing the Future - UK Government Sustainable Development Strategy	HM Government 2005	<a href="http://www.sustainable-development.gov.uk/publications/uk-strategy/index.htm">http://www.sustainable-development.gov.uk/publications/uk-strategy/index.htm</a>
Productivity in the UK3: The Regional Dimension	HM Treasury November 2001	<a href="http://www.hm-treasury.gov.uk/media/F2F/30/ACF1FBD.pdf">http://www.hm-treasury.gov.uk/media/F2F/30/ACF1FBD.pdf</a>
Innovation Strategy	DTI December 2003	<a href="http://www.innovation.gov.uk/innovationreport/">http://www.innovation.gov.uk/innovationreport/</a>
Opportunity for all Seventh Annual Report 2005	DWP 1999 (revised October 2005)	<a href="http://www.dwp.gov.uk/ofa/reports/latest.asp">http://www.dwp.gov.uk/ofa/reports/latest.asp</a>
What works? A qualitative case study evaluation of Objective One and Two Programmes	DCLG June 2006	<a href="http://www.erdf.odpm.gov.uk/WhatIsERDF/ERDFgoodpractice">http://www.erdf.odpm.gov.uk/WhatIsERDF/ERDFgoodpractice</a>
<b>Regional Strategies</b>		
West Midlands Economic Strategy	Advantage West Midlands 2005	<a href="http://www.advantagem.co.uk/downloads/west-midlands-economic-strategy.html">http://www.advantagem.co.uk/downloads/west-midlands-economic-strategy.html</a>



West Midlands Skills Strategy	West Midlands Skills Partnership	<a href="http://www.advantagem.co.uk/regional-skills-partnership.html">http://www.advantagem.co.uk/regional-skills-partnership.html</a>
West Midlands Spatial Strategy	West Midlands Regional Assembly	<a href="http://www.wmra.gov.uk/page.asp?id=49">http://www.wmra.gov.uk/page.asp?id=49</a>
West Midlands Regional Housing Strategy	West Midlands Regional Assembly 2005	<a href="http://www.wmra.gov.uk/page.asp?id=63">http://www.wmra.gov.uk/page.asp?id=63</a>

## Annex D – Categorisation of Structural Funds for Assistance 2007 to 2013

### 1. ERDF Support by Priority Themes Specified in 1083/2006 at Annex IV

Code	Priority Theme	ERDF in area without transitional support €	Total ERDF Support €
<b>Research and technological development (R&amp;TD), innovation and entrepreneurship</b>			
O1	R&TD activities in research centres	16,000,000	16,000,000
O2	R&TD infrastructure ( <i>including physical plant, instrumentation and high-speed computer networks linking research centres</i> ) and centres of competence in a specific technology	30,000,000	30,000,000
O3	Technology transfer and improvement of cooperation networks between small businesses (SMEs), between these and other businesses and universities, post-secondary education establishments of all kinds, regional authorities, research centres and scientific and technological poles ( <i>scientific and technological parks, technopoles, etc.</i> )	19,750,000	19,750,000
O4	Assistance to R&TD, particularly in SMEs ( <i>including access to R&amp;TD services in research centres</i> )	20,000,000	20,000,000
O5	Advanced support services for firms and groups of firms	25,850,000	25,850,000
O6	Assistance to SMEs for the promotion of environmentally-friendly products and production processes ( <i>introduction of effective environment managing system, adoption and use of pollution prevention technologies, integration of clean technologies into firm p</i>	27,000,000	27,000,000
O7	Investment in firms directly linked to research and innovation ( <i>innovative technologies, establishment of new firms by universities, existing R&amp;TD centres and firms, etc.</i> )	19,000,000	19,000,000
O8	Other investment in firms	24,500,000	24,500,000
O9	Other measures to stimulate research and innovation and entrepreneurship in SMEs	32,400,000	32,400,000
<b>Information society</b>			

10	Telephone infrastructures ( <i>including broadband networks</i> )	2,000,000	2,000,000
11	Information and communication technologies ( <i>access, security, interoperability, risk-prevention, research, innovation, e-content, etc.</i> )	8,000,000	8,000,000
13	Services and applications for the citizen ( <i>e-health, e-government, e-learning, e-inclusion, etc.</i> )	4,000,000	4,000,000
14	Services and applications for SMEs ( <i>e-commerce, education and training, networking, etc.</i> )	5,000,000	5,000,000
15	Other measures for improving access to and efficient use of ICT by SMEs	7,500,000	7,500,000
<b>Transport</b>			
26	Multimodal transport	2,000,000	2,000,000
<b>Energy</b>			
41	Renewable energy: biomass	4,000,000	4,000,000
43	Energy efficiency, co-generation, energy management	8,000,000	8,000,000
<b>Environmental protection and risk prevention</b>			
52	Promotion of clean urban transport	6,000,000	6,000,000
<b>Increasing the adaptability of workers and firms, enterprises and entrepreneurs</b>			
63	Design and dissemination of innovative and more productive ways of organising work	5,000,000	5,000,000
<b>Improving access to employment and sustainability</b>			
68	Support for self-employment and business start-up	35,000,000	35,000,000
69	Measures to improve access to employment and increase sustainable participation and progress of women in employment to reduce gender-based segregation in the labour market, and to reconcile work and private life, such as facilitating access to childcare and care for dependent persons	16,000,000	16,000,000
70	Specific action to increase migrants' participation in employment and thereby strengthen their social integration	15,000,000	15,000,000
<b>Improving the social inclusion of less-favoured persons</b>			
71	Pathways to integration and re-entry into employment for disadvantaged people; combating discrimination in accessing and progressing in the labour market and promoting acceptance of diversity at the workplace	15,000,000	15,000,000
<b>Improving human capital</b>			
74	Developing human potential in the field of research and innovation, in particular through post-graduate studies and training of researchers, and networking activities between universities, research centres and businesses	3,000,000	3,000,000

<b>Total ERDF support by Priority Themes specified in 1083/2006 at Annex IV</b>	<b>350,000,000</b>	<b>350,000,000</b>
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## 2. ERDF support by Priority Themes not specified in 1083/2006 at Annex IV

<b>Code</b>	<b>Priority Theme</b>	<b>ERDF in area without transitional support €</b>	<b>Total ERDF Support €</b>
<b><i>Transport</i></b>			
24	Cycle tracks	1,000,000	1,000,000
25	Urban transport	2,000,000	2,000,000
<b><i>Environmental protection and risk prevention</i></b>			
44	Management of household and industrial waste	2,000,000	2,000,000
50	Rehabilitation of industrial sites and contaminated land	27,000,000	27,000,000
<b><i>Tourism</i></b>			
57	Other assistance to improve tourist services	1,000,000	1,000,000
<b><i>Culture</i></b>			
58	Protection and preservation of the cultural heritage	3,000,000	3,000,000
<b><i>Mobilisation for reforms in the fields of employment and inclusion</i></b>			
80	Promoting partnerships, pacts and initiatives through the networking of relevant stakeholders	1,000,000	1,000,000
<b><i>Strengthening institutional capacity at national, regional and local level</i></b>			
81	Mechanisms for improving good policy and programme design, monitoring and evaluation at national, regional and local level, capacity building in the delivery of policies and programmes.	1,000,000	1,000,000
<b><i>Technical assistance</i></b>			
85	Preparation, implementation, monitoring and inspection	10,000,000	10,000,000
86	Evaluation and studies; information and communication	1,899,930	1,899,930
<b>ERDF support by Priority Themes not specified in 1083/2006 at Annex IV</b>		<b>49,899,930</b>	<b>49,899,930</b>

## 3. Indicative Proportion of Spend against Priority Themes

<b>Total ERDF support</b>	<b>399,899,930</b>	<b>399,899,930</b>
<b>% ERDF support by Priority Themes specified in 1083/2006 at Annex IV</b>	<b>87.52%</b>	
<b>% ERDF support by Priority Themes not specified in 1083/2006 at Annex IV</b>	<b>12.48%</b>	

#### 4. Coding of the Form of Financing Dimension

Code	Form of financing	ERDF in area without transitional support €	ERDF in area with transitional support €	Total ERDF Support
1	Non-refundable aid		359,899,930	359.899.930
2	Refundable aid (loan, interest subsidies, guarantee)		10,000,000	10.000.000
3	Venture capital (public capital holding, venture capital fund)		30,000,000	30.000.000
4	Other form of financing			

#### 5. Coding of the Territory Dimension

Cod e	Territory	ERDF in area without transitional support €	ERDF in area without transitional support €	Total ERDF Support
1	Urban centre		297.000.000	297.000.000
2	Mountains			
3	Islands			
4	Sparsely populated areas			
5	Rural areas (not covered by 01-04)		96.899.930	96.899.930
6	Former EU external borders			
7	Outermost region			
8	Cross-border cooperation area			
9	Transnational cooperation area			
10	Interregional cooperation area		6.000.000	6.000.000
0	No application			

## Annex E – Response to Recommendations from the Ex Ante Evaluation

In accordance with Article 48 of Council Regulation (EC) No 1083/2006, the West Midlands ERDF Programme was subject to an ex ante evaluation. The purpose of ex ante evaluation was to optimise the allocation of resources and to improve the quality of programming. It was an interactive process whereby the Evaluator's recommendations were issued at various stages of programme development and taken into account in subsequent programme iterations. The ex ante evaluation was performed over a ten month period from July 2006 to April 2007 by EKOS Consulting. The following table details how key recommendations were incorporated into the programme.

Section	Recommendation	Met	Comments
Policy Context	<ul style="list-style-type: none"> <li>Fully incorporate Policy Context Chapter into Strategy Chapter</li> </ul>	✓	
Socio Economic Analysis	<ul style="list-style-type: none"> <li>Extend data coverage and depth of analysis</li> <li>Present higher level analysis and interpretation of key issues</li> <li>Identify policy implications at end of each sub-section</li> <li>Identify sub regional variations</li> <li>Identify links between key issues</li> <li>Identify differing challenges of specific groups</li> <li>Consider spatial pattern of economic activity more fully</li> <li>Consider unemployment and worklessness more fully</li> <li>Provide more detail on opportunities afforded by clusters</li> <li>Articulate issues affecting rural and urban areas more clearly</li> <li>Rework lessons learned to cover breadth of programme</li> <li>Further develop the strategic implications of SWOT</li> </ul>	✓ ✓ ✓ ✓ ✓ ✓ ✓ ✓ ✓ ✓ ✓	This section has gone through a number of iterations. In their final report, the Evaluators conclude that this section 'provides a thorough evidence base for the programme'.
Strategy	<ul style="list-style-type: none"> <li>Provide a clear statement of programme vision and objectives</li> <li>Detail added value brought to Gothenburg &amp; Stern Report</li> </ul>	✓ ✓ ✓ ✓ ✓	This section has also been considerably improved through the integration of three sets of recommendations from the Evaluators. Their final report concludes that

	<ul style="list-style-type: none"> <li>• Articulate more fully where the programme is adding value</li> <li>• Include summaries of priority axes</li> <li>• Provide more justification for Priority 4</li> <li>• Reduce length and increase impact</li> </ul>	✓	“there are no major ‘essential’ comments to be addressed”.
Priority Axes	<ul style="list-style-type: none"> <li>• Use consistent structure for priority axes</li> <li>• Improve linkages with the socio economic analysis</li> <li>• Provide further detail on the activities &amp; focus of each priority</li> <li>• Consolidate actions under Priority 3 into a clear groups</li> <li>• Identify how the packages relate to Regeneration Zones</li> </ul>	✓ ✓ ✓ ✓ ✓	On-going advice has strengthened the priority base. EKOS conclude ‘the proposed activities appear appropriate and it is evident that the Partnership have sought to target and focus resources on a limited set of activities’.
Cross Cutting Themes	<ul style="list-style-type: none"> <li>• Restructure to improve readability</li> <li>• Make more West Midlands specific</li> <li>• Include more detail from the SEA</li> <li>• More detailed analysis of issues</li> <li>• Consider specific opportunities under each priority</li> <li>• Bring out the cross cutting themes across the operational programme</li> </ul>	✓ ✓ ✓ ✓ ✓ ✓	Again this section has been considerably enhanced through the integration of the Evaluators’ recommendations. They conclude ‘it is evident [...] that the Programme authors have taken a proactive approach to the integration of environmental sustainability and equal opportunities.
Financial allocations	<ul style="list-style-type: none"> <li>• Consider guidance note provided by Evaluators</li> </ul>	✓	The Evaluators conclude ‘No significant difficulties are foreseen at this stage in achieving the financial profile set out in the plan [...]The proposed balance of resources aligns clearly to the socio economic analysis and strategy with resources focused on the areas and sectors of greatest need/opportunity within the West Midlands.’
Indicators	<ul style="list-style-type: none"> <li>• Consider guidance note provided by Evaluators</li> </ul>	✓	The Evaluators conclude that ‘the majority of activity indicators appear reasonable’ but also that ‘the aggregate jobs target may understate the potential employment benefits of the programme’. The Partnership are confident that the targets are realistic as they are based upon empirical data and compare favourably with previous programmes. The

			Programme includes activities, particularly under Priority 1, which have an inherently higher cost per unit, although the resulting jobs will be of a higher calibre,
Co-ordination	<ul style="list-style-type: none"> <li>• Provide greater clarity on the demarcation with EAFRD and Framework</li> <li>• Expand on the coordination between the separate ESF and ERDF programmes</li> </ul>	✓  ✓	The Evaluators consider that 'the OP has demonstrated sufficient alignment with, and demarcation from, other EU funding sources'



## Annex F – Response to the Strategic Environmental Assessment & Sustainability Appraisal

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A Strategic Environmental Assessment (SEA) and Sustainability Appraisal (SA) were conducted on the West Midlands ERDF programme by Sinclair Knight Merz. An SEA is a legal requirement for this type of programme, and looks at the likely environmental impact of a programme. An SA is not a legal requirement but looks at wider sustainability issues, covering economic and social issues as well as environmental. Like the ex ante evaluation, the SEA and SA were iterative processes whereby recommendations were made on how adverse effects could be minimised, and beneficial effects enhanced. A Programme for monitoring these effects is contained at Annex H. The table below details how the SEA process influenced the Programme's development.

SEA/SA Topic	Recommendation	Response to Recommendation
Climate change	Carbon offsetting could be integrated into the programme to reduce the effects of CO <sub>2</sub> emissions. This could either be done by joining existing carbon offsetting schemes or by linking it to other projects within the Programme, e.g. by providing funding for energy efficient programmes, funding energy efficient measures to be incorporated into build or refurbishment projects.	Activity has been included under each of the main priorities to reduce carbon emissions. More detail is given below.
	The programme should actively encourage research and development specifically in environmental and energy technology which would provide a platform to reduce CO <sub>2</sub> emissions.	Priority 1 is focused on the five themes for innovation identified by the Innovation Technology Council (which include Energy). Environmental Technologies has been included as an additional priority theme for ERDF support as a result of the SEA.
	Businesses/activities should be located near to	Support for establishment, promotion and uptake of

	existing public transport routes and actively encourage sustainable transport options.	sustainable transport initiatives has been included under Priority 3.
	New facilities should meet BREEAM excellent standards to reduce CO <sub>2</sub> emissions.	New build or refurbishment supported through the programme will be expected to meet high standards of resource efficient design, aiming towards BREEAM very good, or excellent.
	Energy efficiency achievements should be maximised.	Project sponsors will work with applicants to maximise energy efficiency achievements at the project level as part of the environmental sustainability cross cutting theme.
	Increase the use of renewable energy	Support for investment in renewable energy is included under Priority 1, with support for uptake of renewable energy under actions in Priority 2 and 3.
	Provide general support for ICT in order to minimise travel.	Support for ICT has been included in the programme.
Natural Resources	BREEAM standards (Excellent) should be adopted for new build and refurbishments where appropriate. Environmental management policies should be adopted by supported businesses. These should include actions for appropriate energy efficient practices for the relevant business or research institute.	All new build or refurbishments will be expected to meet high environmental standards, aiming towards BREEAM very good, or excellent. Under priority two and three, actions have been included to support businesses to take up processes with reduced environmental impact, including improved resource and energy efficiency.
	Energy could also be sourced from renewable sources. In order to improve the success of this, a requirement could be set that where new developments are constructed 10% of energy requirements should be sourced from on-site renewable energy provision.	All new build or refurbishments supported will be expected to meet high environmental standards, giving due consideration to on site renewable energy provision where this is appropriate.
	Business advice should include resource use efficiency measures and waste reduction measures.	Specific actions have been included under Priority 2 and Priority 3 to support businesses to improve their resource efficiency, including support for waste minimisation.
Air quality	Emphasise the business benefits of using more ICT.	Support for ICT has been included under Priority 3, and

		uptake will be encouraged within actions under priority two.
	Introduction of travel plans that emphasise a shift from private car use to more sustainable transport, e.g. public transport, cycling, walking.	Priority3 includes support for sustainable transport measures.
	Where appropriate energy efficient practices should be adopted by businesses and research institutes.	The programme will encourage the uptake of energy efficient practices.
	Energy could be sourced from renewable sources. In order to improve the success of this, a requirement could be set that where new developments are constructed 10% of energy requirements should be sourced from on-site renewable energy provision.	All new build or refurbishments supported will be expected to meet high environmental standards, giving due consideration to on site renewable energy provision where this is appropriate.
Biodiversity & landscape	Any new developments should be located in areas that are not biodiversity sensitive.	Due regard will be given to safeguarding biodiversity in any development supported through the programme.
	Advice on regional and local biodiversity action plans should be incorporated into planting schemes that are used in any landscaping that forms part of new and upgraded developments.	Due regard will be given to safeguarding biodiversity in any development supported through the programme.
	Local distinctiveness should be taken into account during planning in order to ensure that new developments are in keeping with existing activities/buildings.	Measures have been included under Priority 3 for the sensitive reuse of historic buildings, infrastructure and other cultural heritage assets for development of new or expanded economic uses.
Cultural heritage	Businesses need to be made aware of their potential impact on the cultural and historic environment and where relevant at project level.	Measures have been included under Priority 3 for the sensitive reuse of historic buildings, infrastructure and other cultural heritage assets for development of new or expanded economic uses.
Soil	Where development takes place as a result of the OP it should make use of brownfield/ contaminated land.	Where development is supported through the programme, it will make use of brownfield land.
Water	Where opportunities exist for refurbishment of buildings, these should be done to meet BREEAM standards (Excellent) which would include measures for water efficiency.	All new build or refurbishments will be expected to meet high environmental standards, aiming towards BREEAM very good, or excellent.

	Where businesses that are supported are high water users or potentially polluting, water use efficiency measures and best practice techniques should be implemented.	Support has been included under Priority 2 and 3 to increase the uptake of processes with reduced environmental impact.
Health	Support projects that seek to improve the quality of open green space.	Actions under Priority 3 have been included to improve green environments for the benefit of the local community.
Equalities	Target women and minority groups.	Specific actions have been included under Priority 2 to increase entrepreneurship amongst women and minority ethnic groups.
	Representation on stakeholder or partnership groups of women and BME individuals should be at levels to match the local neighbourhoods.	Efforts will be made to ensure partnership arrangements are inclusive and representative.
	Prioritise underserved / disadvantaged neighbourhoods. Attempt to match outreach to SMEs to those businesses with strong or substantial women/BME/minority leadership or workforce.	Priority 3 has been geographically focused within the West Midlands' conurbation and North Staffordshire conurbation and contiguous areas because these areas exhibit high levels of unemployment and worklessness and include concentrations of communities at risk of social exclusion.
	Ensure proper support / training for targeted populations.	Training is outside the scope of the programme, although support is included to build capacity.
Investment & innovation	Seek participation from businesses that can improve investment, job creation and retention in deprived areas.	This is a particular focus of Priority 3.
	Where possible prioritise investments in deprived areas.	Priority 3 has been geographically focused within the West Midlands' conurbation and North Staffordshire conurbation and contiguous areas because these areas exhibit high levels of unemployment and worklessness and include concentrations of communities at risk of social exclusion.
	Link with programmes to transition people into the workforce;	A joint programme monitoring committee will be put in place to aid the interface between the ERDF and ESF programmes. In particular, packages under priority 3 will be encouraged to bid into the ESF programme to

		incorporate training into pathway to work activities for communities in need.
	Prioritise partnership activities between business / industry and higher education.	This will be a focus under Priority 1.

## Annex G – SEA / SA Monitoring Plan

	Indicators	SEA topic monitored						Information source	When to take remedial action	Remedial action to take
		Climate change	Natural resources	Air quality	Soil	Water	Equalities			
A	Square metres of premises upgraded or constructed to BREEAM excellent or very good at current standards (or where appropriate to the new Code for Sustainable Homes)	●	●	●				AWM – Project Management System (PMS)	If BREEAM standards (code for sustainable homes) are not being achieved	Work with businesses to identify improvements that can be made
B	CO <sub>2</sub> reduction per project type (built environment, waste efficiency and renewable energy, assistance for home working)	●						AWM Carbon Assessment tool	When targets set through carbon reduction programmes are not being met.	Reconsideration of business activities, i.e. to find ways of managing carbon more effectively. Identify options for carbon offsetting.
C	Use of renewable energy (or generation from renewable energy)	●	●					AWM Carbon Assessment tool	When overall energy use is not reduced	Provide further advice on steps that can be taken to source renewable energy. Carry out energy audits.

	Indicators	SEA topic monitored						Information source	When to take remedial action	Remedial action to take
		Climate change	Natural resources	Air quality	Soil	Water	Equalities			
D	Investment in renewable energy technologies (R&D)	●	●					AWM Carbon Assessment tool	When target amounts of funding are not likely to be met by the Programme	Reprioritise funding options
E	Number of businesses assisted that have introduced an active environmental policy.	●	●	●		●		AWM PMS	When there is no evidence that plans are being actioned	Work with businesses to develop and implement EMPs
F	Brown field land reclaimed (ha)				●			AWM PMS (Built environment checklist)	When greenfield sites are being used by projects under the OP	Liaise with local planning authorities to prevent use of Greenfield sites
G	Businesses assisted by the programme using water saving devices					●		AWM PMS (Built environment only)	When water saving targets are not being achieved.	Work with businesses to upgrade facilities to maximise water savings
H	Total Entrepreneurial Activity by gender						●	Global Entrepreneurial Monitor.	When there is no indication of improved entrepreneurial activity.	Reassess OP actions for improving entrepreneurial activity.

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