

East Midlands 2007-13 ERDF Programme – Update

Purpose of the Paper

This paper seeks to update the Local Management Committee (LMC) on progress to date in the delivery of the East Midlands 2007-13 ERDF Programme.

Recommendation

Members of the LMC are invited to:

- Note the progress of the Programme since the PMC meeting in June 2011;
- Formally endorse the PA2 Indicative District Allocations for 2011-2013 (including transition funding for Boston) recommended by the PMC at their meeting on 16 June.

1. Programme Update

1.1 Summary

Programme implementation continues to progress well and, by the end of November 2011, some **150** projects (worth approx. **£119m** ERDF) had formally accepted or been offered funding agreements. Negotiations were well advanced with a further **51** (requesting **£63m** ERDF)¹.

From 1 July 2011, responsibility for delivering the ERDF Programmes transferred from the Regional Development Agencies to the Department for Communities and Local Government (DCLG) and work began on standardisation of processes. This is ongoing, but one outcome has been the introduction of a standard performance management template which is now attached at **Annex A**.

1.2 Programme Value

The East Midlands 2007-13 ERDF allocation is **€268.5m**. At the beginning of December 2011 this equated to approximately **£232m** having fallen back from a high of £261.5m in January 2009 (the lowest Sterling value to date was £177.3m in February 2007).

Programme Value:	€268,500,000
Euro Rate:	1.16
Current Programme Value:	£232,148,142
PA1 Value:	£100,117,598
PA2 Value:	£122,739,695
PA3 Value:	£9,290,849

1.3 Commitments

¹ For a complete list of approved beneficiaries please visit: [Key Programme Documents - Regeneration and economic growth - Department for Communities and Local Government](#)

Funding agreements signed/offered		ERDF Funding (£)	ERDF Funding (€)	% allocation
PA1	60	68,760,566	78,787,703	68.68
PA2	84	48,169,545	55,840,542	39.25
PA3	6	1,989,229	2,269,960	21.41
Total	150	118,919,340	136,898,205	51.23

1.4 N+2 Spend Target

The 2011 N+2 target was achieved in June and by the end of November sufficient claims had been submitted to Government to exceed the target by approximately **£8.6m**. This overachievement will count towards the 2012 target.

1.5 Exchange rate risk and transition

As the Programme funds are allocated in Euros but committed in GBP, exchange rate movements carry significant financial risk and DCLG are currently considering how this is to be managed. Until guidance is to hand, the ERDF Programme Delivery Teams have agreed that no Priority Axis should be more than 90% allocated.

Further, recognising the changes outlined by the Parliamentary under Secretary of State (Baroness Hanham) in her Written Ministerial Statement of 3rd February, the PMC decided that any allocations in excess of 80% of any Priority Axis would need to be considered/endorsed by the Local Management Committee (LMC) when convened.

Members of the LMC are therefore invited to formally endorse the PA2 Indicative District Allocations for 2011-2013 (including transition funding for Boston) recommended by the PMC at their meeting on 16 June.

For reference, the 2011-2013 Indicative District Allocations are show below:

LAD/unitary authority	Second Half of Programme ERDF Amount	Share of PA2 allocation (%)
Nottingham	£ 8,077,305	16.7
Leicester	£ 8,367,507	17.3
Bolsover	£ 2,418,355	5
Mansfield	£ 2,756,924	5.7
Ashfield	£ 3,143,861	6.5
Corby	£ 2,418,355	5
Derby	£ 6,626,292	13.7
Lincoln	£ 2,418,355	5
Bassetlaw	£ 3,047,127	6.3
Chesterfield	£ 2,708,557	5.6
Oadby and Wigston	£ 2,418,355	5
East Lindsey	£ 3,966,102	8.2
Total	£ 48,367,095	100

2. Priority Axis 1 (PA1)

2.1 Priority Axis 1 is concerned with increasing productivity through innovation & sustainable business practice. Resources are thematically targeted to focus on increasing commercialisation of innovation in Small and Medium Enterprises (SMEs) in priority sectors and in businesses with high growth potential to create higher value added products and services, and will include support for SME engagement in Research and Development (R&D) for emerging and enabling technologies. It also promotes and supports innovation to improve resource efficiency. Support is targeted thematically with a particular focus on the region's four Key Sectors of:

- Transport Equipment;
- Construction;
- Food and Drink; and
- Bioscience and Health.

High growth businesses (defined by the demonstration of an annual increase in turnover of over 15%), and resource efficiency improvements for all SMEs throughout the region, is also to be targeted for support.

2.2 Third Innovation Call for Activity

We received 56 EOIs worth £74.8m ERDF in May 2011. Of these, 27 were invited to full application. Two were rejected at application stage, a further 2 chose not to submit a full bid and a further 5 have since withdrawn. 12 have proceeded to appraisal seeking £17.3m ERDF. A further 6, worth £12.6m are in the pipeline to proceed to appraisal once issues are resolved. A list of these projects is attached at Annex X.

3. Priority Axis 2 (PA2)

3.1 Priority Axis 2 (PA2) is concerned with increasing sustainable economic and enterprise activity in disadvantaged communities and is spatially targeted to focus resources on the most disadvantaged areas whilst exploiting the potential linkages to adjacent areas of economic growth. The aim is to create new indigenous economic opportunities by building local capacity, resources and support; reviving local infrastructure and environments and stimulating and supporting enterprise and new market opportunities.

3.2 Following PMC endorsement of the 2011-2013 allocations, Districts have refreshed their Local Investment Plans outlining priorities for investment in their areas. Once again Lincolnshire (combining Boston, East Lindsey and Lincoln) and North Nottinghamshire/North Derbyshire (combining Ashfield, Bassetlaw, Bolsover, Chesterfield and Mansfield) have grouped their allocations and produced a joint investment plan to reflect the new sub-national landscape. All Districts have launched 'Calls for Activity' and the response has been encouraging - we are currently considering **36** full applications resulting from these calls with a further **24** expected.

4. Evaluation

Nothing to report.

5. Publicity

The Programme's 2011 Annual Information Event (AIE) took place on Friday 14 October, 2011 at Holywell Park, Loughborough University. The event was well supported with more than 100 delegates attending.

6. Management and Control

6.1 We are currently working with Projects; the Managing Authority and the Audit Authority to conclude a number of Article 16² (A16) reports/findings and finalise the 2010 Annual Control Report (ACR) but early indications are that our error rate will be below 2%. The process has highlighted a number of issues that may also lead to a revision (reduction) of the rate reported in the 2009 ACR.

6.2 As previously highlighted, and despite the best efforts of both the Projects and the Programme Delivery Team, the number of errors being reported through the A16 process relating to University TRAC overheads remains unacceptably high. Therefore, in order to minimise the ongoing risk to the Programme (and after discussion with the Chair) Members will wish to note that we have withdrawn the facility relating to expenditure defrayed from 1 January 2012 onwards – **Annex A**.

7. Broadband

7.1 Where regional Operational Programmes (OPs) permit it, ERDF may be used to fund major broadband infrastructure in convergence and phasing-in areas³. EC regulations do not however, permit ERDF to be used to fund major broadband infrastructure in Competitiveness programme areas⁴ and the EC has turned down a request to do so from the Yorkshire & Humber partnership. But where OPs explicitly permit it in Competitiveness regions (such as the East Midlands), ERDF may be used to fund "final mile" infrastructure to allow connectivity to broadband networks for SMEs. Whilst this is demonstrably not the same as major broadband infrastructure, it does give an opportunity for the programme to potentially join-up with other available funding stream; such as that offered by BDUK.

7.2 Members may recall that in May 2011 Carol Sweetenham (DCLG Deputy Director, ERDF Delivery) wrote to all English ERDF Programme Monitoring Committees offering to seek clarity from the Commission with regards to what exactly might be funded and Members will wish to note that clarity has now been sought – **Annex B**

8. Recommendation

Members of the LMC are invited to:

- Note the progress of the Programme since the last meeting in June 2011;
- Formally endorse the PA2 Indicative District Allocations for 2011-2013 (including transition funding for Boston) recommended by the PMC at their meeting on 16 June. [need to include a table showing these figures]

² Article 16 audits are carried out by the DCLG Internal Audit Service, acting as the "Audit Authority" on a sample of projects.

³ Article 4.2 of the EC ERDF Regulation (1080/2006)

⁴ Article 5.3(b) of the Regulation

Annex A

Dear Vice Chancellor

Re: East Midlands 2007-13 ERDF Competitiveness Programme – use of TRAC overheads within University Projects.

The East Midlands Programme like other ERDF programmes across England is currently subject to a programme of enhanced monitoring activity. This has been instigated by DCLG as part of an action plan agreed with the Commission which was developed to lift the recent interruption of ERDF payments for all England Programmes. The interruption was imposed largely due to the high level of error rates identified by the monitoring and audit activity undertaken by the UK Managing and Audit Authorities.

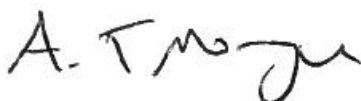
An analysis of the error rates for the East Midlands has highlighted as a high risk area the use of TRAC overheads within University projects across the region. For this reason the Managing Authority for the East Midlands has taken the decision that the Programme will no longer accept the use of the TRAC methodology for University overheads defrayed after the 1st January 2012 for projects in the East Midlands. This action has been taken to both reduce the risk to the Programme related to the error rates and the risks to individual projects and Universities around potential future claw back of ERDF.

We are writing to individual contracted projects affected by this directly to inform them of the decision, offering them an opportunity to discuss the implications and submit their proposals to accommodate the change. In addition all projects that have used TRAC to date are currently having their TRAC methodology looked at as part of the ongoing monitoring exercise and we ask that projects cooperate fully in this process to ensure the accuracy of the TRAC methodology and calculations used to date.

We are also writing to projects that have submitted applications as part of the recent calls advising them of the position and offering them the opportunity to revise their applications. We would ask that projects address this as soon as possible so that we can progress the appraisals.

We appreciate that this will have impacts for projects but have had to take this decision to reduce the risk to the Programme and the future potential risk to Universities across the region.

Yours sincerely

A handwritten signature in black ink, appearing to read 'A. Morgan', written in a cursive style.

Andrew Morgan
Head of PDT – East Midlands

Annex B

ERDF AND BROADBAND

This note sets out guidance on eligibility for using ERDF to pay for the installation of “last mile” broadband in competitiveness regions.

Regulatory aspects

Article 4.2 of the EC ERDF Regulation (1080/2006) states that Convergence OPs may include the following priority:-

"Information society, including development of electronic communications infrastructure, local content, services and applications, improvement of secure access to and development of on-line public services; aid and services to SMEs to adopt and effectively use information and communication technologies (ICTs) or to exploit new ideas."

The Convergence eligibility rules also apply to phasing in areas, ie South Yorkshire and Merseyside.

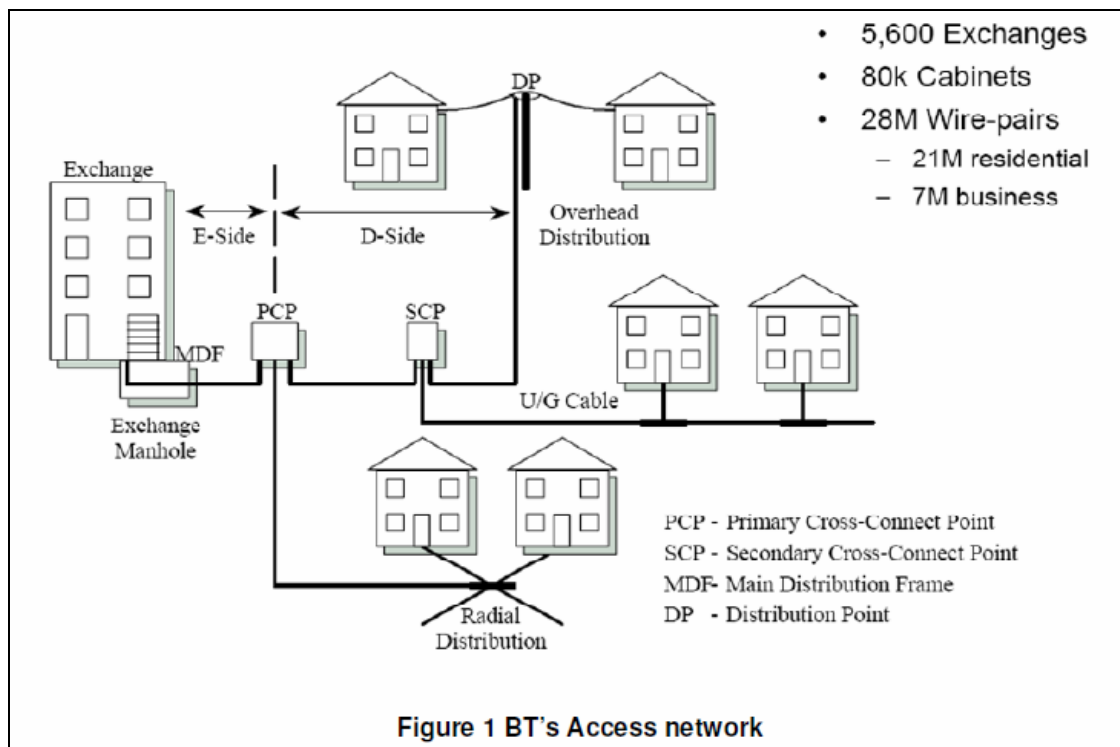
Article 5.3(b) of the Regulation states that Regional Competitiveness OPs may include the following priority (among others):-

"Promoting access to, take up, and efficient use of ICTs by SMEs by supporting access to networks, the establishment of public internet access points, equipment, and the development of action plans for very small and craft enterprises."

Defining ‘the last mile’

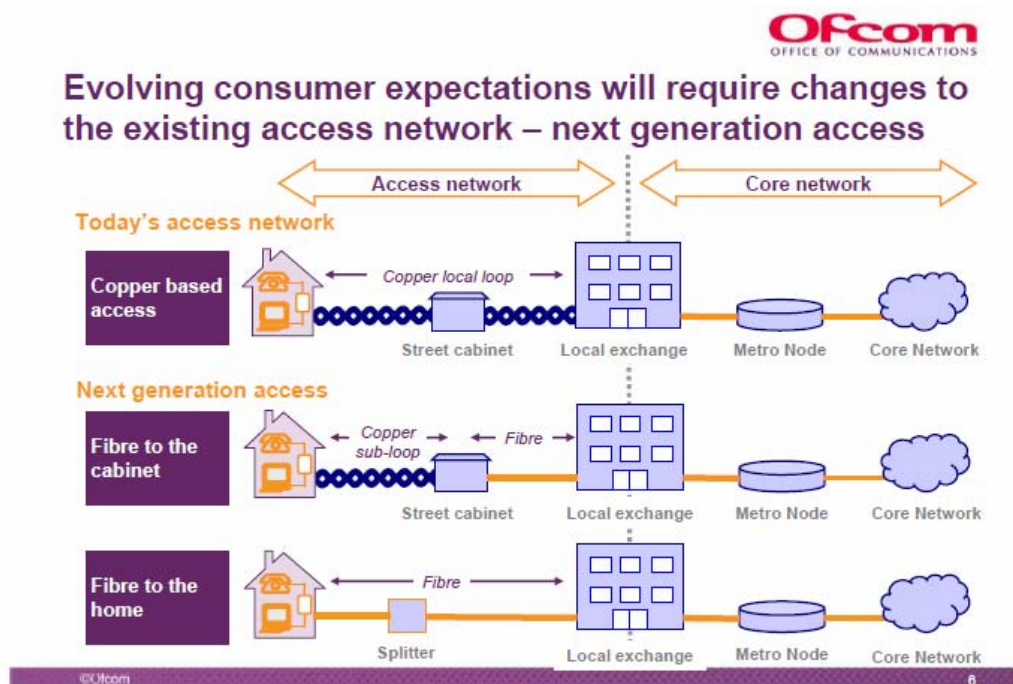
There are three main components that make up a hierarchical telecommunications network: the core network; ‘backhaul’ and exchanges. The core network is the backbone of the network, similar to a motorway. Backhaul is the term given to the portion of the network that comprises the intermediate links between the core network and the exchange. Exchanges sit at the edge of the network, providing routes in (or ‘local access’). Exchanges can send data out to premises through either fibre optic cable, copper telephone wires, radio or satellite signals.

Final/last mile is generally considered by BDUK to be anywhere from the exchange to the user premises – which can be either businesses or a private dwelling. The diagram overleaf, taken from a report called ‘*Assessment of the Theoretical Limits of Copper in the last mile*’, and prepared for OfCom in July 2008, shows an overview of the routes in to the BT network, which helps to illustrate the types of approach that can be found in the final mile.



As can be seen above, there are two main ways that premises can connect to an exchange: directly or via an underground cable or overhead lines to a 'secondary cross-connection point', otherwise known as a street cabinet. The 'Distribution side' is also known as the 'Local Access Network'. OfCom describe this as "the physical connection between a consumer's premises and a local telephone exchange".

The diagram below, also from OfCom, illustrates that these access network connections can be either optic fibre, copper or a mixture of the two.



What does this mean for ERDF investment?

The European Commission has approved an amendment to the East of England programme to enable it to invest ERDF funding into providing '**limited support for infrastructure to allow connectivity to broadband networks**' for SMEs in competitiveness regions. Some local authorities have been asking for clarity on whether they can use ERDF funds to connect SMEs directly to an exchange or whether they can only use them to connect SMEs to a cabinet.

DCLG and BDUK are clear that, in Competitiveness areas, ERDF funding cannot be used to build exchanges, nor can it be used to build backhaul or core network infrastructure. The emphasis in the ERDF Regulations on supporting access means we also advise that ERDF funding should be used to create connections to exchanges rather than upgrade them. This could be done in the following ways:

- Digging trenches and laying ducting to provide copper and/or fibre connectivity from end user premises to an existing cabinet, exchange or receiver (for wireless and satellite technologies)
- Building a cabinet and/or receiver
- Digging trenches to link a new cabinet/receiver with an existing exchange

This approach will enable local authorities to spend ERDF funds in the most efficient way, to provide the maximum value for money by ensuring that the greatest number possible of SMEs benefit from the ERDF investment. It will also ensure that ERDF funding is not 'forced' into supporting fibre rollout (due to only being able to fund SME connections to cabinets) at the expense of wireless and satellite provision – which is important as both the UK government and the EC are committed to a technology neutral approach to broadband rollout.

Distinguishing between SME and domestic users

It is clear that, under current regulations, ERDF investment in competitive areas can only be spent to provide connections for SMEs. This will need to be monitored and evidence provided to ERDF – and potentially ECA - auditors by funding recipients. e.g. by listing the number of SMEs who have been connected to broadband as a result of ERDF investment.

BDUK have suggested that it is ultimately the responsibility of the final beneficiary to undertake the due diligence required to demonstrate that ERDF funds have been solely spent on connections for SMEs, in compliance with the regulations. However, we recognise that this could prove a disincentive to them applying for ERDF where the supply is direct from the exchange. We identify two potential sources of ambiguity.

i) Is it problematic to have domestic users benefiting from broadband provided to SMEs?

There is concern that, in some instances, ERDF funding could be spent on access to exchanges which domestic users will also be able to utilise, either now or in the future. This is specifically a concern for ERDF spend on cabinets and connections to exchanges – as, of course, it will be easy to ensure connections from a single premise to either an exchange or a cabinet are for SMEs only. The issue will also only arise in specific geographical locations – as, for example, it will be easy to be confident of the nature of beneficiaries if the money is spent on a connection to a

business park. The ambiguity will appear in areas where ERDF funds a cabinet and/or cabinet-exchange links in a residential area, for home-based SMEs and local businesses to link to.

We do not envisage problems where provision of broadband to SMEs leads incidentally to improvements for domestic users. Indeed it is hard to see how the two can be separated where for example SMEs work at home. In the words of the Treasury Green Book, "Social cost benefit analysis seeks to assess the net value of a project to society as a whole. The valuation of non market impacts is an essential element of this and should be attempted wherever feasible". Wherever possible, at least 50% of provision should in such cases be for SME users, and this must be demonstrable to the satisfaction of auditors. Otherwise a form of apportioning the costs between SME and domestic connections will be required to ensure that ERDF is used in compliance with the ERDF Regulation.

ii) How can costs be apportioned?

It will therefore be essential to apportion costs between private and SME users to exclude the equipment, or the portion of equipment, that is used exclusively for residential households. This can be done in a number of ways:

- Technological: in some cases this can be done by identifying the number of ports at the exchange/street cabinet that are for residential purposes. For example, in the case of the NYNet project in Yorkshire, the applicants calculated that this would mean that 87% of the gross costs were eligible for ERDF as the project is focussed on SME access to Broadband. This would be the preferred method since it allows for a precise apportioning of costs;
- We recognise however that some technological solutions do not allow for this: for example a fibre optic cable will serve a large number of users. In these circumstances we expect an apportionment methodology to be used. For example, anonymised data from billing might be used to establish the proportion of users who were registered as SMEs: in this case SMEs will need to apply as commercial rather than domestic users.

Projects will need to explain what methodology they propose to use to ensure that apportionment can be demonstrated transparently and appropriately. Without such explanation it will not be possible to fund projects.

DCLG

October 2011

EAST MIDLANDS PROGRAMME PERFORMANCE

29/11/2011

Annex C

Chart A - BUDGET VS EXPENDITURE £M

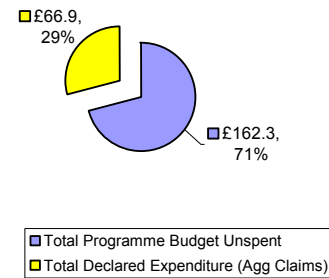


Chart B - COMMITTED FUNDS £M

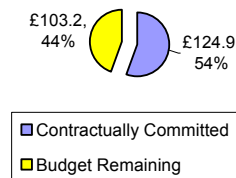


Chart C - COMMITMENT BY PRIORITY £M

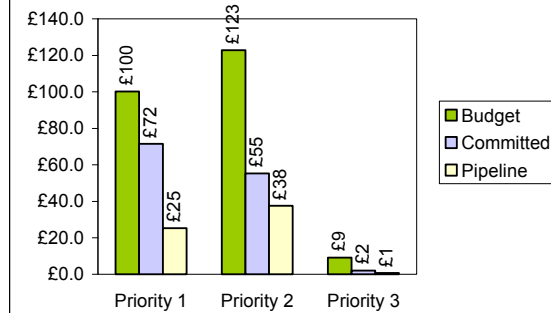


Chart F- N+2 PERFORMANCE

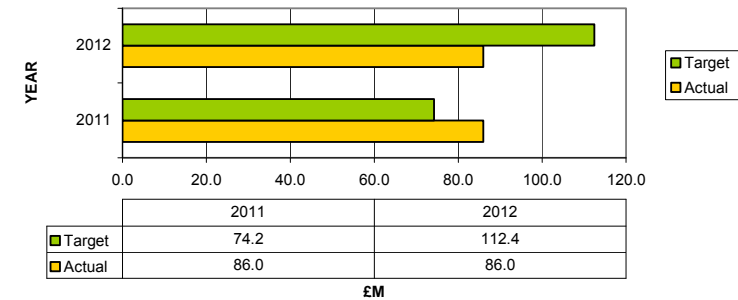


Chart G -PROJECT ENGAGEMENT VISITS

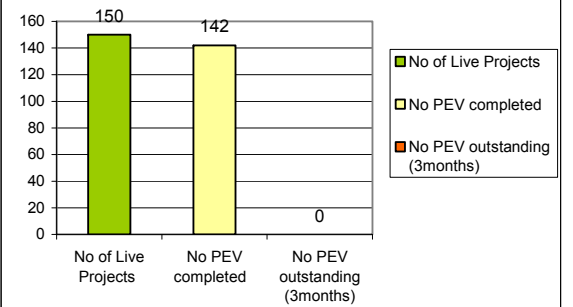


Chart K -ARTICLE 16 2009 (£5.72m checked)

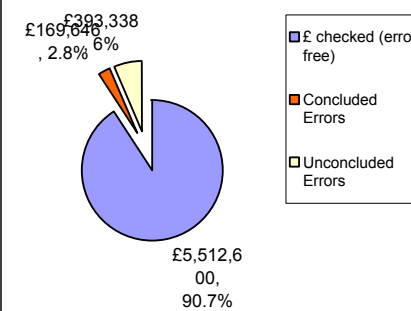


Chart L -ARTICLE 16 2010

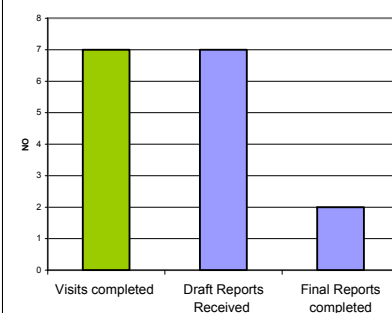


Chart M- ARTICLE 16 2010 (£5.73m checked)

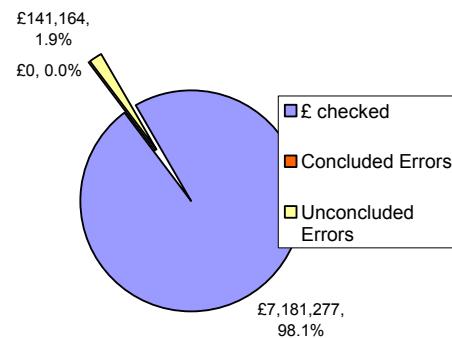


Chart H -NO IRREGULARITIES

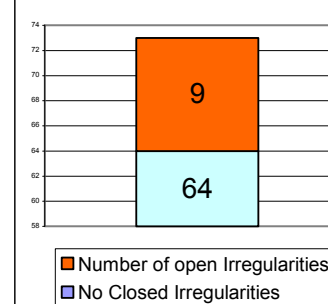


Chart I -IRREGULARITIES £M

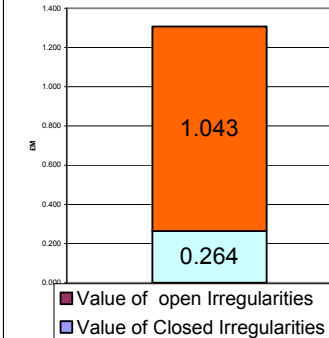
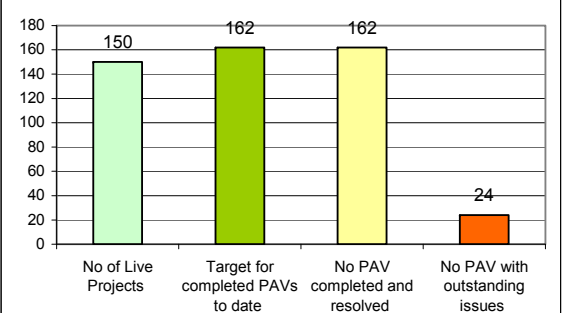
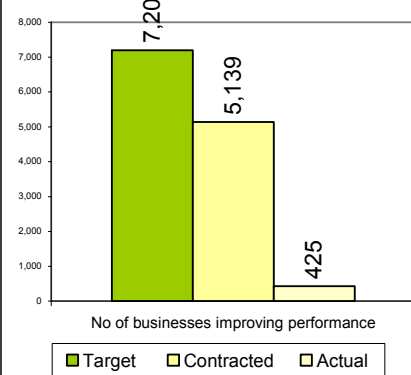


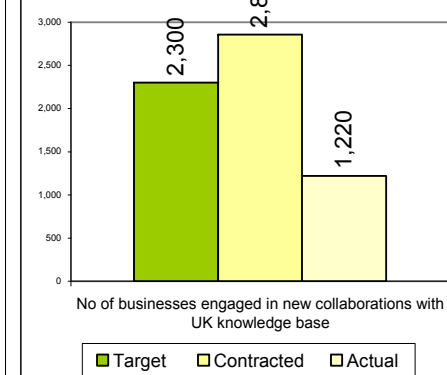
Chart J- PAV VISITS



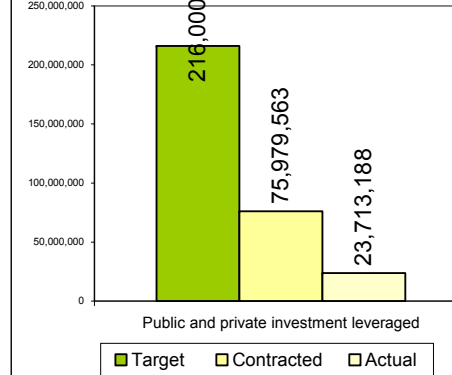
Output: Businesses improving performance



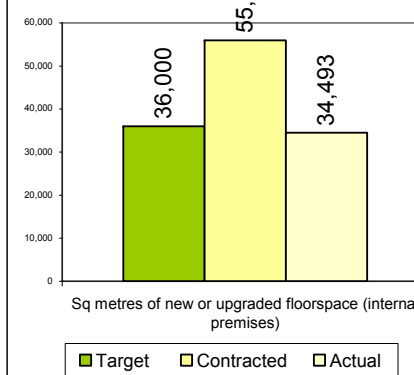
Output: Businesses engaged in new collaborations



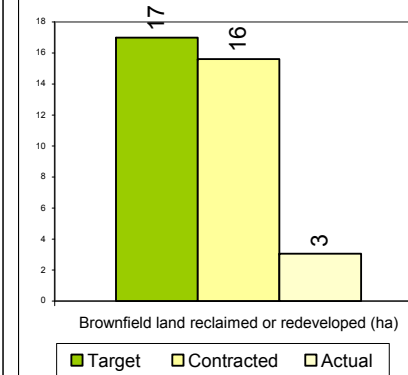
Output: Private and Public investment leveraged



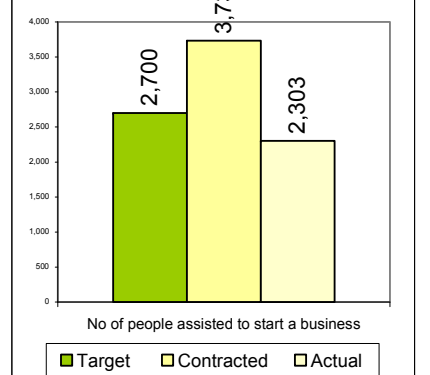
Output: New or upgraded Floorspace



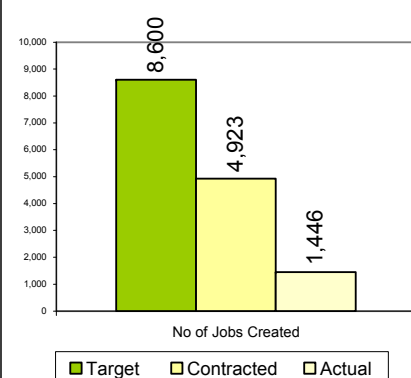
Output: Brownfield land reclaimed or redeveloped



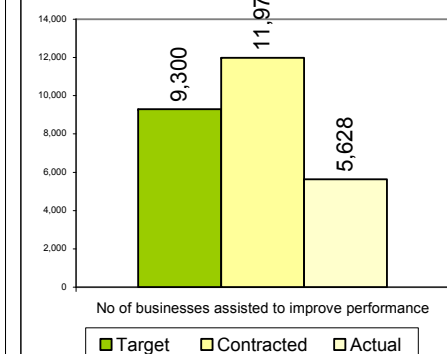
People assisted to start a business



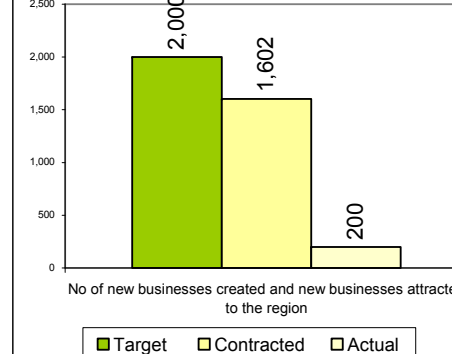
Result: Jobs Created



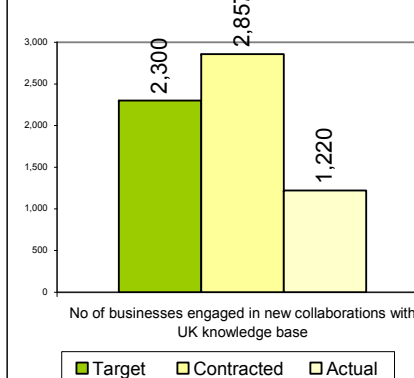
Result: Businesses assisted to improve performance



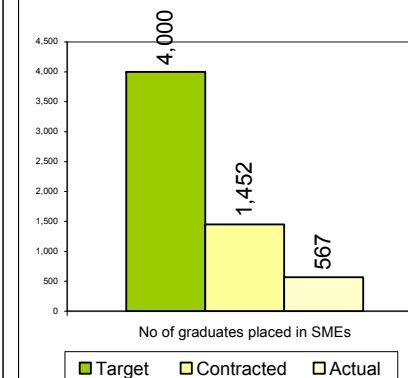
Result: New businesses created and new businesses attracted to the region



Result: New Collaboration



Result: Graduates placed in SMEs



Annex D

Project	Applicant	ERDF Requested	RGF	Application Stage
Environmental Technology Centre 5	University of Nottingham	£5,519,228		Invited to submit full bid
Intelligent and Electric Vehicles Project	Coventry University Enterprises	£902,080		Rejected at EOI Stage
Derbyshire Well Connected - Business Support	Derbyshire County Council	£41,125,000		Rejected at EOI Stage
Enterprise Inc. Phase 2	East Midlands Incubation Network	£3,020,000		Invited to submit full bid
Institute for Advanced Manufacturing	The University of Nottingham	£2,406,800		Invited to submit full bid
East Midlands Active	Breckland Council	£3,500,000		Rejected at EOI Stage
Renewable Energy for Business	Leicester City Council (Leicester Energy Agency)	£475,250		Rejected at EOI Stage
Creating High-Growth Life Science Start-Ups	Mobius Technology Ventures Limited	£867,000		Invited to submit full bid
Fit-Out of Incubation Facilities	Biocity Nottingham Limited	£803,000		Invited to submit full bid
Brackmills Environmental Sustainability Targets	Brackmills Industrial Estate Limited	£666,000		Rejected at EOI Stage
Internationalising East Midlands SMEs	EMB Limited	£9,181,899		Invited to submit full bid
Business Coaching for Growth	EMB Limited	£12,600,000		Invited to submit full bid
Grantham Business Innovation Centre	SKDC	£4,810,000		Invited to submit full bid
Reducing Carbon Emissions in SMEs +	Leicester City Council (Leicester Energy Agency)	£138,500		Rejected at EOI Stage
Outreach Innovation Business Support	Nottinghamshire County Council	£150,000		Invited to submit full bid
Collaborate to Innovate	Loughborough University	£1,792,766		Invited to submit full bid
Eminate - Business Innovation Through Technology	Eminate Limited	£1,110,408		Invited to submit full bid
Graduate Innovation Growth	The NE Group	£1,255,850		Rejected at EOI Stage
Delapre Abbey Stables	Northampton Borough Council	£3,185,637		Rejected at EOI Stage
Northamptonshire and Low Carbon	Northamptonshire Enterprise	£1,260,000		Rejected at EOI Stage

Businesses	Partnership			
Let's Do Business	University of Derby	£2,183,733		Rejected at EOI Stage
Sports and Leisure Cluster	Bolsover District Council	£5,000,000		Invited to submit full bid
The Hive - Graduate Entrepreneurship	Nottingham Trent University	£975,000		Rejected at EOI Stage
Avenue Knowledge Transfer Network Centre	North East Derbyshire District Council	£3,478,250		Rejected at EOI Stage
Biotech 2020	Global Biotechnology Transfer Foundation Ltd	£5,000,000		Rejected at EOI Stage
Sustainable Materials and Recycling Technologies Centre	University of Leicester	£15,137,287		Invited to submit full bid
East Midlands Manufacturing Advisory Service	PA Consulting Services Limited	£2,742,989		Invited to submit full bid
Graduates Leicestershire	University of Leicester	£1,837,255		Rejected at EOI Stage
Advanced Structural Dynamics Evaluation Centre	University of Leicester	£5,512,400	√	Invited to submit full bid
Innovation Partnerships Regular	University of Leicester	£503,190		Invited to submit full bid
Ashwell Business Park	Rutland County Council	£3,067,000		Invited to submit full bid
East Midlands Existing Homes - Gd+	Leicester City Council	£5,272,000		Rejected at EOI Stage
Lipid and Starch Centre	The University of Nottingham	£1,470,000		Invited to submit full bid
Chemistry Innovation Lab Plus	The University of Nottingham	£7,399,707		Rejected at EOI Stage
Space Technology Applications 4 Business	University of Leicester	£2,741,774		Rejected at EOI Stage
Supporting Social Innovation	Derbyshire Learning and Development Consortium	£445,413		Rejected at EOI Stage
Connecting Nature Innovation Science Hub	Twycross Zoo East Midlands Zoological Society Ltd	£6,000,000	√	Invited to submit full bid
Low Carbon Corridor	Blueprint (General Partner) Ltd	£10,736,886	√	Invited to submit full bid
East Midlands Innovation Fund	Growth Investment Network East Midlands	£9,000,000		Rejected at EOI Stage
Innovation Fellowships IV	The University of Nottingham	£1,000,000	√	Invited to submit full bid
Partnerships in Knowledge Transfer	East Midlands Incubation Network	£2,424,066		Invited to submit full bid

Leicestershire Business Innovation Centre	De Montfort University	£336,000		Rejected at EOI Stage
e-IDDEA	electronic - Innovation Design Development and Exploration Access	£2,975,760		Rejected at EOI Stage
Centre for Partnership and Technical Innovation	Nottingham Trent University	£3,222,135		Invited to submit full bid
Sustainable Sourcing Future Factory	Nottingham Trent University	£2,867,486		Rejected at EOI Stage
SME's Arts Design & Digital Media	Afro-Caribbean Education & Training Services	£308,695		Rejected at EOI Stage
Sleaford Innovation and Enterprise Centre	North Kesteven District Council	£2,990,314		Rejected at EOI Stage
East Midlands Media Innovation	E.M. Media	£5,900,000		Rejected at EOI Stage
Ashbourne Innovation Centre	Experience Ashbourne Ltd	£1,384,049		Rejected at EOI Stage
Centre for Spiritual Development, Reflection and Dialogue	International Society for Krishna Consciousness	£4,214,000		Rejected at EOI Stage
The National Centre for Agronomy and Crop Science	University of Lincoln	£6,666,667		Rejected at EOI Stage
Leicester Innovation Workspace	Leicester City Council	£4,902,848		Invited to submit full bid
Space Technologies Growth Fund	University of Leicester	£310,000		Rejected at EOI Stage
China Services for Business Innovation	The University of Nottingham	£908,411		Invited to submit full bid
Postgraduate Placements in Local SMEs (Phase 2)	The University of Nottingham	£761,500		Invited to submit full bid
Healthcare Product Development Hothouse	Medilink East Midlands	£1,935,025		Invited to submit full bid