east midlands
competitiveness programme
european regional development fund

East Midlands ERDF Competitiveness Programme 2007-13

Interim Programme Assessment

Final Report

August 2010

SQW

Contents

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Executive summary

The programme

1.	The **East Midlands European Regional Development Fund (ERDF) Competitiveness Programme** was formally adopted by the European Commission on 13 December 2007. It is structured around three Axes:

- **Priority Axis 1** (PA1) addresses innovation and sustainable business practice

- **Priority Axis 2** (PA2) supports sustainable economic and enterprise activity in disadvantaged communities and has a spatial focus

- **Priority Axis 3** (PA3) provides 'technical assistance', available to support management, monitoring, evaluation, information and control activities.

2.	The programme is overseen by a **Programme Monitoring Committee** (PMC) composed of regional partners. The PMC oversees the effectiveness and quality of programme implementation, approves significant documents and monitors progress. There are Sub-Groups for each of the two principal Priority Axes. Overall, the programme has a budget of €268.5 million, currently equivalent to £231.5 million.

Changing context

3.	Since the programme commenced, the most important change in economic circumstance has been the 2008/10 recession. It would appear, however, that this has not been quite as severe as previous recessions and that the UK and the East Midlands region are now emerging from the downturn. Nonetheless, the analysis of data supporting the programme suggests that the main issues affecting the region prior to the recession, for example lower than average productivity and skill levels and low levels of enterprise compared to the rest of the UK, are still present. The consultations suggested that despite the recession, partners in the programme continued to see it as an appropriate response to the region's economic challenges and that there is no need for the programme to change shape because of the effects of the recession.

4.	A second important change in context has been the change in government and the resulting spending cuts, emergency budget and (to follow in autumn 2010) comprehensive spending review. This has created two main areas of uncertainty:

- **Funding restrictions on public sector bodies** cast doubt on their capacity to match fund ERDF; projects containing Single Programme match funding are no longer able to be contracted. Our recommendations for addressing match funding difficulties are set out in the sections that follow.

- **The abolition of the Regional Development Agencies** and the Government Office for the East Midlands. Local Enterprise Partnerships may be established to take on

some functions but where and when (and what shape these will take) is unclear. With *emda* as the main regional accountable body for the programme and the Government Office providing the Chair of the PMC, it is certain that the current arrangements for managing the programme will be subject to change.

5.   This Interim Assessment has looked at the experience of the programme so far and makes recommendations which we believe are pertinent, whatever the shape of the delivery arrangements in the future.

Programme performance

6.   Overall, the programme has performed very well in many respects. There is no fundamental unhappiness among partner organisations about the way it has developed or the progress that has been made and there is great respect for and confidence in the ERDF Team. There is clearly good progress in securing commitment of resources to good projects, especially under PA1, and no major worries so far about the overall level of programme spend. The programme is securing a good level of additionality in that much activity is being supported that would not be there had the programme not existed. There is also a clear indication of influence on the shape that activity takes, though less evidence of the programme showing leadership; in fairness, this has probably not been one of its functions so far.

7.   Levels of spend are good; outputs and some results are beginning to emerge but most results and impacts are yet to come as the projects which have benefited from ERDF support are in most cases still developing. Results and impacts will be picked up in the 2012 evaluation but there is nothing so far to suggest that targets will not be reached.

8.   There are lessons, however, from this Interim Assessment about ways in which the programme might do some things differently or incrementally change direction. None of this is fundamental. Our recommendations are set out next.

PA1

9.   The programme under PA1 is progressing well with a good range of projects in line with the Operational Programme and Investment Framework. There is no need or demand for radical change. The areas to be considered under PA1 in the second half of the programme are more to do with the focus for the remainder of the funding allocation and supporting the delivery of the portfolio of approved projects. The activity promoted under PA1 is generally considered to be good quality; the spend commitment is also very good. The balance of project activity is orientated towards:

- technology or knowledge transfer

- SME innovation support

- SME environmental innovation/support.

10.   The challenge now is to focus on gaps in the portfolio as it has developed so far and ensure that projects can support each other to maximise benefits for businesses.

Recommendation 1: Consider how the absorption capacity of businesses can best be addressed through development of programmes to support leadership and management development within businesses.

Recommendation 2: Consider how the ladder of funding can best be addressed to augment the seed funding mechanisms (e.g. Lachesis) already in place.

Recommendation 3: Develop more opportunities for general networking among project managers, not related to the management of the programme.

PA2

11.   Performance has been less good under PA2, most notably in terms of funds allocated to approved projects. There are reasons for this to do with how project ideas are generated, the fact that there was not a 'pipeline' of projects ready to start when the programme commenced and temporary difficulties to do with the Solutions for Business (SfB) categorisation of business support activity. That said, PA2 has catching up to do compared with PA1. The PA2 projects supported come under the following main categories:

- public realm and regeneration

- pre-start or start up support

- SME business support.

12.   We do not support the idea that because financial commitment so far under PA2 has lagged behind PA1, resources should be reallocated from PA2 to PA1. The reasons are as follows:

- the level of commitment under PA2 projects is likely to increase to more acceptable levels as systems (e.g. SfB) become embedded

- it is well recognised among partners that there is an important place for the programme in promoting activity in disadvantaged communities

- the possibility of 'viring' funds from one Axis to another was not mentioned once in the consultations for this assessment.

Recommendation 4: Retain the global financial allocations to PA1 and PA2 as they stand at present.

13.   A key element of PA2 is the spatial targeting to 12 districts. Partner organisations consulted were clear that the programme should continue to have this element, focusing on the most disadvantaged areas. There was agreement that the analysis on which this ranking was made was correct. There was awareness nonetheless that the list of the 12 most disadvantaged areas

has changed since the programme was launched with one area out and another in. The implications of this will need to be discussed at the PMC.

Recommendation 5: Retain the spatial focus.

14. The problems to do with the uptake of PA2 are likely to become worse in the immediate future as the resources available to partner organisations in the public sector become more restricted. It may be that raising the intervention rate for this priority axis will improve the level of uptake, or at least, prevent it from falling. From the European Commission's perspective, the condition of funding is that overall the global intervention rate should not exceed 50%; however, within this, there is scope for variation. So far under PA2 the global rate currently stands below the average expected, leaving scope for intervention rates to rise in future years. We do not believe that this is necessary under PA1, but it is possible that it would help to assist in the development of good projects under PA2.

Recommendation 6: Raise the intervention rate under PA2 from its current level for new project approvals; retain the current 40% rate for PA1 projects.

15. There is a view that greater competition for project funding across the programme might lead to increased project quality. We believe that this would be worth trying, possibly in the form of a 'challenge fund'. Under this, invitations for project submissions could be made on a regular basis, with the possibility that the intervention rate could again be higher, funding taken equally from the remaining regional and district allocations under PA2.

Recommendation 7: Consider introducing a PA2 'challenge fund' with intervention rates above the average level for PA2.

16. PA2 has had a focus on introducing ideas relating to enterprise into disadvantaged areas. However, it is seen as being restrictive in scope and, in order to stimulate uptake, there may be a case for widening this to include a range of new activities that might be supported. By broadening the scope of activities for which support might be available, it is possible that renewed interest might be stimulated. Some possibilities might be:

- development and expansion of social enterprises

- support for enterprise within BME communities

- support for creative/media and tourism projects with a business focus.

Recommendation 8: Consider broadening the scope of activities that can be supported under PA2.

17. It is possible that these suggestions, if they are taken up, may not work. In view of the rapidly changing situation, it would be wise to review matters at some time in the future and consider how far other measures might be taken or more radical suggestions might be required.

Recommendation 9: Should any of these suggestions be taken up, their success in altering the shape of PA2 should be reviewed in, say, 18 months with appropriate follow up action taken.

PA3

18.   So far, there has been only limited uptake of PA3 resources. It appears that applicants have been put off by the perceived administrative burden and lack of match funding. In practice, this burden seems to be less than they might think. It was suggested that there should be more flexibility in the future to allow for 100% ERDF-funded technical assistance projects that could help to develop capacity and interest amongst social enterprises and minority groups.

Recommendation 10:   Consider activities to stimulate uptake of PA3 and remove the 'mystique' attached to it. Especially consider its use as a vehicle for raising capacity and capability in areas and among groups where more project activity could be beneficial.

Cross cutting theme (CCT) – environmental sustainability

19.   The environmental sustainability CCT has been mainstreamed into the programme in a way that is powerful with respect to physical build projects. Mechanisms for reporting the performance of the programme against the sustainability CCT are now being developed by the ERDF Team. The current set of regional indicators from the Strategic Environmental Assessment is of limited value in establishing programme environmental impact, and project-level indicators tend to be activity rather than output focussed. The programme has a number of projects that are focused on supporting SMEs to improve environmental performance. The environmental impact of these is not currently being captured and a review of how that might be addressed would be a useful input into any later impact evaluation.

Recommendation 11:   The ERDF Team should be encouraged to continue the work to develop a wider range of project level indicators against which projects, especially those relating to business development, can report individual changes to and improvements in environmental performance.

Cross cutting theme - equality

20.   Projects are addressing the equality CCT in terms of supporting under-represented groups and targeting disadvantaged areas (under PA2). Similarly, stakeholders and project managers are confident that projects are monitoring outputs where possible. However in the absence of any specific targets, it is currently difficult for the programme's performance to be assessed. In order to capture better projects' contribution to the equality CCT, we would suggest that the programme produces a number of equality targets as well as case studies highlighting how the theme has been mainstreamed within projects.

Recommendation 12: The equality theme is relatively easy to monitor and project managers take it seriously; however, there could be targets for achievement of diversity among beneficiaries; case studies would also help to demonstrate how important these themes are and how effectively they can be integrated into projects.

Strategic Added Value (SAV)

21. The additionality of the programme in influencing the existence, scale and breadth of projects, has been good. There has also been a contribution to SAV to do with influencing the shape of activity and promoting networking among projects and organisations. We would suggest that more efforts need to be made to promote networking which so far has mainly been about explaining the workings of the programme. It might be helpful to provide opportunities for project managers from similar types of projects to meet and compare experience.

Recommendation 13: Consider expanding the programme's role in promoting networking among project managers.

Administration of the programme

22. The PMC is the main guiding element of the programme but it is fair to say that overall it has been passive in function with limited engagement by members and influence on direction. There may now be opportunities to look again at the PMC, for example if a new Operational Programme has to be submitted to the Commission. Whatever shape regional structures take in the future, we believe that there are two recommendations that will help to develop the PMC commitment to the programme.

Recommendation 14: Introduce an induction process for all new PMC members with refresher courses for all existing members.

Recommendation 15: Supplement the financial reporting to the PMC with intermediate level analysis of allocations, outputs and results and more project case studies.

23. The Sub Groups are lacking in direction at present. However, there is no desire among Sub Group members for the groups to cease and given the major issues likely to affect the programme over the coming months, it will be important to retain these forums. It will also be important that the Sub Groups develop a positive and cooperative outlook in contrast to the somewhat adversarial approach that seems to have been the case in some instances to date.

Recommendation 16: The Sub Groups should remain.

24. The ERDF team is highly regarded. The time may be right for the Team to develop a more proactive role, not in project development, but in taking an overview of the portfolio of projects and identifying gaps that partner organisations might start to fill.

Recommendation 17: The ERDF Team should consider developing a more proactive role in identifying gaps in the overall programme portfolio of projects.

25. The process of application and approval will always be rigorous and time-consuming. Many aspects of it cause no problem. However, there is much unhappiness about aspects to do with

approval and claims processes and while problems might not be laid at the door of the ERDF Team, better communications might help change attitudes.

Recommendation 18: Communications between the ERDF Team and applicants should be developed in relation to a target time line for applications and regular feedback to applicants about the stage that their application is at in the process.

Recommendation 19: Consider designating single application managers from within the ERDF Team, assigned to projects at full application stage; involve the local authority leads more in the process of project appraisal and approval by keeping them in the picture about progress and securing their inputs where these would be helpful.

Monitoring and evaluation

26.   The monitoring system is flexible and fit for purpose for monitoring and future evaluation; however the lack of reporting functionality has been a barrier to reporting. Performance reporting in respect of expenditure at programme and Priority Axis level now needs to be supplemented with reporting on projects and outputs at priority strand or indicative action level to enhance the information available to the PMC and others. Some aspects of the administration and monitoring requirements of the programme are considered burdensome, and may be off-putting to applicants for smaller projects; while the ERDF Team are supporting project managers well, this nevertheless is an important message to feed back. The targets for the programme do not need to change because of the recession though their interpretation will need to be undertaken with care; an indicator relating to jobs safeguarded might be introduced.

Recommendation 20: Consider adding 'jobs safeguarded' to the list of programme indicators.

27.   There is some uncertainty over future evaluation requirements but when management arrangements for the programme become clearer, it should be possible to develop evaluation guidance for projects (at a simpler level than the existing 'toolkit'); this might also incorporate collection of information on environmental impact.

Recommendation 21: Take forward the preparation of evaluation guidance for projects that may be undertaking their own evaluations as well as those that will be covered under the programme-level evaluation.

1: Introduction

1.1   This report presents the findings of an Interim Assessment of the 2007-2013 East Midlands European Regional Development Fund (ERDF) Competitiveness Programme. The Operational Programme document sets out the strategy for delivering ERDF in the East Midlands over the period. SQW has been commissioned by the East Midlands Development Agency (*emda*) ERDF Team to undertake a series of evaluations relating to the programme. This report sets out the results of the first element in the series, the **2010 Interim Programme Assessment**.

Programme structure

1.2   The programme was formally adopted by the European Commission on 13 December 2007 following a period of stakeholder consultations and negotiations with the Commission. It is structured around three Axes. **Priority Axis 1 (PA1)** addresses **innovation and sustainable business practice**. While the East Midlands is performing well in some areas, with above average levels of employment and relatively high levels of economic growth, it is lagging behind the rest of the UK in terms of productivity. This situation has been brought about by a number of factors including the region's industrial structure, its reliance on traditional production activities and the level of the skills base.

1.3   **Priority Axis 2 (PA2)** supports **sustainable economic and enterprise activity in disadvantaged communities** and provides a spatial element to the programme. The restructuring of legacy industries, along with issues of geography, mean that not all areas have benefitted from regional growth. Deprivation in the East Midlands is concentrated in the urban centres, the former coalfield areas, remote rural areas and the Lincolnshire coast. The focus of PA2 has been to provide support and resources to localities with high levels of deprivation and low levels of enterprise activity to help create the conditions to generate new and sustainable forms of economic activity.

1.4   **Priority Axis 3 (PA3)** provides **'technical assistance'** for the programme. The Operational Programme document explains that this is available to support the management, monitoring, evaluation, information and control activities of the programme and other activities to support the administrative capacity for implementation. It includes publicity and communications, support for the cross-cutting themes and monitoring and evaluation systems.

1.5   The Managing Authority for the Operational Programme over England as a whole is the Department for Communities and Local Government. The Regional Development Agency for the East Midlands, *emda,* is currently the Intermediate Authority, responsible for the management of the programme within the region, including the selection of operations for funding, verifying that projects are delivered, keeping monitoring information and securing the evaluation of the programme. *emda* have appointed the secretariat team (the 'ERDF Team') to manage the day-to-day operations of the programme, including all main reporting requirements.

1.6   The programme is overseen and strategically guided by a **Programme Monitoring Committee** (PMC) composed of important regional stakeholders. The PMC oversees the effectiveness and quality of programme implementation. It is chaired by the Government Office for the East Midlands (GOEM) and comprises members drawn from the public, private and voluntary sectors. It approves significant documents and monitors overall progress of the programme.   There are Sub-Groups of the PMC for each of the two principal Priority Axes.

Evaluation of the Programme

1.7   The PMC approved a comprehensive monitoring and evaluation strategy at the beginning of the programme. This recognised that the European Commission no longer required a strict programme of evaluations defined centrally but had adopted a more flexible approach to evaluation. The Commission now required Member States to undertake 'ongoing evaluation' through which evaluations could be linked to programme monitoring.

1.8   In the **East Midlands Programme Monitoring and Evaluation Strategy**, the overall aim of evaluation activity has been stated as to:

> *….understand the effectiveness and impact of the Operational Programme in delivering the overarching objective to become a region of highly productive, innovative and sustainable businesses and support the most disadvantaged of our communities to realise their economic potential.*

1.9   Recognising the flexibility in approach recommended by the Commission, the evaluation strategy set out a three-stage evaluation process, as follows:

- **Interim Programme Assessment – 2010:** to assess whether the focus of the programme continued to be relevant, given economic or other changes in the East Midlands, and whether the delivery arrangements were still the most appropriate to ensure effective implementation.

- **Interim programme performance and impact evaluation – 2012:** to assess the first years of programme delivery in relation to performance and impact, particularly economic impact, broader impact (including sustainable economic development), regional impact in relation to partner and stakeholder expectations, and lessons learned.

- **Final programme performance and impact evaluation - 2015:** to assess the overall impact against the programme's aims and objectives and the contribution that it has made to agreed regional outcomes as set out in the Regional Economic Strategy.

1.10   Throughout, it was expected that the evaluation arrangements should align with (and possibly form part of) broader *emda* evaluation activity in view of the likelihood that there would be many projects that would be jointly funded by ERDF and Regional Development Agency Single Programme resources.

The purpose of the Interim Assessment

1.11   This report sets out the results of the **Interim Assessment**. It is a 'light touch' assessment taking place two years[1] after the programme has commenced but while there will still be some opportunities for change over the remaining life of the programme. It is not an economic impact evaluation; that will follow in 2012. Rather, the assessment has focussed on:

- whether the programme going in the right direction

- are the administrative and delivery processes efficient and effective

- how effectively are the cross cutting themes of equality and environmental sustainability being addressed

- how effective are monitoring mechanisms and processes and what needs to be done to plan for the next main evaluation

- how far targets and performance indicators still appropriate

- how effective is the promotion of the programme

- has the programme delivered 'Strategic Added Value'

- what are the overall lessons to be learned and which recommendations would be helpful to improve the Programme for the remaining period of its life?

1.12   These subjects are each covered in the individual Sections that follow in this report.

Sources of evidence

1.13   Because this is not an economic impact assessment, the conclusions of this report are not based on direct contact with final beneficiaries. The principal source of information relating to direction and performance under the above headings has been 45 consultations among:

- principal stakeholders, mainly the senior managers from partner organisations that make up the PMC (20 consultees)

- managers of approved projects (19 consultees)

- the *emda* ERDF Team (six consultees).

1.14   Our conclusions are drawn mainly from these sources. Within these totals there were eleven consultations with local authority representatives and four with universities. Other sources of evidence have been:

- documents and papers associated with the programme

- regional and local statistics.

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[1] Although the programme formally commenced in 2007, there was no real project activity until 2008.

Changing context

1.15   The programme formally commenced in 2007 (though actual implementation started some time after that). In effect, the analysis on which the programme was based took place in 2006 and 2007. Since then, the most important change in economic circumstance has been the 2008/10 recession. As this report is written, it would appear that the UK and the East Midlands region are now emerging from the recession, but with the future still uncertain. A concern for this assessment has been how far the programme might need to change to accommodate circumstances somewhat different from those in place when the programme was first put together. We comment on this later in the report as well as in Section 2 which describes the effect that the recession has had on the region through analysis of the main relevant indicators.

1.16   The second important change in context has resulted from the change in government and the resulting immediate spending cuts, emergency budget and (to follow later) comprehensive spending review. This has created two main areas of uncertainty:

- **Funding restrictions on public sector bodies** cast doubt on their capacity to match fund ERDF allocations; this will affect the programme overall but is likely to be especially marked under PA2. As this report is being written, projects containing Single Programme match funding are, for the time being, no longer able to be contracted. Projects are already being affected by the funding restrictions. In Section 5 we set out our recommendations for addressing match funding difficulties in response to this and other uncertainties, especially in relation to PA2.

- **The abolition of the Regional Development Agencies** (RDAs) and the Government Office for the East Midlands. The documents accompanying the emergency budget of June 2010 made clear the government's intention to abolish RDAs. Local Enterprise Partnerships may be established to take on some RDA functions but where and when (and what shape these will take) is unclear. With *emda* as the main regional accountable body for the programme and the Government Office providing the Chair of the PMC, it is certain that the current arrangements for managing and delivering the programme will be subject to change. It is likely that the Operational Programme document will have to be re-submitted to the Commission (probably early in 2011) to reflect any consequent changes made to the management arrangements.

1.17   We cannot predict what the outcome of this uncertainty will be. However, this assessment has looked at the experience of the programme so far and makes a series of recommendations, some to do with management and delivery, based on the evidence gathered. We believe that these recommendations are pertinent whatever the shape of the delivery arrangements in the future and indeed, they should help to shape the delivery of the programme, subject to change as it might be.

Report content

1.18   The section of this report which follows describes the statistical background to the programme. This is followed by a section which covers progress so far on implementation.

The assessment then covers the findings under each of the main relevant subject areas in turn. The final Section of the report draws the analysis together, summarises the main points and lists recommendations.

1.19   Separate annexes cover the full regional statistical analysis and a list of all those consulted during the course of this Interim Assessment.

2: Regional context

2.1 The programme is based on a rigorous review of the economic circumstances in the region; this review originally took place as the programme was being put together. This Section of the report reviews some of the relevant data used in order to establish how far there has been any significant change since the earlier analysis was undertaken. It specifically looks at:

- regional economic change since 2007

- the impact of the recession in the East Midlands

- analysis of change within PA2 district areas

- implications for the programme.

Regional economic change

2.2 A key question is how far the socio-economic context in the region - which provides the rationale for the programme - has changed since the programme was put together in 2007. The original programme set out a full analysis, which was summarised in Section 2 of the Operational Programme (OP) document[2]. This has formed the framework for the follow-on analysis summarised here.

2.3 The original socio-economic analysis focused on 13 themes (population, economic context, business demography, etc) and considered a number of data indicators under each theme. For the purposes of this analysis we have focused on the same themes but looking at only one key indicator per theme, as it would be a disproportionately resource-intensive task if we were to replicate, for this 'light touch' assessment, all the indicators examined in the original analysis. Also under each theme we have looked at the key trends or findings set out in the OP to assess how, if at all, the new data changes the assessment of earlier trends or findings.

2.4 The full updated analysis with illustrations is in Annex A; the following (Table 2-1) is a summary of the key points from this analysis under the 13 themes. It should be noted that the most recent data for many of the indicators is only available up to 2007 or 2008 (the original analysis was based on data that at that time was sometimes several years out of date). Therefore, the effects of the recession will not be accounted for in many of the indicators. Hence we have looked at some more recent statistics under a separate heading later in this Section.

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[2]Full socio-economic analysis, see Annex 3 or a summarised version in Section 2 of the Operational Programme, available at
http://www.eastmidlandserdf.org.uk/index.php?option=com_docman&task=cat_view&gid=57&Itemid=57

Table 2-1: Updated socio-economic analysis	
Theme	**Key trend**
Economic Context	In the OP, Gross Value Added (GVA) GVA per job filled in 2004 was 96% of the UK average. In 2007 GVA per job filled was 92.3% of the UK average. This decline of 3.8% since 2004 suggests that the productivity gap between the East Midlands and the UK has increased. This interpretation needs to be qualified, however, as we understand that methodological and statistical factors, as well as real change, may explain the difference.
Business Demography	The 2006 data presented in the OP show that there were over 127,000 VAT registered businesses in the East Midlands, 6.9% of the UK total.
	The most recent data shows at the year end 2007, over 139,000 businesses were registered for VAT in the East Midlands, an increase of over 9%, 6.9% of the UK total. The VAT registered business stock in the region increased by 24% between 1996 and 2007, slightly above the increase for the UK. Overall more recent trends are consistent with those identified in the OP. As in the OP, the proportion of businesses in the region in the service sector is still 5% below the UK average.
Employment and unemployment	In the OP the economic activity rate in the East Midlands in 2005 was above the average for Great Britain (79.5% compared to 78.4%); the employment rate was also above the GB average (75.8% compared to 74.6%).
	In 2008, the economic activity rate of the region was still above the average for Great Britain (80.8% compared to 78.8%) as was the employment rate. The economic activity rate of the region has been steadily increasing in recent years. The unemployment rate in 2008 was slightly below the average for Great Britain (6.8% compared to 6.9%). In 2009 median gross earnings in the region were £20,180, 95% of the UK average. The most recent employment data is consistent with the picture identified in the OP. It is also still true to characterise the region as 'low pay low skills'.
Population and Deprivation	In terms of population, the East Midlands is still the second smallest of the English regions with 4.4m people in 2008 compared to 4.3m in 2005 (from the OP). Population growth in the East Midlands was, however, above the national average between 2005 and 2008 growing at a rate of 2.4% compared to 1.9%.
	The most recent *Index of Multiple Deprivation* (IMD) rankings are in line with the OP and show that levels of deprivation in the East Midlands are still concentrated in the urban areas, the former coalfields area, remote rural areas and Lincolnshire coast. Nottingham is still the most deprived area in the region and South Northamptonshire the least. A detailed breakdown of the IMD for all districts is discussed later in this section.
Competition	In 2005 exports from the East Midlands were equivalent to 22.7 % of GVA well above the UK average of 19.3 %. On this basis, the East Midlands was one of the most open regional economies in the country.
	From the most current data, 2008, exports from the East Midlands were equivalent to 19.7% of GVA, only just above the UK average of 19.1%. The gap between the East Midlands average and the UK average has thus narrowed considerably and the proportion of regional GVA made up by exports has fallen. This is clearly against a backdrop of a general decline in world trade.
Enterprise	In the OP the number of GVA registrations per 10,000 population in 2005 was below the UK average (35 compared to 37); Global Enterprise Monitor Total Entrepreneurial Activity (TEA) indicator was 6%, slightly behind the UK average.
	In 2008, TEA in the East Midlands was 5.3% - still slightly behind the UK average. The number of GVA registrations per 10,000 population in the East Midlands was 37 compared to the UK average of 42. Overall the entrepreneurial gap between the East Midlands and rest of the country has increased slightly.
Innovation	Business enterprise R&D levels in the East Midlands in 2007 were just above the national average (1.4% of GVA compared to 1.3% of GVA in the UK) and have been since 1995. Similar to the OP data, the headline figure for R&D looks positive because a small number of large national companies undertake significant R&D. The most recent data is in line with the picture presented in the OP.

Investment	The OP document noted that in 2003, investment by UK owned companies in the East Midlands was equivalent to 5% of regional GVA. This was below the UK average. Investment by foreign owned companies in the region was 1.3% of GVA.
	By 2006, investment by UK owned companies in the East Midlands had increased slightly to 5.7% of GVA, still slightly below the UK average but the gap between the region and the UK had decreased a little. There was also an increase in investment by foreign owned companies in the region to 2.2% of GVA, above the national average of 1.8%.
Skills	In 2005, 14.8% of the economically active in the region had no qualifications, above the average of 14.4% nationally. Just 27% of the economically active were qualified to Level Four or above compared to 30% nationally.
	By 2008, the economically active in the region with no qualifications had fallen to 13.2%, but still above the average of 12.7% nationally. The East Midlands was still somewhat behind the rest of the country as regards higher level qualifications (27.7% of the economically active qualified to level four compared to 31.4% nationally).
Environment	Carbon dioxide emissions in the East Midlands still exceed the national average (comparing 2005 data to 2007). However the gap between the national average and the regional figures has decreased. The region still has some of the largest point sources of CO_2 emissions in the UK since it is a key location for the UK generation capacity.
	Total waste arising in the East Midlands was 24.3 million tonnes in 2006, 10.1% of the total for England. Forty-percent of the waste was from construction and demolition, 28.6% from industry and commerce and 9.5% from household sources. The most up-to-date waste data is in line with the picture presented in the OP.
Equalities	Much of the original data on equalities was based on Census data and updates will not be available until 2011 at the earliest. However, the economic inactivity rates are the same as in the OP and are relatively high among women and those from ethnic minority groups. However, in respect of both or these groups, economic inactivity rates had fallen between 2005 and 2008, from 25% to 23% for women and from 30% to 28% among ethnic minorities.
Rural	GVA per head in 2004 tended to be below the regional and national averages in the (best fit) rural areas of the region (in South and West Derbyshire *80.5%,* North Nottingham *77%,* Leicestershire CC & Rutland *89%* and Lincolnshire *74%,* though some figures are affected by commuting patterns. Only in Northamptonshire was GVA per head above the national average.
	Rural GVA per head figures for 2007 were generally consistent with those presented in the OP. In general the same areas were still below the regional and national averages and Northamptonshire had fallen below the national average at 99.8%.
Urban	The urban areas in the region tended to under-perform on a range of economic and labour market indicators. Levels of GVA per head were relatively high in the urban areas but the figures are affected by commuting patterns. The average employment rate for the region's urban districts in 2005 was 72.5%, which was 3.3% below the national average. Nottingham and Leicester had employment rates that were around 11% below the regional average.
	By 2008, the average employment rate for the region's urban districts was 71.9%, now 2.1% below the national average. Leicester and Nottingham had employment rates that are 13% and 11% respectively below the regional average in 2008. The picture has changed little since the OP was written with urban areas tending to under-perform on labour market indicators.

Source: SQW analysis (see Annex A for full references for each data source)

Summary of the regional economic changes since 2007

2.5   In most cases, the data suggest very limited change in regional economic circumstances compared to the background that helped shape the OP document. However, there are three important areas where the picture has changed since the earlier analysis was undertaken and which might be considered as relevant background as the programme moves forward:

- the tougher conditions in world trade have seen the region's exporting performance decline somewhat compared to the previous analysis

- the productivity gap between the region and the rest of the country appears not to have improved

- however, investment from outside the UK in the region has proportionality increased.

The impact of the recession in the East Midlands

2.6 Because of lags in production of data, much of the data used for the broad socio-economic analysis relates to the period before the recent downturn. To gain a sense of the impact of the downturn we have looked at some more recently published statistics. The full analysis (in Annex A) sets out the timeline for the recession and looks at some statistics in the East Midlands for this period (unemployment rates, Job Seekers Allowance claimants, notified vacancies, Purchasing Manager Index, house prices). The following is a summary of the key points:

- over the period 2008 – early 2010, unemployment levels in the East Midlands were not as severe as in the wider UK; figures peaked in late 2009 and then declined

- in the region, as in the UK, men were more severely affected than women

- the level of Job Seekers Allowance claimants in the recession reached approximately 112,000 at its peak but this was significantly below the levels recorded in the region in past recessions; in both the 1980's and early 1990's the number of claimants reached around 200,000

- Purchasing Manager Index (PMI) data suggest that in late 2008, the output levels in the region hit their lowest levels in over ten years and were below UK levels

- since early 2009 activity levels in the region have been rising steadily; as this report is written, East Midlands companies have increased their activity for a thirteenth consecutive month.

2.7 Overall the most recent data would indicate that while the region was not immune to the effects of the recession, it was no more severely affected than other regions and the unemployment effects have not been as severe as during previous recessions. In fact, if the most recent unemployment figures[3] for all the regions are considered, the East Midlands had the second smallest increase in unemployment (after only the South West). The most recently published data would also indicate that positive trends are starting to emerge in the region with unemployment decreasing, business activity increasing and the number of vacancies increasing.

Analysis of change within PA2 areas

2.8 This section has looked so far at the statistical base for the programme. It is also helpful to look at the basis for the selection of the 12 priority disadvantaged areas (see Section 5) which have benefited from specified indicative financial allocations under PA2. The challenge for

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[3] Labour Force Survey, seasonally adjusted unemployment rate comparing the period February – April 2008 to February – April 2010, accessed via NOMIS June 2010.

PA2, as discussed later, is to target resources at areas of need with low levels of economic and enterprise performance to help create the right conditions to generate new and sustainable forms of economic activity which will lead to a more knowledge-intensive economic base.

2.9   The methodology used for identifying these low-performing areas involved *emda* in ranking districts according to an average position over the five years 2001-05, where data was available across the following indicators:

- unemployment rate

- economic activity rate

- employment rate

- proportion of working age with no qualifications

- VAT registrations per 10,000 people

- self-employment rate

- average earnings.

2.10   The original district analysis has been updated by *emda* using the same indicators with information from 2005-08 (and 2009 where available). The highest district rankings from *both* periods are illustrated in Table 2-2.

Table 2-2: District rankings of disadvantage

District	Rankings on 2001-05 data	District	Rankings on 2005-08 data	Change in 05-08 ranking
Nottingham	1	Nottingham	1	-
Bolsover	2	Leicester	2	1
Leicester	3	Bolsover	3	-1
Ashfield	4	Mansfield	4	2
Corby	4	Ashfield	5	-1
Mansfield	6	Corby	6	-1
Lincoln	7	Derby	7	1
Derby	8	Lincoln	8	-1
Boston	9	Bassetlaw	9	1
Bassetlaw	10	Chesterfield	10	2
East Lindsey	11	Oadby and Wigston	11	2
Chesterfield	12	East Lindsey	12	-1
Oadby and Wigston	13	North East Derbyshire	13	5
Gedling	14	Broxtowe	14	2

District	Rankings on 2001-05 data	District	Rankings on 2005-08 data	Change in 05-08 ranking
Amber Valley	15	Boston	15	-6
Broxtowe	16	Kettering	16	12
West Lindsey	17	South Holland	17	2
North East Derbyshire	18	Northampton	18	3
South Holland	19	Newark and Sherwood	19	7

Source: emda

2.11 The rankings of the 12 most disadvantaged districts for support under PA2 have thus changed since the initial assessment:

- Boston is no longer in the top 12 districts, having fallen six rankings to 15th

- Oadby and Wigston is now within the highest 12 having moved up two places from an original ranking of 13th

- Nottingham City is still ranked the most disadvantaged.

2.12 There may be implications from this change in ranking. These are considered in section 5.

Summary and conclusions

- Overall the trends identified in the updated socio-economic analysis are consistent with those identified in the original OP document; though most of the OP conclusions are still relevant, regional performance in respect of foreign investment is better but the positions in relation to exports and productivity have deteriorated.

- The true impact of the recession is hard to tell at this stage but from the data that is available it would appear that the region is showing positive signs of emerging from the worst period with unemployment decreasing and business activity growing.

- The PA2 district rankings have changed slightly; this is considered in more detail in section 5.

3: Programme implementation to date

3.1   This section looks at how the programme overall has performed in terms of spend and project commitment. Later sections look at the detailed performance under PA1, PA2 and PA3.

Funding and spend levels over the programme as a whole

3.2   The total sum of ERDF resources available to be allocated to projects over the lifetime of the programme is approximately **€268.5 million**. Clearly, how this translates into Great Britain Pounds (GBP) will vary and intermittently, the global sums available will change to reflect movements in the £/€exchange rate. Until recently, the fall in the value of the £ has meant that more value in GBP was available than had been the case at the start of the programme. More recently, the exchange rate has moved the other way and this will mean that slightly less is available in terms of GBP. Movements in currency can have quite important consequences for the value of the programme. Currently, the programme is valued at **£231.5 million**[4].

3.3   The overall 'intervention rate' that must be achieved over the programme as a whole by the end of its life is 50/50 ERDF/match funding. However, as things stand at present, the intervention rates vary by Priority Axis; currently 40% ERDF in relation to PA1 and 62.72% ERDF in relation to PA2. The financial allocations to each Priority Axis, that will ultimately achieve the 50% match funding over the whole life of the programme, are as follows (Table 3-1). The highest proportion of funds is clearly expected to accrue to projects under Priority Axis 2 (PA2).

Table 3-1: East Midlands Competitiveness Programme financial allocations (£)

Priority Axis	Allocation (£ million)	% of total
PA1	£99.5	43%
PA2	£122.7	53%
PA3	£9.3	4%
Total	**£231.5**	**100%**

Source: ERDF Team; report to PMC 25 March 2010

3.4   By June 2010 (the latest date for which data is available) nearly **£89 million** of the above had been allocated to **107 formally accepted projects** or projects that had been offered funding agreements. This represents 38% of the total programme allocation. A further 13 projects were 'in negotiation' at that time, representing a further £10 million possible commitment. The addition of these projects would raise the committed spend level to 43%. This represents a generally good level of commitment, given the stage that the programme is currently at in its life, though the public sector funding restrictions expected might affect or delay the projects 'in negotiation'. That said, the programme exceeded its first 2007 N+2 spend target by over £5 million.

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[4] In this section, all values in GBP reflect an exchange rate of €1.16/GBP as in the Update report to the PMC of 25 March 2010.

3.5   This positive overall spend picture is not reflected equally between the Priority Axes; the level of commitment under PA1 is significantly higher than under PA2 (and PA3) – see Table 3-2. An explanation for this situation and suggestions for enhancing uptake under PA2 are contained in the sections which follow.

Table 3-2: Commitment so far by Priority Axis			
Priority Axis	**Allocation (£ million)**	**Commitment by March 2010 (£ million)**	**Commitment as % of overall programme allocation**
PA1	£99.5	£61.5	62%
PA2	£122.7	£25.4	21%
PA3	£9.3	£1.8	19%
Total	**£231.5**	**£88.7**	**38%**

Source: ERDF Team data and SQW

Outputs, results and impacts

3.6   Spend is crucially important for the programme but the programme will ultimately be assessed on the basis of the quality of projects supported and the outputs, results and impacts achieved. It is first helpful to explain what these terms mean in relation to the European Structural Funds[5]:

- **Outputs** are the goods and services created by the activities supported by the programme, for example, the number of businesses assisted

- **Results** are the immediate effects of the outputs, for example the number of jobs created in the businesses assisted

- **Impacts** are the wider impacts of the supported activities taking into account deadweight, displacement and leakage.

3.7   The programme has a series of performance indicators and targets to achieve. The indicators themselves are similar to those which have governed the performance of the RDAs (though they are not precisely the same) and the targets have been generated by looking at comparable levels of results and impacts for these indicators in relation to spend made. Supported projects report on their individual performance when making claims for finance. Under the monitoring arrangements for the programme, all projects are subject to at least one Article 13 Monitoring Visit during which (among other things) the 'evidence of outputs and the systems for recording them'[6] are checked. Thirty five such visits had been undertaken by the end of 2009.

3.8   The performance of the programme as a whole in relation to the indicators and original targets set is described in Table 3-3. The programme is making very good progress in relation to achievement of several outputs, in particular businesses assisted to improve performance,

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[5] See Operational Programme p. 42.
[6] Programme Monitoring Strategy p.9.

business engaged with the knowledge base and floorspace. However, there is a considerable way to go in relation to meeting the targets for results. This is understandable in view of the fact that projects are only now being approved in numbers and that it will take time for results to appear. However, the figures do provide an indication of the challenging targets that the programme is committed to and the work that needs to be done to generate results and monitor them accurately.

Table 3-3: Programme targets and outputs achieved by end March 2010

Performance indicator	Programme target	Achieved[7]	% achievement
Outputs			
No of businesses assisted to improve performance	9,300	1,968	21%
No of businesses engaged in new collaborations with the UK knowledge base	2,300	289	13%
Public and private investment leveraged	€216.0m	€7.9m	4%
Sq metres of new or upgraded floorspace	20,700	5,172	25%
No of people assisted to start a business	2,700	187	7%
Brownfield land reclaimed or redeveloped (ha)	17	0.04	0%
Results			
No of jobs created	8,600	349	4%
No of businesses with improved performance	7,200	197	3%
GVA resulting from businesses improving performance	€264.0m	€3.8m	5%
No of graduates placed in SMEs	4,000	64	2%
No of new businesses created and attracted to the region	2,000	15	1%

Source: ERDF Team

3.9   Another indication of progress being made, however, is not just to consider outputs and results actually achieved to date but also those committed (including achieved); that is, the outputs and results that will be generated if all projects committed to date (and not just operational) take place. The data are presented in Table 3-4. There is much more uncertainty about these data in comparison with achievements, but taking them at face value, it seems possible that most of the outputs, bar investment leverage and brownfield land, are achieved or over achieved; indeed there is significant 'overachievement' in relation to new floorspace created.

3.10   There is similar positive performance in relation to results once committed projects are taken into account. However, as will be seen in later sections, spend performance under PA1 is well advanced and this is presumably reflected in these figures. That being the case, significant performance will still be required if the results performance in relation to Gross

[7] The outputs achieved up to the end of March 2010 are based on 61 projects which have so far submitted claims

Value Added (GVA), jobs created and graduates placed in SMEs are to be achieved by the end of the programme.

Table 3-4: Programme Outputs recorded as committed up to 31 March 2010

Performance indicator	Programme target	Committed[8]	% achievement
Outputs			
No of businesses assisted to improve performance	9,300	8,567	92%
No of businesses engaged in new collaborations with the UK knowledge base	2,300	2308	100%
Public and private investment leveraged	€216m	€59m	27%
Sq metres of new or upgraded floorspace	20,700	34,894	169%
No of people assisted to start a business	2,700	2,156	80%
Brownfield land reclaimed or redeveloped (ha)	17	6	35%
Results			
No of jobs created	8,600	4,053	47%
No of businesses with improved performance	7,200	3,991	55%
GVA resulting from businesses improving performance	€264m	€122m	46%
No of graduates placed in SMEs	4,000	1152	29%

Source: ERDF Team

3.11   We have not considered *impacts*. To do so would require consideration of deadweight, displacement and so on. These factors can only be established through direct contact with beneficiaries following a full impact assessment. This will take place in 2012.

Flexibility and responsiveness

3.12   The programme is clearly structured around its three Priority Axes. However, within that framework, it has been possible to introduce new elements (above the level of individual projects) to meet changing circumstances. Two specific examples are worth mentioning:

- In May 2009, the PMC agreed proposals for a 'ring-fenced' £5 million ERDF allocation under PA1 to support an 'economic recovery package' to help businesses accommodate the difficulties created by the recession. This augmented certain changes in the regulations promoted by the Commission to free up resources across Europe to help address the effects of the recession. This allocation has funded four projects, Improving your Resource Efficiency, Coaching for High Growth, the East Midlands Manufacturing Advisory Service Enhancement Programme and Business Mentoring East Midlands.

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[8] The outputs committed up to the end of March 2010 are based on 61 projects which have so far submitted claims

- At the same time, the PMC agreed proposals for the establishment of a JESSICA Urban Development Fund (UDF) under Priority Axis 1. Unlike other uses of ERDF funding, receipts will revolve within the resultant East Midlands Urban Development Fund (EMUDF) potentially giving it a life beyond the main ERDF competitiveness programme. The Fund has now been launched with King Sturge Financial Services as Fund Operator. It will be focused on premises and facilities to support innovation, research and development activities and overall will initially be valued at £20m.

3.13 The subject of flexibility was covered during our consultations with stakeholders, partners and project managers. Consultees reported that, even given the scale of changes in the economic context for the programme (which our analysis has suggested were possibly less severe than had originally been thought), the focus of the programme was still correct. The focus on innovation and sustainable business practice under PA1 remained a continuing priority for the region and the imperative to increase the competitiveness of regional businesses by supporting them innovate and change their approach to resource use was underlined by the tough economic conditions businesses had faced and were likely still to face.

Summary and conclusions

- Overall, the spend profile of the programme is very good.

- The programme is making very good progress in relation to achievement of several outputs, in particular businesses assisted to improve performance, business engaged with the knowledge base and floorspace.

- Once committed outputs are taken into account, almost all outputs have been achieved already.

- There is significant progress still to be made however, in relation to all the key results indicators though the indications are that there should be little cause for concern in this respect.

4: Priority Axis 1 review

4.1   This section sets out the progress that has been made under Priority Axis 1 (PA1). It first describes PA1 in terms of aims and how resources have been targeted. It then looks at some of the issues that have arisen, with analysis principally drawn from the consultations undertaken. The Section concludes with a statement of key issues. How these issues might be resolved is covered in the concluding Section of this report.

Aims of PA1

4.2   As set out in the OP, PA1 relates to Innovation and Sustainable Business Practice and in particular:

> *…is concerned with increasing productivity. Resources will be 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 for emerging and enabling technologies. It will also promote and support innovation to improve resource efficiency.*

Funding allocation

4.3   As we noted, the total programme, based on the most recent valuation, is worth £231.5 million[9]. The allocation for PA1 is €115.4 million or £99.5 million. At the outset it was anticipated that the total investment made through PA1 would total €288.6 million, with €173.2 million in match funding (public and private). This would mean an intervention rate of 40% as shown in Table 4-1. Comparison with the figures in the Section on PA2 show that proportionately much higher levels of national public and private sector match funding were expected under PA1 than under PA2.

Table 4-1: PA1 financial table (€)	
Anticipated funding sources for PA2 projects	**Contribution (€ million)**
ERDF	115.4
National public	143.0
National private	30.2
Total	288.6
Grant rate	40%

Source: East Midlands ERDF Investment Framework

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[9] East Midlands ERDF PMC Update Paper – March 2010

SQW

Anticipated PA1 activity

4.4   The four Regional Economic Strategy (RES) priority sectors - Transport Equipment, Construction, Food and Drink and Health - have been expected to be the focus of PA1. There is also, however, a focus on business - in any sector - with high growth potential or with resource efficiency needs. PA1 has four strands. The strands, with the indicative resource allocations in the OP, are set out in Table 4-2.

Table 4-2: PA1 strands and indicative resource allocations	
Strand	**Indicative resource allocation**
Supporting knowledge and technology transfer, innovation and R&D	30% - 50%
Innovation support for business	20% - 50%
Creating the environment for innovation	5% - 20%
Resource efficiency	10% - 30%

Source: OP

4.5   Below these strands there are in total **17 indicative actions** which provide greater detail on the type of activity that will be used to deliver progress in each area. For example, the 'supporting knowledge and technology transfer, innovation and R&D' strand includes indicative actions such as activity to support Higher Education Institution (HEI)-to-business or business-to-business collaborations including graduate or undergraduate placement schemes; one of the indicative actions under the 'creating the environment for innovation' strand is the development of premises and facilities to support innovation.

4.6   Project applications are made against these strands and indicative actions. This categorisation provides a useful picture of the balance of activity in the programme as it develops. The strands (or indicative actions) have not been used so far for monitoring or reporting purposes but could provide an appropriate structure for 'intermediate reporting' i.e. 'below priority axis level' and above 'project level', in the future. Within the reporting that follows, where data permits, we have disaggregated data to the sub priority level.

PA1 output and result targets

4.7   Under PA1, the targets are that nearly 5,600 businesses will be assisted to improve performance and eventually, 2,400 jobs will be created; just fewer than 4,000 businesses will improve their performance as a result of ERDF support, generating an additional €146 million in GVA for the region (Table 4-3).

Table 4-3: PA1 targets	
PA1 Outputs	**Target**
No of businesses assisted to improve performance	5,600
No of businesses engaged in new collaborations with the UK knowledge base	2,300
Public and private investment leveraged	€87.0m
Sq metres of new or upgraded floorspace (internal premises)	17,000

PA1 Results	
No of jobs created	2,400
No of businesses with improved performance	3,900
GVA resulting from businesses improving performance	€146.0m
No of graduates placed in SMEs	4,000
No of new businesses created and new businesses attracted to the region	400

Source: OP

Analysis of performance

Allocated expenditure

4.8   By June 2010, 54 projects had been approved, equivalent to an ERDF spend allocation of £61 million, 62% of the programme allocation for PA1. There are also seven further projects in negotiation with a value of nearly £7m which, if approved, would mean the PA1 was 69% allocated.

4.9   The Annual Implementation Reports (AIR) for 2008 and 2009 show that £83.6 million was agreed for several calls or programmes of activity under PA1. The investment allocations are shown in Table 4-4. There is still some unallocated funding in some of these investment areas and the changes to the GBP value of the programme suggest that there is still some PA1 resource to be allocated. So some flexibility therefore remains. That said, overall, progress has been good, demand for the funding under the Axis strong, and as a result the commitment levels are encouraging for the half way point of the programme.

Table 4-4: Priority Axis 1 investments of the programmes allocation to date[10]

Year		Allocation
2008	Innovation call for activity	£27.7m
2008	iNets	£11.0m
2009	Resource efficiency call for activity	£5.0m
2009	Second innovation call for activity	£20.0m
2009	Economic recovery package	£5.0m
2009	JESSICA Urban Development Fund	£10.0m
	Total	£83.6m

Source: AIR 2009 and AIR 2008

4.10   At their March 2010 meeting, the PMC agreed to allocate a further £9 million to the Innovation Networks (iNets); this represented a second phase of the iNet projects which was to be further focused on front line delivery.

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[10] In 2008 £10m was initially also allocated to a High Quality Employment Floor-space Fund but this attracted a large number of applications that were not eligible or likely to achieve spend in a reasonable timescale so the fund was reallocated to the general innovation call where there has been high level of demand.

4.11   It is useful to draw attention to the iNet project because is highlights the fact that future approved projects and commitments are contingent on securing match funding - much of which has previously been expected to come from the Single Programme.   During our assessment it was announced that this second phase of the iNet project will be affected by the cuts to *emda's* 2010/11 budget and there may be a number of other projects that will be affected.

4.12   Those uncertainties notwithstanding, there has been strong performance of PA1 in terms of allocations and spend. This is accounted for by a number of factors. The most significant has been the ability of applications under PA1 to come forward very quickly after the launch of the programme because *emda* had been able to identify and prioritise a number of strategic regional innovation delivery programmes that could be Single Programme and ERDF funded.

4.13   In addition, there were a number of large institutions with regional reach, such as the universities, which had the capacity to deliver £1 million plus projects which has resulted in PA1 supporting a smaller number of larger projects than under PA2. PA1 was also relatively less affected by the changes in business support required by Solutions for Business[11]. PA1 projects in this area were generally supporting regional programmes that had been developed by *emda* as part of the regional business support package making it relatively straightforward to show consistency and complementarity with Solutions for Business.

Outputs and results

4.14   Using the claims submitted for the relevant period, it is possible to review the contribution of projects towards the PA1 output and result targets by March 2010. Most progress has been made in terms of the number of businesses assisted to improve performance, 34% of the target already being achieved (Table 4-5). There is also significant achievement in relation to construction of floorspace. Under results, 13% of the job creation target has been reached at this point.

Table 4-5: PA1 targets and outputs achieved by end March 2010

	Programme target	Achieved	% achieved
PA1 Outputs			
No of businesses assisted to improve performance	5,600	1,890	34%
No of businesses engaged in new collaborations with the UK knowledge base	2,300	289	13%
Public and private investment leveraged	€87.0m	€6.6m	7%
Sq metres of new or upgraded floorspace (internal premises)	17,000	4,021	24%
PA1 Results			
No of jobs created	2,400	309	13%
No of businesses with improved performance	3,900	160	4%

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[11] Solutions for Business is the new smaller number of business support programme developed as a result of the DTI/ BIS Business Support Simplification Programme.

SQW

	Programme target	Achieved	% achieved
GVA resulting from businesses improving performance	€146.0m	€3.8m	3%
No of graduates placed in SMEs	4,000	64	2%
No of new businesses created and new businesses attracted to the region	400	9	2%

Source: PA1 Targets East Midlands AIR 2009, Budget and Actuals ERDF project monitoring systems up to March 2010

4.15   It is also helpful to get some idea of the outputs and results that might emerge from *committed* projects, as discussed in the previous Section. There are 35 projects which had made claims at the time of the writing of this report and these have reported 'committed' outputs and results as set out in Table 4-6. Apart from public and private leverage, there is significant progress in delivering target results, though care is needed in interpretation as these figures are predictions, not actual outputs. Similarly, progress in relation to job creation and businesses attracted to the region is good. GVA performance does not yet look to be good in relation to targets and more progress might be expected in relation to graduates placed in SMEs.

Table 4-6: PA1 committed outputs, results and achievement of targets – March 2010

|	Target	Committed	% achievement
PA1 Outputs			
No of businesses assisted to improve performance	5,600	4,942	88%
No of businesses engaged in new collaborations with the UK knowledge base	2,300	1,626	71%
Public and private investment leveraged (€)	€87.0m	€20.2m	23%
Sq metres of new or upgraded floorspace (internal premises)	17,000	7,740	46%
PA1 Results			
No of jobs created	2,400	1,410	59%
No of businesses with improved performance	3,900	1,317	34%
GVA resulting from businesses improving performance (€)	€146.0m	€16.0m	11%
No of graduates placed in SMEs	4,000	974	24%
No of new businesses created and new businesses attracted to the region	400	186	47%

Source: PA1 Targets East Midlands AIR 2009, Budget and Actuals ERDF project monitoring systems up to March 2010

4.16   Overall, PA1 is on track to deliver against its target outputs on business performance and collaborations with the knowledge base. PA1 looks to be delivering less well on public and private investment levered. However, of the six enterprise centre, innovation centre or incubator projects that have so far been approved, three are yet to make any claims. Their incorporation in these figures is likely to significantly change the performance on this output measure.

Profile of PA1 projects

4.17   At the time of writing, 54 projects had been approved under PA1. The distribution of these projects by lead organisation is illustrated in Figure 4-1. Higher and Further Education Institutions have clearly the highest number (a majority) and the highest proportion of funding among approved projects to date. Public sector delivery bodies, including *emda*, are the next most significant. Private sector delivery bodies do not account for a high number of projects, only three so far.

Figure 4-1: Organisations leading PA1 projects
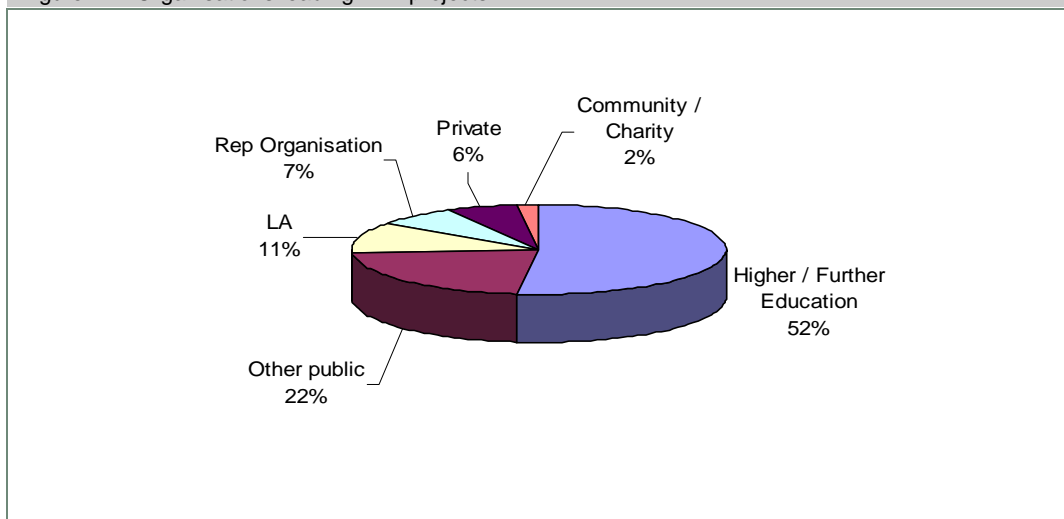
Source: SQW

4.18   The distribution of grants by size is fairly even within the range below £300,000 to £1m plus. PA1 projects tend to be larger than PA2 projects, reflecting the regional orientation of many of these projects. Less than 30% of projects received a grant of £0-£300,000, and just over 30% received a grant of £300,000-£1 million (Figure 4-2). The nearly 40% that received grant of over £1 million represented 80% of the value of projects approved.

Figure 4-2: Size of PA1 grants per project
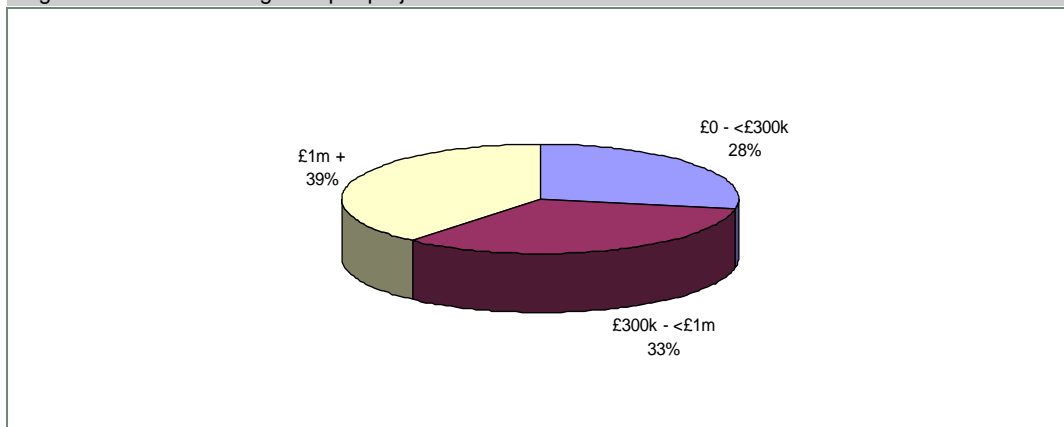
Source: SQW

4.19   The intervention type distribution (Table 4-7) is based on SQW analysis of the project descriptions and groupings of similar types of intervention. Some projects could fit within more than one intervention type but have been categorised against the primary one for the

purposes of analysis. The analysis shows that 26% of the projects approved have focused on *technology or knowledge transfer* and a further 25% *on SME innovation support*. Seventeen per cent involve some form of *environmental support for SMEs* e.g. the Nottingham Trent University Future Factory which supports sustainable design and the Emtex/Emmat's project, MatRec, which supports SMEs to identify new opportunities for materials reclamation. SME environmental support is focused on the provision of basic carbon and resources diagnostics and management systems. Fourteen per cent involve the creation of an innovation centre, enterprise centre or incubator.

Table 4-7: Profile of PA1 approved projects				
	No. of projects	% of projects	ERDF Value[12]	% of ERDF Value
Intervention type				
Technology or knowledge transfer	14	26%	£7,621,554	12%
SME innovation support	13	24%	£15,162,198	25%
SME environmental innovation/support	9	17%	£6,453,592	11%
Innovation Centre, Enterprise Centre or Incubator	6	11%	£8,662,339	14%
SME Business Support	4	7%	£5,605,511	9%
Graduate placement or enterprise	3	6%	£1,760,416	3%
Grants to business	3	6%	£5,554,484	9%
Alternative energy infrastructure and awareness	1	2%	£650,000	1%
East Midlands Urban Development Fund	1	2%	£10,000,000	16%
Total	54	100%	£61,470,094	100%

Source: SQW Analysis based on ERDF list of beneficiaries 2 June 2010

4.20   There are four projects that are focused on SME business support including Business Steps, Coaching for High Growth, the Business Mentoring scheme and the enhancement to the Manufacturing Advisory Service (MAS). There are two, representing 6% of approved projects, in graduate placements to business and grants to business.

4.21   Overall this Priority Axis is shaping up very much in line with expectations; the engagement with the programme from the HEI/FE sector in region has been good and the types of interventions that have been supported are in line with the strands of activity envisaged in the operational programme.

4.22   Table 4-8 provides a more detailed picture of the projects that were included in our sample for consultation. They are representative of the types of projects approved so far under PA1.

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[12] The ERDF value of projects committed under PA1 of £61.47 million includes all projects approved up to 2 June 2010

Table 4-8: PA1 project examples

Project name	Summary of activity	ERDF Grant (£)
The Lachesis Fund 2	The Lachesis Fund is led by the University of Loughborough and seeks to fill the 'seed corn' funding gap that exists for early stage technology orientated businesses. Seven other universities in the region are participating in this project.	2,000,000
Innovation for Productivity and Competitiveness	Innovation for Productivity and Competitiveness is delivered by the University of Lincoln and aims to increase innovation and productivity through knowledge transfer.	271,598
Creative Innovation Initiative	An Arts Council project to provide innovation support to high growth creative and cultural industry businesses.	390,000
The Growth Readiness Investment Programme	A regionally commissioned programme delivered by Pera Innovation to provide enhanced support to businesses through the High Growth Readiness Support Programme.	641,960
Enterprise Inc.	The East Midlands Innovation Network will provide self employment support to graduates focusing on the development of enterprise skills and the exploitation of entrepreneurial talents that lie within the region's HEIs.	1,199,997
Materials Reclamation (MatRec)	Emtex, the project lead, will create and deliver a unique project which looks at Materials Reclamation. Reclamation of materials from raw to processed is currently very patchy. The project will provide pilot studies, grants, consultancy etc.	215,797
Innovation Fellowship Programme	University of Nottingham project to provide early stage funding to academics and researchers to investigate commercial potential.	510,636
I Hub Building Daventry	A 4,000m² i-hub building project led by West Northamptonshire Development Corporation that will offer business incubator units, a conference room, exhibition space and meeting rooms. It will also be held up as a leading example of energy efficiency and sustainable building.	4,306,008
Coaching For High Growth	An *emda* regional business support programme, Coaching for High Growth, will provide one-to-one coaching to potential high growth, innovative businesses in the East Midlands. The project provide a dedicated coach and provision of workshop based support.	1,184,000
Transport iNet Drawdown Funds	This project, led by the University of Loughborough, proposes the establishment, funding, management and delivery of a range of services, grants and activities by the Transport iNet covering a number of major sub sectors, aerospace, motorsport, automotive, marine and rail. The project elements are: an HE Collaboration Fund, Networking, Skills Training and Enabling Technologies Events, Innovation Support Fund, Sub Sector/HE Brokerage, Project Coordination and Delivery, Supply Chain brokerage, Innovation Advisers, Management, support and operational costs	1,115,000

Source: ERDF Team / SQW

Overview

4.23   As well as reviewing the projects from the perspective of their fit against the OP and the targets, we have conducted a higher level review of the approach adopted within PA1. Although PA1 is sufficiently committed for it to be possible to comment on the overall portfolio, during the remainder of the life of the programme there may be some (albeit probably limited) opportunities to address any gaps that might be apparent. Our analysis leads to the following conclusions which we hope will be helpful in influencing activity.

- The objectives for PA1 are focused on the specific changes in business and business/university relationships with respect to innovation i.e. effectiveness of ideas commercialisation and the frequency and value of business/university interactions. A challenge for the programme is to develop a **set of indicators** that can measure progress in this direction.

- Although there is a stated intention to focus on key sectors and high growth businesses, many of the projects (both revenue and capital) are **not explicitly sector focused** – although it is accepted that this is an intended role for the iNets and may not be such a strong requirement for other parts of the programme; also, priority industries may change (and be broadened out) as more local structures are put in place over the next 18-24 months.

- The balance of projects in the portfolio meets the majority of desired outcomes for the programme. The only exception – and therefore potential area for focus in the future – is intervention to enhance **leadership, management or the level of other skills among SMEs.**

- The investments in physical hubs and soft infrastructure are distinct activities, with the former likely to take longer to deliver optimal impact. Consideration should be given to options for delivering **soft infrastructure and support** through or with the physical hubs to bring the hubs into the region's existing innovation networks.

- The way **projects relate to wider provision** or each other may be an important determinant of success for the businesses they support, i.e. are businesses that are supported with seed funding from the Lachesis Fund able to access further business finance in the region as they grow; are the University run technology/knowledge transfer projects sufficiently well linked into the iNet framework in a way that is likely to ensure sustainability and legacy value?

4.24 Under PA1, the programme has been able to deliver a range of projects that have a good strategic fit with the requirements of the OP and the Lisbon agenda. PA1 has benefitted from changes in university funding over recent years as well as changes in university ethos which means that engagement with business is a more important part of higher education activity.

4.25 PA1 has helped support some of the major pillars of East Midlands regional enterprise and innovation activity, through enhancements to the business support programmes and the activity of the iNets. However, for other projects outside of these core areas, PA1 appears to be a funding source alone and project managers report that there is little opportunity to build connections between projects. There has been some networking at ERDF funding workshops but there is an opportunity to go further to promote new connections and synergies between projects. This is returned to in Section 8 on Strategic Added Value.

4.26 If projects under negotiation are taken into account, PA1 is almost fully allocated. However, there is more uncertainty about the 'under negotiation' projects (including iNets) than was the case a few months ago so it may be that more unallocated funds may emerge than is evident from the most recent reporting. While funding difficulties are not to be welcomed, this does leave scope for more or different activity over the remainder of the life of the programme.

4.27   All that said, there was no suggestion through any of our consultations that the scope or focus of PA1should be changed, though as was noted above, our overview has some suggestions to make. It will, however, be important for the commitments and expected outputs, results and impacts – as well as the overall shape of the portfolio of approved projects - to be reviewed to assess whether any particular type of activity should be the focus of the remainder of the PA1 allocation. We made some suggestions in para 4.23 on new forms on activity.

4.28   The focus for PA1 should also now move to supporting delivery and monitoring. The programme monitoring processes could focus on how projects are progressing against targets and how far there might be scope to stretch targets in some areas.

4.29   Consultees reported the desire for more project-to-project interactions; this should be encouraged where it is likely to lead to improved outcomes. This may be facilitated through the programme, specifically through supporting interaction and increasing awareness in relation to regional innovation and enterprise programmes such as Business Link, Solutions for Business and iNets.

Summary and conclusions

4.30   The key points that emerge from our review of PA1 are:

- The programme under PA1 is progressing well with a good range of projects in line with the OP and Investment Framework.

- The issues for PA1 in the second half of the programme move to the appropriate focus for the remainder of the allocation and supporting the delivery and monitoring of the portfolio of approved projects so far.

- The programme has a good range of projects in line with its original strategic objectives. The challenge now is to maximise impact of projects by focusing on gaps such as enhancing the absorption capacity of businesses through leadership and management support; and ensuring that projects can support each other where appropriate to maximise benefits for regional businesses.

5: Priority Axis 2 review

5.1   This section sets out the progress that has been made under Priority Axis 2 (PA2) of the programme. It first describes PA2 in terms of aims and how resources have been targeted. It then looks at some of the issues that have arisen in relation to PA2, with analysis principally drawn from the consultations undertaken. The Section concludes with a statement of key issues. How these issues might be resolved is in the concluding Section of this report.

Aims of PA2

5.2   PA2 represents the spatial targeting part of the programme (PA1 having a thematic approach to encouraging innovation). The original aim - which is still the case - was to target the most disadvantaged areas in the region to achieve greatest value and impact. The aim of PA2, as stated in the OP document, was:

> *To promote sustainable economic growth by increasing the level of enterprise, creating new jobs and moving towards a more knowledge-based economy. Resources will be directed at the region's most disadvantaged communities in order to support and develop a range of bespoke economic and enterprise activities to meet the specific identified needs of localities and target communities'*[13]

5.3   Specifically the OP states that in the target areas, PA2 funding will be used to

- increase the size and diversity of the enterprise base

- stimulate demand for new services within localities i.e. exploiting local procurement opportunities

- support the development of local enterprise initiatives in line with the resource efficiency objective

- increase the level of private sector investment in disadvantaged communities

- improve access to employment opportunities

- improve the physical (green and built) environments and attractiveness of disadvantaged areas.

Spatial targeting

5.4   It was decided that PA2 would be used to target the 12 most deprived district areas in the region. As was explained in Section 2, the analysis used to determine these areas used a range of economic indicators such as unemployment and economic activity rates, earnings

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[13] East Midlands 2007-13 ERDF Competitiveness Operational Programme

and start-up rates. The target areas are highlighted below (Table 5-1) and grouped in spatial categories.

Table 5-1: Spatial targeting	
Spatial category	**Districts**
Urban	Derby City, Leicester City, Lincoln, Nottingham City
Coastal/Peripheral	Boston, East Lindsey
Former coalfields	Ashfield, Bassetlaw, Bolsover, Chesterfield, Corby, Mansfield

Source: OP

5.5   As discussed previously, updating this analysis means that the list of the 12 most disadvantaged areas in the region has changed somewhat, with Boston dropping to 15th and Oadby and Wigston now 12th on the list.

Funding allocation

5.6   The overall programme, based on the most recent valuation, is worth £231.5 million[14]. The allocation for PA2 is €142.3 million or £122.7 million. At the outset it was anticipated that the total investment made through PA2 would total €226.9 million, with €84.6 million in match funding (public and private). This was based on an intervention rate of 62.72% as shown in Table 5-2.

Table 5-2: PA2 financial table (€)	
Anticipated funding sources for PA2 projects	**Contribution (€million)**
PA2	142.3
National public	74.5
National private	10.1
Total	226.9
Grant rate	62.72%

Source: East Midlands PA2 Investment Framework

5.7   In developing the Investment Framework for the programme in early 2008, it was decided by the PMC that half of the PA2 funds would be allocated to the period 2008-10. Around £44 million was allocated to the 12 target districts – this represented 80% of the initial PA2 allocation for that period. In order to address the Business Support Simplification Programme (BSSP) agenda, the PMC also decided that enterprise and access to finance programmes would be procured by *emda* on a regional basis, but still targeting these 12 areas. This regional allocation received £11 million, 20% of the initial PA2 allocation (Table 5-3).

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[14] East Midlands ERDF PMC Paper – March 2010

Table 5-3: Regional and district PA2 allocations (£)					
	2007	**2008**	**2009**	**2010**	**2007-10**
Regionally managed activity	2,750,000	2,750,000	2,750,000	2,750,000	11,000,000
Target area allocations	10,719,205	10,933,587	11,152,261	11,375,305	44,180,358

Source: East Midlands PA2 Investment Framework

5.8 Table 5-4 shows the four year allocations for each district. At the end of 2009, the PMC decided to allocate additional funding to each area based on the existing agreed funding formula. This followed a programme re-valuation based on exchange rate changes and increased the district allocation to £48 million. **This means that for the first three years of the programme it was anticipated that £59 million of PA2 funds would be allocated**.

Table 5-4: PA2 district allocations (£)							
	2007	**2008**	**2009**	**2010**	**Additional allocation**	**Revised totals**	**%**
Ashfield	719,842	734,239	748,924	763,902	282,058	3,248,965	6.7%
Bassetlaw	696,056	709,977	724,177	738,660	273,638	3,142,508	6.5%
Bolsover	535,960	546,679	557,613	568,765	210,491	2,419,508	5.0%
Boston	535,960	546,679	557,613	568,765	210,491	2,419,508	5.0%
Chesterfield	627,828	640,384	653,192	666,256	248,379	2,836,039	5.9%
Corby	535,960	546,679	557,613	568,765	210,491	2,419,508	5.0%
Derby City	1,471,608	1,501,040	1,531,061	1,561,682	576,745	6,642,136	13.7%
East Lindsey	862,559	879,810	897,406	915,354	340,995	3,896,124	8.1%
Leicester City	1,792,094	1,827,936	1,864,495	1,901,785	703,039	8,089,349	16.7%
Lincoln	545,202	556,106	567,228	578,573	214,701	2,461,810	5.1%
Mansfield	623,446	635,915	648,633	661,606	244,169	2,813,769	5.8%
Nottingham	1,772,690	1,808,143	1,844,306	1,881,192	694,620	8,000,951	16.5%
Total	10,719,205	10,933,587	11,152,261	11,375,305	4,209,817	48,390,175	100.0%

Source: East Midlands PA2 Investment Framework and March 2010 PMC paper

Anticipated PA2 activity

5.9 The OP also set out guidance on the types of activity to be funded under PA2, broken down into four strands. Table 5-5 outlines the indicative actions – it was anticipated that the regionally managed programmes would cover activity under 2a-1, 2a-2, 2b-1 and 2b-2.

Table 5-5: PA2 strands and indicative actions		
Strand		**Indicative action**
Enterprise support	2a-1	Enhanced enterprise and start-up initiatives including enterprise awareness coaching, mentoring provision and initiatives to support enterprise in target communities.
	2a-2	Bespoke business support initiatives for businesses and social enterprises to develop and enter new markets, including those concerned with waste minimisation, renewable energies and resource efficiency opportunities, including financial assistance and consultancy support.
	2a-3	Developing the capacity of local businesses and social enterprises to access local procurement opportunities.
	2a-4	Creation and refurbishment of premises, employment sites and small scale enterprise facilities.
Access to finance	2b-1	Development and provision of appropriate financial instruments, including Community Development Finance Instruments (CDFI).
	2b-2	Access to finance and investor readiness support.
Access to resources and support	2c-1	Developing and improving access to employment opportunities, including local transport initiatives, connectivity (including ICT) and accessibility.
Reviving Local Infrastructure and Environments	2d-1	Rehabilitation and development of local environments to create more attractive places for communities and investors.

Source: Operational Programme

5.10 Following agreement of the target areas, districts developed Local Investment Plans outlining how they were proposing to use their indicative allocations, in line with the OP and Investment Framework. Some districts decided to work together which subsequently resulted in the development of six Local Investment Plans: Lincolnshire (Lincoln, Boston and East Lindsey), Nottingham City, Leicester City, Derby City, North Nottinghamshire & North Derbyshire (Ashfield, Bolsover, Bassetlaw, Chesterfield and Mansfield)[15] and Corby.

PA2 output and result targets

5.11 Under PA2 the targets are that nearly 3,000 people will be assisted to start their own business, more than 6,000 jobs will be created and just over 3,000 businesses will improve their performance as a result of PA2 support, generating an additional €118 million in PA2 for the region (Table 5-6).

Table 5-6: PA2 targets	
Outputs	**Target**
No of businesses assisted to improve performance	3,700
Public and private investment leveraged	€129.0m
Sq metres of new or upgraded floorspace (internal premises)	19,000
No of people assisted to start a business	2,700
Brownfield land reclaimed or redeveloped (ha)	17

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[15] From 1 April 2010, the five former coalfield Districts will be managed on a County basis with one programme for North Nottinghamshire (Ashfield, Bassetlaw and Mansfield) and one for North Derbyshire (Bolsover and Chesterfield).

Results	
No of jobs created	6,200
No of businesses improving performance	3,300
GVA resulting from businesses improving performance	€118.0m
No of new businesses created and new businesses attracted to the region	1,600

Source: OP

Analysis of performance

Allocated expenditure

5.12   By June 2010, £25.5 million of ERDF had been allocated to 50 projects under PA2. This represents 43% of the indicative allocation for the first three years of the programme and is shown in Table 5-7. It has not been possible to provide an analysis of spend by each individual PA2 area as the data is not available.

Table 5-7: Allocated expenditure under PA2 (as of June 2010)			
	PA2 target areas	**Regional programmes**	**Total**
Indicative allocation 2008-10	£48.4m	£11.0m	£59.4m
Actual amount allocated to projects	£14.3m	£11.2m	£25.5m
% of indicative allocation	29%	102%	43%
No. of approved projects	46	4	50

Source: Based on project database provided by ERDF Team

5.13   Responding to PMC concerns about progress in allocating PA2 funding, the ERDF Team at *emda* introduced a deadline of June 2010 for districts to commit their £48 million allocation for the first half of the programme. It would appear that setting this deadline has had the desired effect since we understand from discussions with the ERDF Team that the district allocation is likely to be fully committed over the summer. This would have been achieved by the June deadline but following the significant cuts to Single Programme and other match funding sources in May, projects are currently organising alternative arrangements.[16] The regional projects slightly over-achieved their set target.

Outputs and results

5.14   Using the claims for activity undertaken until the period up until December 2009 (but claims submitted by March 2010) it is possible to review the contribution of projects towards the PA2 output and result targets. Most progress has been made in terms of the number of people assisted to start a business, 187, which represents 7% of the overall target (Table 5-8). It is clear, however, that performance against all of these indicators is very low at the moment, especially compared with performance under PA1. That said, as we will go on to discuss,

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[16] Although the ERDF Team seemed confident that the district allocation would be committed by summer 2010 we would still suggest there may be a small number of projects that will not proceed due to lack of match funding

many projects have only recently started and it will take some time for outputs to come through.

Table 5-8: PA2 targets and outputs achieved by end March 2010

PA2 Outputs	Programme target	Achieved	% achieved
No of businesses assisted to improve performance	3,700	78	2.1%
Public and private investment leveraged	€129.0m	€1.5m	1.2%
No of people assisted to start a business	2,700	187	6.9%
Brownfield land reclaimed or redeveloped (ha)	17	0.04	0.2%
Sq metres of new or upgraded floorspace (internal premises)	19,000	1,152	6.1%
PA2 Results			
No of jobs created	6,200	39.5	0.6%
No of businesses with improved performance	3,300	37	1.1%
GVA resulting from businesses improving performance	€118.0m	0	0.0%
No of new businesses created and new businesses attracted to the region	1,600	6	0.4%

Source: ERDF Team

Profile of PA2 projects

5.15   Project level details are only available for 50 of the 54 approved PA2 projects. Just under half of the 50 projects for which we have detailed information are led by local authorities (Figure 5-1). Nearly a quarter are led by community or charity organisations and 16% are managed by private sector delivery organisations.

Figure 5-1: Organisations leading PA2 projects
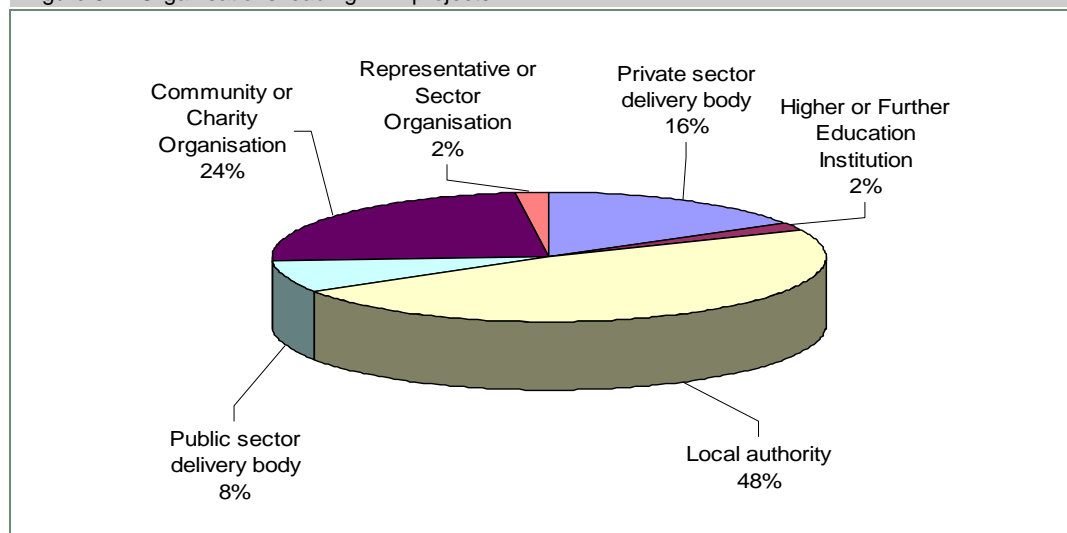
Source: ERDF Team and SQW

5.16   The amount awarded to PA2 projects has varied significantly from £14,000 up to the £8.7 million awarded to the Business Link Outreach Support programme. Overall, there is a good spread of size of ERDF grants awarded with 52% of projects receiving up to £300,000 (Figure 5-2).

Figure 5-2: Size of ERDF grants per project
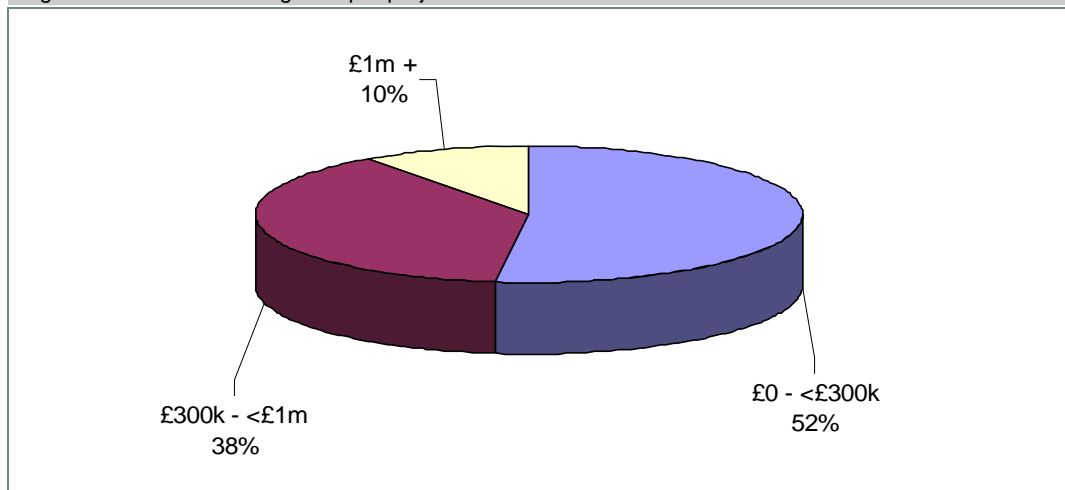
Source: ERDF Team and SQW

5.17   The most common types of projects that have been funded are public realm and regeneration projects (24%), pre start-up/start-up support (18%) and SME business development support projects (14%). This is shown in Table 5-9. In terms of the **value** of ERDF awarded, **over 40% has been allocated to SME business support projects**.

Table 5-9: Profile of PA2 projects

Intervention type	No	% of projects	ERDF Value	% of PA2 ERDF
Public realm and regeneration	12	24%	£4,708,663	18%
Pre-start or start up support	9	18%	£2,932,403	11%
SME Business Support	7	14%	£10,618,729	42%
Community and Voluntary Sector support	6	12%	£374,043	1%
Innovation Centre, Enterprise Centre or Incubator	5	10%	£2,572,794	10%
Grants to business	3	6%	£2,508,012	10%
Graduate placement or enterprise	1	2%	£104,709	0%
Place marketing	2	4%	£108,979	0%
SME environmental support	1	2%	£120,815	0%
Sustainable routes for community services and leisure	2	4%	£650,432	3%
SME innovation support	1	2%	£249,634	1%
Bus routes	1	2%	£554,999	2%
Total	50	100%	£25,504,212	100%

Source: SQW analysis of ERDF project database

5.18   Table 5-10 below provides a more detailed picture of the types of projects approved so far under PA2, including the three regional programmes.

Table 5-10: Examples of PA2 project activity		
Project name	**Summary of activity**	**ERDF grant (£)**
The Business Den	The Business Den is led by Apex Leicester with the aim of developing enterprise opportunities for offenders and ex-offenders from the most disadvantaged areas of Leicester.	21,872
Campus for Learning and Development Project	This project led by YMCA Derbyshire aims to create enterprise workspace for young people and hard to reach client groups and a vibrant Campus Cafe (social enterprise) operated by trainees servicing the Campus service users and wider community.	333,222
Corby Enterprise Centre	Corby Enterprise Centre will deliver 4,200 sq. m. of high quality business accommodation consisting of offices, small workshops, parking and associated communal facilities.	1,160,116
Derby Enterprise Coaching	The project aim is to develop and deliver a coherent package of enterprise support targeted at individuals located in deprived communities and under-represented groups in Derby City.	320,899
Community Anchors - Social Enterprise Support	Led by Nottinghamshire County Council, the project creates a specialised enterprise development programme offering bespoke, professional, technical assistance; financial health checks and development finance to social enterprises who act as community anchors.	229,206
Business Link Outreach Project	This project has used ERDF to supplement the existing regional Business Link support programme and deliver additional enterprise support in the most disadvantaged parts of the region as defined by the 12 ERDF PA2 Districts.	8,739,974
Grant for Business Investment	Managed by *emda*, the GBI scheme is a BIS business product for businesses that are looking at investment in fixed assets to grow, modernise, or establish a new company. Grants available are between £10,000 & £2 million with an intervention rate of up to 60%.	1,418,999
Regional CDFI Fund (Enterprise Loans East Midlands)	Project will provide finance assistance to commercially, if not bankable, start up and expanding businesses in the PA2 targeted districts where there is a demonstrable market failure in provision of mainstream finance.	999,013.
Surviving the Recession	East Midlands Business project to deliver a programme of four cohorts of two half day workshops to SMEs located within Derby City to provide them with information and advice and to equip them with the knowledge which they require to facilitate their survival in the current economic downturn.	14,513

Source: ERDF Team

Feedback from consultations

5.19   This section looks at some of the issues that have emerged following discussions with programme stakeholders and project managers.

Type and quality of PA2 projects

5.20   Some stakeholders remarked that although there was significant interest in PA2 at the start of the programme, some bids were ineligible and others were considered to be the type of projects that had traditionally been supported in the past with little that was new. It was

apparent that in some areas, Expressions of Interest (EOI) forms had been submitted with limited prior reference to the guidance about what was eligible for funding. There was an acknowledgement that some of the smaller organisations applying under PA2 had limited experience and/or resources to write good applications. This has been recognised by *emda* and the ERDF Team has started to provide more support and guidance, working closely with the PA2 local authority lead officers.

5.21 After some initial problems it now appears to be a common view that the quality of PA2 bids and projects has improved and that there is now a mix of good 'traditional' projects and more innovative initiatives. According to consultees, the types of projects funded under PA2 have been broadly as expected. However, some issues that have arisen are:

- a lack of information on the regional programmes (being led by *emda* and Business Link)

- differing views on the contribution being made to region's competitiveness by public realm and infrastructure projects, funded as part of the 27% of district allocations that can be spent on non-Lisbon activity

- a degree of confusion regarding the eligibility of transport related projects.

Specific barriers for PA2 projects

5.22 As highlighted earlier, the Business Support Simplification Programme (BSSP), or Solutions for Business (SfB), coincided with the start of the ERDF programme and was one of the main reasons for procuring *regional* enterprise and business development activities. However, consultees suggested that the constraints and lack of clarity around SfB caused particular problems for PA2 applicants early on. Furthermore, the fact that some applications were returned at the start of the programme for not complying with SfB caused some disharmony. The ERDF Team now makes sure to work with project sponsors as best they can to shape projects in such a way that they do fit. Issues to do with SfB are now mainly resolved.

5.23 Match funding has also been a major issue for PA2 applicants. For smaller local projects, it has proved difficult to source match funding. This is likely to become an even bigger issue in the future with the recent cuts to Single Programme and mainstream local government budgets. Some consultees suggested that in future the programme might consider increasing the intervention rate. Another suggestion was to look at the possibility of introducing a challenge fund as part of PA2 to address the problems with match funding. These possibilities are returned to later in the final Section of this report.

5.24 Some of the consultees also highlighted that the programme's focus on the Regional Economic Strategy's four priority sectors had restricted the types of applications coming forward. For example, in Lincolnshire, tourism is one of the key sectors but is not eligible for support. Similarly, the creative industries is one of the key sectors in Nottingham but not currently a focus of the ERDF programme.

Allocation of funding

5.25   It is widely acknowledged that there has been slower progress in allocating PA2 funding compared to PA1. At the time when PA1 was already accepting applications in summer 2008, PA2 areas were developing Local Investment Plans which resulted in a longer lead-in period. Each district has also developed its own systems and structures for promoting and managing the indicative ERDF allocations. Compared to PA1 there is a more elongated application process involving EOIs being submitted to Local Management Groups for approval before projects are then invited to develop full applications.

5.26   A deadline of June 2010 was introduced by *emda* to encourage districts to bring forward projects up to the value of their £48 million allocation for the first half of the programme. At the time of interviewing for this Interim Assessment, most PA2 districts were confident that they would be able to fully commit this allocation by summer 2010. Even in light of the recent cuts to Single Programme and mainstream local government funding, it is understood that most of this allocation will be committed as planned (subject to alternative match funding being approved in the coming months).

5.27   If there were to be any underspend under PA2, PA2 consultees made it clear that this allocation should be rolled forward for future PA2 use and not be vired into PA1. There was also resistance from the local authority consultees to re-allocating more ERDF to the PA2 regional programmes, especially in the absence of any monitoring data on these programmes.

Spatial approach

5.28   There was general agreement that spatial targeting was the right approach for PA2 and that the correct analysis had been used. It was stated that the spatial approach focused on the most disadvantaged areas – according to one consultee there is always a 'danger of spreading the funding too thinly across the region'. It was suggested that this approach should continue in the second half of the programme (this view was held by all stakeholders).

5.29   One aspect of the spatial approach that has perhaps not worked so well is the differing management approaches that have been adopted in the 12 areas and the implications this has had in terms of the time to develop projects. It was suggested that a consistent approach might be adopted in future, whilst still enabling areas to prioritise their own projects. In addition it was felt that there should be a way of enabling the same project to operate in different target areas without having to submit numerous applications (which occurred with the Business in the Community applications).

5.30   Among some of our consultees, there was awareness that the list of the 12 most disadvantaged areas has changed since the programme was launched. It was suggested that in order to keep Boston as a target area, PA2 funding could be made available to the top 15 areas. We would support some arrangement that maintained funding for Boston, not least because an analysis of the data using solely the Index of Multiple Deprivation would actually include Boston in the top 12 areas.

Future PA2 activity

5.31   In light of the challenges so far in allocating funding under PA2 and the consultation feedback, it is clear that for the remainder of the programme significant effort will be required to generate new PA2 projects. We understand that there could be some degree of flexibility in the intervention rate offered to projects in the future. Match funding has already been a major issue for PA2 projects and will become even more difficult to access following the recent budget cuts. Increasing the intervention rate could make a serious difference to whether a project can proceed. A regionally managed challenge fund would also enable target areas to submit bids for 100% funding.

5.32   Although there are strict EU requirements on what can be funded with ERDF, there also perhaps needs to be more creativity and flexibility in terms of the sectors being targeted for support. It is also clear from our survey of project managers that the awareness and understanding of ERDF is often low and more effort needs to be invested in terms of developing capacity and increasing awareness in order to generate more projects. This could be one potential use for PA3 Technical Assistance funding which we review in the next Section.

Summary and conclusions

5.33   The main points from this section are highlighted below:

- Although PA2 has a total allocation of £122.7 million, the PMC decided on an initial indicative allocation of £59 million (with £48 million allocated to the 12 target areas and the remaining £11 million set aside for regional programmes).

- PA2 is currently under-committed. By June 2010, 50 projects had been approved under PA2 with ERDF totalling £25.5 million (of which £11 million was allocated to regional programmes). This represents 43% of where the programme expected to be by now. Up to the end of December only €3 million had been claimed by PA2 projects (compared to €22 million under PA1).

- Based on recent discussions with the ERDF Team we understand that following the deadline set for June 2010, the district allocation will probably be fully committed by later this summer (subject to projects finalising match funding arrangements).

- In terms of the original aims of PA2, progress has been made with the amount of additional resources which have been allocated to the region's most disadvantaged areas. However, there is limited progress to report so far against the output and result targets – this is mainly because many PA2 projects have only just commenced with some yet to submit any claims at all.

- Just under half of the 50 PA2 projects approved so far are led by local authorities and the most common types of projects that have been funded are public realm/ regeneration initiatives, pre start-up/start-up support or SME business development support projects.

- The major issues with PA2 so far have been around compliance with Solutions for Business and also in terms of sourcing match funding. Since this is likely to become an even bigger issue in the future, there is a strong argument for increasing the intervention rate for PA2 and considering a challenge fund approach.

- Stakeholders were clear that the programme should continue to have a spatially targeted element, focusing on the most disadvantaged areas as identified by the relevant economic statistics.

6: Priority Axis 3 review

6.1 This section reviews Priority Axis 3 (PA3) which provides funding for Technical Assistance to promote, manage and deliver the programme. We consider the aims of the PA3, the projects that have been funded so far and issues highlighted in the course of the consultations.

Aims of PA3

6.2 As stated in Technical Assistance Strategy, the overall aim of PA3 activity is:

> *To support the implementation and monitoring process of the Operational Programme to achieve the overarching Strategic Programme Objective, to become a region of highly productive, innovative and sustainable businesses and support the most disadvantaged of our communities to realise their economic potential.*[17]

6.3 The strategy states that Technical Assistance will help to:

• support the efficient, accountable, and compliant management of the programme

• maximise the quality of programme implementation and its impact

• ensure improved monitoring and evaluation of the programme

• ensure improved information and publicity of the programme.

Funding allocation

6.4 At the start of the programme, €10.7 million ERDF was allocated to PA3 (out of a total programme value of €268.5 million). With an intervention rate of 50% this would mean overall investment of €21.5 million in Technical Assistance activity (Table 6-1). In a recent PMC paper, PA3 was valued at £9.3 million.

Table 6-1: PA3 financial table	
Anticipated funding sources for PA3 projects	**Contribution (€)**
ERDF	10,739,839
National public	10,739,839
National private	0
Total	21,479,678
Grant rate	50%

Source: East Midlands ERDF Investment Framework

[17] East Midlands 2007-13 ERDF Technical Assistance Strategy

Analysis of performance

6.5   Since there are no output or result targets associated with PA3, this analysis is based on the number of projects approved and ERDF allocated. By June 2010, three PA3 projects had been allocated Technical Assistance funding, accounting for £1.76 million in ERDF as shown in Table 6-2. Total investment under PA3 including match funding will be £3.54 million. There is currently £9.3 million available under PA3 and up until now only 20% has been allocated to Technical Assistance projects.

Table 6-2: PA3 projects			
Sponsor	**Description**	**ERDF**	**Total project costs**
East Midlands Development Agency	Technical Assistance funding to support *emda*'s internal costs associated with the ongoing core management and implementation of the Programme.	£1.61m	£3.23m
East Midlands Development Agency	Funding to support the transfer of the 2007-13 ERDF Programme from GOEM to the RDA	£0.08m	£0.17m
Nottingham City Council	Technical Assistance support for Nottingham City Council to deliver the PA2 Local Investment Plan	£0.07m	£0.14m
Total		£1.76m	£3.54m

Source: ERDF Team

6.6   From recent discussions with the ERDF Team we understand that two other PA3 applications have been submitted by Lincolnshire County Council and Derby City Council and are currently in the appraisal process.

Feedback from consultations

6.7   Stakeholders were asked for their views on the low take-up of Technical Assistance funding. The main reason suggested was to do with the perceived bureaucracy of managing and monitoring a PA3 project. It was also suggested that the inability to use existing posts as match-funding (especially if the post holder only spent part of their time on ERDF related activity) put off potential bids. That said, feedback from the only local authority to so far receive PA3 funding actually suggested the process has been *relatively straightforward*.

6.8   Some consultees stated that this part of the programme has not been publicised effectively: for example that the terminology has not been clear enough (i.e. what is 'technical assistance'). It was also suggested that there may be a reluctance to raise expectations amongst potential applicants that are not familiar with the programme. Also, many of the universities managing PA1 projects are likely to have the necessary administrative resources and would have little requirement for PA3 funding.

6.9   In terms of using up the remaining funding available under PA3, it was suggested by one of our consultees that there could be scope for allowing Technical Assistance projects with 100% ERDF support (up until now the specified intervention rate has been 50%) in order to build capacity with certain types of organisations, such as social enterprises or BME groups in order to pursue the equality cross cutting theme. This support would then help the

organisations that either have limited prior experience of ERDF or capacity constraints to develop their own ERDF projects, most likely funded under PA2 which is currently under-committed. Providing additional support to social enterprises and other groups would also fit with the aspirations of the new government around the 'big society' agenda.[18]

Summary and conclusions

6.10   The main points from this section are:

- Technical Assistance funding is available under Priority Axis 3 of the programme to support promotion, management and delivery. Around £9 million was allocated to PA3 at the start of the programme.

- So far, around 20% of the funding has been allocated to three projects, two of which are led by *emda* and one local authority (although two other local authority applications are currently being processed).

- Potential applicants have been put off by the perceived administrative burden and identifying eligible match funding, with 50% currently being required. In practice, any burden seems to be less than they might think.

- It was suggested that there should be more flexibility in the future to allow for 100% ERDF funded projects that can help to develop capacity and interest amongst social enterprises and minority groups. This could be used to fund additional community workshops and would help to generate new projects under PA2.

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[18] In the Coalition's Programme for Government (2010), there is a commitment to 'support the creation and expansion of mutuals, co-operatives, charities and social enterprises, and enable these groups to have much greater involvement in the running of public services'.

7: Cross cutting themes

7.1 This section looks at the two 'cross cutting themes' (CCTs) of the programme – environmental sustainability and equality.

Environmental sustainability

Aim of this cross cutting theme

7.2 The aim of the environmental sustainability CCT is:

To minimise environmental and resource impacts, respect environmental capacities and maximise the potential for the environment as an economic driver.

7.3 This means that the programme should promote projects which:

- minimise the need to travel

- minimise the resources required in delivery, where practicable

- reduce, reuse, recycle, or reclaim waste and surplus material wherever possible

- require sub-contractors, and encourage clients and collaborators to do the same

- consider opportunities for related social and economic benefits.

7.4 Where the programme involves capital investment in land or buildings it should promote projects which:

- prioritise the re-use of existing buildings and brownfield land sites

- achieve BREEAM 'excellent' standards for new build and 'very good' standards for refurbishments

- have regard to the conservation of biodiversity

- incorporate climate change adaptation measures at the design stage.

7.5 The aim is to ensure that the environmental impact of the programme, through the projects it supports, is considered at every stage, from development and delivery through to monitoring and evaluation. This is relevant to all projects – no matter their focus – and is additional to the priorities of the programme to improve resource efficiency in business and communities under PA1 and to increase sustainable economic and enterprise activity in disadvantaged communities under PA2. Put another way, the Priority Axes are about *what* the programme does and the CCTs are about *how* it does it. Both have a strong resource efficiency and sustainability focus.

Outputs so far

7.6   The Strategic Environment Assessment on which the programme was based proposed a series of high-level regional indicators to measure the programme's environmental performance. These included as indicators total emissions of principal pollutants, CO_2 emissions by end user, proportion of river length of good or fair chemical and biological quality and waste generated per unit of GVA. While these are a useful range of indicators for the environmental performance of the region as a whole and provide important context for the programme, they are less helpful in reporting the environmental impact of the programme itself as there is no way of measuring the actual impact of programme-supported projects on these region–wide indicators.

7.7   The programme's Monitoring and Evaluation Strategy listed a series of *project level* indicators which provided an indication of environmental impact. These were:

- buildings achieving BREEAM standards (as above)

- number of businesses assisted to improve performance through support related to energy and resource efficiency

- 'other relevant indicators proposed by individual projects'.

7.8   Until the 2009 AIR there had been only limited reporting on the CCTs to the PMC. The AIR, however, reported under a series of indicators as follows:

- nine projects were working towards achieving 'BREEAM' standards

- seven projects were undertaking to carry out 328 environmental audits with businesses

- twelve projects would be delivering direct advice and support to 452 businesses to help them improve their environmental performance

- seven projects had targets to improve the efficiency and environmental performance of 195 businesses in total

- seven projects were undertaking to refer a total 375 businesses to environmental consultancies for further support or environmental audits

- ten projects had agreed to deliver a total of 170 environmental focused training events / workshops / seminars.

7.9   There is thus significant sustainability-orientated activity going on and much to be reported. An important issue for the programme, however, is that the above indicators cover activity – what is done with businesses (for example). Apart from BREEAM standards, they do not report on environmental sustainability *outputs* - for example, businesses reporting reductions in waste or in their own carbon emissions.

Feedback from consultations

7.10   The above reporting in the AIR reflects the fact that the sustainability CCT is thoroughly embedded in the application and appraisal process. The majority of stakeholders were very impressed with the way the mainstreaming of environmental sustainability had been achieved. There was particularly strong praise for the way this has been done with respect to projects involving physical build. There was acknowledgement that capturing the impact of other elements of the environmental sustainability CCT was difficult without imposing overly onerous reporting requirement on projects.

7.11   Project managers generally found the existing requirements in terms of demonstrating their contribution to the sustainability CCT reasonable. They were largely supportive of the intent and approach to sustainability within the programme, and although there was some concern that the application form could be seen as a 'tick-box exercise', there seemed to be a large degree of awareness and commitment to the delivery of projects in a way that mitigated environmental impacts. Where projects which were not overtly environmentally focused struggled to meet the CCT requirements, the ERDF Team were constructive and helpful in developing ideas to improve the environmental impact of the project.

Some important environmental sustainability measurement issues

7.12   We mentioned above that BREEAM apart, there is little collection of environmental sustainability output data. In fact, two relevant outputs are included as core measures on project claim forms:

- energy efficiency activity

- resource efficiency activity.

7.13   However, there is very little reporting against these indicators in project claims so far. Most of the environmental and resource efficiency reporting appears to be recorded under 'additional outcomes'. This is true for both CCT outputs and delivery outputs for the projects that are themselves environmentally focused. The additional outcomes are part of the contracted reporting for the projects but they are not core indicators and tend to be developed bottom up by the individual project managers (see third bullet in para 7.7) making analysis difficult.

7.14   As a result of the difficulty of measuring environmental targets in the previous programme, the decision was taken to focus on simpler, measurable targets around physical build for sustainability. These are captured well and the programme looks to have supported a number of exemplar buildings, but it means that the environmental sustainability impacts of business support projects are not being captured. Also, very few projects proposed an outcome that recorded waste, energy or water savings or overall carbon reductions. Only *Green Business Navigator* and *Improve Your Resource Efficiency East Midlands* had proposed outcome measures of this kind.

7.15   The ERDF Team plan to undertake a review to identify which indicators are commonly used across the programme as the basis for developing fuller environmental reporting. The review is underway and should be supported. The list of additional outcomes that project managers

have identified so far provides some suggestions for areas for further investigation, namely highlighting projects that:

- are potential case studies of sustainability in their delivery approaches

- have supported their beneficiaries in reducing their environmental impact

- have supported their beneficiaries to develop products in the environmental goods and services sector.

7.16   It is going to be very challenging to capture the environmental impact of the programme in a comprehensive way. But this was always the case and focusing on a small number of indicators and carrying out focused case studies may be an appropriate way forward.

Equality

Aim of this cross cutting theme

7.17   According to the OP, the main objective of the equality CCT is:

To reduce economic and social inequalities by ensuring that opportunities generated by the programme are available to everyone.[19]

7.18   The OP also included the following objectives in relation to equality:

- support under-represented groups to access employment opportunities generated by the programme

- increase the number of people in under-represented groups accessing employment in higher skilled occupations and sectors where they are currently under-represented

- ensure that business support is responsive to the needs of all communities and under-represented groups

- increase the participation of people from under-represented groups in the management and implementation structures of the programme; it is important that partnerships, selection panels and other administrative groups are representative at all levels and that positive steps are taken to gain the active involvement of under-represented groups.

Outputs reported so far

7.19   Although there are no specific targets in relation to the equality CCT, the ERDF Team has collated information on project beneficiaries based on submitted claim forms which highlights some key characteristics.   Some analysis has already been provided in the 2009 AIR comparing outputs to regional demographic data.

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[19] East Midlands 2007-13 ERDF Competitiveness Operational Programme

7.20   Based on the information provided on the number of men and women assisted through all projects, it would appear that over 1,100 individuals have been supported so far (Table 7-1). The great majority (89%) have been supported through PA1 projects.

7.21   As highlighted in the AIR, females make up 51.5% of the East Midlands population. Overall the proportion of female beneficiaries supported by the programme is only 30% but is significantly higher under PA2 where 77% of beneficiaries are female. PA1 projects have supported a lower proportion, 25% of beneficiaries. In addition, around 9% of the programme's beneficiaries are disabled – this is somewhat lower than the regional average.

Table 7-1: Equality related monitoring – gender and disability

Project	Male	Female	Total	Disabled
PA1 projects	777	256	1033	97
PA2 projects	28	95	123	3
All projects	805	351	1156	100
PA1 projects as % of total	97%	73%	89%	97%
Females as % - PA1 projects	25%			
Females as % - PA2 projects	77%			
Females as % - all projects	30%			
Females as % of population	51.5%			
Disabled as % - all projects	9%			
Disabled as % of population	19%			

Source: ERDF Team AIR and SQW

7.22   In terms of ethnic background, we assume that some beneficiaries have been categorised under more than one heading, explaining why the overall total of project beneficiaries is higher at 1,211 individuals (Table 7-2). Around 9% of the East Midlands population is non-white. Based on all projects, 21% of programme beneficiaries are from non-white ethnic groups and this is particularly high in PA2 projects (44%). As highlighted in the AIR, PA1 projects appear to be supporting a high number of Chinese or other ethnic group population (12%) compared to the overall proportion of the East Midlands population (1%).

Table 7-2: Equality related monitoring – ethnic background

Project	White	Mixed	Asian /Asian British	Black or Black British	Chinese or Other Ethnic Group	Total
PA1 projects	978	16	50	16	151	1211
PA2 projects	68	0	18	35	0	121
All projects	1046	16	68	51	151	1332
Non-whites as % - PA1	19%					
Non-whites as % - PA2	44%					
Non-whites as % - all projects	21%					
Non-whites as % of population	9%					

Source: ERDF Team 2009 AIR and SQW

7.23 Around 64% of all project beneficiaries are aged between 35 and 54 (Table 7-3). This is significantly higher than the proportion of the East Midlands population in this age group (28%). However, we would suggest that the data available on beneficiary age groups may be less reliable for making such comparisons since it would appear that fewer projects collect this data than for gender and ethnic background. The total number of individuals, as shown in Table 7-3, is 525, half of the figures in Table 7-1 and Table 7-2.

Table 7-3: Equality related monitoring – age groups of beneficiaries							
Project	**16-24**	**25-34**	**35-44**	**45-54**	**55-64**	**65+**	**Total**
PA1 projects	5	56	124	131	71	14	401
PA2 projects	6	26	43	37	12	0	124
All projects	11	82	167	168	83	14	525
Age groups as % of total – all projects	2%	16%	32%	32%	16%	3%	100%
Age groups as % of population	14%	12%	15%	13%	12%	16%	

Source: ERDF Team 2009 AIR and SQW

Feedback from consultations

7.24 Generally, stakeholders believed that most projects are addressing the equality theme. It was stated that this will be helped by the fact that there is now significant 'equality-related' legislation that organisations need to address in any event, such as implementing an Equal Opportunities Policy and addressing the Disability Discrimination Act. Whilst there was an assumption that projects would be addressing the equality theme in some form, stakeholders involved in the PMC and Priority Axes Sub-Groups did not know how the programme as a whole was monitoring its contribution to the theme due to the fact that no targets were set out in the OP.

7.25 Whilst the involvement of the Equalities and Human Rights Commission on the PMC was welcomed, some stakeholders questioned whether there was sufficient expertise within the ERDF appraisal team to be able to identify a project's contribution towards the equality CCT. Although there was recognition that cross cutting themes have been mainstreamed in the current ERDF programme, there was a sense that assessing projects' contribution to this cross cutting theme, as in environmental sustainability, had also become tick-box in orientation – i.e. projects are only required to set out their contribution in general terms in certain sections of the ERDF application form. A more proactive approach would be welcomed.

7.26 Based on our discussions with project managers, there is a clear awareness of the need for ERDF projects to target particular groups of beneficiaries and monitoring is being carried out where possible. Some project managers provided examples of how they were addressing the equality theme, such as implementing an equal opportunities policy, maintaining a beneficiary database or ensuring full accessibility to a new building. However others found it more challenging and stated that they would *welcome more guidance on monitoring cross cutting themes*. For PA2 projects, it was stated that it has been generally easier to demonstrate their contribution to the equality theme due to the fact that PA2 specifically targets the most disadvantaged areas of the region.

Summary and conclusions

Environmental sustainability

- The sustainability CCT has been mainstreamed into the programme in a way that is appropriate and is particularly powerful with respect to the requirements for projects with a component of physical build.

- Mechanisms for reporting the performance of the programme against the sustainability CCT are being developed; it is suggested that a proportional approach is taken focusing on projects that can exemplify the approaches taken across the programme.

- The programme has a number of projects that are specifically focused on supporting SMEs to improve their environmental performance or focus on innovation that is driven by resource efficiency. The environmental impact of this is not currently being captured and a specific review of how that might be addressed would be a useful input into any later impact evaluation.

Equality

- It would appear from project claim information that projects are addressing the equality CCT aims in terms of supporting under-represented groups and targeting disadvantaged areas (especially under PA2).

- Stakeholders and project managers are confident that projects are contributing to equality aims and monitoring where possible. However in the absence of any specific targets, it is currently difficult for the programme' to performance to be monitored.

- In order to better capture projects' contribution to the equality CCT, we would suggest that the programme produces a number of case studies highlighting how the theme has been mainstreamed within the project.

8: Strategic Added Value

8.1   The programme is clearly a major funder of projects. However, the strategy that sets the framework for project approval and the mechanisms of the programme, such as the PMC and Sub Groups, go beyond specific projects and have the potential to have wider influence on organisations and activity in the region. This Section looks at how far this has been achieved. The main source of information is stakeholder and project manager consultations.

8.2   A useful framework for considering wider influence is provided through the concept of *Strategic Added Value* (SAV), developed for RDAs[20] to allow wider influence to be considered in a structured way.   There are three principal components of SAV:

- leadership

- coordination

- influence.

8.3   How far the programme has achieved SAV under these headings is considered next. It is important to note that the key indicator of influence is the effect in relation to changes in behaviour and results, not the establishment, for example, of coordinating mechanisms.

8.4   First, however, it is important to consider how far programme funding, itself has been 'additional'.

Additionality

8.5   The project managers interviewed were asked about the difference that ERDF funding had made to the project. In 14 of 18 cases, they pointed towards significant influence, either through shape, content, scale or absolute existence - in the sense that without ERDF support, the project would not simply have gone ahead at all. Overall, the responses suggested that additionality of the programme has been good; had the programme never existed, the landscape of projects in the East Midlands would have been markedly different. This would have been the case in any event, but the recent restrictions in public spending (despite the effect on match funding) have sharpened the impact of the additional resources made available under the ERDF programme.

Leadership

8.6   So far, it has not been the function of the programme, or the PMC, to provide leadership for economic development in the East Midlands. This has more been the function of the Regional Economic Strategy – which has significantly influenced the shape of the East Midlands ERDF Competitiveness programme – or the Regional Development Agency, principally through its Board. It is fair to say that few of the consultees saw significant

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[20] See DTI (2006), *Evaluating the Impact of England's Regional Development Agencies: Developing a Methodology and Evaluation Framework*; DTI Occasional Paper No.2 London.

leadership forthcoming from the programme or the PMC but it is probably unfair to expect this given the circumstances in the region to date, as described. What does appear to be a 'leadership' item is the view that the programme has been one of the few instruments to look forward for up to seven years. Few other regional or local organisations work to such a long term timescale. This was considered by some consultees to have strategic value.

8.7 For the time being, the regional perspective is considered at government level to add little value. This, however, may not always be the case and it may be that the PMC, which looks set to be perhaps the only organisation remaining with an East Midlands perspective on *economic development*, may develop a more strategic influencing role in future. Some of those consulted would certainly appear to welcome this.

Coordination

8.8 Some of the structures of the programme have encouraged organisations to work together or share information, over and above what would have happened had the programme not existed. This appears not to be true of the PMC, but both Sub Groups, especially the PA2 Sub-Group, have provided an opportunity for organisations to meet and discuss, offering the opportunity to 'reduce the isolation of some of the members' (quote from one consultee). It may be that some of the impetus for the Sub Group has been generated by possible negative feelings towards *emda*, but it appears that there are other positive outcomes.

8.9 Also, thanks to the programme, the five local authorities in the former coalfields areas have come together successfully to manage their inputs. This has been judged to be success by those taking part. The simple fact that resources are available through the Fund has also encouraged some new partnerships to form, for example, the Lachesis Fund has brought together the Universities of Derby, De Montfort, Leicester, Lincoln, Loughborough, Northampton, Nottingham and Nottingham Trent - the first time that these eight institutions have worked together as a group in this way.

8.10 The ERDF Team can point to significant opportunities for coordination and networking. For example, iFestival held events at several ERDF projects, included the Modeling and Visualisation Centre and G-Step. Workshops have been held with applicants and grant recipients covering the application process, the Article 55 revenue generating projects rules, and the audit, monitoring and irregularity procedures. The first Annual Information Event was held in Nottingham in October 2009.

8.11 Project managers were understandably less able to comment on the programme's influence under some of these headings. However, some project managers reinforced the comment on isolation and would appreciate the opportunity to network with other similar (or even not so similar) projects – *beyond* the programme-sponsored workshops looking at programme procedures. With the replacement of *emda* with new structures, there may be an opportunity here.

Influence

8.12 This is an area where the effect of the programme has indeed been felt. At its crudest, where the programme is specific about the types of project that will be supported, as it is under PA1

SQW

and PA2, managers looking for project funding will create projects that fit within the required definitions. It was mentioned that the programme is more tightly targeted in this respect than Single Programme funding has been. This is recognised both by partners and project managers and, except where there might be a case for broadening out the scope of PA2, referred to earlier, it is generally seen in a positive light. Consultees specifically mentioned the influence of the programme in promoting projects related to:

- innovation

- sustainability

- enterprise in the disadvantaged areas, and

- an orientation away from physical infrastructure projects.

8.13 Generally, the consultations suggested that the influence on the type of activity undertaken has been considerable. This is likely to continue. The potential of the programme to influence the shape of economic development in the region should not therefore be underestimated. Should there be any change in the shape of the programme in future (for example, relating to the scope of PA2) this could have a significant effect. In addition, through the programme, organisations have been influenced to take on new roles, for example the Prince's Trust as a delivery organisation in the regional start up programme for disadvantaged young people.

Summary and conclusions

- The additionality of the programme, in relation to the scale, shape and actual existence of projects has been good.

- It has not been the function of the programme so far to provide economic development leadership; this may change in the future.

- The coordination mechanisms set up under the auspices of the programme have been useful in bringing organisations together; it should be possible for the programme to do more in this respect.

- The programme has had considerable influence on the shape of projects. This should not be underestimated should any proposed change in the content of the two main priorities be considered in the future.

- Generally, the PMC and ERDF Team should consider:

  - how far the leadership role of the PMC might realistically be developed

  - how to strengthen the coordination elements of the programme.

9: Administration of the programme

9.1   As part of this Interim Assessment, stakeholders and project managers were consulted about the programme's structures and processes. The extent to which the administration of the programme enabled high quality projects to be developed and supported by the programme was examined as were the structures that have been developed to oversee the programme to ensure the effectiveness and quality of implementation.

9.2   The compliance of systems against the Commission programme management requirements has not been examined since that is not within the remit of the Interim Assessment, but we have no reason to think there are any issues in this respect. Moreover, those stakeholders who were able to comment on those aspects of the programme reported they were satisfied with the programme management.

Administrative structures of the programme

9.3   It is first useful to describe some of the main structures that provide the administration and management of the programme – the Programme Monitoring Committee (PMC), the PA1 and PA2 Sub Groups, and the programme secretariat within *emda* (the ERDF Team) – together with stakeholders' and project managers' views on programme administrative effectiveness.

Programme Monitoring Committee

9.4   The terms of reference of the PMC are as follows:

- agree the governance structures, the investment selection criteria, investment framework and any relevant management strategies for the programme and any updates

- review progress of the programme against its targets, outcomes and impacts; the results of implementation; and the results of evaluation and monitoring linked to the OP

- review the Annual Control Report produced by CLG and submitted to the Commission

- propose reviews or revisions to the OP to improve delivery of its objectives or its management; and approve any amendments to the programme or priority axes

- approve any major projects (total costs over €50 million).

9.5   The PMC consists of representatives of the three regional bodies (GOEM, *emda*, East Midlands Councils – formerly EMRA), four Local Authorities, relevant thematic organisations (Innovation East Midlands, East Midlands Business Forum, East Midlands Universities Association, and the East Midlands Employment, Skills and Productivity Partnership), the Third Sector (Social Enterprise East Midlands, and One East Midlands), Environment and Sustainability bodies (East Midlands Councils Environment Group and

Sustainable Development Group), Equalities organisations (Equalities and Human Rights Commission), the managing authority (CLG), and the European Commission.

9.6   PMC meets every six months.   Since 2007 there have been a number of different organisational representatives attending as a result of staffing changes and interim arrangements within the membership organisations. Attendance of members has not been universally good nor have some of the arrangements for sending the designated alternates. There is a cohort of members who have themselves or through their alternates been represented at almost all PMC meetings, although this has fallen from around 60% (in the period 2007 to 2008) to around 30% of members in the last year (2009 to 2010).   The remainder of member organisations are represented at around half, or less than half, of the meetings which means attendance for some is once a year or less. In the last year, around 70% of the membership attended half of the meetings or less. There have been five chairs of the PMC since it started.

9.7   The poor attendance of some of the membership of PMC is connected to many of the issues raised in this section, but seems to be driven by factors such as:

- changes among the individuals and staffing of membership bodies as a result of reorganisations and local elections which has meant that representatives have changed and continuity of engagement with the programme has suffered

- members' limited understanding of the programme and purpose of the PMC which compromises their ability to contribute effectively and thus their motivation to attend.

9.8   The following represent the main issues relating to the PMC highlighted by consultees (many of whom were PMC members):

- There is a lack of capacity and knowledge about the programme and the programme management issues among a significant number of the members of PMC. Consequently, the PMC is of only limited effectiveness as a steering group and the programme is over reliant on the ERDF Team as secretariat. There is poor attendance at meetings and events and changing membership.   The inaccessibility of the language and concepts associated with the ERDF programme can be a hindrance.

- There could be more information provided at PMC meetings about the shape of the developing programme and the projects within it.   The nature of reporting seems to have been a response to the experience of the previous programme and an attempt to ensure that PMC discussion is strategic rather than project-specific. It is possible that current reporting arrangements have not got the balance right and further reporting of the Priority Axes, strands, district performance, updates on the progress of significant projects, with details on committed and actual outputs as well as spend would be helpful.

- PMC, or the Sub Groups, are not functioning well as discussion and decision making groups. The sometime infrequency of attendance and the lack of engagement from some members have meant that most management issues and decisions which could be discussed at PMC are generally resolved by the ERDF Team. All that said, a recent decision on the deadlines set for districts to bring forward applications to cover

their allocations to 2010 was discussed and supported by PMC and seems to have been one of the few instances of decisions of this type being debated. Securing PMC input and collective ownership of the management of the programme in this way is important in reducing the perception of ERDF as *emda's* programme.

Sub Groups

9.9   PMC has two Sub Groups covering PA1 and PA2, which also currently meet every six months.   They are made up by the same organisations as are represented on the PMC, PA1 containing the representatives from the relevant thematic bodies and PA2 containing the representatives from the spatially targeted areas. The spatially targeted districts represented are organised into groups and represented in the PA2 Sub Group as follows:

- **Former Coalfields** Ashfield, Bassetlaw, Mansfield *via Nottinghamshire County Council* and Bolsover, Chesterfield *via Derbyshire County Council*

- **Urban** three cities Nottingham, Leicester, and Derby represented by *Nottingham City Council, Leicester City Council, and Derby City Partnership*

- **Urban** Lincoln and **Coastal and Peripheral** Boston and East Lindsey represented by *Lincolnshire County Council*

- **Former Industrial** Corby via *Northamptonshire Enterprise Limited.*

9.10   The initial task of the Sub Groups was to make recommendations to the PMC on the Investment Framework. This was completed by the end of 2008. The function of these groups is now less clear; there are different views amongst Sub Group members in PA1 and PA2 on proposals to wind up the groups, possibly reconstituting them as one group to focus on performance and monitoring. The PA2 membership, however, are keen to maintain a PA2-specific forum since a fair proportion of funding is still to be allocated and decisions will soon be required on the appropriate investment framework for the remainder of the PA2 allocation over 2011–13.

9.11   Our view would be that a forum is required for the discussion of issues pertaining to PA2, which are significantly different to those in affecting PA1. In Section 5, we raised a number of possibilities for changing the shape of PA2 and it would be helpful for there to be a forum for local stakeholders where issues to do with intervention rates and possible challenge funds could be debated. Also, the changing shape of regional bodies will have implications for delivery at the local level which will need to be debated.

9.12   However, there has been a lack of clarity on the function of the Sub Groups and the PA2 group particularly seems to have become adversarial in nature; this is a barrier to doing what most consultees consider to be the potentially most useful function of the group – influencing the shape of the programme and sharing best practice.

Overview

9.13   Neither the membership nor the ERDF Team are totally satisfied that the PMC and Sub Groups are operating as envisaged and performing as useful a function as they might with

respect to the management of the programme. There are some very particular issues with respect to the PA2 Sub Group but many of those stem from the issue with PMC itself, namely an absence of any real steer of the programme and a lack of collective ownership/sense of joint responsibility for management of delivery issues.

9.14 This is a frank assessment but is representative of the views widely held by consultees. We do not expect they will come as a surprise and have been acknowledged by the ERDF Team and PMC members themselves, who particularly recognise the difficulty there is in resolving any or all of these issues when membership of the group is constantly changing.

9.15 However, with the new Chair in place, action has recently been taken to make induction for PMC members a formal requirement and suggestions have been made on more detailed reporting on the programme in order to give members a better overview of its shape in terms of the broad types of projects that are being supported. The recent tabling of programme management issues for discussion hopefully marks the start of fuller engagement with strategic and management issues so that the collective resources, networks and expertise of the PMC can be better used to support delivery.

9.16 The impending changes to regional structures and organisations are likely to mean changes in the management of the programme and as a consequence a revision to the OP document. This may take place at the beginning of next year. It may be appropriate at this point to review the terms of reference, organisational membership, and representatives of the PMC and the Sub Groups to ensure they are fit for purpose for the second half of the programme. This could be an opportunity to re-engage with the members and wider stakeholders and restate the roles and responsibilities of PMC and its Sub Groups.

Secretariat – the ERDF Team

9.17 The administration of the programme is currently conducted by the ERDF Team within *emda*, a change from previous programmes which were administered by GOEM. This team is dedicated to ERDF management and has links into *emda's* Shared Resource Centre for finance and appraisal resources. For the first part of the programme, during the development of the OP and the Investment Framework, the ERDF Team reported into *emda's* Strategy Directorate but as the programme has moved into the delivery phase, its reporting line has been transferred into the Regeneration Directorate.

9.18 The majority of consultees, stakeholders and project managers, believed that the alignment between ERDF and the Single Programme has been sensible and promoted stronger strategic alignment between two of the main regional funds, such that they better delivered against the Regional Economic and Innovation Strategies. Most of the project managers had accessed the funding after being made aware of it by their counterparts in *emda* and believed that the administration of the fund within *emda* had provided seamless dissemination about the programme to the relevant potential project leads.

9.19 The ERDF Team were considered by stakeholders and project managers to be professional, highly competent managers of the programme. Overall, consultees were positive about *emda*'s management of the programme. The Team were considered to be friendly and helpful

in supporting project managers during both the application and delivery phases. Where changes of approach might be possible, they related to:

- giving the impression of being more flexible and less process-driven

- a more proactive role in the managing the shape of the programme.

9.20   It is important to remember that there is a strict distinction between the Secretariat's role in administering the programme and the strategic role of the PMC who direct the programme. Furthermore, the ERDF Team, within *emda*, are strictly separate from the project development process. However, in the view of some consultees, the ERDF Team legitimately could:

- highlight gaps in activity in the programme to the PMC (e.g. the suggestions we have made in relation to PA1 coverage) and work with them to develop options to address them

- work with potential applicants to identify the types of projects that would be eligible under ERDF and meet the strategic objectives of the OP[21].

9.21   We highlighted earlier the difficulties for project developers caused by the introduction of Solutions for Business, especially relating to projects developed under PA2. Some project managers believed that they would have benefitted from more guidance and information on this from *emda* and from the ERDF Team.

Appraisal and approval process

9.22   All consultees were asked about the effectiveness of the application and approval process; project managers were additionally asked to score their experience of the process from initial awareness of the programme to the monitoring visits they are now receiving. The scores are shown in Figure 9-1.

9.23   The application and approval process was by far the lowest scoring element of the process for most project managers. Some found the application form itself long and repetitive with some questions that seemed to be of limited relevance. The problems seemed to be greater for PA2 than PA1 managers. Some were particularly frustrated by changes around the application process which required separate ERDF and Single Programme applications to be combined into a single application as the systems for joint applications were still being developed.

9.24   That problem has been resolved, but the length of the form itself will be difficult to address; we understand that the forms have already been reviewed for opportunities to be simplified where possible. The issues that may be possible to address were the length of time the application and approval process took, the multiple questions and people involved in assessing the application, and clarity around eligibility in relation to Solutions for Business.

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[21] This was done with respect to Enterprise Coaching which was one of the few activities that is eligible under ERDF and fits within Solutions for Business that could be delivered in the PA2 districts and the ERDF Team work in supporting PA2 areas was particularly highlighted as an illustration of good practice

Figure 9-1: Project managers' scoring of ERDF application approval and monitoring process
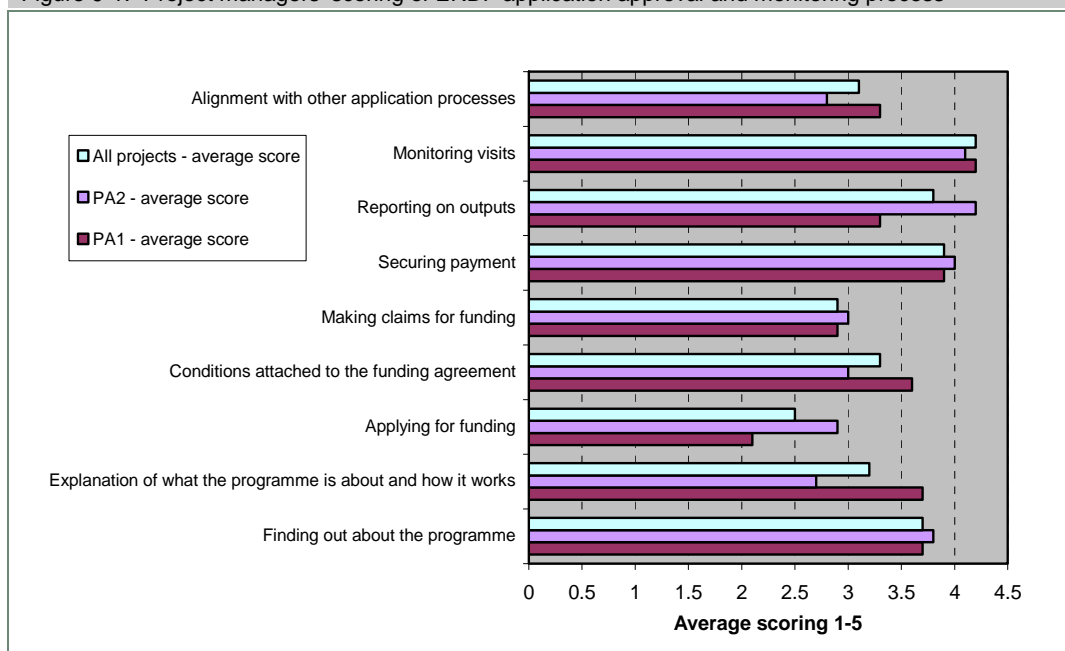
Source: Source: SQW survey of project managers (based on 18 interviews, including 9 PA2 project managers) Note: 1 = complicated, slow, difficult to understand and unhelpful and 5 = straightforward, quick, easy to understand and helpful

9.25 The length of time the applications take to proceed to approval was the biggest issue raised by project managers. There were a number of instances of projects taking 6 – 12 months to be approved. The underlying issue, however, appears to be the state of readiness of the project at the time of application. Projects reasonably have to be in a 'final' state to be appraised and approved for funding. Projects that are not in this state ultimately end up being developed while the appraisal process is underway. Thus, the time that it takes from development to approval often cannot be laid at the door of the team within *emda* but the impression among some applicants is that project ideas are progressed through what seems to be a long process of questions and answer which is frustrating for applicants; additionally, the local management groups involved with the projects at EOI stage are not aware how projects are progressing.

9.26 This is a thorny issue which has affected previous ERDF programmes and we are aware of the view that some organisations do not apply for funding because of the perceived problems associated with appraisal and approval. There are, however, accountabilities that have to be addressed through the process which mean that certain standards of information are required. Further, as was noted under Section 7, questions relating to the cross cutting themes have legitimately been introduced. It is also clear that many projects are submitted for funding approval without basic requirements, relating to match funding or planning permission, being addressed.

9.27 There is not an easy answer to this but the way forward might lie in *better and more transparent communication* as well as the setting of a target time line. A recent review of processes within *emda*[22] and which referred to the ERDF programme suggested:

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[22] Emda process review, 2010,

- **target time lines** should be developed for the EOI stage, project development and project appraisal

- **an ERDF Tracker** should also be developed that advises partners where projects are in the process and who the responsible officer is; the Tracker should be published and available for partners to see.

9.28   It is also worth noting that while the scores for 'applying for funding' and 'making claims for funding' were relatively low, in most other respects, the administrative side of the programme *does not appear to be regarded as especially burdensome* – for example, 'reporting on outputs' has received very high scores, especially from PA1 managers. The most positive aspect identified by PA2 project managers was 'reporting of outputs' and 'monitoring visits' which appear to have been well organised and have proved to be extremely useful for the projects themselves.

9.29   When PA2 project managers specifically were asked to rank different elements of the programme, the most negative aspect was around awareness and understanding of the programme and how it works, especially understanding the guidance and ERDF terminology. Interestingly consultations suggested that there have probably been more first-time ERDF applicants under PA2 compared to PA1.

9.30   As well as the target time line and the tracker, an additional suggestion is that a **single application manager** from within the ERDF Team could be assigned to projects at full application stage; it would be the role to mediate between all the parties involved in appraising the application and the project manager.   The single application manager could also act as a gatekeeper to prevent applications progressing when they were not in a fit state to be appraised or were missing key elements.

9.31   An additional suggestion would be to involve the **local authority leads** more in the process of project appraisal and approval in the sense of keeping them in the picture about progress and securing their inputs, where they would be helpful, in negotiations with project managers.

Communication and publicity

9.32   There are two aspects; internal communications, that is, within the programme (for example between the ERDF Team, PMC members, project applicants and so on) and external communications, that is, to the wider world.

9.33   *Internally*, communication about the programme was viewed by some stakeholders and project managers as sometimes difficult because of technical language used; also, reporting was overly focused on financial elements to the detriment of project descriptions, and their outputs and impacts.   These issues are acknowledged within the ERDF Team.   As the programme progresses the intention is to increase the use of examples of existing projects in newsletters and on the websites to communicate what the programme is about. Also there are plans to improve reporting to PMC, Sub Groups, districts and stakeholders particularly about the regional element of PA2. Reporting in these areas would greatly increase transparency and help demonstrate the additionality of the programme.

9.34   *Externally*, consultees considered the marketing and promotion of the programme to have been relatively good but acknowledge that is still low awareness of ERDF in the region. The annual event and website both received good feedback but seem to be largely reaching those already engaged in and aware of ERDF. PA1 marketing and promotion has used Higher Education networks, road shows and newsletters. Within PA2, districts have been responsible for promotion within their own areas and have used local management group networks to promote and champion the programme. Some areas found it difficult to market the programme because of match funding requirements required and would like flexibility to be able to 100% fund marketing activity or have some other support for promotion from central funds.

9.35   A number of consultees raised concerns about marketing too strongly and generating interest and expectations beyond the funding available. This was a particular concern because ERDF eligibility conditions are very tight and a large number of organisations may not have the capacity to deliver a project. However, there may be a case for more targeted promotion where, for example, under PA2 more effort might be focused on developing interest in ERDF among social enterprises, BME groups and so on. If allied to capability-raising technical assistance, this could stimulate uptake.

9.36   More generally, there is a case for promoting the programme on the basis of good news stories attached to significant and worthwhile project supported.

Summary and conclusions

9.37   The key points are as follows:

- Member inductions should be an important introduction to PMC membership; there could also be refreshers or existing members.

- Interest in the PMC might be stimulated among its members through more reporting of project activity (particular and general) including case studies.

- Revising the Operational Programme might provide an opportunity to review the membership of PMC, and the role and functions of the Sub Groups. This review should be conducted alongside the plans for greater engagement of PMC in strategic programme management issues.

- There may be a role for the ERDF Team in helping to identify gaps or opportunities in the overall project portfolio.

- The process of application and approval will always be rigorous but time-consuming. However, this might be more acceptable to applicants if the communications between the ERDF Team and applicants were developed in relation to a target time line for applications and regular feedback to applicants about the stage that their application was at in the process. Appointment of single application managers and more involvement of local authority leads might also be useful.

10: Monitoring and evaluation

Project managers' view of the monitoring arrangements

10.1   As was apparent from the scoring in the previous section, making claims and being subject to monitoring visits was something most project managers found relatively straightforward, easy to understand and helpful. There were some teething problems in the early stages of the programme with the on-line claim forms but these have been addressed. Overall, most project managers considered that the ERDF Team did a thorough job and they were praised for the help they had provided to projects. The system of allocating contract managers to each project was particularly considered to be helpful in addressing any issues with claims or project monitoring.

10.2   Our own perspective, from attending the ERDF annual event seminar sessions on audit visits and monitoring claims, was that these peer-to-peer sessions, supported by the ERDF Team, were indicative of good support, and of the early intervention systems the ERDF Team had in place. The systems are undoubtedly quite onerous as one would expect given the evidence requirements for European programmes but should ensure full and robust monitoring data for core ERDF outputs, outcomes and results.

10.3   A number of project managers reported that they found the monitoring and record keeping requirements for the programme burdensome. The requirement to keep hard copy documents with signatures was considered a little archaic and unwieldy in projects with multiple delivery partners. Some project managers felt that the resource requirement for administration was so high that it might affect project delivery.   A few commented that institutions did not consider it worthwhile bidding for projects under £300,000 because the processes and administration were the same for large and small projects; this was the threshold under which the management time was not considered worth the return.

10.4   The monitoring requirements are set for the Programme by the Commission and are unlikely to be changed in the life of this programme, but it is worth reporting that project managers felt that EU rules on monitoring had become increasingly complex over the years to eliminate loopholes and to adhere to new statutory requirements and that requirements had crossed the line from being rigorous to being over-complicated.

10.5   Some of the comments on the administrative side of the programme were reported in the previous Section. It is fair to say that negative comments were made; in many cases, these comments might be unreasonable or relate to aspects of the programme administration about which nothing can be done. However, it is important that the ERDF Team and the PMC are aware of any negative sentiments, where they exist, because at the margin, it might be possible to take some forms of action to change the impression that many applicants have.

Description of the systems

10.6   The monitoring information system (MIS) is a live integrated finance and outputs system which provides all the programme and project information; it drives operational day-to-day

reporting and performance reporting to PMC, and via the Annual Implementation Report, reporting to the CLG and the Commission. We have had to rely on the MIS for items of information necessary for this Interim Assessment and on that basis we can confirm that the MIS is flexible and is capable of producing many cuts of the programme or project data for reporting.

10.7 Although data and analysis are available for the day-to-day management of the programme, our understanding is that relatively little of the reporting functionality has been used to date to drive programme, priority axis or priority strand reporting. One of the reasons is that there has – until relatively recently – been limited focus on providing a picture of the developing programme shape.

10.8 Another reason appears to be a capacity issue in *emda's* finance and reporting function which has been a barrier to developing additional reports for the ERDF Team. Some resource has been recently been provided to deal with the ERDF-specific requirements but if this resource is ultimately not sufficient to provide for the reporting needs of the programme it will need to be addressed. This lack of reporting functionality affected this Interim Assessment as some of the project level detail reporting was only latterly able to be provided.

10.9 It is also noted that this is a barrier to the timely provision of some of the more detailed reporting we have proposed for PMC, the Sub Groups, the districts and wider stakeholders. These gaps in the reporting capacity and information provided are acknowledged by the ERDF Team who have been working to resolve them with the aim particularly of providing districts with project output reports:

- for their projects

- for the regionally-delivered element of PA2 in each area.

10.10 Neither of these was available during the course of this Interim Assessment but will be an important part of the later impact evaluations which will need to demonstrate the regional and sub-regional impacts of the programme.

Performance Reporting

10.11 Consultees reported that the monitoring of the programme with respect to expenditure was good but, although it was early in the programme, they were keen to see more information on project performance in terms of outputs. We have commented on this in other parts of this report. The 2009 AIR has addressed some of the issues about information on the programme. In our view it could be further improved by including reporting at *priority strand, indicative action and district level* with an annex describing the projects comprising the programme. This information could then be provided as standard performance update to PMC to support the monitoring function and to act as a framework and context for specific project presentations and case studies.

10.12 It is acknowledged that a decision was taken at the start of the programme not to overwhelm the PMC with project-level information to encourage them to take a strategic perspective. It is right that PMC discussions are focused at a more strategic level but we believe this approach has militated against providing sufficiently detailed performance reporting (apart

from finance). This absence of information on the components and shape of the programme may have been a barrier to PMC developing a strategic perspective. As already highlighted, the PMC recently discussed options for more detailed reporting and suggested high risk, high value, or the most recently approved projects, could be reported. These may be helpful but we suggest that any project-level reporting needs to be set in the context of priority strand and indicative actions; this intermediate level reporting might be most useful for PMC.

Targets and indicators

10.13   The indicators of programme performance and the targets to be achieved were described in Section 3. Performance in achieving targets, in results as well as output terms, looks to be good. The view has been put that the targets should be changed to reflect the effects of the recession in the region. We would suggest that this is not necessary because:

- as Section 2 of this report has demonstrated, the recession's effects appear not to have been as severe as had previously been expected – and the region may now be emerging from it

- should it be that more severe effects become apparent, or the region slips back into recession, the changing context can be taken into account in the interpretation of the achievement of targets.

10.14   For the time being, efforts should be concentrated on reporting of performance against the targets that were already in place and the interpretation and analysis of achievement.

10.15   The indicators in use are very closely related to those which guided the measurement of the impacts of RDAs for many years. In most cases, they are appropriate for their purpose. One suggestion has been that a new indicator, relating to 'jobs safeguarded' is added. This might better reflect the performance of the programme during difficult times when support for businesses might be more orientated towards keeping them going, rather than growing. 'Jobs safeguarded' is, however, a difficult indicator to measure (though the RDA definition is worded fairly tightly). It is also difficult to predict or forecast and therefore to frame a target around. Our view, however, that this is likely to be an effect of programme support for businesses and will have an ultimate effect in terms of GVA. Consideration might therefore be given to recording results under this indicator where possible. Otherwise, one component of the final impact of the programme might be missed.

Evaluation planning for individual projects

10.16   The first Section of this report described the evaluation plan for the programme as a whole. This part looks at how individual projects are themselves planning for this as well as, where relevant, planning for their own individual evaluations. All ERDF-supported projects are required to set out evaluation plans as part of their applications. Additionally, projects with a total value over £1 million (ERDF plus match funding) are required to set out plans and put aside funding to commission independent evaluations. These self-evaluations and independently commissioned evaluations will potentially be a useful resource for the overall impact evaluations in 2012 and 2015. Similar evaluation requirements apply to projects in

receipt of *emda* Single Programme funding. All evaluations commission by, or on behalf of *emda*, should make use of the Impact Evaluation Framework (IEF), the evaluation methodology specified (at present) by the Department of Business, Innovation and Skills (BIS).

10.17 Since so many ERDF projects are also in receipt of Single Programme funding *emda* developed a single evaluation 'toolkit'[23] to ensure the same evaluation could meet the requirements of ERDF and Single Programme. This approach was also driven by the desire to deliver consistency between the RDA evaluation requirements and those of the ERDF programme as well as making the process as simple as possible for project managers of dual funded projects. A process is being developed to inform dual funded projects of how this affects the independent evaluations they commission. The toolkit has already been added to the resources on the ERDF website but is a resource for commissioned evaluators as opposed to project managers themselves. The toolkit was substantially amended to ensure compatibility with ERDF requirements.

10.18 It had been hoped the results of independently commissioned £1 million project evaluations would provide inputs to the overall programme evaluation; however, this is now uncertain because of the plans to abolish the RDAs.

10.19 The evaluation plans for those projects with a total value of less than £1 million are less clear. There are requirements for evaluation plans but these include a combination of self-evaluation and plans for commissioning. It would be useful to provide some further guidance to ensure that such evaluations that take place are as useful as possible for establishing the impact of the programme overall. Project managers consulted asked to be informed of what was expected of them in evaluation so that they could be ready and could tailor the evaluation contracts they had in place to be able to usefully contribute. The ERDF Team have already begun to develop an evaluation guidance note for project managers that explains the process and provides information on what they will be required to feed into the evaluations.

10.20 Project managers and stakeholders did not foresee any particular issues with evaluating the projects within the programme although some highlighted the fact that impacts might not be evident until the 2015 evaluation, given the long term nature of some project interventions.

10.21 A number of consultees emphasised the need for impact evaluations to incorporate case studies in order to tell a rounded story about the impact of the programme rather than just looking at overall numbers.

Summary and conclusions

- Some aspects of the administration and monitoring requirements of the programme are considered burdensome, and may be off-putting to applicants for smaller projects. The ERDF Team are supporting project managers well but this nevertheless is an important message to feed back to the European Commission.

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[23] Emda Single Evaluation Toolkit was developed by ECOTEC

- The monitoring system is flexible and fit for purpose for the operational monitoring of the programme and future evaluation; however the lack of reporting functionality which is now hopefully being addressed has been a barrier to reporting.

- Performance reporting in respect of expenditure at programme and Priority Axis level has been the focus to date and now needs to be supplemented with similar reporting on outputs at priority strand or indicative action level to enhance the range of reporting to the PMC, the Sub Groups, the districts and other stakeholders.

- The targets for the programme do not need to change though their interpretation will need to be undertaken with care; however, an indicator relating to jobs safeguarded might be considered.

- Evaluation systems have progressed well. There is some uncertainty over future requirements but when management arrangements for the programme become clearer, it should be possible to develop evaluation guidance for projects (at a somewhat simpler level than the existing 'toolkit') that might also possibly incorporate collection of information on environmental impact.

11: Conclusions and recommendations

11.1 This concluding section draws together the main findings from the Interim Assessment, provides some further analysis and makes recommendations for the PMC to consider. This has been a 'light touch' assessment which has not gone into the full economic impact of the programme; rather, it is designed to look generally at the programme and, mainly based on consultations with programme participants (together with the consultants' inputs), make suggestions to promote the effective management and direction of the programme for its remaining life. There have been significant changes, however; principally a new government with a different approach to regional development than its predecessor and an imperative to reduce public spending, which substantially changes the context within which the programme operates.

11.2 Overall, the programme has performed very well in many respects. There is no fundamental unhappiness about the way it has developed or the progress that has been made and there is great respect for and confidence in the ERDF Team. There is clearly good progress in securing commitment of resources to good projects, especially under PA1, and no major worries so far about the level of programme spend. The programme is securing a good level of additionality, in that much activity is being supported that would not be there had the programme not existed. There is also a clear indication of influence on the shape that activity takes, though less evidence of the programme showing leadership within the region, though in fairness, this has probably not been one of its functions so far.

11.3 Levels of spend are good and outputs and some results are beginning to emerge. Most results (and impacts) are yet to come as the projects which have benefited from ERDF support are in most cases still developing. Results and impacts will be picked up in the evaluation to follow in 2012 but there is nothing so far to suggest that targets will not be reached.

11.4 There are lessons, however, from this Interim Assessment. There are ways in which the programme might have to do some things differently or might have to change direction. None of these are fundamental. The change in wider circumstances referred to means that the Operational Programme itself may have to change and this provides an opportunity to look again at some aspects of the programme as a whole. Our recommendations are set out under the following headings which mirror the chapter headings in the main report.

PA1

11.5 The programme under PA1 is progressing well with a good range of projects in line with the Operational Programme and Investment Framework. There is no need for or demand for radical change. The areas to be considered under PA1 in the second half of the programme are more to do with the appropriate focus for the remainder of the funding allocation and supporting the delivery and monitoring of the portfolio of approved projects so far. The activity promoted under PA1 is generally considered to be of good quality; the spend commitment is also very good for this stage in the life of the programme. Our analysis shows that the balance of project activity is orientated towards:

- technology or knowledge transfer

- SME innovation support

- SME environmental innovation/support.

11.6   The programme has a good range of projects in line with its original strategic objectives. The challenge now is to focus on gaps in the portfolio as it has developed so far and ensure that projects can support each other where appropriate to maximise benefits for regional businesses. This leads to three recommendations.

Recommendation 1: Consider how the absorption capacity of businesses can best be addressed through development of programmes to support leadership and management development among businesses.

Recommendation 2: Consider how the ladder of funding can best be addressed to augment the seed funding mechanisms (e.g. Lachesis) already in place.

Recommendation 3: Develop more opportunities for general networking among project managers, not related to the management of the programme.

PA2

11.7   As was noted in Section 5, performance has apparently been less good under PA2 than under PA1, most notably in terms of funds allocated to approved projects. As was made clear earlier, there are reasons for this to do with how project ideas are generated, the fact that there was not a 'pipeline' of projects ready to start when the programme commenced and temporary difficulties to do with the Solutions for Business (SfB) categorisation of business support activity. That said, it seems fair to say that PA2 does have some catching up to do compared with PA1.

11.8   The PA2 projects supported come under the following main categories:

- public realm and regeneration

- pre-start or start up support

- SME business support.

11.9   It is now clear that over the next 18 months or so, it will be increasingly difficult for organisations to find match funding. We believe that it is possible to change elements of PA2 to improve the quality of projects and make it easier for projects to come forward in the difficult circumstances emerging.

11.10   First, however, we do not support the idea that because commitment so far under PA2 has lagged behind PA1 resources should be reallocated from PA2 to PA1. We say this for the following reasons:

- the level of commitment under PA2 projects is likely to increase to more acceptable levels as systems (e.g. SfB) become embedded

- it is well recognised among partners that there is an important place for the programme in promoting activity in disadvantaged communities

- finally, and most importantly, the possibility of viring funds from one Axis to another was not mentioned once in the consultations for this assessment.

Recommendation 4: Retain the global financial allocations to PA1 and PA2 as they stand at present.

11.11 A key element of PA2 is the spatial targeting to 12 districts. Stakeholders were clear that the programme should continue to have a spatially targeted element, focusing on the most disadvantaged areas as identified by the relevant economic statistics. There was agreement that the analysis on which the ranking was made was correct. There was awareness that the list of the 12 most disadvantaged areas has changed since the programme was launched with one area out and another in. The implications of this may need to be discussed at the PMC.

Recommendation 5: Retain the spatial focus.

11.12 The problems to do with the uptake of PA2 are likely to become worse in the immediate future as the resources available to partner organisations in the public sector become significantly more restricted than has been the case in the past. It may be that raising the intervention rate for this priority axis will potentially improve the level of uptake, or at least, prevent it from falling. From the European Commission's perspective, the condition of funding is that overall, by the programme's end, the global intervention rate should not exceed 50%; however, within this, there is scope for variation (thus the varying rates between PA1 and PA2).

11.13 So far, it is our understanding that by supporting projects under PA2 with relatively low intervention rates, the global rate for the Priority Axis is below the level expected, leaving scope for the intervention rate to rise in future years. We do not believe that this is necessary under PA1, but it is possible that it would help to assist in the development of good projects under PA2. This leads to Recommendation 6.

Recommendation 6: Raise the intervention rate under PA2 from its current level for new project approvals; retain the current 40% rate for PA1 projects.

11.14 There is a view that greater competition for project funding across the whole programme might lead to increased quality. We believe that this would be worth trying, possibly in the form of a 'challenge fund'. Under this, invitations for project submissions could be made on a regular basis, with the possibility that the intervention rate could again be higher. There would clearly have to be agreement on who would make the decisions (and how far this could be a role for the PMC) as well as the criteria for selection. Since challenge funds have been

present in the past, this might not be a problem. The funding could be taken equally from the remaining regional and district allocations under PA2.

Recommendation 7: Consider introducing a PA2 'challenge fund' with intervention rates above the average level for PA2.

11.15 PA2 has had a very clear focus on introducing ideas relating to enterprise into disadvantaged areas, moving the programme away from the forms of activity that have dominated previous programmes. However, it is seen as being perhaps a little restrictive in scope and, again in order to stimulate uptake, there may be a case for widening it to suggest a range of new activities that might be supported. By openly broadening the scope of activities for which support might be available, it is possible that renewed interest might be stimulated. Some possibilities might be:

- development and expansion of social enterprises

- support for enterprise within BME communities

- support for creative/media and tourism projects with a business focus.

Recommendation 8: Consider broadening the scope of activities that can be supported under PA2.

11.16 It is possible that these suggestions, if they are taken up, may not work and that uptake of projects as well as their quality and range might not change. In view of the rapidly changing situation that affects the programme, it would be wise to review matters at some time in the future and consider how far other measures might be taken or more radical suggestions might be required.

Recommendation 9: Should any of these suggestions be taken up, their success in altering the shape of PA2 should be reviewed in, say, 18 months with appropriate follow up action taken.

PA3

11.17 So far, there has been only limited uptake of PA3 resources. It appears that potential applicants have been put off by the perceived administrative burden and identifying eligible match funding, with 50% currently being required. In practice, this burden seems to be less than they might think. It was suggested that there should be more flexibility in the future to allow for 100% ERDF-funded technical assistance projects that could help to develop capacity and interest amongst social enterprises and minority groups, as recommended above under PA2.

Recommendation 10: Consider activities to stimulate uptake of PA3 and remove the 'mystique' attached to it. Especially consider its use as a vehicle for raising capacity and capability in areas and among groups where more project activity could be beneficial.

Cross cutting themes

Environment

11.18　The sustainability CCT has been mainstreamed into the programme in a way that is appropriate and is particularly powerful with respect to the requirements for projects with a component of physical build. Mechanisms for reporting the performance of the programme against the sustainability CCT are being developed by the ERDF Team; it is suggested that a proportional approach is taken focusing on projects that can exemplify good practice across the programme.

11.19　The current set of regional indicators emerging from the Strategic Environmental Assessment is of limited value in establishing the environmental impact of the programme. Other, more recently developed project-level indicators tend to be activity rather than output focussed. The programme particularly has a number of projects that are specifically focused on supporting SMEs to improve their environmental performance or focus on innovation that is driven by resource efficiency. The environmental impact of this is not currently being captured and a specific review of how that might be addressed would be a useful input into any later impact evaluation.

> **Recommendation 11:** The ERDF Team should be encouraged to continue the work to develop a wider range of project level indicators against which projects, especially those relating to business development, can report individual changes to and improvements in environmental performance.

Equality

11.20　In general terms, projects are addressing the equality CCT aims in terms of supporting under-represented groups and targeting disadvantaged areas (especially under PA2). Similarly, stakeholders and project managers are confident that projects are contributing to these aims and are monitoring outputs where possible. However in the absence of any specific targets, it is currently difficult for the programme to monitor its performance. In order to better capture projects' contribution to the equality CCT, we would suggest that the programme produces a number of case studies highlighting how the theme has been mainstreamed within the project.

> **Recommendation 12:** The equality theme is relatively easy to monitor and project managers take it seriously; however, there could be targets for achievement of diversity among beneficiaries; case studies would also help to demonstrate how important these themes are and how effectively they can be integrated into projects.

Strategic Added Value (SAV)

11.21　The additionality of the programme in relation to influencing the existence, scale and breadth of projects, has been good.   There is some contribution to SAV, less to do with leadership, but more to do with influencing the shape of activity and promoting networking and coordination among projects and organisations.

11.22　As time passes, it may be that there will be a need for the PMC to provide a more leading role. This is covered under other recommendations. Under this heading, we would suggest

that more efforts need to be made to promote networking among projects (as suggested in the recommendations under PA1); networking activity so far has mainly been about explaining the workings of the programme. It might be helpful to broaden it out to provide opportunities for project managers from similar types of projects to meet and share experience.

Recommendation 13: Consider expanding the programme's role in promoting networking among project managers.

Administration of the programme

11.23 The PMC is the main guiding element of the programme but it is fair to say that overall it has been passive in function with limited engagement by members and influence on the direction of the programme. The management of the programme is likely to be in a state of flux over the coming months and there may be opportunities to look root and branch at the PMC, for example if a new Operational Programme has to be submitted to the Commission following changes to regional organisations and structures. The shape of this is vey hard to predict at present. Whatever shape regional structures take in the foreseeable future, and however this affects the PMC, we believe that there are two recommendations that will help to develop the PMC commitment to the programme.

Recommendation 14: Introduce an induction process for all new PMC members with refresher courses for all existing members.

Recommendation 15: Supplement the financial (spend performance) reporting to the PMC with intermediate level analysis of allocations, outputs and results and more project case studies.

11.24 The Sub Groups appear to be lacking in direction at present as their original function relating to the Investment Framework has been fulfilled. However, there is no desire among Sub Group members for the groups to cease and given the major issues likely to affect the programme and PA2 in particular over the coming months, it will be important to retain a forum such as the PA2 Sub Group.

Recommendation 16: The Sub Groups should remain.

11.25 It will also be important, however, that the Sub Groups develop a positive and cooperative outlook in contrast to the somewhat adversarial approach that seems to have been the case in some instances to date.

11.26 The ERDF team is highly regarded. However, the time may be right for the Team to develop a more proactive role, not in individual project development, but, together with the PMC, in taking an overview of the portfolio of projects under PA1, PA2 and PA3 and identifying what might appear to be gaps that partner organisations might be able to fill.

Recommendation 17: The ERDF Team should consider developing a more proactive role in identifying gaps in the overall programme portfolio of projects.

11.27   The process of application and approval will always be rigorous and time-consuming. Many aspects of it cause no problem, and where they relate to reporting of outputs or monitoring visits, are even welcomed by project managers. However, there is unhappiness about aspects to do with approval and claims processes and while problems might not be laid at the door of the ERDF Team, better communications might help change attitudes to ERDF processes.

Recommendation 18: Communications between the ERDF Team and applicants should be developed in relation to a target time line for applications and regular feedback to applicants about the stage that their application is at in the process.

Recommendation 19: Consider designating single application managers from within the ERDF Team, assigned to projects at full application stage; involve the local authority leads more in the process of project appraisal and approval by keeping them in the picture about progress and securing their inputs where these would be helpful.

Monitoring and evaluation

11.28   The monitoring system is flexible and fit for purpose for the operational monitoring of the programme and future evaluation; however the lack of reporting functionality (which is now hopefully being addressed) has been a barrier to reporting. Performance reporting in respect of expenditure at programme and Priority Axis level has been the focus to date and now needs to be supplemented with similar reporting on projects and outputs at priority strand or indicative action level to enhance the range of reporting to the PMC, the Sub Groups, the districts and other partners. This is reflected in some of the recommendations made above.

11.29   Some aspects of the administration and monitoring requirements of the programme are considered burdensome, and may be off-putting to applicants for smaller projects; while the ERDF Team are supporting project managers well, this nevertheless is an important message to feed back. Some of the recommendations made above may help to address these findings.

11.30   The targets for the programme do not need to change because of the recession though their interpretation will need to be undertaken with care; however, an indicator relating to jobs safeguarded might appropriately be introduced.

Recommendation 20: Consider adding 'jobs safeguarded' to the list of programme indicators.

11.31   Evaluation systems have progressed well. There is some uncertainty over future requirements but when management arrangements for the programme become clearer, it should be possible to develop evaluation guidance for projects (at a somewhat simpler level than the existing 'toolkit') that might also possibly incorporate collection of information on environmental impact.

Recommendation 21: Take forward the preparation of evaluation guidance for projects that may be undertaking their own evaluations as well as those that will be covered under the programme-level evaluation.

Overall conclusions of the assessment

11.32   The main conclusion from this Interim Assessment is that the programme is going in the right direction. Through a programme of extensive consultations it has become apparent that there is confidence among partners, stakeholders and project managers that the programme does not require radical change. We have made a series of suggestions in this final Section of the report to address the main remaining issues that have emerged through this assessment, relating to the breadth of PA1, stimulating uptake in PA2 and improving some of the administrative processes. These are all relatively limited in scope but we believe that they will improve the programme for its remaining life – particularly in the very challenging environment which is now emerging.   The evaluation which follows in 2012 will look at the actual economic impact performance of the programme in much more detail. However, there is nothing in the Interim Assessment to suggest that good economic impacts will not emerge.

Annex A: Regional context - full analysis

Regional economic change since the original Operational Programme analysis

Population and deprivation

Summary and key points from the Operational Programme

The East Midlands has the second smallest population of the English regions. The population was just over 4.3m in 2005, which is 7.2% of the UK total. Population growth in the East Midlands was faster than the national average between 1995 and 2005 growing at a rate of 5.2% compared to 4.2%.

In the OP to ensure that funds were not spread too thinly, an initial selection of the twelve worst performing districts were selected for support under PA2.

The Index of Multiple Deprivation (IMD) 2004 shows that levels of deprivation in the East Midlands are concentrated in the urban areas, the former coalfields area, remote rural areas and Lincolnshire coast.

Latest data

IMD Rankings (Top 20 with 1 the most deprived)

	2004 IMD	2007 IMD
1	Nottingham	Nottingham
2	Leicester	Leicester
3	Mansfield	Mansfield
4	Bolsover	Bolsover
5	Ashfield	Derby
6	Derby	Lincoln
7	Lincoln	Corby
8	Chesterfield	Chesterfield
9	Corby	Ashfield
10	Bassetlaw	East Lindsey
11	East Lindsey	Bassetlaw
12	Boston	Boston
13	Northampton	Northampton
14	Newark and Sherwood	Amber Valley
15	Erewash	Newark and Sherwood
16	North East Derbyshire	Erewash
17	Amber Valley	Wellingborough
18	West Lindsey	North East Derbyshire
19	Wellingborough	West Lindsey
20	Gedling	South Holland

Source: CLG

The East Midlands is still the second smallest of the English regions. The population was over 4.4m in 2008. Population growth in the East Midlands was above the national average between 2005 and 2008 growing at a rate of 2.44% compared to 1.9%.

Generally the most recent IMD rankings are in line with the OP and show that levels of deprivation in the East Midlands are still concentrated in the urban areas, the former coalfields area, remote rural areas and Lincolnshire coast. Although some areas have changed in rakings, the movement up or down the rankings has not been substantial

Nottingham is still the most deprived area in the region on this measure and South Northamptonshire the least deprived.

Economic Context

Summary and key points from the Operational Programme	Between 1996 and 2005 Gross Value Added (GVA) per head in the East Midlands fell from 94.4 *(93)* % of the UK average to 93*(89.3)* %. On measures of productivity, the gap between the East Midlands and the UK is narrower: GVA per filled job was 97.5 *(96.1)* % of the UK average in 2004. Generally, levels of output and productivity in the East Midlands are below the UK average. ***(Since the Operational Programme was published in 2007 regional GVA figures have been revised due to revisions to national controls/Blue Book 2008. These revisions are highlighted in italics beside the original figures)***

Latest data

Change in output and productivity in the East Midlands (UK=100)
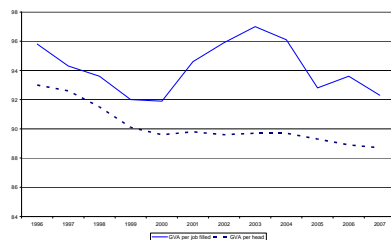
Source: Regional Accounts & Employment Earnings and Innovation Divisions, Office for National Statistics (2009)

Since 1996 GVA per head in the region has decreased from 93% of the UK average to 88.7% in 2007. This decline in output in the region has been very consistent and gradual since 2000. In 2007 the GVA per job filled was 92.3% of the UK average. This decline of 3.8% since 2004 suggests that the productivity gap between the East Midlands and the UK has increased although this interpretation is qualified by methodological and statistical changes over the period

In general, the current economic context trends identified are consistent with those in the OP as both indicators are below the UK average. Although it should be noted that movements with productivity levels are more off trend than in the OP as the gap between the UK and the region has increased.

Business Demography

Summary and key points from the Operational Programme	At the beginning of 2006 there were over 127,000 VAT registered businesses in the East Midlands, which is 6.9% of the UK total. The majority of VAT registered businesses in the region are in the service sector, but this proportion is almost four percentage points below the UK average. The VAT registered business stock in the East Midlands increased by 15% between 1996 and 2005, slightly above the increase for the UK.

Latest data

VAT registered business stock at year end

	East Midlands	Yearly % change
1996	111,895	-
1997	113,885	2%
1998	116,230	2%
1999	118,185	2%
2000	120,215	2%
2001	122,015	1%
2002	124,275	2%
2003	127,180	2%
2004	129,690	2%
2005	132,520	2%
2006	135,430	2%
2007	139,145	3%

Source: DTI Small Business Service (2009)

At year end 2007, over 139,000 businesses were registered for VAT in the East Midlands which is 6.9% of the UK total. This figure has consistently fluctuated between 6.8% and 6.9% with the last ten years.

The yearly growth in business stock between 2006 and 2007 was the largest recorded (3%) over the ten year period 1997 – 2007.

Consistent with the OP, the majority of VAT registered businesses in the region are in the service sector, but this proportion is now five percentage points below the UK average.

The VAT registered business stock in the region increased by 24.4% between 1996 and 2007, slightly above the increase for the UK of 24.2%.

Overall the business demographic trends are consistent with those identified in the OP.

SQW

Project Part-Financed by the European Union
European Regional Development Fund

Employment

Summary and key points from the Operational Programme	The economic activity rate in the East Midlands was above the average for Great Britain (79.5% compared to 78.4%) in 2005 and had been throughout the period 1999-2005. The employment rate in the East Midlands was also above the average for Great Britain (75.8% compared to 74.55%). In 2005 the unemployment rate in the region was 4.7% compared to 5% for Great Britain. Median gross earnings in the East Midlands were £18,433 in 2006, which is 96% of the UK average. The combination of high employment rates and low levels of earnings have led to the East Midlands being characterised as a 'low pay low skills equilibrium'.

Latest data

Economic activity rate in the East Midlands [% are for those of working age (16-59/64)]

	%
Jan 04-Dec 04	78.8
Jan 05-Dec 05	79.6
Jan 06-Dec 06	80.6
Jan 07-Dec 07	80
Jan 08-Dec 08	80.8

Source: Annual Population Survey, ONS (2009)

In 2008, the economic activity rate of the region was still above the average for Great Britain (80.8% compared to 78.8%) as was the employment rate at 75.9% compared to 74.2%. The economic activity rate of the region has been steadily increasing in recent years.

The unemployment rate in 2008 was slightly below the average for Great Britain at 6.8% compared to 6.9%. In 2009 median gross earnings in the region were £20,176, which is 94.6% of the UK average.

The most recent employment data is consistent with the trends identified in the OP. It is still true to characterise the region as 'low pay low skills'.

Competition

Summary and key points from the Operational Programme	The extent of competition in a region is assessed by examining the extent to which companies in a region are exposed to international markets. In 2005 exports from the East Midlands were equivalent to 23.4 *(22.7)* % of GVA well above the UK average of 19.7 *(19.3)* % On this basis, the East Midlands has one of the most open regional economies in the country. ***(Since the Operational Programme was published in 2007 regional GVA figures have been revised due to revisions to national controls/Blue Book 2008. These revisions are highlighted in italics beside the original figures)***

Latest data

Value of exports of goods as a percentage of headline regional GVA
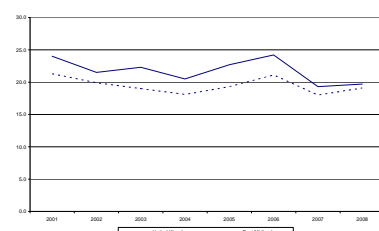
Source: BERR analysis of information provided by the Statistics and Analysis of Trade Unit, HM Revenue and Customs and Short Term Employment Survey, ONS (2009)

From the most current data, 2008 exports from the East Midlands were equivalent to 19.7% of GVA above the UK average of 19.1%. In 2005, the East Midlands was the second most open economy in the country only 0.01% behind the top region. Currently the East Midlands is the third most open economy with 7.2 percentage points between itself and the top region.

On this basis, the region is no longer one of the most open economies in the country. In a period characterised by significant falls in the levels of world trade the gap between the East Midlands average and the UK average has narrowed considerably. The current trends are no longer consistent with those identified in the OP.
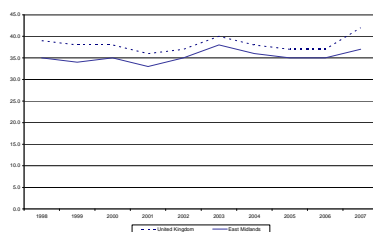
Enterprise

Summary and key points from the Operational Programme	Total Entrepreneurial Activity (TEA) [24] has fluctuated around 6% in the East Midlands between 2002 and 2006 which is slightly behind the UK average. The number of VAT registrations per 10,000 population is below the UK average in the East Midlands (35 compared to 37 in 2005) and has been throughout the period 1994-2005.

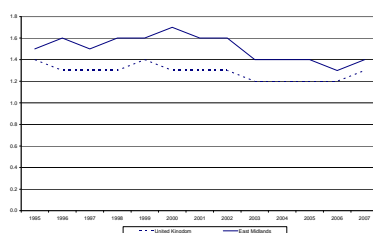|		
Latest data	**VAT registrations (per 10,000 adult population)** *Source: Inter-Departmental Business Register, ONS, and Enterprise Directorate, BERR (2009)*	TEA in the East Midlands was 5.3% in 2008 which is still slightly behind the UK average of 5.5%. The number of VAT registrations per 10,000 population in the East Midlands is 37 compared to the UK average of 42. Overall the entrepreneurial gap between the East Midlands and rest of the country has increased slightly. However on the whole the trends are consistent with those identified in the OP.

Innovation

Summary and key points from the Operational Programme	Levels of business enterprise research and development (R&D) were above the national average in the East Midlands (at 1.5 *(1.4)* % of GVA compared to 1.4 *(1.2)* % of GVA in the UK in 2003) and had been throughout 1995-2003. However the headline figure for R&D looks positive because a small number of large multi-national companies undertake a lot of R&D. This hides the fact that public sector R&D in the region is relatively low and that a large proportion of businesses in the region undertake very little R&D. ***(Since the Operational Programme was published in 2007 regional GVA figures have been revised due to revisions to national controls/Blue Book 2008. These revisions are highlighted in italics beside the original figures)***

Latest data	**Business Enterprise R&D by broad industry sector, as a percentage of total workplace based GVA** *Source: Business Enterprise R&D Survey and Regional Accounts, Office for National Statistics (2009)*	Business enterprise R&D levels are just above the national average in the East Midlands at 1.4% of GVA compared to 1.3% of GVA in the UK in 2007 and have been since 1995. Similar to the OP, the headline figure for R&D looks positive because a small number of large multi-national companies undertake a lot of R&D. This hides the fact that public sector R&D in the region is very low and that the proportion of public sector R&D as a percentage of GVA has not changed in the last ten years. Generally the most recent data is inline with the data presented in the OP.

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[24] TEA is a measure of entrepreneurial activity calculated as the sum of nascent entrepreneurs and baby businesses. This data is available from Global Entrepreneurship Monitor (GEM) UK with the most recent data referring to 2008.
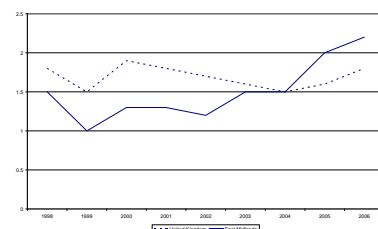
Investment

Summary and key points from the Operational Programme	In 2003 investment by UK owned companies was equivalent to 5% of GVA in the East Midlands, a fall from 8.5% in 1998. This fall mirrors what has happened nationally. However levels of investment by UK owned companies in the East Midlands have been below the UK average during this period. There had also been a fall in investment by foreign owned companies in the region, from 1.5% of GVA in 1998 to 1.3% in 2003.

Latest data	**Total Investment by foreign-owned companies as proportion of regional GVA**	Investment by UK owned companies was equivalent to 5.7% of GVA in the East Midlands, just slightly below the UK average of 6%. Levels of investment by UK owned companies in the East Midlands are still below the UK average. However the gap between the UK and the national average has decreased.

There has been an increase in investment by foreign owned companies in the region, from 1.3% in 2003 to 2.2% in 2006. The East Midlands is now above the national average, which is 1.8%.

In the main, investment by UK owned companies is on trend with the data from the OP. However investment by foreign owned companies in the region as surpassed the national average and is no longer consistent with the OP.

Source: Annual Business Inquiry & Regional Accounts, Office for National Statistics (2009)

Skills

Summary and key points from the Operational Programme	In 2005, 10.9% *(14.8%)* of the economically active in the region had no qualifications, which is above the average of 9.9% *(14.4%)* nationally. Also the East Midlands lags behind the rest of the country as regards higher level qualifications. Just 27% of the economically active were qualified to level four or above in 2005, compared to 30% nationally. (**Since the Operational Programme was published in 2007 qualification figures have been adjusted. These revisions are highlighted in italics beside the original figures)**

Latest data	**% of population with no qualifications - working age**	The economically active in the region with no qualifications was 13.2% in 2008, which is above the average of 12.7% nationally. The East Midlands is behind the rest of the country as regards higher level qualifications. Just 27.7% of the economically active were qualified to level four or above in 2008, compared to 31.4% nationally.

	UK	East Midlands
2005	14.4	14.8
2006	14.0	13.8
2007	13.4	13.5
2008	12.7	13.2

Source: Source: Annual Population Survey, ONS (2009)

The most recent data is consistent with the trends demonstrated in the OP. As the levels of skills in the region are relatively low.

Environment

Summary and key points from the Operational Programme	Levels of renewable energy generation and resource efficiency are relatively low in the region.

Carbon dioxide emissions in the East Midlands exceed the English average, and the region has some of the largest point sources of CO_2 emissions in the UK.

The total waste arising in the East Midlands was 20.4 million tonnes in 2002-03, 10.8% of the total for England. Forty-eight percent of the waste was produced by construction and demolition, 40% came from industry and commerce and 12% from municipal household sources.

| Latest data | **Per Capita Carbon Dioxide Emissions (t)** | Carbon dioxide emissions in the East Midlands still exceed the national average. However the gap between the national average and the regional figures has decreased in the most recent figures. |

	East Midlands	UK
2005	9.3	8.7
2006	9.2	8.6
2007	8.9	8.4

Source: DECC, AEA Technology, Local Authority Carbon Dioxide figures (2007)

The total waste arising in the East Midlands was 24.3 million tonnes in 2006, 10.1% of the total for England. Forty- percent of the waste was produced by construction and demolition, 28.6% came from industry and commerce and 9.5% from municipal household sources. And 22% came from other sources. In general the most up-to-date waste data is inline with the trends presented in the OP.

Equality

| Summary and key points from the Operational Programme | Disparities exist both between areas with the East Midlands and between segments of the population in the region. That data identifies the urban centres, the former coalfields and the coastal areas of the region as relatively poor performers. Also unemployment rates are relatively high among women, those with disabilities and those from ethnic minority groups. |

| Latest data | **% of working age population – economically inactive** | Where available the most recent data confirms that disparities exist both between areas with the East Midlands and between segments of the population in the region. Much of the original data on equalities was based on Census data and updates will not be available until 2011 at the earliest on this. |

	Females	Males	Ethnic Minority
2004	26.4	16.3	34.4
2005	25.3	15.8	30.7
2006	23.9	15.3	31.5
2007	24.3	16.1	30.5
2008	23.4	15.5	28.7

Source: Annual Population Survey, ONS (2009)

The economic inactivity rates are consistent with those identified in the OP as the rates are relatively high among women and those from ethnic minority groups.
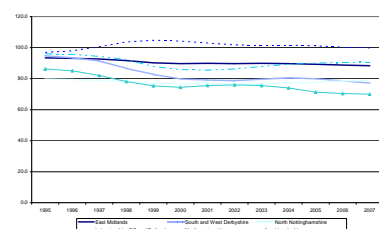
Rural

| Summary and key points from the Operational Programme | Rural areas are generally prosperous with higher levels of economic activity, qualifications and earnings but contain pockets of severe multiple deprivation.

GVA per head in 2004 tended to be below the regional and national averages in the (best fit) rural areas of the region (in South and West Derbyshire (82%) *80.5%,* North Nottingham (76%) *77%,* Leicestershire CC & Rutland (90%) *89.2%* and Lincolnshire (77%) *74%,* though some figures are affected by commuting patterns. Only in Northamptonshire was GVA per head above the national average (107%) *101.6%.* **(Since the Operational Programme was published in 2007 regional GVA figures have been revised due to revisions to national controls/Blue Book 2008. These revisions are highlighted in italics beside the original figures)** |

| Latest data | **GVA per head (UK = 100) – rural areas best fit** | Rural GVA per head figures for 2007 are generally consistent with those presented in the OP. |

In general these areas are below the regional and national averages. Apart from Nottingham and Leicestershire CC & Rutland which are both performing above the regional average. Northamptonshire is no longer performing above the national average and is just slightly below at 99.8%

Source: Regional GVA – NUTS 3, ONS (2009)
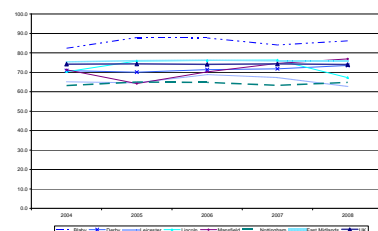
Urban

Summary and key points from the Operational Programme	The urban areas in the region tended to under-perform on a range of economic and labour market indicators. Levels of GVA per head were relatively high in the urban areas but the figures are affected by commuting patterns. Economic activity and employment rates tend to be low and unemployment rates high in urban areas. The average employment rate for the region's urban districts in 2005 was 72.5%, which was 3.3 percentage points below the national average. Nottingham and Leicester had employment rates that were around 11 percentage points below the regional average. Blaby stood out as an urban area with a particularly high employment rate (83.6% compared to the regional average of 75.8%).

Latest data

Employment rate – urban districts

Source: Annual Population Survey, ONS (2009)

The average employment rate for the region's urban districts was 71.9%, which was 2.1 percentage points below the national average in 2008.

Leicester and Nottingham have employment rates that are 13 and 11 percentage points respectively below the regional average in 2008.

Blaby still stands out as an urban area with a particularly high employment rate, which is over 10 percentage points above the regional average. Mansfield also has an employment rate which is slightly above the regional average.

The urban areas in the region are consistent with the OP and tend to under-perform on labour market indicators.

The impact of the recession in the East Midlands

A.1   Because of lags in production of data, much of the data used for the socio-economic analysis relates to the period before the recent downturn. To gain a sense of the impact of the recession on the East Midlands, we have looked at some more recently published statistics. The following analysis sets out the timeline for the recession and looks at some statistics for the East Midlands for this period.

Recession timeline

A.2   The first signs of the recession in the UK economy came during the first quarter of 2008 with the nationalisation of Northern Rock and the collapse of Bear Sterns. By September 2008, economic growth in the UK had halted; during the same month, Lehman Brothers failed. In October 2008, financial markets almost collapsed and interest rates were dramatically reduced by governments worldwide. Third quarter UK GDP showed a decline of 0.7%. In January 2009, the UK was officially in recession, following six months of 'negative growth'. Between the second and the third quarter of 2009, output fell by nearly 2%. In December 2009, the ONS calculated that the UK was in the deepest and longest post war recession on record. In January 2010, the UK became the last major economy to come out of recession with growth of 0.1% in the fourth quarter of 2009. Growth continued into the first quarter of 2010 but was weaker than expected.

SQW

A.3   Although the UK economy is officially out of the downturn period the effects of the recession are still prominent in the economy. The following data illustrates the effect of the recession in the East Midlands region.

Some statistics

Labour market

A.4   On the whole since 2008, the unemployment rate in the East Midlands has been steadily rising from 5.3% in early 2008 peaking at 7.8% in late 2009 (see Figure A-1). The most recent data for the East Midlands (early 2010) shows a slight decline in unemployment with a rate of 7.3%, compared to a figure of 8% at a UK level. However it remains to be seen if this downward decline will become a trend.
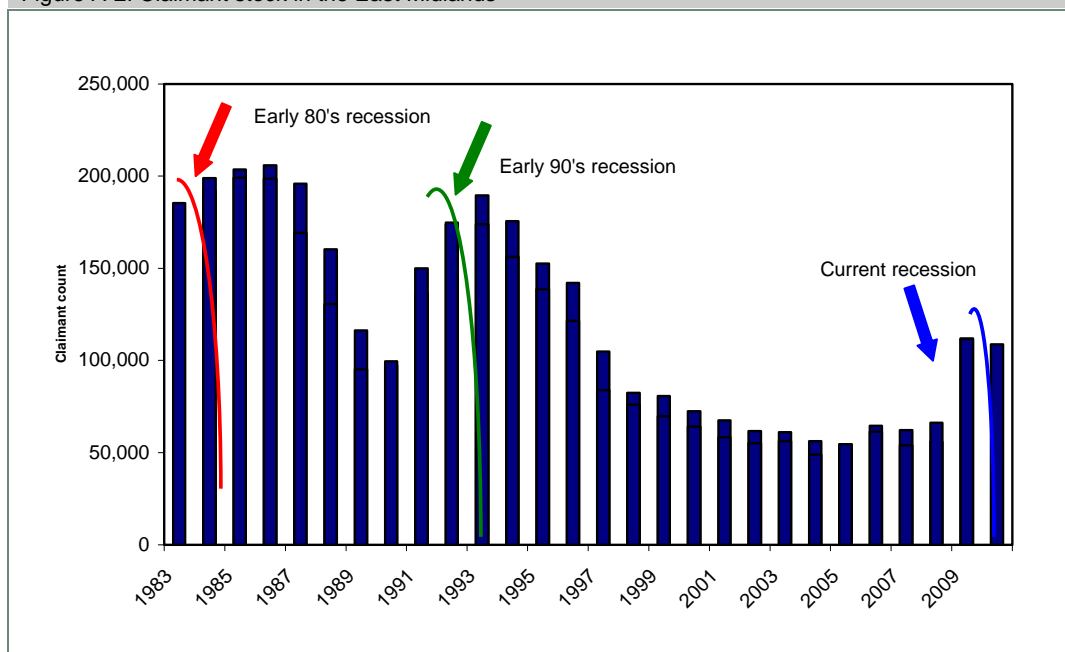
Figure A-1:East Midlands unemployment rate
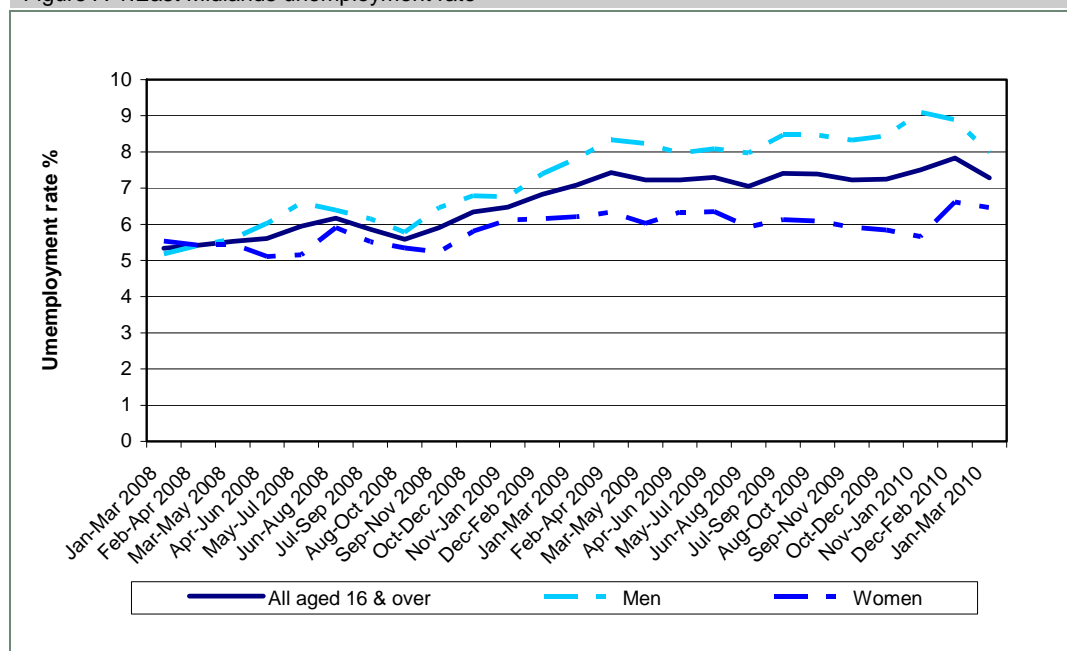
Source: Labour Force Survey, 2010

A.5   There is a strong divergence in the rate of unemployment between men and women, and this is also reflected at a UK level (see Figure A-1). In the beginning of 2008, there were more unemployed men than women in the East Midlands but the situation has now reversed extensively. The current East Midlands female unemployment rate is quite similar to the UK level, 6.5% and 6.7% respectively. The East Midlands male unemployment rate differs to the UK level at 8% and 9.2% respectively. While the male population has been badly hit by the recession, the effect in the East Midlands has not been as severe as that at a national level.

A.6   Figure A-2 illustrates the number of people seeking Job Seekers Allowance (JSA) in the East Midlands since the early 1980's until the present day. The level of claimants in the most recent recession reached approximately 112,000 at its peak but this was not near the levels recorded in the region in past recessions. In both the 1980's and early 1990's the number of claimants reached around 200,000. The biggest increase in claimants in the region came between autumn 2008 and early 2009, when the number increased from 66,000 to 112,000, an

increase of 69%. The most recent data from April 2010 shows the number of claimants has started to decline.

Figure A-2: Claimant stock in the East Midlands

Source: ONS – Claimant count data (accessed June 2010)

A.7 The number of vacancies notified to employment service job centres in the East Midlands is illustrated in Figure A-3. There are large seasonal variations in this data with the levels of vacancies especially low in January. Since spring 2008, there was a downward trend in the number of vacancies reaching a low point in January 2009. The number of vacancies steadily increased throughout 2009 and although the levels declined again in January 2010, the decline was not as significant as that seen in the previous January. Levels fell just below 20,000 compared to below 10,000 per annum previously.

Figure A-3: Notified vacancies in the East Midlands
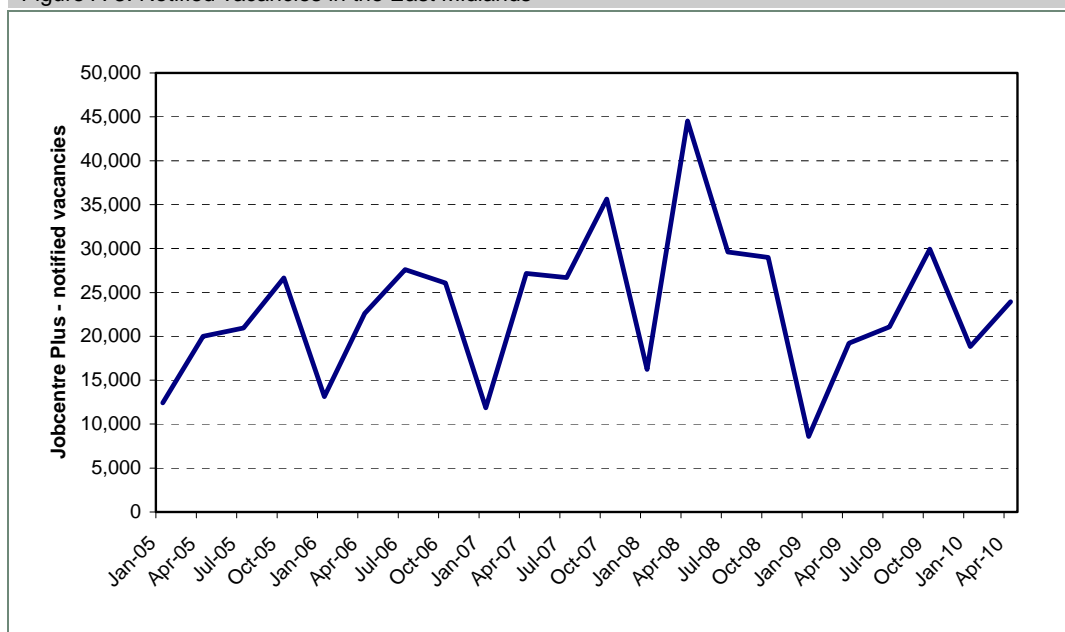
Source: ONS – Jobcentre Plus notified vacancies (accessed June 2010)

Purchasing Manager Index (PMI)

A.8   During the most recent recession period the PMI for the East Midlands has closely mirrored the situation at a UK level (Figure A-4). Although in late 2008, the output levels in the region hit there lowest levels in over ten years and were sizeably below UK levels. Since early 2009 activity levels in the region have been rising steadily.

Figure A-4: Purchasing Manager Index
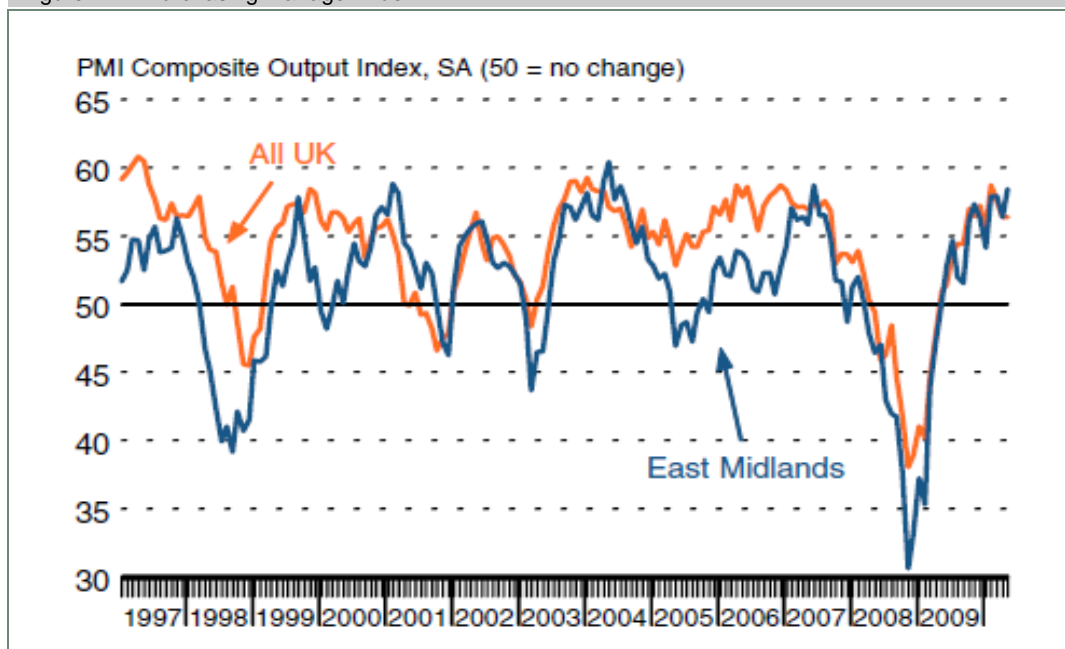
Source: Markit PMI, June 2010, information available at http://www.markiteconomics.com

A.9   The PMI report for the East Midlands in May illustrated a further improvement in market conditions in the area. The headline seasonally-adjusted Business Activity Index (which measures the combined output of the region's manufacturing and services sector) at 58.5 in May, rising from 56.4 the previous month indicated that activity in East Midlands companies increases for the thirteenth consecutive month. The rate of growth has quickened to its fastest since June 2007 and expansion in the region was stronger than that seen across the UK economy as a whole, and was driven by the manufacturing sector.

A.10   The index indicates that companies in the region increased their staffing levels for the third month running in May. This rise in employment was the fastest since July 1997. However the current rising staff levels follow a twenty-six month sequence of decline. Overall the indications for the region are very positive. The rate of output growth has accelerated, reflecting a further rises in new business. Higher workloads fed through to increased employment, with the rate of job creation the sharpest in nearly thirteen years.

House prices

A.11   The impact of the recession on house prices in the region is evident especially in 2008 when prices fell just under 15% on the previous year as shown in Figure A-5. This mirrored the situation nationally. There were slight signs of a recovery in the market in the most recent data with a minor recovery in 2009 prices compared to the previous year.

Figure A-5: Annual change in house prices:
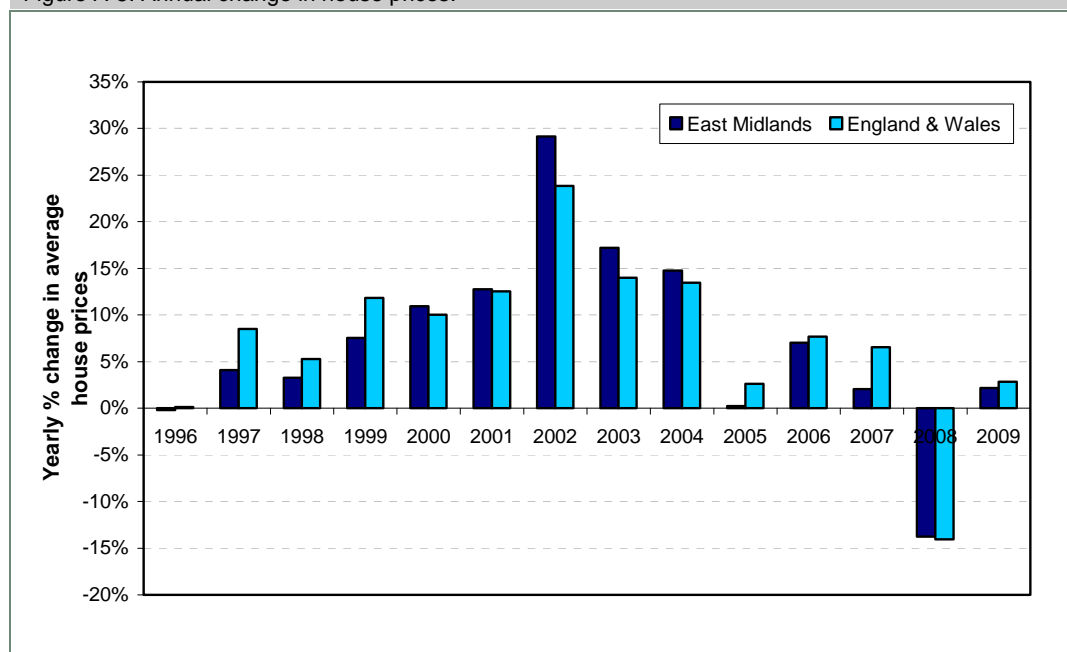
Source: Land Registry data available at http://www.landregistry.gov.uk/

Annex B: List of consultees

Table B1: Stakeholder consultees	
Name	**Organisation**
Sonia Coleman	Bolsover District Council
Nicholas Suggit	Department for Communities and Local Government
Emma Dann & Michelle Nally	Derby City Partnership
Sue Douglas	Derbyshire County Council
Dr Dan King	East Midlands Universities Association
Andrew Morgan	East Midlands Development Agency
Jayantika Vyas	Equalities and Human Rights Commission (Equality CCT representative)
Koen Delanghe & Kristina Penkyovska	European Commission
Stephen Hillier	Government Office East Midlands
Mary-Louise Harrison	Leicester City Council
Susannah Lewis	Lincolnshire County Council
Cllr Fiona Martin	Local Government East Midlands
Matt Doran	National Trust (Environmental Sustainability CCT representative)
Helen Miller	Northamptonshire Enterprise Limited
Jem Woolley	Nottingham City Council
Kay Massingham	Nottinghamshire County Council
Rachel Quinn	One East Midlands
David Kelly	Social Enterprise East Midlands

Table B2: ERDF team consultees	
Name	**Organisation**
Stuart Creedy	ERDF Team
Michelle Targett	ERDF Team
Melanie Crunkhorn	ERDF Team
Brendan Byczkowski	ERDF Team
Judith Dibley	ERDF Team
Bob Keech	ERDF Team

Table B3: Project manager consultees	
Name	**Organisation**
Curtis Matthew	Apex Leicester Project Ltd
Paul Brookes	Arts Council England
John Nutall	British Waterways
Ian Sharp	Business in the Community
Neale Ryan	East Midlands Development Agency
Russell Copley	East Midlands Innovation Network
Jeff Scrivner	Emtex/Emmat
Rebecca McIntyre	Groundwork Derby & Derbyshire
Karen Surdhar	Leicester City Council

Name	Organisation
Mary Powell	Lincolnshire County Council
Sudipta Ghosh	Mansfield District Council
James Lane	Pera Innovation Limited
Heena Mistry	Skills for Enterprise Ltd
Dr David Rae	University of Lincoln
Dr Jonathan Gee & Dr Penny Attridge	University of Loughborough
Adele Wilkinson	University of Loughborough
Paul Quinn	West Northamptonshire Development Corporation
Gillian Sewell	YMCA Derbyshire