Mid-Term Evaluation of the South East ERDF Competitiveness and Employment Programme, 2007 - 13

Final Report to the Programme Monitoring Committee

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SQW

Contents

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Executive summary

Introduction

1. SQW was commissioned to undertake a mid-term evaluation of the South East England European Regional Development Fund Competitiveness Programme (SEEOP[1]). The SEEOP is the responsibility of the Programme Monitoring Committee (PMC). The PMC has established an evaluation Task and Finishing Group (TFG) to lead on evaluation activity, and they have been responsible for steering the process of this review.

2. The purpose of the review was set out in the project specification and repeated in Table 1 below. The review was commissioned by the PMC so that it could receive a report on progress of the programme to date, and consider whether any changes were necessary to further improve the impact of the programme during its second half.

3. The review has considered the focus, spend, activities, management and delivery of the SEEOP over the period to October 2010, and makes recommendations to improve the working of the programme, with a particular focus on priorities and arrangements for the fourth bidding round. The review has also identified examples of good practice and considered evidence of the value for money.

Table 1: Issues identified in the brief to be examined in the mid-term evaluation

Process issues (i.e. the *formative* elements of the evaluation)

1. **Future arrangements** – identification of lessons that might get picked up by central government departments and to be taken into account in the successor management arrangements after the closure of SEEDA (including the role for the nascent LEPs)
2. **Application and selection processes** – review of lessons from SEEOP practices and those of other RDAs for any improvements that might be suggested in the delivery of the rest of the programme
3. **Delivery of the SEEOP spatial aspirations** – assessment of the extent to which the social inclusion and territorial cohesion expectations of the programme have been met and might be more effectively secured
4. **Potential reductions in match funding** - review of the potential for match funding – applicants have so far been able to provide their own match against the programme rather than seek funds from SEEDA but this may well change in times of financial austerity and raise issues about further support that applicants might need
5. **Critical success factors** – consideration of project design delivery including issues to do with the engagement of businesses, the effectiveness of the support provided directly to business, and the sustainability of exit strategies
6. **Strategic added value** – assessment of the additionality and SAV with which the ERDF delivered and the extent to which effective links were made with other structural fund programmes.

Impact issues (i.e. the *summative* elements of the evaluation)

1) **Progress in terms of spend, activities and outputs** – assessment of achieved/forecast spend against allocations and achieved/forecast activities and outputs against targets and against the cross-cutting themes of environmental sustainability and equality of opportunity
2) **Trajectory of the programme in terms of results and impacts** - assessment of the extent to which SEEOP is addressing all the areas identified in the programme and is on track to deliver its impact targets in ways that will deliver value for money
3) **Refinement of objectives, targets and focus** – consideration of and recommendations on the future direction of the programme if it is to achieve the objectives set for it in SEEOP

Source: Adapted from the SEEDA evaluation brief

[1] The SEEOP acronym refers to the South East England ERDF Competitiveness Operational Programme and is the term most commonly used in reporting

Programme strategy

4. The OP combines €23.7m of ERDF funds over 2007-13 (the equivalent in Sterling of £15.9m[2]), with a matching contribution of at least €23.7m from regional partners (i.e. an overall intervention rate of 50%). The total programme value is therefore €47.4m (or £31.8m). Under the N+2 regime, funds can be spent up to 31 December 2015.

5. The aim of the OP is, "to promote economic competitiveness in South East England whilst contributing to reducing the region's ecological footprint". The programme is based on the central tenet to decouple economic growth from the generation of pollution and loss of biodiversity.

6. To achieve the aim, the programme has three operational objectives, which form three themes of activity:

- To raise levels of knowledge and innovation across all business sectors in order to support more resource efficient business practices, boosting profitability and long-term competitiveness (**theme - promoting resource efficient business practices**)
- To stimulate innovation and job creation in new and emerging ecologically-driven market sectors (**theme - stimulating innovation for a sustainable economy**)
- To reduce the rate of growth of the region's ecological footprint, whilst stimulating economic growth (**theme - encouraging sustainable consumption practices**)

7. In the fieldwork for this evaluation, stakeholders' views on the original rationale for the programme at the time it was developed were explored. *There was general agreement that the rationale was valid and evidenced.* We found that generally there was also a good understanding of the objectives of the programme. Even those stakeholders not involved in the development of the strategy or as closely involved on a day to day basis, were able to cite the programme's headline aim. This suggests that the programme's aims and objectives have been effectively communicated across a wide range of stakeholders.

Programme finances and performance

8. The table below provides a summary of the planned programme spending profile to the end of 2010. To assist in the comparisons later in this section, the table includes information that converts the planned expenditure from euros into sterling (using the official European Commission exchange rates[3] as of the 1st of January in each year).

[2] This uses the 2007 exchange rate of €1 to £0.671
[3] http://ec.europa.eu/budget/inforeuro/index.cfm?fuseaction=currency_historique&currency=72&Language=en

Table 2: Summary of planned finances to October 2010 (ERDF and Match)

Year	Total annual euro allocation	Official exchange rate as of January 1st	Total annual sterling equivalent allocation
2007	€ 6,377,582	0.671	£4,280,314
2008	€ 6,505,134	0.735	£4,779,972
2009	€ 6,635,236	0.974	£6,464,047
2010	€ 6,767,940	0.904	£6,118,218
Total 2007-10	**€ 26,285,892**		**£21,642,551**

Source: SQW

9. The sterling figures in the table above are there to act as an approximation of the programme's sterling value. European Commission rules state that all figures set out in the OP must be in euros, whereas all ERDF transactions within England are conducted in sterling. The overall value of the ERDF programme therefore constantly fluctuates as official exchange rates are revised.

Contracted expenditure

10. As of October 2010 the programme had contracted total expenditure of £26.36m[4]. *Contracted expenditure* includes all expenditure contracted to date, including profiled expenditure for projects lasting until 2013. Breaking down this headline data:

- the total expenditure is spread over 23 projects, with an average contracted expenditure of £1.15m
- seven projects to date have contracted expenditure over £1.5m, with the largest (in financial terms) being the South East Sustainability Loan Fund (£4m), SIRE (£2.6m) and Low Carbon Essentials (£2m)
- the **actual** programme spend at October 2010 stood at £6.64m – our understanding from the programme team is that there are no substantive issues regarding underspend to date and that the programme is meeting N+2 spending targets.

Headroom for round 4

11. *The remaining headroom for round 4 projects is approximately £4.13m ERDF (or £8.3m including match)*. This figure has been provided by the programme team and is based upon finances as at December 2010 (i.e. two months after the date which the output and finance assessment in this chapter is based upon).

Overall programme level performance against targets

12. The overall performance of the programme to October 2010, in terms of outputs, results and impacts, is set out in the table below. This includes the targets set in the OP at the outset of

[4] This total includes three round 3 projects that are in the process of final approval, but not officially confirmed. These are SIRE (£2.6m), Lean and Green Manufacturing (£1.7m) and the Local Employment Energy Business Support Pilot (£1.9m)

the programme, 'contracted' targets (that is **outputs that projects approved in Rounds 1-3 have agreed that they will deliver**) and the actual project delivery against these by October 2010 (i.e. achievement by October 2010).

13. It is evident that the programme's *contracted* targets will significantly out-perform the original programme targets established in the OP. Even just taking account of rounds 1-3, the contracted targets are well above those of the OP.

14. Actual performance to date against targets is more difficult to assess objectively. Due to the programme's varied project lifecycles many projects, including even those commissioned in round 1, have several years of activity remaining within which they may deliver outputs. As a result, it is too early to provide insights through a simple comparison of achieved outputs to date against target.

15. What is apparent is that the programme has so far started to deliver against a broad range of the outputs, results and impact targets. Of particular note are the 1,484 businesses who have already been assisted to improve performance – almost double the original OP programme target of 750.

Table 3: Performance against outputs, results and impact targets

		OP target	Contracted target	Achieved (by October 2010)	Achieved as a % of OP target	Achieved a as % of contracted target
Outputs	Businesses involved in the programme	2,130	(not specified)	(not specified)	n/a	n/a
	➢ Businesses assisted to improve performance	750	6,298	1,484	198%	24%
	➢ Firms involved in business networks	800	3,354	372	47%	11%
	➢ Business engaged in collaboration with UK knowledge base	270	1,069	24	9%	2%
	➢ Businesses developing R&D links with other businesses	70	562	26	37%	5%
	➢ Businesses engaged in developing sustainable mobility strategies	240	465	129	54%	28%
Results	Businesses improving performance	1,250	4,407	669	54%	15%
	Gross new jobs created	180	450	48	27%	11%
	Businesses making financial savings from improved energy efficiency	550	2,930	430	78%	15%
	SMEs reducing energy, waste or water usage by 10%	(not specified)	2,494	315	n/a	13%
	Businesses achieving independent environmental accreditation	(not specified)	593	2	n/a	0%

		OP target	Contracted target	Achieved (by October 2010)	Achieved as a % of OP target	Achieved a as % of contracted target
	Businesses increasing turnover attributable to new and improved products by 5%	110	490	10	9%	2%
	10% reduction (on existing levels) in road congestion and pollution levels	(not specified)	31	0	n/a	0%
	Businesses tendering for public contracts	75	99	0	0%	0%
Impacts	Net additional employees	110	340	47	43%	14%
	Net increase in GVA (original euros OP target converted to pounds using 2007 exchange rate)	£21.5m	£47.7m	£3.1	14%	6%
	Reduce rate of growth of region's ecological footprint (tonnes)	(not specified)	6,001	0	n/a	0%
	Reduction in rate of growth of region's CO_2 emissions (tonnes)	85,000	143,596	12,699	15%	9%
	Broad uptake of innovative actions piloted in region	(not specified)	606	0	n/a	0%

Source: SQW analysis of monitoring data

Assessment of the performance framework

16. In order to undertake the assessment of the fairness of targets, we have examined the performance framework to understand better the anticipated outputs, results and impacts. This has included spend per unit (of outputs, results and impacts) analysis to assess the extent to which the programme targets are adequate given the resources to be devoted to particular activities. Furthermore, we have compared these to similar spend per unit benchmarks derived from external sources. Building upon this assessment, Table 4 provides a suggested revised performance framework for consideration by the PMC. The revised framework has been designed to offer the PMC a simplified, more ambitious framework that could be used to maximise the value of the programme going forward. More generally, the performance framework, targets and methods for indicator measurement need to be clearly communicated to all new and existing projects.

17. As can be observed through comparison with Table 3, this broadly suggests that: based upon current and forecast activity, business support outputs targets (and associated result targets) could be increased significantly; that two new results indicators could be introduced that (i) reflect the objectives of the programme and (ii) provide a link to the net GVA impact indictor; and that impact indicators could be simplified to focus on three core measures: net GVA, CO_2 reduction and net employment.

Table 4: A revised performance framework

	Indicators *(new indicators in italics)*	Overall lifetime target
Outputs	Businesses involved in the programme	9,000
	• Businesses assisted to improve performance	3,169
	• Firms involved in business networks	3,380
	• Business engaged in collaboration with UK knowledge base	1,141
	• Businesses developing R&D links with other businesses	296
	• Businesses engaged in developing sustainable mobility strategies – to be replaced with more appropriate target	1,014 (this may need revising depending on the nature of indicator chosen)
	• Businesses achieving independent environmental accreditation (moved from results)	593 (this will overlap with businesses recorded against other outputs)
Results	Businesses improving performance	5,310
	Gross new jobs created	720
	Businesses making financial savings from improved energy efficiency	2,340
	SMEs reducing energy, waste or water usage by 10%	2,494
	Businesses increasing turnover attributable to new and improved products by 5%	450
	Businesses tendering for public contracts	99
	Increase in R&D investment as a result of programme	tbc
	Gross increase in GVA	£136m
Impacts	Net additional employees	440
	Net increase in GVA	£48m
	Reduction in rate of growth of region's CO_2 emissions (tonnes)	tbc

Source: SQW

Consideration of priorities for the fourth bidding round

18. Bringing our findings together, we have considered the potential priorities for round 4. Providing guidance on round 4 was an important element in the brief for this review. Before we set these out, there are a number of recommended guiding principles that should be considered:

- with the programme to date having funded a large number of projects covering a broad range of projects, round 4 could consider funding fewer, more focused activities – this would also align with the general trend of the programme to fund increasingly larger value projects
- all round 4 projects should conform to the following criteria:
  - demonstrate that they can fill gaps in the existing portfolio of activity

- align with programme objectives, and demonstrate value added with respect to GVA and/or employment and/or carbon emission reduction
- align with the emerging priorities of the new coalition government
- are able to guarantee match funding and spend allocated resources within the required timeframe.

19. Through the desk-based research and stakeholder consultations undertaken for this evaluation, a number of potential 'areas for investment' have emerged. These are presented in Table 5 below. With consideration of the findings in chapter 2 (programme strategy), chapter 3 (secondary data and policy developments) and chapter 5 (VfM and impact assessment), Table 5 provides our assessment of the possibilities. As can be observed, there is a strong justification for these areas to be taken forward.

Table 5: Justification for proposed round 4 priorities

	Programme strategy	**Secondary data & policy**	**General VfM and impact considerations**
Supporting the development of sustainable transport including (but not restricted to): • Electrical car infrastructure • Measures to support improvements in freight (e.g. adopting new technologies to improve the efficiency and reduce the carbon emissions associated with road freight)	Strong fit with programme's overarching aim	Strong support from Government for electrical charging infrastructure ERDF sustainable transport programmes have the potential to bring about a further reduction in emissions – by addressing the 32% of the region's CO_2 emissions that come from road transport.	Whilst careful thought will be required regarding the theory of change for these types of interventions (i.e. how, and through what processes, will schemes bring about increases in GVA, employment and CO_2 reductions), has the potential to be a catalyst for significant CO_2 reduction.
Supporting environmental industries, particularly the development of offshore wind energy generation and other renewable energy	Strong fit with programme's overarching aim	Over £200m earmarked by the coalition government for investment in the development of low carbon technologies including offshore wind technology Also has strong links with the region's marine sector which is recognised as one of the key high value added sectors in the region Also opportunities with respect to micro-generation	As above, whilst careful thought will be required regarding the theory of change for these types of interventions, this has the potential to be a catalyst for significant GVA and employment creation – particularly in Coastal South East (where a significant number of the region's more disadvantaged residents live)
Knowledge transfer and innovation (cutting across above two priorities). This could also include **access to finance/loan fund** activity to support the take-up and/or development of environmental technologies	Strong fit with programme's overarching aim	As above	Through the process of knowledge exchange and technology development this activity, if harnessed and exploited appropriately, could successfully accelerate impact

Source: SQW

Project development, appraisal and contracting process

20. With previous bidding rounds having taken from between seven months to a year to complete, the critical issue with round 4 is time. The majority of stakeholders argued that a two stage process should be re-introduced, but with a more rigorous EOI assessment stage. If technical expertise is to be brought in, this would allow efforts to focus on the credible, second stage bids. However, with funds being transferred to CLG in the summer of 2011, a two stage process would need to be managed over this transition period.

21. Our proposed solution to this is to adopt **a more targeted commissioning process** that:

- develops project specifications in-house which, along with expert advisors, tightly aligns to programme priorities for round 4
- establishes a small panel of preferred suppliers
- runs 3/4 mini-competitions with preferred suppliers, with project applications supported (independently) by expert advisors
- retains the assessment process (undertaken by Aurora Consulting, but with a need to investigate how this can be made more rigorous so that projects that get as far as the Project Select Committee (PSC) are all considered viable)
- retains the presentation stage to the PSC, but with the attendance of independent expert advisors (in a non voting capacity)
- retains the clarification stage, but supported by expert advisors.

22. Building on the priorities for round 4 introduced in Table 5, we recommend that projects should continue to be scaled-up in size (to a minimum of £1m of ERDF funding). Scaling-up should help maximise the impact and hence mainstream/sustainability potential. In addition, and on a more practical note, given that there is so little time to process round 4, the team should be aiming to work up no more than 6/8 bids (with around 3/4 being successful).

23. We understand that consideration is also to be given to reserving £0.5m/£0.6m as a top-up pot for expanding/extending some projects contracted under rounds 1-3. Projects suitable for top-up should meet the following criteria:

- offer significant, scalable impacts
- offer genuine sustainability potential (through either the sustainability of activities – i.e. mainstreaming - or impacts – i.e. embedding behaviours in SMEs - of the project)
- are able to guarantee match funding and actual spend.

Strategic added value, partnership working and risks to delivery

24. As the SEEOP looks forward, we believe that the PMC, in whatever form it takes post transition to CLG in the summer of 2011, has the potential to play a much wider strategic added value role. Building upon the recommendations regarding the need for larger, more strategically focused projects in the round 4, coupled with the enforced period of

change/transition that the PMC and the programme are now embarking upon, this provides an opportune time to develop a more ambitious remit for the PMC. Indeed, whilst the PMC will need to maintain its neutrality with regards to its support for project applications, the senior and well networked members that make up the committee have an important role to play in promoting and supporting the development of the programme across the region's counties, local authorities and/or LEPs; as well as within the private sector.

25. Finally, Table 6 below sets out the risk register for the programme with respect to future delivery.

Table 6: Risk register

Risk **Key: (H)igh/(M)edium/(L)ow**	**Likelihood**	**Impact**
That match funding for current projects will fall away and that round 4 will fail to secure match for future projects	M	H
Losing members of the ERDF programme team as SEEDA wind down over 2011 and ERDF funds are transferred to CLG in the summer	M	M
Reputational damage to the region and the UK if the ERDF transition is not managed effectively – as highlighted in chapter 2, with the role of LEPs (and the Regional Growth Fund) and their potential relationship with ERDF still unclear, future management arrangements will need to monitored very carefully over the coming months	M	H
The loss of technical experts within SEEDA that have been able to provide valuable advice and critique on project applications	H	M
That demands on monitoring continue to deter small businesses from applying for funding	H	M

Source: SQW

1: Introduction

Introduction

1.1 SQW was commissioned to undertake a mid-term evaluation of the South East England European Regional Development Fund Competitiveness Programme (SEEOP[5]).

1.2 The SEEOP is the responsibility of the Programme Monitoring Committee (PMC). The PMC has established an evaluation Task and Finishing Group (TFG) to lead on evaluation activity, and they have been responsible for steering the process of this review. Following the presentation and discussion of a draft evaluation report to PMC members on the 18th January 2011, this is the final report, taking account of the comments made.

Purpose of the review

1.3 The purpose of the review was set out in the project specification and repeated in Figure 1-1 below. The review was commissioned by the PMC so that it could receive a report on progress of the programme to date, and consider whether any changes were necessary to further improve the impact of the programme during its second half. This review is not a formal mid-term evaluation; such evaluations are not a requirement of the 2007-2013 ERDF Programmes. However, it provides the PMC with a useful working document for the remainder of the programme period, especially the shape of any future funding rounds.

1.4 The review has considered the focus, spend, activities, management and delivery of the SEEOP over the period to October 2010, and makes recommendations to improve the working of the programme, with a particular focus on priorities and arrangements for the fourth bidding round. The review has included an assessment of Strategic Added Value (SAV), identified examples of good practice and considered evidence of the value for money.

Figure 1-1: Issues identified in the brief to be examined in the mid-term evaluation

Process issues (i.e. the *formative* elements of the evaluation)

1. **Future arrangements** – identification of lessons that might get picked up by central government departments and to be taken into account in the successor management arrangements after the closure of SEEDA (including the role for the nascent LEPs)
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4. **Potential reductions in match funding** - review of the potential for match funding – applicants have so far been able to provide their own match against the programme rather than seek funds from SEEDA but this may well change in times of financial austerity and raise issues about further support that applicants might need
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Impact issues (i.e. the *summative* elements of the evaluation)

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2. **Trajectory of the programme in terms of results and impacts** - assessment of the extent to which SEEOP is addressing all the areas identified in the programme and is on track to deliver its impact targets in ways that will deliver value for money
3. **Refinement of objectives, targets and focus** – consideration of and recommendations on the future direction of the programme if it is to achieve the objectives set for it in SEEOP

Source: Adapted from the SEEDA evaluation brief

Scope and approach to the review

1.5 Although this evaluation has both formative and summative objectives, given where the programme is in its lifetime, the emphasis is on the formative elements. The summative elements are also important, but only insofar as they provide evidence and insights into the profiles and likely trajectories of the programme's future spend and outputs, results and impacts. With this in mind the 'corporate memory' of the programme's characteristics and performance has been a key source of evidence for this evaluation.

1.6 A key requirement is for the evaluation to help shape the fourth and possibly last project bidding round. The PMC wishes to learn lessons from the previous three rounds and shape the fourth round to maximise the programme's impact. More specifically, the evaluation has investigated the following areas:

- improvements to the management of the bidding/appraisal process
- gaps in the types of projects supported against the programme's objectives
- identification of potential investment opportunities in light of the changing policy and institutional context, extent of and type of match-funding available and programme performance (to date and future)
- potential investment ideas drawing on good practice among ERDF projects from elsewhere
- what has worked from programme delivery and what is likely to work in the future
- recommendations on how the programme can broaden its appeal to new applicants and in new investment areas.

1.7 The methodology for undertaking this review was set out in the agreed Project Initiation Document (PID).

Report Structure

1.8 The structure of the rest of this report is set out next with a summary of the content of each of the chapters.

1.9 Chapter 2 sets out an assessment of the **programme strategy**. This critiques the rationale, objectives and strategy of the programme and presents a programme level 'logic model'.

1.10 Chapter 3 provides an assessment of **changes in conditions** since the programme was launched. The chapter provides an update to baseline conditions and considers changes in the UK policy context including anticipated changes to public finances.

1.11 Chapter 4 presents an assessment of the **programme's performance**. It presents a review of programme finances and gross outputs and results to October 2010. Performance by Priority Axis theme is assessed along with the implementation of cross-cutting themes (CCTs). The chapter then considers the implications for the future delivery of the programme.

1.12 Chapter 5 assesses the **performance framework, value-for-money and potential impact** of the programme. This includes an assessment of the reasonableness of the performance targets at the time they were set and, in light of changing conditions, an assessment of the future priorities for the programme.

1.13 Chapter 6 is an assessment of the **effectiveness of management and administration arrangements**. This begins with an overview of the management arrangements and makes an assessment of their effectiveness. It also considers **Strategic Added Value (SAV)** and **partnership working.**

1.14 Chapter 7 sets out the **recommendations** in respect of programme strategy, performance, management and administration arrangements and partnership working.

1.15 The supporting annexes to the report include much of the detail from the review:

- Annex A: OP SWOT assessment
- Annex B: Detailed assessment of the performance framework
- Annex C: Stakeholders consulted
- Annex D: Review of European policy developments
- Annex E: Review of UK policy developments to May 2010
- Annex F: Update on baseline conditions
- Annex G: Case study reports

2: Assessment of programme strategy

Introduction

2.1 This chapter provides an assessment of the strategy of the programme. It begins by briefly outlining how the strategy was developed and key milestones in the programme's history. The rationale, objectives and activities of the programme are then introduced, with a critique of the original strategy.

Development of programme strategy

2.2 The strategy of the SEEOP is contained in the Operational Programme for 2007-13 (OP)[6]. The OP was drawn up in consultation with regional partners and refined through the assistance of external consultants following consultation. The consultation exercise saw a reduction in the number of Priority Axes from three (including Technical Assistance (TA)) to two (including TA). This course of action was decided on to focus the scope of the programme, given the limited resources available. The OP was subject to independent ex-ante evaluation, Strategic Environmental Assessment (SEA) and Equal Opportunities Impact Screening.

2.3 The Draft OP was submitted to the European Commission in the spring of 2007 and, following amendments in September 2007, the programme was adopted by the Commission in December 2007. The first meeting of the PMC, took place on 12th December 2007. The Project Selection Committee (PSC), a sub-group of the PMC that appraises project applications and makes recommendations to the PMC on the projects to support, met for the first time on 18th July 2008.

2.4 Programme delivery started in 2008. To date, there have been three project 'bidding' rounds. A summary of the bidding rounds is provided in the figure below.

Figure 2-1: Programme bidding rounds

Round 1 - launched March 2008, bidding open for two months, all projects contracted by January 2009
8 projects were approved Approximately £1.7 million in ERDF funding committed Specific areas funded were: sustainable procurement, sustainable construction, sustainable design & innovation, reduction, reuse and recycling materials
Round 2 - launched March 2009, bidding open for two months, all projects contracted by September 2009
8 projects and 1 loan fund approved Approximately £6.9 million in ERDF funding committed Strategic priorities funded were: retrofitting, supporting micro & small businesses, alignment with existing strategies, transport
Round 3 - launched March 2010, bidding open for two months, three projects still be to contracted as of January 2011)

[6] South East of England 2007-13 ERDF Competitiveness Operational Programme, October 2007

7 projects under negotiation
Funding available - £6.5-8.5 million
Strategic priorities – waste, climate change, transport, green businesses, energy, retrofitting (budget constrained)

Source: SEEDA web-site and press notices

Rationale behind the original programme strategy

2.5 A thorough analysis of the policy context and socio-economic conditions informed the rationale for and development of the OP. This section does not repeat the detail of the analysis in the OP, but identifies the key issues of most significance in respect of the policy drivers and the socio-economic challenges that the programme was designed to address.

Policy drivers

2.6 The programme and its objectives have been designed to respond to a number of policies and strategies. At the European level, these include the objectives for Cohesion Policy, the Lisbon Agenda to make Europe the world's most dynamic and competitive knowledge-based economy, the sustainable development Gothenburg Agenda, and the European Commission's Community Strategic Guidelines.

2.7 The programme also responded to the EU Sustainable Development Strategy (SDS) (adopted by the Council in 2006) which highlighted the urgency arising from continued unsustainable trends in relation to issues including: climate change and energy use, demographic pressure and ageing, management of natural resources, and land use and transport.

2.8 At the national level, the strategy was designed to align with the UK's priorities for Structural Funds Programmes between 2007-13, as described in the National Strategic Reference Framework:

- promoting innovation and knowledge transfer
- stimulating enterprise and supporting successful business
- building sustainable communities
- ensuring sustainable development, production and consumption.

2.9 The development of the programme also took account of the rising priority being given to tackling climate change and the reform and simplification of public-sector support to business. Moreover, the programme was designed to contribute to regional and sub-regional strategies, particularly the South East Regional Economic Strategy (RES); the region's spatial strategy (the South East Plan), the Integrated Regional Framework and Regional Waste Strategy. The responsibility given to SEEDA to manage the ERDF programme was seen as an opportunity to strengthen alignment with the RES and ensure strategic fit with domestic funds, in particular the RDA Single Programme budget.

2.10 The OP made the case that the SEEOP should be aligned with these policies and strategies, particularly to promote:

- ***Innovation and the knowledge economy***, including through the creation and strengthening of efficient regional innovation economies, systemic relations between the private and public sectors, universities and technology centres, taking into account local needs
- ***Environment and risk prevention***, particularly stimulating energy efficiency, the development of efficient energy management systems and promoting clean and sustainable public transport.

Socio-economic conditions

2.11 The OP states that the South East is a relatively prosperous region, with globally competitive businesses, universities and other research institutions. Much of the region's workforce is skilled, working across sectors but predominantly in the service sector. There remain strong labour and trade links to London. Businesses in the region compete globally for trade and labour. Recent years have seen strong immigration into the region, while the indigenous population is ageing, generally enjoying a high quality of life. However, the economic success of the region has environmental, social and economic costs, with increased pollution, loss of biodiversity, pressure on land from new development and congestion on roads. Furthermore, some communities in the region have not enjoyed the same level of wealth creation as other communities in the region, with pockets of deprivation remaining, particularly in coastal areas and in parts of some urban areas.

2.12 The key findings of the socio-economic analysis in the OP were presented in a Strengths, Weaknesses, Opportunities and Threats (SWOT) table, which can be found in Annex A.

Programme strategy

Strategic and operational objectives

2.13 The OP combines €23.7m of ERDF funds over 2007-13 (the equivalent in Sterling of £15.9m[7]), with a matching contribution of at least €23.7m from regional partners (i.e. an overall intervention rate of 50%). The total programme value is therefore €47.4m (or £31.8m). Under the N+2 regime, funds can be spent up to 31 December 2015.

2.14 The aim of the OP is, "to promote economic competitiveness in South East England whilst contributing to reducing the region's ecological footprint". The programme is based on the central tenet to decouple economic growth from the generation of pollution and loss of biodiversity.

2.15 To achieve the aim, the programme has three operational objectives, which form three themes of activity:

- To raise levels of knowledge and innovation across all business sectors in order to support more resource efficient business practices, boosting profitability and long-term competitiveness (**theme - promoting resource efficient business practices**)

[7] This uses the 2007 exchange rate of €1 to £0.671

- To stimulate innovation and job creation in new and emerging ecologically-driven market sectors (**theme - stimulating innovation for a sustainable economy**)
- To reduce the rate of growth of the region's ecological footprint, whilst stimulating economic growth (**theme - encouraging sustainable consumption practices**)

2.16 As described in the OP, the main focus of the programme is on ensuring sustainable production and consumption, though promoting innovation and knowledge transfer and stimulating enterprise and supporting successful businesses. The first theme is cross-sectoral, but targeting a particular part of business – resource efficiency. The second theme is sector specific, focused on 'ecologically-driven market sectors', or what is more commonly called the low carbon environmental goods and services sector. It is arguable that the third theme is a consequence of the first two themes of activity.

2.17 The OP states that a key feature of the strategy is for the programme to be a 'learning programme', seeking innovations in delivery and 'what works for whom and in what circumstances'.

2.18 Through its direct and indirect activities, the programme is seeking the following outcomes:

- positive sustainable development outcomes to improve the attractiveness of the region
- a more competitive economy, with more and *better quality* jobs.

2.19 The programme is pan-regional, although, 'due regard in implementation will be had to matters of social inclusion and territorial cohesion'[8]. To support social inclusion, the OP identifies that it is essential that the weaker parts of the region gain strong benefit and that excluded groups are supported to secure equality of opportunity[9]. In respect of territorial cohesion, the programme is seeking to 'spread' benefits through linking projects in stronger parts of the region to weaker areas (indeed this is stated as a requirement of projects in the OP).

2.20 The OP states that the programme strategy is based around a series of *principles* that all partners had signed up to[10]:

- innovation must run through all elements of the programme
- competitiveness and sustainability should apply to all sectors and not just to business
- a proliferation of projects is to be avoided, it should be focused to provide maximum impact and direction
- activities must not lead to a proliferation of new delivery mechanisms
- the programme should be pan-regional and not spatially pre-determined

[8] Operational Programme, p3
[9] Operational Programme, p3
[10] Operational Programme, p104

- the programme should support new ways of linking good practice between weak and strong areas.

2.21 The figure below identifies some of the distinguishing features of the programme.

Figure 2-2: Distinguishing features of programme

One of the smallest UK Competitiveness programmes with narrow focus
Decoupling of economic growth from negative environmental impact
Focus on ensuring sustainable production and consumption, though promoting innovation and knowledge transfer and stimulating enterprise and supporting successful businesses
Learning programme, seeking innovations in delivery, evidence of what works for whom and in what circumstances, and policy influence
Pan-regional with no spatial focus (unlike previous Objective 2 programme) although economically weaker parts and groups of the region are expected to gain significant benefit

Source: SQW

Programme financial allocations

2.22 The programme's total planned budget is €47.4m over its seven year lifetime. This is divided evenly between ERDF and matched UK contributions of €23.7m. The total allocation is split as follows:

- Priority 1 – Promoting Sustainable Production and Consumption: 96% of total (approx. €45.5m)
- Priority 2 – Technical Assistance: 4% of total (approx. €1.9m)

2.23 The planned expenditure profile of the programme over its delivery period is set out in the table below.

Table 2-1: Lifetime planned financing plan (euros)

Year	ERDF allocation	UK match funding	Total funding – per annum
2007	3,188,791	3,188,791	6,377,582
2008	3,252,567	3,252,567	6,505,134
2009	3,317,618	3,317,618	6,635,236
2010	3,383,970	3,383,970	6,767,940
2011	3,451,650	3,451,650	6,903,300
2012	3,520,683	3,520,683	7,041,366
2013	3,591,096	3,591,096	7,182,192
Total 2007-13	**23,706,375**	**23,706,375**	**47,412,750**

Source: South East OP

2.24 The OP planned for a relatively consistent spending profile over the programme period. Whilst this linear funding profile was unlikely to be achieved, N+2 requirements meant that spend was not actually required until 2008. The actual spend profile for the programme to date is discussed in chapter 4.

2.25 **Priority Axis 1** – investment under the Promoting Sustainable Production and Consumption Axis was expected in three areas (see Table 2-2 below).

Table 2-2: Priority Axis 1: investment areas and activities

Investment areas	Activities
Promoting Resource Efficient Business Practices	• Reducing inputs to the production system, through minimisation strategies • Promoting the adoption of one or more of the following: ➢ energy efficient production techniques ➢ waste minimisation techniques ➢ water efficiency ➢ recycling and reuse strategies
Stimulating Innovation for a Sustainable Economy	• Stimulating innovation in firms operating in emerging market areas, particularly the following: ➢ Energy technology businesses and applications ➢ Waste technology businesses and applications ➢ Water technology businesses and applications ➢ Climate change technology businesses and applications ➢ Sustainable construction technology businesses and applications.
Encouraging Sustainable Consumption Practices.	• Developing sustainable mobility approaches to reduce congestion costs and emissions from transport • Support the development and introduction of effective sustainable procurement strategies, whilst equipping regional SMEs to compete in such markets.

Source: SEEOP, pp105-106

2.26 The investment in these areas is intended to:

- increase the competitiveness of manufacturing and service-orientated businesses in the region, through encouraging more resource efficient production techniques
- increase the level of economic activity in the region based on technologies contributing to sustainable development objectives
- reduce the rate of growth of the region's ecological footprint (OP pp104-105).

2.27 **Priority Axis 2** – Technical Assistance is available to finance the management, monitoring, evaluation, information and control activities of the SEEOP, together with activities to reinforce the administrative capacity for implementing the funds.

2.28 The types of activities to be supported under Priority Axis 2 are:

- programme development and capacity building
- the provision of management and monitoring information
- programme related analysis, monitoring and evaluation
- activity to support collaborative and joint working

- publicity and communications, including the dissemination of best practice activities.

Outputs, Results and Impacts

2.29 The performance framework for the programme consists of *outputs*, *results* and *impacts*. Outputs are the gross direct result of activity supported by the programme. Results are the gross outcomes of the activity supported by the programme. Impacts are the net difference the programme will make, over and above what would have happened without the programme.

2.30 The expected outputs, results and impacts of the programme are presented below (see Table 2-3). These are minimum targets and relate to the full programme value (ERDF and UK). Outputs and results can be achieved beyond the end of the immediate programme period in 2013 (for example we understand eligible jobs created are those created within five years of the initial investment). The programme targets include:

- 1,250 businesses assisted to improve their performance (result)
- 550 businesses making financial savings from improved energy and resource efficiency (result)
- 109 net additional jobs (impact)
- €32m of net additional Gross Value Added (GVA - around £28m using an exchange rate of €1 to £0.87) (impact)
- a reduction in CO_2 emissions of 85,000 tonnes (impact).

Priority Axis 1 (by theme)

Table 2-3: Priority Axis 1 summary

	Priority 1 – Promoting Sustainable Production and Consumption
Aim	Priority Axis 1 aims to support activity in 3 principal areas: • resources for efficient business practices • innovation for a sustainable economy • sustainable consumption practices
Financial inputs	96% of total (approx. €45.5m)
Output targets	2,130 businesses involved in the programme 750 businesses assisted to improve performance 800 additional firms involved in business networks 270 business engaged in collaboration with UK knowledge base 70 businesses developing R&D links with other businesses 240 businesses engaged in developing sustainable mobility strategies
Results targets	1,250 businesses improving performance 180 gross new jobs created 550 businesses making financial savings from improved energy efficiency SMEs reducing energy, waste or water usage by 10% (actual number not specified in OP)

	Priority 1 – Promoting Sustainable Production and Consumption
	Businesses achieving independent environmental accreditation (actual number not specified in OP)
	110 businesses increasing % of turnover attributable to new and improved products by 5%
	10% reduction (on existing levels) in road congestion and pollution levels
	75 businesses tendering for public contracts
	Development and dissemination of good practice expertise (qualitative assessment)
Impact targets	110 net additional jobs created
	€32m net increase in GVA
	Reduce rate of growth of region's ecological footprint
	85,000 tonnes reduction in rate of growth of region's CO_2 emissions
	Broad uptake of innovative actions piloted in region (qualitative assessment)

Source: South East OP

2.31 Although the performance framework includes fixed targets, it was explicitly stated in the OP that as an innovative and learning programme, some of the targets might have to be refined and re-specified as the programme unfolded. Indeed the framework includes a number of unspecified targets where further work was anticipated to set the targets through baseline reviews and evaluation.

Technical assistance

2.32 The main performance framework does not include indicators for the Technical Assistance PA, although some progress indicators were included in the OP:

- Events organised – target of 20
- Electronic newsletters published per annum – 4
- TA projects supported – 8
- Thematic evaluations undertaken – 4.

Table 2-4: Priority Axis 2 summary

	Technical Assistance
Aim	Technical assistance resources are to be deployed to support effective management and administration of the programme – including management, monitoring, evaluation, information and control activities.
Financial inputs	4% of total (approx. €1.9m)
Output targets	20 events organised
	4 electronic newsletters published per annum
	8 TA projects supported
	4 thematic evaluations undertaken
Results targets	n/a
Impact targets	n/a

Source: South East OP

Cross-cutting themes

2.33 The programme has two cross-cutting themes (CCTs):

- environmental sustainability - actions should provide demonstrable positive environmental benefits
- equality of opportunity - actions should promote equal opportunities for all and counter discriminatory practices.

2.34 The CCTs are intended to underpin all of the programme's activities as well as the approach to programme management and implementation. The aim is to embed them throughout the programme.

2.35 The objective of the environmental sustainability CCT is, 'To maximise the potential for the environment as an economic driver, minimise environmental impacts and maximise environmental benefits'. Priority Axis 1 directly supports this objective and the OP states that this will be complemented by mainstreaming actions designed to raise awareness of, promote and embed wider environmental sustainability principles into the design and delivery of projects to small enterprises.

2.36 The objective of the equal opportunities CCT is, 'To ensure that the opportunities generated by the programme are available to all, in order to deliver sustainable prosperity and spread the benefits of competitiveness'. The programme is seeking to encourage equality of access to opportunity regardless of race, gender, disability, age, sexual orientation or faith, by mainstreaming equalities objectives at all stages from programme design through to management, delivery, monitoring and evaluation. That said, the OP also highlights that other, more strongly resourced, European, national and regional initiatives are focused on addressing issues surrounding disparities in employment, worklessness and prosperity. As a result, the OP states that the SEEOP will not seek to address these issues directly.

2.37 To avoid equal opportunities being aspirational (as apparently in the previous Objective 2 programme) the OP commits the programme to:

- use robust equality indicators
- ensure equal opportunities practice and impact is monitored and assessed
- ensure minority groups and communities are involved in planning and delivering services.

Coordination with other policies and European Programmes

2.38 The programme was intended to support the previous government's Business Support Simplification Programme (BSSP) and related initiatives such as those of the Technology Strategy Board (TSB)[11]. With respect to other European Programmes, the OP stated that synergies would be secured with both the European Social Fund (ESF) and the then European

[11] The TSB is an executive non-departmental public body of the government, established in 2007 under the sponsorship of the Department for Business, Innovation and Skills (BIS) to advise government on how to remove barriers to innovation and accelerate the exploitation of new technologies.

Agricultural Fund for Rural Development (EAFRD). Further details regarding these potential synergies were not provided.

Critique of the original programme strategy

Placing the programme within a logic model framework

2.39 In order to provide an assessment of the programme strategy we have constructed a logic model for the programme. This allows us to test the theory, assumptions and evidence underlying the rationale for the programme. The facets of the logic model framework are:

- conditions – the case for the programme intervention based on the analysis of the contextual conditions and problems
- programme aims – the strategic aim of the package of interventions proposed in the programme
- rationale – the rationale for three themes of Priority Axis 1 (the case for intervention)
- objectives – the operational objectives for the SEEOP and CCTs
- inputs and activities – the commitment of financial inputs and the main areas of intervention for each Priority Axis theme
- outputs – the direct gross effects of the supported interventions
- results – the changes in behaviour, capacity and performance of the people and communities, businesses and other organisations directly and indirectly affected by the interventions
- impacts - these results will be expected to have beneficial impacts on the conditions that gave rise to the programme in the first place.

2.40 By testing the plausibility and strength of these facets and the extent to which they logically flow from each other (e.g. given programme objectives, do inputs and activities link back and support these objectives) we can:

- make considered judgements regarding the design of the original programme
- understand how, and in what areas, improvements might be possible.

2.41 The logic model constructed for the SEEOP is shown overleaf (Figure 2-3). With the exception of the market failure rationales provided for each of the three themes that sit within Priority Axis 1, the logic model has been constructed through details provided in the OP.

Figure 2-3: The Logic Model for the South East ERDF Competitiveness Programme 2007-2013

1. Conditions: 1. Deploying resources more efficiently is required to maintain or increase current living standards into the future; 2. Business, and organisational, practices must be adopted that begin to decouple economic growth from resource consumption, pollution and loss of biodiversity; 3. Exploiting the region's globally strong knowledge base, strong innovative business base and active and well-skilled workforce is required to maximise environmental and economic benefits and help achieve sustainable prosperity; 4. Developing and demonstrating best practice is required to evidence the role that SMEs, that make up the bulk of the region's business base, can make to securing sustainable prosperity; 5. Widening access to opportunities available in the region, and ensuring that the benefits of economic growth assist weaker parts of the region.

2. Programme aim to support the wider vision of the Economic Strategy (that by 2016 the South East will be a world class region achieving sustainable prosperity) through promoting the competitiveness of the South East whilst contributing to reducing the region's ecological footprint.

4. Impacts: 1. Net additional employment; Net increase in GVA; 2. Contribute to the regional target of stabilising the region's ecological footprint, from a current annual growth rate of 1.1% per capita; 3. Reduction in the region's CO_2 emissions; 4. Broad uptake of innovative actions piloted in the region (as a catalyst effect)

3. Individual logic chains 1. Promoting resource efficient businesses practices. 2. Stimulating innovation for a sustainable economy. 3. Encouraging sustainable consumption practices

1. Rationale
Negative externalities and Information failures lead to underinvestment by the private sector in improving resource efficiency

2. Rationale
Coordination and information failures (regarding the commercialisation of innovations) leads to underinvestment in the environmental goods & services sector and a loss of spill-over benefits

3. Rationale
Negative externalities and Information failures lead to underinvestment by the private sector in improving consumption practices

Objectives & cross cutting themes

1. Raise levels of knowledge, innovation and growth across all business sectors in order to support more resource efficient business practices, boosting profitability and long-term competitiveness

2. Stimulate innovation and job creation in new and emerging ecologically-driven market sectors

3. Reduce the rate of growth of the region's ecological footprint, whilst stimulating economic growth

Plus cross cutting themes:
Environmental sustainability
Equality of opportunity

1. Inputs and activities
Reducing inputs to the production system, through minimisation strategies. Promoting the adoption of one or more of the following: energy efficient production techniques; waste minimisation techniques; water efficiency; recycling and reuse strategies.

2. Inputs and activities
Stimulating innovation in firms operating in emerging market areas, particularly the following: energy technology businesses and applications; waste technology businesses and applications; water technology businesses and application; climate change technology businesses and applications; sustainable construction technology businesses and applications.

3. Inputs and activities
Developing sustainable mobility approaches to reduce congestion costs and emissions from transport. Support the development and introduction of effective sustainable procurement strategies, whilst equipping regional SMEs to compete in such markets.

Outputs

No. of business assisted

No. of additional firms involved in business networks

No. of businesses within the region engaged in new collaboration with UK knowledge base

No. of businesses in the region developing R&D links with other businesses

No. of businesses engaged in developing sustainable mobility strategies

Outcomes (Results)

No. of businesses improving performance

Gross new jobs created

No. of businesses making financial savings from improved energy and resource efficiency

No. of SMEs reducing energy, waste or water usage by 10%

No. of businesses achieving independent environmental accreditation

No. of businesses increasing percentage of turnover attributable to new and improved products by 5%

Reduction in road congestion and pollution levels attributable to sustainable mobility strategies

No. of businesses tendering for public sector contracts

Development and dissemination of good practice expertise

Source: SQW Consulting

Elements in the logic model

2.42 The ***contextual conditions*** that underpin the overall justification for of the SEEOP are well made in the OP in strategic terms. The socio-economic evidence base shows the need for efforts to sustain the region's economic strength whilst minimising the social and environmental costs that this entails. The OP recognises that the region has to guard against a 'tipping point' being reached whereby a cycle of disinvestment occurs and increasing negative externalities and rising costs weaken the competitiveness of the South East's business base.

2.43 As discussed elsewhere in this chapter, these contextual conditions have a high degree of alignment with the region's Economic Strategy as well as key European strategy documents including the EU Sustainable Development Strategy. This is reflected in the ***programme's overall aim***.

2.44 The strongest ***rationale for public sector intervention*** in economic development is in order to address market failures. A market failure is where the allocation of goods and services by the market is not efficient from the perspective of society as a whole. The OP does not explicitly identify the market failures that justify intervention, but at the level of the South East, they can be summarised as to:

- encourage and stimulate investment in innovation, R&D, technologies (including environmental technologies), exporting and collaborative networks to generate positive outcomes for the region that individual businesses would not otherwise generate (positive spill-over benefits)
- minimise the negative impacts on society and the economy from climate change and carbon dioxide emissions through improving the efficient use of resources (production) and reducing the carbon consumption of businesses (negative externalities) – this includes the exacerbation of negative externalities through the economic recession whereby, beyond any legal requirements, firms cannot afford to make carbon reduction investments on a Corporate Social Responsibility or altruistic basis.
- overcome lack of awareness and knowledge in the private sector regarding the financial benefits of adopting more efficient production and consumption practices (information failures)
- overcome breakdowns in communications and flows of information within and between the private and public sectors due to a an absence of effective mechanisms to develop working relationships (information and coordination failures)

2.45 As can be observed from Figure 2-3, these market failure rationales map well across the three themes that make up Priority Axis 1 and logically flow into the ***objectives and cross cutting themes*** of the programme.

2.46 With limited resources compared to both other European programmes in the region and the size of the South East economy more generally, the programme has been judicious in targeting ***inputs and activities*** on sustainable production and consumption measures rather than more broad business support. The strategy of the programme rests on intervention in innovation and knowledge, enterprise and growth and was initially intended to be a largely revenue based programme. The programme is different to the previous ERDF Objective 2 programme, which, focusing on eligible wards in Thanet (between 1994 - 1999) and eligible wards in Hastings and Thanet (2000 – 2006), invested in enterprise and innovation but also in more traditional regeneration community development activities.

2.47 From a strategic perspective, the ***outputs, results and impacts*** of the programme link well with activities supported under the programme and, if achieved, would make a relevant and direct contribution to addressing the contextual conditions that provided the justification for the programme in the first place. Detailed analysis regarding the appropriateness of the OP outputs, results and impacts along with an assessment of the fairness of targets and their measurement is presented in chapter five. Here we point to three recommendations:

- The process/theory(ies) of change for each Priority Axis 1 theme need to be explored in greater depth so that the relationships between GVA, employment creation and CO_2 emissions over time can be better understood – looking forward to round 4, this is something that, with support from SQW, the ERDF team have been thinking hard about.
- The definition of the environmental goods and services sector is not clearly set out making it difficult to highlight areas of sectoral opportunity that the programme can target. As part of this evaluation we have worked with the programme team to develop this definition: the findings of our analysis of secondary data for this sector are presented in chapter 3.
- Equality of opportunity CCT – there are currently no targets associated with this CCT. Whilst we recognise that other, much larger, European and publically funded programmes are focused on reducing inequality in the region, as a requirement of the programme, this is an issue that should be given consideration by the PMC.

Views of stakeholders on programme strategy

2.48 In the fieldwork for this evaluation, stakeholders' views on the original rationale for the programme at the time it was developed were explored. *There was general agreement that the rationale was valid and evidenced.* We found that generally there was also a good understanding of the objectives of the programme. Even those stakeholders not involved in the development of the strategy or as closely involved on a day to day basis, were able to cite the programme's headline aim. This suggests that the programme's aims and objectives have been effectively communicated across a wide range of stakeholders.

2.49 The consultations did, however, uncover a diversity of views across a number of important areas:

- Consultees unanimously agreed that aims and objectives in the OP were broad in nature and open to variations in interpretation. However, they were split on whether this should be seen as positive or negative. On the positive side, consultees argued that the OP provides the necessary strategic space for priorities to evolve over time along with changing economic and policy drivers. On the negative side, some argued that it led to a lack of focus and clear direction for the programme.

- With respect to the spatial targeting of the programme, consultees broadly fell into two camps. Firstly there were those that felt that the OP watered down original intentions (i.e. prior to the ERDF allocation being made at a regional level) to allow the programme to focus on sub-regional priorities and needs and, through this, work to reduce intra-regional disparity. Other consultees argued that given the relatively small level of funding supported by the programme, a pan-regional focus was required to bring forward projects that are genuinely innovative and new to the South East and from which lessons could be learnt.

- A number of consultees argued that the OP should have set a clearer focus on *either* GVA and employment creation *or* CO_2 reduction. This stems from the premise that whilst GVA/employment creation and reductions in CO_2 emissions are not mutually exclusive, the relationship between them is not straightforward. For example, supporting the growth of a firm through the commercialisation of technologies in the environmental goods and services sector may well lead to increases in GVA and employment, but in the short to medium term (i.e. within the timeframe of the SEEOP) this may result in an increase in carbon emissions. Equally, the introduction of new, technology-based production methods may reduce carbon emissions but may also result in the loss of employment in the short to medium term.

2.50 One observation of which consultees made almost unanimously was the low level of priority that the OP places on the Equalities CCT. Again, however, views varied on the importance of this. A number of consultees argued that with other, far more substantial, European and public funds concerned with issues surrounding equality in the region, the focus of the OP was entirely correct. Others, however, argued that the pan-regional nature of the programme has not allowed activity to focus on the needs of sub-regions which, it was argued, would have led to activity better targeted at reducing disparities within the region.

2.51 Taking these views together we would make the following recommendations for consideration:

- Given the range of policy drivers and partners involved in the programme, it is understandable that the OP needed to be broad in its focus. As we discuss in chapter 3, despite the significant economic and political changes seen over the lifetime of the programme, *it is also encouraging that the overarching aim and objectives of the programme are still relevant and valid*. However, with the programme now established and reaching its final funding round, consideration should be given to developing more detailed and specific objectives that can lead directly to activities that will be supported under round 4. Chapter 5 concludes with some of the early thinking regarding these objectives.

- With diminishing political traction being placed upon interventions at the 'regional level', the programme needs to think through and articulate:
  - the appropriate spatial scale that projects should be designed to affect and/or influence

    - the programme's relationship with new emerging sub/cross-regional geographies (i.e. the five Local Enterprise Partnerships in the South East).

- Greater clarity is required regarding the Equalities CCT and how the programme is working towards achievements in this area. With the region being characterised by sub-regional socio-economic disparities, this needs to be considered alongside discussions surrounding the appropriate spatial focus of the programme.

- Building upon our earlier recommendation regarding GVA and carbon emission reduction indicators, further work is required to understand the relationship and potential trade-offs between these two key result and impact indicators.

2.52 These issues have implications for the future direction of the SEEOP and we draw upon them again in chapters 5 and 6.

Recommendations from chapter 2

- Whilst the strategy of the programme is still relevant and valid, with the programme now established and reaching its final funding round, consideration should be given to developing more detailed and specific objectives that can influence the activities that will be supported under round 4.
- With diminishing political traction being placed upon interventions at the 'regional level', the programme needs to think through and articulate:
    - the appropriate spatial scale that projects should be designed to affect and/or influence
    - the programme's relationship with new emerging sub/cross-regional geographies (i.e. the five Local Enterprise Partnerships in the South East).
- Greater clarity is required regarding the Equalities CCT and how the programme is working towards achievements in this area. This needs to be considered alongside discussions surrounding the appropriate spatial focus of the programme.
- The process/theory(ies) of change for each Priority Axis 1 theme need to be explored in greater depth so that the relationships between GVA, employment creation and CO_2 emissions over time can be better understood.
- The definition of the environmental goods and services sector is not clearly set out making it difficult to highlight areas of sectoral opportunity that the programme can target. As part of this evaluation we have worked with the programme team to develop this definition
- Equality of opportunity CCT – there are currently no targets associated with this CCT. This is an issue that requires consideration.

3: Changes in contextual conditions

Introduction

3.1 This chapter provides an assessment of the implications for the programme strategy of changes in the baseline conditions and in the policy context. Given the relatively modest size of the SEEOP when compared with the aggregate of public sector funding on economic development in the region, we would not attribute any changes in secondary data to the programme. The secondary data will, however, provide the context in which the programme has been operating. This will be important when considering achievements. Analysis of trend data will also provide insight into the ongoing and emerging priorities for the region as well as opportunities that can be used to inform and shape round 4 project funding decisions.

Update to baseline conditions: key emerging priorities and opportunities

3.2 Alongside analysis of changes in macro-economic conditions and the impacts of the recession, an assessment has been undertaken of changes in baseline conditions in the SEEOP area since 2005, the base year for much of the socio-economic analysis in the OP. A full review of changes in macro-economic and baseline conditions is provided in Annex F.

3.3 The baseline review has considered the key socio-economic conditions to provide the context for the programme. It focuses on the conditions that gave rise to the programme, and key indicators it seeks to influence. Key findings of the review are considered in Table 3-1, in terms of:

- Employment
- Business (including GVA)
- CO_2 emissions

Table 3-1: Key messages from update to baseline conditions

Indicator (source)	Baseline conditions update
Employment	
Employment rate (Annual Population Survey)	The employment rate for the South East has remained consistently above the England average, 2005-2009, although the gap between the rates has narrowed slightly within the period. The employment rates for women, ethnic minority and disabled residents continue to be higher than the corresponding groups at a national level. There is some variation in rates of employment across the South East - Isle of Wight had the lowest employment rate in the South East in 2009 (65%), following a 9 percentage point fall from the 2005 level.
Sectoral breakdown of employment (Annual Population Survey)	Public admin, education & health, distribution, hotels & restaurants and banking, finance & insurance remain the largest sectors regionally, employing 63% of resident employees in 2009. Public admin, education & health and banking, finance & restaurants have been key drivers for employment growth. The South East has been particularly affected by the financial crisis due to the high concentration of financial services firms within the region and the number of commuters who reside in the South East and are employed in Central London. The extent of implications of the current public sector cutbacks is not yet fully known, although SEEDA

Indicator (source)	Baseline conditions update
	analysis suggests their could be 74,000 public sector job losses by the end of 2015/16 plus indirect private sector job losses.[12] Thus, it is likely that support for the diversification of the economy through the ERDF programme will be advantageous for the region.
Median earnings (Annual Survey of Hours and Earnings)	In 2009, median earnings of both men and women in the South East remained above the English average. However, there continues to be a persistent differential in the earnings of men and women, which is somewhat more pronounced in the South East than across England
Business	
Number of enterprises (IDBR)	Across the region, there has been a 6.6% increase in the number of businesses between 2005 and 2009 (compared to a 7.7% increase across England in the same period). The South East business population contracted slightly between 2008 and 2009 (by 0.4%). It is not yet clear the extent of any further shrinkage in the population as a result of the recession due to data availability.
Business units[13] by broad industry sector	Across the region, the number of units in construction increased by 9% between 2006 and 2008, however is believed to have declined in the recession. There was also growth of 6% in banking, finance and insurance. Banking, finance and insurance was particularly prominent in Wokingham and Windsor and Maidenhead, where it made up over 45% of employment in 2008.
Business Units in the Environmental Goods and Services Sector (Annual Business Inquiry)	Almost 20% of all Environmental Goods and Services units in England are located in the South East region. In 2008, EGS units made up 1.2% of all South East business units, following a 16% rise in the number of EGS units between 2006 and 2008. A particularly big increase has been experienced in the sanitation and remediation sector, which increased from 69 units in 2006 to 207 in 2008 (a 200% percent increase). Other parts of the EGS sector to have experienced considerable increases in unit numbers include: • Agricultural service activities • Collection and treatment of other waste • Collection, purification and distribution of water • Forestry and logging However, not all these increases in business units have translated into increases in jobs. While there have been substantial increases in the number of employees in the collection and treatment of other waste sector (increase of 2,515 employees 2006-08) and in sanitation and remediation (increase of 1,410 jobs), the period has also witnessed a decrease of 1,096 employees in agricultural service activities. Other sectors to shed jobs in the region included the collection and treatment of sewage (-1,578 employees) and the manufacture of electricity distribution and control apparatus (-1,168 employees). Overall there was an increase of 478 jobs in the EGS sector between 2006 and 2008. East Sussex and Oxfordshire had the largest proportion of business units in the EGS sector in 2008 – 1.7% and 1.6% respectively, while in Brighton and Hove this proportion was only 0.5%.
High Tech Manufacturing Industry (Annual Business Inquiry)	The high tech manufacturing industry declined over the period 2006-08, both in the South East and nationally. Across the region, the number of units declined by 12% and the number of individuals employed in the sector decreased by 10%.
High Tech Service Industry (Annual Business Inquiry)	In 2008, 7.3% of all units and 5.4% of employment in the South East was within the high tech service industry, and the sector increased by 7% between 2006 and 2008. The high tech service sector is particularly prominent in Bracknell, Wokingham and West Berkshire.
Gross Value Added	The gap in GVA per worker between the more productive South East region and England narrowed between 2005 and 2008, although GVA in the South East remains £11.20 higher

[12] SEEDA (2010) *Public sector redundancies: potential impact on the South East*
[13] Local units do not readily correspond to the commonly used terms firms, companies or businesses by which employers are sometimes identified. They are roughly equivalent to workplaces but because of the way the data are collected two or more units can be present in the same workplace. For example, a bank may have several branches and offices in a city, each one of these would be counted as a separate data unit.

Indicator (source)	Baseline conditions update
(GVA)	per worker. Total GVA in the South East has risen by 15% in the period (from £170 billion in 2005 to £195 billion in 2008). In 2007, over a quarter of all GVA came from real estate, renting and business activities. As highlighted in Institute for Employment Studies (2009) the recession has severely affected the property sector, with large numbers of job losses in estate agency and 'significant' knock on effects in associated occupations), although the residential lettings market continues to grow. The impact of the recession on sectors and areas in the South East is not yet clear from the data. However, 2010 Experian forecasts suggest that the last sub-region (Dover) will not return to pre-recession output levels until 2016.
CO_2 emissions	
Carbon emissions per capita (Department of Energy and Climate Change)	In 2008, the South East had lower carbon dioxide emissions per capita than England (7.6 compared to 8.2 tonnes per capita), although there is considerable variation in the per capita emissions in the region – from 5.0 tonnes in Medway to 12.2 tonnes in West Berkshire. The region had also experienced a bigger reduction in emissions since 2005. Strongest performance in Medway, Brighton and Hove, Isle of Wight and Southampton. Half of all CO_2 emissions in 2008 came from three sectors: • industry and commercial electricity (20% of emissions) • domestic gas (16%) • domestic electricity (14%) An additional 32% of emissions come from road transport – highlighting the potential benefits of ERDF sustainable transport programmes.

Source: See Annex F for sources and full review of update to baseline conditions

Implications for the programme

Employment

3.4 Looking at the most recent data, employment rates in the South East continue to remain well above the English average, both in general and in terms of the employment of minority groups. Data suggests that the South East may have been less hit by the recession than other areas, although the gap in employment rates between the South East and England did narrow slightly between 2005 and 2009. However, the economy remains relatively uncertain, and the impact of the latter part of the recession and the public sector cutbacks on the regional economy are not yet clear.

Business

3.5 Diversification away from the public sector and financial services would enable the region to partially safeguard against further contraction in growth, and in this respect the SEEOP may continue to be advantageous. The South East already contains almost 20% of all Environmental Goods and Services business units in England, an industry which experienced growth between 2006 and 2008. Thus the region may be well placed for further growth in this area.

Emissions

3.6 Per capita carbon emissions in the South East are already below the English average according to DECC figures. However, there remains room for further improvement. ERDF sustainable transport programmes have the potential to bring about a further reduction in emissions – by addressing the 32% of the region's CO_2 emissions that come from road transport.

Policy developments

3.7 This section presents findings from a review of changes in the policy and political context since the programme was launched. The review has focused on three areas:

- announcements of the coalition government since May 2010
- a review of developments in the UK policy landscape to May 2010. This part of the review has considered policies of the former government, including strategic responses to the recession and the national reform of business support
- developments at a European level, including changes in cohesion policy in response to the recession and the post-Lisbon Agenda.

3.8 The full review of changes at a European level is provided in Annex D, whilst Annex E provides a review of changes in the UK policy landscape to May 2010.

UK policy developments since May 2010

3.9 The coalition government was formed in mid May 2010. A key objective of the government is to cancel out the national debt over the course of the next five years. Announcements were made in the emergency budget of 22 June 2010 which signalled significant cuts in public spending and provided the framework for government spending in the medium term. This has subsequently been cemented by the Comprehensive Spending Review 2010, and the White Paper[14] has provided details regarding how the government intends to support 'local' growth. Headlines of coalition publications are summarised below.

Table 3-2: Key headlines of coalition government announcements to date

Theme	Detail
Economic outlook	GDP growth has been stronger than expected for both the second and third quarters of 2010. GDP growth is forecast to be 1.8% in 2010 and 2.1% in 2011, rising to between 2.6% and 2.9% per year in 2012-15.
Public sector spending	The Spending Review set out savings required by 2014-15, with over £81 billion to come from public sector spending cuts. Between 2010/11 and 2014/15 CLG Communities, Local Government and Business, Innovation and Skills will see respective negative cumulative real growth of 51%, 27% and 25%.
Enterprise	The coalition government has set out measures including: • A reduction in the main rate of corporation tax from 28 per cent to 24 per cent over four years • Reduction in the small profits rate (formerly small companies rate) to 20 per cent • Reversal in employer National Insurance Contributions (NIC) increase • Launch of a new three-year scheme that will exempt new businesses from up to £5,000 of employer NIC for each of the first ten employees. However businesses in the Greater South East will not be eligible for this new scheme, which is targeted at more deprived areas • Expansion of the Enterprise Finance Guarantee (EFG), which supports lending to viable small businesses

[14] Local growth: realising every place's potential, HM Government, October 2010

Theme	Detail
	• Creation of new Enterprise Capital Fund, to provide an extra £37.5 million in equity finance • Creation of a new Business Growth Fund, targeting the needs of growing companies (those with a turnover of £10m - £100m), with equity funding of £2m - £10m, to be complemented by loans and trade finance from banks • Commitment to publish a Green Paper on barriers to the supply of business finance.
Low carbon economy	The government have announced plans to support the transition to a low carbon economy with: • a Green Deal for households to help individuals invest in home energy efficiency improvements • up to £1 billion investment for commercial scale carbon capture and storage demonstrations on an electricity generation plant • over £200 million investment for the development of low carbon technologies including offshore wind technology and manufacturing at ports sites • support for low carbon vehicles through an incentive scheme offering up to £5,000 towards the cost of a new ultra low emission vehicle from January 2011, and support for electric car charging infrastructure • £860 million of new support over the Spending Review period to support households and businesses investing in renewable heat measures • increased expenditure through existing support mechanisms that are funded through obligations on energy companies, that will lead to a total of £5.6 billion of support for renewable electricity installations over the Spending Review period • £1billion of DEL funding and proceeds from asset sales to fund the UK-wide Green Investment Bank. The institution will be able to reinvest the proceeds from its investments.
Regional government	Regional Development Agencies are to be abolished, with the government supporting the creation of Local Enterprise Partnerships (LEPs) in their place. The first phase consists of 24 LEPs, six of which are in the South East. The Regional Growth Fund has been created to stimulate enterprise, and boost growth and private sector employment, particularly in areas that are currently dependent on the public sector. The Government is encouraging the alignment of the £1 billion RGF with ERDF, where the aims of bids are eligible for both funds. However, businesses in the South East may struggle to demonstrate that they are particularly dependent on the public sector.

Source: SQW analysis of June Budget, Spending Review and other announcements. See Annex E.

Observations from recent UK policy developments

3.10 The Budget included an additional £32 billion a year of public sector spending cuts by 2014-15, on top of the cuts previously announced by the former Labour government. The government has, to an extent, protected health and international aid from the cuts. Government departments face average budget cuts of 19% over four years, and government funding to councils will decrease by about 26% over four years.

3.11 SEEDA is responsible under delegated authority for the management and administration of the ERDF programmes. The government has announced that SEEDA and the other RDAs will be abolished over 2011/12 and 2012/13. In place of the existing arrangement of RDAs, the government has recommended Local Enterprise Partnerships (LEPs) based around cities and ‘natural economic areas’, led by local authorities but with significant private sector engagement. The LEPs will help coordinate investment in transport, housing, skills, regeneration and other areas of economic development. Six of the 24 Phase One LEPs are in the South East, including: Kent; Greater Essex & East Sussex; Coast to Capital; Solent;

Oxfordshire City Region; and Thames Valley Berkshire[15]. Some of the current functions of the RDA are expected to be returned to central government departments, including oversight of innovation and enterprise. The White Paper announced that the Government is currently working with local authorities, universities and other stakeholders to develop the framework within which ERDF will operate. The new delivery structure will be announced at Budget 2011.

3.12 The Localism Bill, introduced to Parliament on 13th December 2010, set out the enhanced role for local authorities in economic development. The government has stated its intention to devolve budgets from Whitehall and the regional level to local government. The implications for the ERDF programme are unclear but this could lead to an increase in the number of potential match funding organisations. It also remains to be seen whether local government will regard the ERDF programme as having a close alignment with local priorities and how this may affect programme delivery. The potential of local authorities to act as a future source of programme match funding is considered in chapter 6.

Conclusions from the review of contextual conditions

3.13 This chapter has provided an overview of the substantial developments that have occurred in the economic and political landscape since 2007. Despite these developments, the SEEOP's overarching aim of decoupling economic growth from resource consumption, pollution and loss of biodiversity remains both relevant and valid. These developments do however bring about a series of challenges for the programme:

- the programme needs to ensure that it is aligned with the imperative to support the region through the current, and uncertain, period of economic recovery
- as highlighted in chapter 2, we understand that careful consideration is already being given to how the programme will be managed and administered with the abolition of SEEDA (and the Government Office), the emergence of LEPs and the potentially greater role given to local authorities with respect to the programme.

……but there are opportunities too:

- with the strength of the environmental goods sector in the South East, the programme is in a strong position to continue to support the growth, in GVA and employment terms, of this sector
- with the government announcing a range of funded measures to support low carbon emission initiatives, the programme should be well placed to capitalise on any available funds.

3.14 These issues and their implications are revisited in chapters 5 and 6.

[15] Hayman, A. 2010, "The successful 24 LEPs", *Local Government Chronicle*, http://www.lgcplus.com/blogs/the-successful-24-leps/5021086.blog

4: Assessment of programme performance

4.1 This chapter assesses the performance of the programme to October 2010, to identify how successfully it is being delivered. The chapter begins with a review of financial, output and result performance at the programme level, before providing an assessment of performance under each Priority Axis theme. It then discusses the implementation of the CCTs.

4.2 The analysis of finances, outputs and results at a programme level is based on a review undertaken by SQW of programme performance management data. We are aware that the programme team have faced significant difficulties with the Communities and Local Government Management Control and Information System (MCIS) which was adopted to manage and monitor the programme. Despite this, the financial and monitoring data that we have received from the programme team has been seen by our research team as accurate, up to date and provided through one, clearly set out, central database.

4.3 *It is important to note that the finances presented here differ from those presented to the PMC in a separate paper on the 18th January. Whilst the assumptions behind the two sets of figures are the same, the separate paper is based upon data as of December 2010, whereas here we present finances as of October 2010.*

4.4 In the data that follows, all finances are presented as **total programme funding** (i.e. ERDF and match combined) unless stated otherwise.

Programme finances

4.5 The table below provides a summary of the planned programme spending profile to the end of 2010. To assist in the comparisons later in this section, the table includes information that converts the planned expenditure from euros into sterling (using the official European Commission exchange rates[16] as of the 1st of January in each year).

Table 4-1: Summary of planned finances to October 2010 (ERDF and Match)

Year	Total annual euro allocation	Official exchange rate as of January 1st	Total annual sterling equivalent allocation
2007	€ 6,377,582	0.671	£4,280,314
2008	€ 6,505,134	0.735	£4,779,972
2009	€ 6,635,236	0.974	£6,464,047
2010	€ 6,767,940	0.904	£6,118,218
Total 2007-10	**€ 26,285,892**		**£21,642,551**

Source: SQW

4.6 The sterling figures in the table above are there to act as an approximation of the programme's sterling value. European Commission rules state that all figures set out in the OP must be in euros, whereas all ERDF transactions within England are conducted in sterling.

[16] http://ec.europa.eu/budget/inforeuro/index.cfm?fuseaction=currency_historique&currency=72&Language=en

The overall value of the ERDF programme therefore constantly fluctuates as official exchange rates are revised.

Contracted expenditure

Headlines

4.7 As of October 2010 the programme had contracted total expenditure of £26.36m[17]. *Contracted expenditure* includes all expenditure contracted to date, including profiled expenditure for projects lasting until 2013. Breaking down this headline data:

- the total expenditure is spread over 23 projects, with an average contracted expenditure of £1.15m
- seven projects to date have contracted expenditure over £1.5m, with the largest (in financial terms) being the South East Sustainability Loan Fund (£4m), SIRE (£2.6m) and Low Carbon Essentials (£2m)
- the **actual** programme spend at October 2010 stood at £6.64m – our understanding from the programme team is that there are no substantive issues regarding underspend to date and that the programme is meeting N+2 spending targets.

By round

4.8 The contracted expenditure for projects, split by programme round, is set out in the table below, along with the average project size for each round. The data show that round 2 accounts for the largest share of contracted expenditure to date, with almost £12m, or 45% of the contracted expenditure. Round 3 was only slightly below this in terms of total contracted expenditure and had a larger average project allocation of £1.59m.

Table 4-2: Contracted expenditure to October 2010 split by round (ERDF and match)

	Round 1	Round 2	Round 3	Total
Contracted spend	£3,245,373	£11,971,747	£11,145,515	£26,362,635
Proportion of total spend	12%	45%	42%	100%
Number of projects	8	8	7	23
Average project allocation	£405,672	£1,496,468	£1,592,216	£1,146,202

Source: SQW analysis of monitoring data

By date

4.9 Contracted expenditure for projects split by the year in which expenditure was made/is planned to be made is set out below (Table 4-3). The data show that 2011 will be a significant year for the programme in terms of expenditure, as over £11m (42%) of the total contracted expenditure to date is intended to be spent. Currently, the contracted expenditure profile tails

[17] This total includes three round 3 projects that are in the process of final approval, but not officially confirmed. These are SIRE (£2.6m), Lean and Green Manufacturing (£1.7m) and the Local Employment Energy Business Support Pilot (£1.9m)

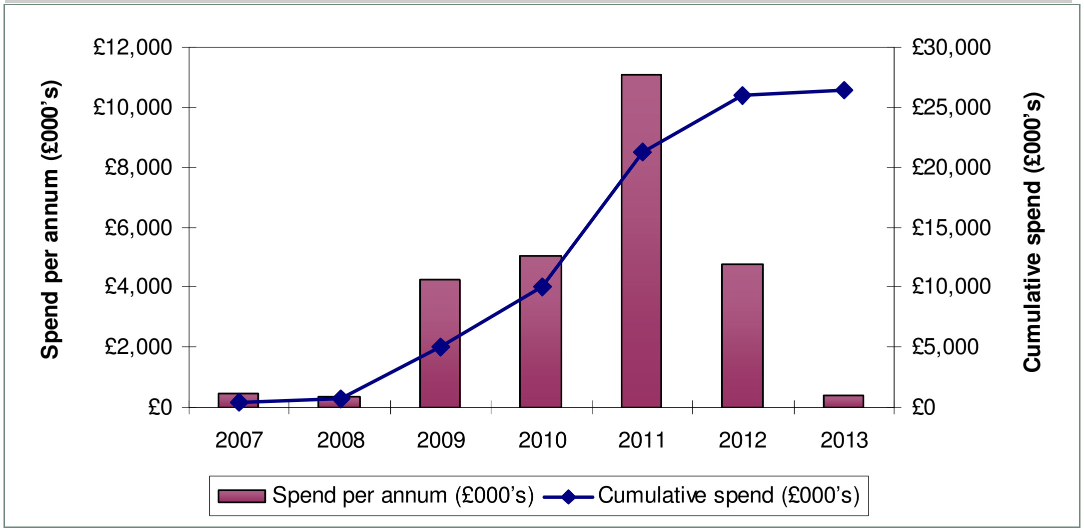
away in 2012 and 2013. However, this should change once round 4 projects are brought online.

Table 4-3: Contracted expenditure by year as at October 2010 (ERDF and match)

	2007	2008	2009	2010	2011	2012	2013
Spend per annum (£000's)	£447	£337	£4,227	£5,081	£11,109	£4,756	£402
Cumulative spend (£000's)	£447	£784	£5,012	£10,094	£21,203	£25,959	£26,362

Source: SQW analysis of monitoring data

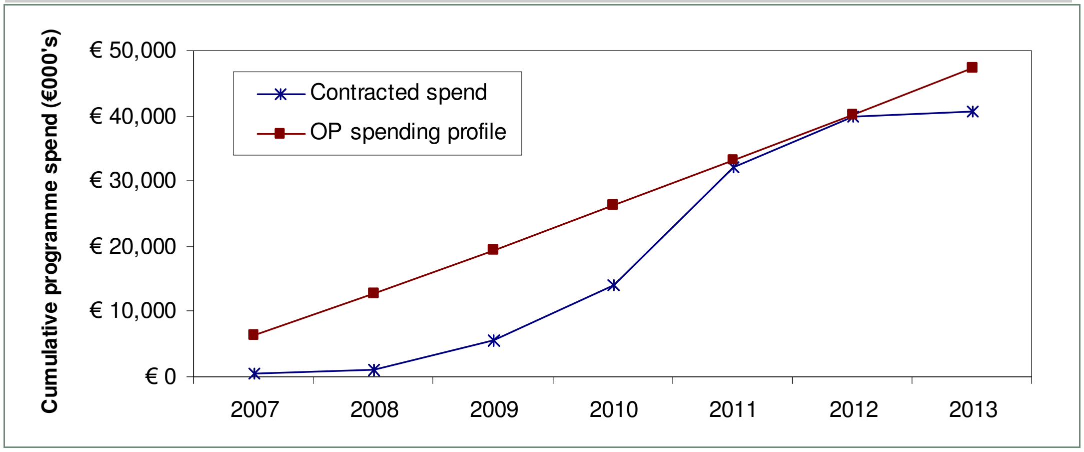
Figure 4-1: Contracted expenditure by year as at October 2010 (ERDF and match)



Source: SQW analysis of monitoring data

4.10 As noted in Chapter 2, the OP planned for a relatively consistent spending profile over the programme period. The chart below compares the actual contracted expenditure against the OP profile. It is evident that the OP spending profile was too ambitious for the programme's early delivery. However, the planned contracted expenditure for 2011 and 2012 raise the contracted spend profile back to almost on par with the OP's original plan. *The major challenge for the programme going forward is to ensure that the planned spending commitments for future years are fully delivered and that round 4 projects provide sufficient activity to hit the overall programme spend figure of €47m.* We return to this issue in chapter 6.

Figure 4-2: Comparing contracted spend and the OP planned funding profile (ERDF and match)



Source: SQW analysis of monitoring data. Note, the 2007, 2008 and 2009 euro values are calculated using the sterling value of contracted spend multiplied by the exchange rate used in that year's Annual Implementation Report. The 2010-13 euro values are calculated using an exchange rate of €1.1636 to £1 which is the average EC exchange rate for the 12 months of 2010.

By theme

4.11 To assist the analysis presented in this chapter, we have sought to map the contracted project spend against the programme's principal themes. To avoid unnecessary complication we have allocated each project to one theme. This was based on our assessment of the *primary focus* of each project. When considering this analysis it is important to appreciate that some of the projects may be contributing to more than one theme.

4.12 The table below provides our assessment. It is evident that the contracted projects through rounds 1-3 have concentrated on the *resource efficient business practice* theme. This theme accounts for 78% of total contracted expenditure to date. Just 16% of spend has been allocated against the *innovation for sustainable economy* theme and 6% on the *sustainable consumption practices* theme.

Table 4-4: Contracted expenditure by theme allocation as at October 2010 (ERDF and match)

			Principal themes		
	Project	**Total contracted expenditure**	**Resource efficient business practices**	**Innovation for a sustainable economy**	**Sustainable consumptio n practices**
1	DIBS	£550,000	✓		
1	Plato: Sustain	£550,000	✓		
1	SMART Construction	£498,175		✓	
1	SMARTA	£485,592	✓		
1	SUSCIN	£249,810			✓
1	ZeroWISE Bulky Waste	£321,368	✓		
1	ZeroWISE Construction	£499,983	✓		
1	PASS	£90,445			✓
2	EGSME	£531,835	✓		
2	LOCUS	£1,751,742	✓		
2	Low Carbon Futures	£785,146	✓		
2	Pathways to Zero Waste	£1,933,632	✓		
2	Retrofit South East	£843,000		✓	

	Project	Total contracted expenditure	Principal themes: Resource efficient business practices	Innovation for a sustainable economy	Sustainable consumption practices
2	South East Sustainability Loan Fund	£4,000,000	✓		
2	Sustainable Routes	£1,156,666			✓
2	ZeroWISE Sustainable Food Waste Solutions	£969,726	✓		
3	CLT Incubator	£970,000		✓	
3	FLASH+	£1,490,000		✓	
3	Lean and Green Manufacturing	£1,679,795	✓		
3	Local Energy Business Support Pilot	£1,912,000	✓		
3	Low Carbon Essentials	£2,000,000	✓		
3	Retrofit South East: Phase 2	£535,732		✓	
3	SIRE	£2,557,988	✓		
	Total	**£26,362,635**	**£20,528,807**	**£4,336,907**	**£1,496,921**
			(78%)	**(16%)**	**(6%)**

Source: SQW analysis of monitoring data

Match fund by source

4.13 Match funding by source was provided by the SEEDA programme management team. A summary of this information is provided in the table below.

Table 4-5: Match funding by source

	Number of projects providing match funding information	Total match funding	Public sector match funding	Private sector match funding	Number of projects with private match
Round 1	7	£1,577,465	£1,577,465	£0	0
Round 2	8	£6,050,173	£4,840,010	£1,210,163	4
Round 3	6	£4,211,467	£3,743,602	£467,866	2
Total	**21**	**£11,839,105**	**£10,161,077**	**£1,678,029**	**6**

Source: SQW analysis of monitoring data

4.14 Combining the analysis of this information with our consultations with the programme team allows a number of important inferences to be made:

- all match funding was provided by SEEDA (through Single Pot funding) in the first bidding round
- in rounds 2 and 3 the majority of match funding has been provided by other public funds, with local authorities (e.g. Kent County Council) and national funding (e.g. Carbon Trust and Manufacturing Advisory Service) being significant contributors
- of this, the majority of match has been in the form of:
  - ➢ staff time required to manage and delivery projects

    - retrospective match whereby projects previously funded via other sources (e.g. Pathways to Zero Waste) name this initial period 'phase 1' and match this against ERDF funds to support a 'phase 2'

- private sector match represents 16.5% of total match funds, with six projects finding private contributions (we discuss the challenges and opportunities asscoited with private match funding in chapter 6)..

4.15 *Given the cuts in UK public sector spending, the availability of match-funding for current and future projects will be a significant risk to future programme delivery.* We return to this issue under our considerations for the fourth, and possibly final, bidding round in chapter 6.

Lisbon agenda compliance

The OP sets out the relevant 47 targets (taken from the 88 categorisation codes set out in Annex II of the Lisbon Agenda Implementing Regulations document) that the SEEOP will work towards. Overall, it was anticipated that 96% of Priority Axis One will contribute to these agreed Lisbon targets, whilst 92% of programme expenditure overall (i.e. including Technical Assistance) will make a direct contribution to Lisbon targets[18]. Although we have not sought to undertake an audit of Lisbon compliance, our review of these 47 targets suggests that compliance is being met.

Headroom for round 4

4.16 *The remaining headroom for round 4 projects is approximately £4.13m ERDF (or £8.3m including match)*. This figure has been provided by the programme team and is based upon finances as at December 2010 (i.e. two months after the date which the output and finance assessment in this chapter is based upon). This figure excludes £2m ERDF for the Equity Fund.

Performance against outputs, results and impact targets

Overall programme level

4.17 The overall performance of the programme to October 2010, in terms of outputs, results and impacts, is set out in the table below. This includes the targets set in the OP at the outset of the programme, 'contracted' targets (that is **outputs that projects approved in Rounds 1-3 have agreed that they will deliver**) and the actual project delivery against these by October 2010 (i.e. achievement by October 2010).

4.18 It is evident that the programme's contracted targets will significantly out-perform the original programme targets established in the OP. Even just taking account of rounds 1-3, the contracted targets are well above those of the OP.

4.19 Performance to date against targets is difficult to assess objectively. Due to the programme's varied project lifecycles many projects, including even those commissioned in round 1, have

[18] It is a regulatory requirement that the Competitiveness OP should ensure that at least 75% of competitiveness spending is focused on the Lisbon agenda.

several years of activity remaining within which they may deliver outputs. As a result, it is too early to provide insights through a simple comparison of achieved outputs to date against target.

4.20 What is apparent is that the programme has so far started to deliver against a broad range of the outputs, results and impact targets. Of particular note are the 1,484 businesses who have already been assisted to improve performance – almost double the original OP programme target of 750. An assessment on whether this provides evidence of value for money and/or whether this, and other targets, are possibly too low is provided in chapter 5.

Table 4-6: Performance against outputs, results and impact targets

		OP target	Contracted target	Achieved (by October 2010)	Achieved as a % of OP target	Achieved a as % of contracted target
Outputs	Businesses involved in the programme	2,130	(not specified)	(not specified)	n/a	n/a
	➢ Businesses assisted to improve performance	750	6,298	1,484	198%	24%
	➢ Firms involved in business networks	800	3,354	372	47%	11%
	➢ Business engaged in collaboration with UK knowledge base	270	1,069	24	9%	2%
	➢ Businesses developing R&D links with other businesses	70	562	26	37%	5%
	➢ Businesses engaged in developing sustainable mobility strategies	240	465	129	54%	28%
Results	Businesses improving performance	1,250	4,407	669	54%	15%
	Gross new jobs created	180	450	48	27%	11%
	Businesses making financial savings from improved energy efficiency	550	2,930	430	78%	15%
	SMEs reducing energy, waste or water usage by 10%	(not specified)	2,494	315	n/a	13%
	Businesses achieving independent environmental accreditation	(not specified)	593	2	n/a	0%
	Businesses increasing turnover attributable to new and improved products by 5%	110	490	10	9%	2%
	10% reduction (on existing levels) in road congestion and pollution levels	(not specified)	31	0	n/a	0%
	Businesses tendering for public contracts	75	99	0	0%	0%
Impacts	Net additional employees	110	340	47	43%	14%
	Net increase in GVA (original euros OP	£21.5m	£47.7m	£3.1	14%	6%

	OP target	Contracted target	Achieved (by October 2010)	Achieved as a % of OP target	Achieved a as % of contracted target
target converted to pounds using 2007 exchange rate)					
Reduce rate of growth of region's ecological footprint (tonnes)	(not specified)	6,001	0	n/a	0%
Reduction in rate of growth of region's CO_2 emissions (tonnes)	85,000	143,596	12,699	15%	9%
Broad uptake of innovative actions piloted in region	(not specified)	606	0	n/a	0%

Source: SQW analysis of monitoring data

4.21 In the data in the table, four indicators currently stand at zero:

- businesses tendering for public contracts
- reduction in road congestion and pollution levels
- reduction in rate of growth of region's ecological footprint
- broad uptake of innovative actions piloted in region.

4.22 We provide an assessment of the appropriateness of these indicators in chapter 5.

Technical Assistance

Financial expenditure

4.23 At the time of reporting, information regarding financial expenditure for Technical Assistance was not available. We were informed by SEEDA that as of early February 2011, the programme had not yet made any claims to the European Commission against the programme's Technical Assistance spend. To date, SEEDA have paid for Technical Assistance costs through match funding the ERDF team posts, supporting the PMC and PSC meetings and publicity activities. There will be a retrospective application for these and future costs in 2011. Although a Technical Assistance Strategy had recently been developed, the mechanisms to reclaim Technical Assistance spend had not yet been finalised.

Output and result achievement

4.24 As above, information regarding performance against the Technical Assistance progress indicators was not available at the time of reporting.

Cross-cutting themes

Equality of opportunity

4.25 The equality of opportunity CCT should be embedded at every level of the programme – in its governance arrangements in terms of representation on the PMC and sub-groups, through communications about programme opportunities and the commissioning and project management process and in terms of supported project content and delivery. As noted in chapter 2, there are no CCT output indicators specified or monitored by the programme team, and consultees undertaken as part of this evaluation emphasise the low level of priority that the OP places on the Equalities CCT. Given these findings, the integration of the equality of opportunity CCT across the programme, needs to be re-visited.

Environmental sustainability

4.26 The programme seeks to support environmental sustainability through horizontal and vertical integration. Horizontal integration relates to embedding the principles of environmental sustainability throughout the programme. Vertical integration is concerned with the implementation of the CCT through the delivery of activities within the SEEOP and progress against the low carbon objectives of the programme.

4.27 However, whilst termed a CCT, environmental sustainability actually forms the central aim of the SEEOP – this is reflected in the SEEOP's stated objectives (i.e. horizontal integration), its output, result and impact indicators, and the activities that it supports (i.e. vertical integration).

5: Assessment of the performance framework, Value for Money, impacts and future priorities

Introduction

5.1 The purpose of this chapter is to:

- test the fairness of both OP and contracted targets for outputs, results and impacts
- consider the value for money (VfM) of the programme, including how this can be maximised as the programme considers the priorities that will shape the fourth bidding round; and also bearing in mind that it is still early to be drawing VfM conclusions
- consider how future evaluations can estimate the net economic impacts of the programme
- consider the evidence presented in chapters 2 – 5 with respect to developing priorities for the fourth bidding round.

Assessment of the fairness of OP and contracted targets

5.2 In order to undertake the assessment of the fairness of targets, we have examined the performance framework to understand better the anticipated outputs, results and impacts. This has included a spend per unit (of outputs, results and impacts) analysis to assess the extent to which the programme targets are adequate given the resources to be devoted to particular activities. Furthermore, we have compared these to similar spend per unit benchmarks derived from external sources. Suitable benchmarks have been derived from:

- the 2009 National Report on the Impact of RDA spending[19]
- previous work undertaken by SQW for Advantage West Midlands[20] (AWM), which reviewed national and regional evaluation evidence on unit costs by intervention category to compile performance benchmarks (the work for AWM looked at evaluation evidence across a number of regions, not just the West Midlands)
- a review of the cost-effectiveness of the Climate Change Programme undertaken by the National Audit Office [21]

5.3 Through undertaking this exercise, we can arrive at a range of recommendations regarding:

- amendments to performance indicators in order to improve their relevance and value to current and future projects

[19] BIS (then BERR) (2009), Impact of RDA spending: National report.
[20] AWM (2009), Performance Benchmarks, prepared by SQW.
[21] Cost-Effectiveness Analysis in the 2006 Climate Change Programme Review, A review by the National Audit Office, January 2007

- the relationship between target achievement and value for money, and how the former can be realistically amended in order to improve potential achievement of the latter.

5.4 This assessment is based on unit cost comparisons for the *whole* budget (ERDF and matched funding) of the programme (£31.8m). Although this is likely to overstate the actual spend per unit (as spend will be spread across several outputs and activities), this allows direct comparison with the external sources. Where appropriate, we have also referred to the Cambridge Economic Associates (CEA) research for BIS on additionality benchmarks[22].

5.5 We have also assessed the performance framework with regards to the assumptions within the targets – for example, whether the target for businesses improving performance is a reasonable proportion of the overall businesses involved in the programme.

Assessment of output targets

5.6 The detailed findings from our assessment of output targets can be found in Annex B. Key findings and recommendations are summarised below:

Businesses involved in the programme (OP lifetime target 2,130; contracted target 11,748 to date)

- With the *contracted* target regarding the number of businesses involved in the programme now over five times the target set out in the OP, this would suggest that that the original OP lifetime target is too low. This is supported by spend per unit benchmark comparisons, which show that, based upon the OP target, the spend per business involved in the programme would equate to £14,936 - above available benchmarks.
- Given the range of activities being undertaken we would suggest that a suitable unit cost per business assist should be around £5,000 – this equates to a target of around 9,000 businesses being involved in the programme. This compares with a contracted target of 11,748 so should be achievable.
- If this suggestion is accepted, the five output indicators that make up the 'businesses involved in the programme' target should be increased on a pro-rata basis (with the exception of businesses engaged in developing sustainable mobility strategies, since our understanding is that this is no longer a priority for the programme). This output should be replaced with a more appropriate target that reflects the nature of projects funded to date and likely to be funded under round 4.

Assessment of result targets

5.7 The detailed findings from our assessment of result targets can be found in Annex B. Key findings and recommendations are summarised below.

[22] Cambridge Economic Associates (October 2009), Research to improve the assessment of additionality, for BIS

Business improving performance (OP lifetime target 1,250; contracted target 4,407 to date)

- Taking the suggested revised output target for 'businesses involved' in the programme (9,000) and the proportion of these that, as per the OP, should also be expected to see improved business performance (59%), this would equate to a revised target of 5,310.
- This figure is 45% of all contracted 'businesses involved' outputs (i.e. 7 percentage points higher than at present), but this should also be achievable.

Gross new jobs created (OP lifetime target 180; contracted target 450 to date)

- Comparing the spend per unit to the range of external benchmarks suggests that consideration should be given to increasing this target. The primary focus of the programme (both to date and going forward), has been on improvement/innovations in production and consumption, not employment creation per se. As a result, we would not expect employment targets to be as high as available benchmarks. That said, taking the recommended revised output target for businesses supported by the programme (9,000), a target of 720 gross jobs created (compared to a current contracted target of 450) should be achievable.
- This would equate to £63,034 per gross job created. Whilst this is still well above general benchmarks, the revised target of 720 would, given the objectives of the programme, the current economic climate and the fact that just 48 gross jobs have been achieved by the programme to date, provide an achievable and more ambitious target.

Businesses making financial savings from improved efficiency (OP lifetime target 550; contracted target 2,930 to date)

- Taking the recommended revised output target for 'businesses involved' in the programme (9,000) and the proportion of these that, as per the OP, should be expected to also see improved business performance (26%), this would equate to a revised target of 2,340 (compared with the original OP target of 550 and a contracted target of 2,930).
- This figure is just 20% of all contracted 'businesses involved' outputs so should be straightforward to achieve.

SMEs reducing energy, waste or water usage by 10% (OP lifetime target not specified; contracted target 2,494 to date)

- Overall programme lifetime target (as per contracted outputs since OP target not specified) appears achievable and appropriate (assuming that this can be accurately measured) since 2,494 equates to less than a quarter (21%) of all businesses supported through the programme.

Businesses achieving independent environmental accreditation (OP lifetime target not specified; contracted target 593 to date)

- Overall programme lifetime target (as per contracted outputs since OP target not specified) appears achievable and appropriate (a target of 593 equates to around 5% of all businesses supported through the programme).

Business increasing turnover attributable to new and improved products by 5% (OP lifetime target 110; contracted target 490 to date)

- Overall programme lifetime target should be increased to reflect the recommended increase in the number of businesses involved in the programme. Taking the recommended revised output target for 'businesses involved' in the programme (9,000) and the proportion of these that, as per the OP, should also be expected to see increased turnover through new and improved products (5%), this would equate to a revised target of 450. This figure is lower that the current contracted target (490) so this should be achievable.

10% reduction (on existing levels) in road congestion and pollution levels (OP lifetime target not specified; contracted target 31)

- This is to be investigated further, but our current view is that this is an inappropriate target. Further consideration is required to assess whether this target should be assessed in terms of carbon reduction (i.e. through the CO_2 reduction impact indicator).

Businesses tendering for public contracts (OP lifetime target 33; contracted target 41)

- The programme lifetime target (as per the OP output target) appears achievable and appropriate.

5.8 In addition to these recommendations we would also suggest that two new **result** indicators are added:

- 'increase in R&D investment as a result of programme' (this is not an indicator available within the basket of ERDF indicators used by the programme)[23]. This is important to evidence the increased R&D capacity that greater investment will provide. This should replace the current impact indicator: 'broad uptake of innovative actions piloted in the region' which currently has no monitoring data recording against it.
- A Gross GVA indicator should be introduced as a *result* to support the net (impact) calculation. It is unclear how net GVA has been calculated or how projects are expected to calculate the gross to net conversion. We would recommend introducing a gross GVA target with a gross-net additionality ratio of around 0.35 (as per the BIS benchmark report). On the current contracted target this would equate to a gross GVA of £136m.

[23] OffPAT, Technical Note of Combined Indicators for RDA Single Budget and ERDF Programme 2007-13, Version 3, June 2009

Assessment of impact targets

5.9 The detailed findings from our assessment of impact targets can be found in Annex B. Key findings and recommendations are summarised below.

Net additional employees (OP lifetime target 110; contracted target 350 to date)

- Building upon the recommended target for gross jobs (720), we recommend that this target is increased to 440 (i.e. assuming an additionality ratio 0.61 as per the OP).
- This would equate to £95,546 per gross job created. Whilst this is still well above general benchmarks the revised target of 440 would, given the objectives of the programme (which are not focused on employment creation per se), the current economic climate and the fact that just 47 net jobs have been achieved by the programme to date, provide an achievable and more ambitious target.

Net increase in GVA (OP lifetime target £21.5m; contracted target £47.7m to date)

- Overall, the programme lifetime target (as per contracted outputs) appears achievable, but consideration should be given to prioritising future projects that can offer the potential to increase GVA on a greater than 5.4:8 basis (which characterises the programme at present, based upon the contracted net GVA target compared to contracted spend to date[24]).

Reduce the rate of the region's ecological footprint (tonnes) (OP lifetime target unspecified; contracted target 6,001 to date)

- We suggest that the impact indicator to reduce the rate of the region's ecological footprint is removed, with focus on the closely related CO_2 reduction impact indicator.

Reduce rate of growth of the region's CO_2 emissions (tonnes) (OP lifetime target 85,000; contracted target 143,596 to date)

- Clarity is required regarding whether the carbon reduction measure is *at the point of consumption* rather than *production* (i.e. to ensure that the programme is guarded from supporting the process of developing countries/regions 'exporting' carbon emissions overseas).
- Clarity is required on the measurement of the target. The OP target cites a reduction in the *rate of growth* whereas the target is reported as an absolute *overall reduction*.
- Clarity on how this target can be cost effectively measured by projects is also required. SQW may be able to assist in this.
- The programme lifetime target (as per contracted outputs) appears less than that which could reasonably be expected to be achieved. Based on the available benchmark, the contracted target could be increased although further clarity is

[24] It is important to note that GVA estimates take account of the persistence of benefits (e.g. once a businesses experiences a GVA benefit due to the project, this is likely to persist for a number of years). A benchmark of three years persistence has been taken from: BIS (then BERR) (2009), *Impact of RDA spending: National report*. For the sake of simplicity, this takes no account of the decaying effects of persistence

required regarding its definition and measurement before an appropriate target can be estimated.

Broad uptake of innovative actions piloted in region (OP lifetime target unspecified; contracted target 606 to date)

- We recommend that this indicator is removed with attention and efforts focusing on more tangible outputs and impacts. This indicator currently has no monitoring data recording against it.

5.10 Finally, and as discussed in chapter 4, consideration is required on how the Equality of Opportunity CCT is integrated into the performance framework.

A revised performance framework

5.11 Building upon the findings and recommendations presented above, Table 5-1 provides a suggested revised performance framework for consideration by the PMC. Within this it should be noted that we have not at this stage added any specific equalities targets. The revised framework has been designed to offer the PMC a simplified, more ambitious framework that could be used to maximise the value of the programme going forward.

5.12 As can be observed through comparison, this broadly suggests that: based upon current and forecast activity, business support outputs targets (and associated result targets) could be increased significantly; that two new results indicators could be introduced that (i) reflect the objectives of the programme and (ii) provide a link to the net GVA impact indictor; and that impact indicators could be simplified to focus on three core measures: net GVA, CO_2 reduction and net employment.

Table 5-1: A revised performance framework

	Indicators *(new indicators in italics)*	**Overall lifetime target**
Outputs	Businesses involved in the programme	9,000
	• Businesses assisted to improve performance	3,169
	• Firms involved in business networks	3,380
	• Business engaged in collaboration with UK knowledge base	1,141
	• Businesses developing R&D links with other businesses	296
	• Businesses engaged in developing sustainable mobility strategies – to be replaced with more appropriate target	1,014 (this may need revising depending on the nature of indicator chosen)
	• Businesses achieving independent environmental accreditation (moved from results)	593 (this will overlap with businesses recorded against other outputs)
Results	Businesses improving performance	5,310
	Gross new jobs created	720
	Businesses making financial savings from improved energy efficiency	2,340
	SMEs reducing energy, waste or water usage by 10%	2,494
	Businesses increasing turnover attributable to new and improved	450

	Indicators *(new indicators in italics)*	Overall lifetime target
	products by 5%	
	Businesses tendering for public contracts	99
	Increase in R&D investment as a result of programme	tbc
	Gross increase in GVA	£136m
Impacts	Net additional employees	440
	Net increase in GVA	£48m
	Reduction in rate of growth of region's CO_2 emissions (tonnes)	tbc

Source: SQW

Assessment of Value for Money (VfM)

5.13 This section considers evidence of the value for money of the programme. Value for money analysis is typically undertaken through using the *Three E's* of economy, efficiency, and effectiveness. The programme is still in its first phase of delivery, so it is too early to provide a full VfM assessment. However, below we provide some initial observations regarding potential economy, efficiency, and effectiveness.

Economy

5.14 Economy refers to ensuring that activities are delivered at minimum cost. It is not possible to quantitatively assess the economy of the *programme* as financial data is not broken down by programme activity. SQW has also not yet been provided with disaggregated data for some TA spending so it is not possible to compare this against any comparators or make a judgement on its value for money.

5.15 Although we quantitatively cannot assess economy, there is qualitative evidence that the programme should be achieving value:

- the programme follows procurement rules in making investment decisions
- the programme has implemented a project appraisal process, which requests applicants to identify the value for money of proposals in the business plans
- all project applications are scrutinised by the programme team, external consultants and the PSC.

5.16 It should also be noted that the TA budget for the programme – at 4% of the total allocation – is economic compared with other economic development programmes such as the former Single Regeneration Budget, New Deal for Communities and European LEADER programme, all of which had management and administration budgets of around 10%. The programme TA budget is also in line with that allowed for Competitiveness and Employment programmes (which is also 4%).

Efficiency

5.17 Efficiency refers to whether the benefits or outcomes exceeded the intervention costs and in particular, the comparison of this against suitable benchmarks.

5.18 From our assessment of performance to October 2010, the monitoring data shows total net GVA outcomes realised to date of £3.1m, and an expected total net GVA of £47.7m (contracted target). Table 5-2 provides a preliminary assessment of programme cost-effectiveness comparison based upon contracted impact targets for net GVA and carbon emission reductions.. The cost-effectiveness comparisons are shown for the benefit to cost ratio based upon total funds (i.e. ERDF and UK match funding). It is important to note that GVA estimates take account of the persistence of benefits (e.g. once a businesses experiences a GVA benefit due to the project, this is likely to persist for a number of years[25]).

5.19 As can be observed, based upon these proxy measures, good cost-effectiveness could potentially be achieved in carbon reduction impacts. Cost effectiveness could potentially be less favourable across GVA impact measures. However, through the round 4 bidding process, we believe that cost-effectiveness of this indicator has the potential to improve.

Table 5-2: Cost effectiveness comparisons

Impact		Total contracted spend (ERDF and UK)	**Benchmark**
		£26.3m	
	Contracted Target for round 1-3 projects	**Spend per unit– ERDF and UK match funding**	
Net Additional GVA, £	47.7m = £143.1m once persistence is included	Programme GVA per £1 spent is £5.44 (i.e. a GVA to cost ratio of 5.4:1)	BIS[26] found an achieved net GVA to cost ratio or 7.1 : 1 – i.e. for every £1 of programme spend, a return of £7 of GVA
Reduction in carbon emissions	143,596 tonnes	Programme spend per unit is £183	The National Audit Office suggests a benchmark of £220-£230[27] per tonnes of carbon saved

Source: SQW

Effectiveness

5.20 Effectiveness is concerned with the assessment of the extent to which the programme's objectives have been met in terms of targets, milestones and expectations. It is also concerned with the assessment of how effectively the programme's impacts are addressing the needs that justified the programme in the first place. The programme is still in its first phase of delivery, so it is too early to see the full impacts of the activity and make an

[25] A benchmark of three years persistence has been taken from: BIS (then BERR) (2009), *Impact of RDA spending: National report*. For the sake of simplicity, this takes no account of the decaying effects of persistence
[26] BIS (then BERR) (2009), *Impact of RDA spending: National report*. Benchmark figures refer to business development and competitiveness interventions unless otherwise stated
[27] Cost-Effectiveness Analysis in the 2006 Climate Change Programme Review, A review by the National Audit Office, January 2007. Benchmark taken for 'Carbon Trust, policy expansion – support for investment in energy efficiency in SMEs

assessment of the extent to which objectives are being achieved. In the final section of this chapter we consider how the lifetime impact of the SEEOP can be understood, measured and maximised

Assessing the impact of the SEEOP

5.21 The scale of this programme is such that it was never going to directly bring about any notable change in the economic and environmental conditions in the South East. Rather than influence transformational shifts, the programme has largely been designed to bring about behavioural change in the region's businesses base (in fact, in line with the current government's philosophy, it has possibly been more about 'nudging' than 'transformation'). Over time, and through the process of business growth, knowledge exchange and technology development, these behavioural shifts could bring about a more meaningful contribution to the programme's three operational objectives.

5.22 In our assessment above we have looked at VfM based upon the direct benefits reported through the current performance framework. However, this only captures a very partial slice of the overall impact since it takes no account of the wider, more indirect and longer term benefits described above. This, in part at least, explains why VfM figures for the SEEOP appear less favourable than other public sector interventions designed to have a larger direct impact on the businesses that they support. Also, it is still early in the life of the programme early to be drawing too many conclusions in the area of VfM.

5.23 Below we consider the most appropriate mechanisms that should be considered for assessing the ex-post impact of the SEEOP, including wider benefits:

- ***Use of secondary data***: given the relatively modest size of the programme, we would not expect to be able to attribute any changes in secondary data to the programme.
- ***Use of reported impacts***: as discussed above, whilst reported outputs are an important indicator of impact, they provide an incomplete picture of the programme's true overall impact.
- ***Ex-post business beneficiary surveys***: by undertaking a survey of businesses that have been engaged in the SEEOP programme in 2015, a broader assessment could be made of the behavioural shifts (and subsequent impact of these) that have been brought about through the programme. These impacts could be estimated in terms of GVA, employment growth and carbon reduction.
- ***Ex-post business case studies***: by undertaking a survey of businesses that have been engaged in the SEEOP programme in 2015, an in-depth insight could be obtained regarding the 'process of change' that businesses have been through as well as the wider effects that this has had on the businesses supply-chain and workforce.

Consideration of priorities for the fourth bidding round

5.24 Bringing our findings from chapters 2-5 together, we now consider the potential priorities for round 4. Before we set these out, there are a number of recommended guiding principles that should be considered:

- with the programme to date having funded a large number of projects covering a broad range of projects, round 4 could consider funding fewer, more focused activities – this would also align with the general trend of the programme to fund increasingly larger value projects
- All round 4 projects should conform to the following criteria:
  - demonstrate that they can fill gaps in the existing portfolio of activity
  - align with programme objectives, and demonstrate value added with respect to GVA and/or employment and/or carbon emission reduction
  - align with the emerging priorities of the new coalition government
  - are able to secure match funding and spend allocated resources within the required timeframe.

5.25 Through the desk-based research and stakeholder consultations undertaken for this evaluation, a number of potential 'areas for investment' have emerged. These are presented in Table 5-3 below. With consideration of the findings in chapter 2 (programme strategy), chapter 3 (secondary data and policy developments) and this chapter (VfM and impact assessment), Table 5-3 below provides our assessment of these possibilities. As can be observed, there is a strong justification for these areas to be taken forward. They are considered further in chapter 6 when considering future management and administration arrangements.

Table 5-3: Justification for proposed round 4 priorities

	Programme strategy	**Secondary data & policy**	**General VfM and impact considerations**
Supporting the development of sustainable transport including (but not restricted to): • Electrical car infrastructure • Measures to support improvements in freight (e.g. adopting new technologies to improve the efficiency and reduce the carbon emissions associated with road freight)	Strong fit with programme's overarching aim	Strong support from Government for electrical charging infrastructure ERDF sustainable transport programmes have the potential to bring about a further reduction in emissions – by addressing the 32% of the region's CO_2 emissions that come from road transport.	Whilst careful thought will be required regarding the theory of change for these types of interventions (i.e. how, and through what processes, will schemes bring about increases in GVA, employment and CO_2 reductions), has the potential to be a catalyst for significant CO_2 reduction.
Supporting environmental industries, particularly the development of offshore wind energy generation and other renewable energy	Strong fit with programme's overarching aim	Over £200m earmarked by the coalition government for investment in the development of low carbon technologies including offshore wind technology Also has strong links with the region's marine sector which is recognised as one of the key high value added sectors in the region Also opportunities with respect to micro-	As above, whilst careful thought will be required regarding the theory of change for these types of interventions, this has the potential to be a catalyst for significant GVA and employment creation – particularly in Coastal South East (where a significant number of the region's more disadvantaged residents live)

	Programme strategy	Secondary data & policy	General VfM and impact considerations
		generation	
Knowledge transfer and innovation (cutting across above two priorities). This could also include **access to finance/loan fund** activity to support the take-up and/or development of environmental technologies	Strong fit with programme's overarching aim	As above	Through the process of knowledge exchange and technology development this activity, if harnessed and exploited appropriately, could successfully accelerate impact

Source: SQW

Examples of similar projects across other ERDF programmes

5.26 Below we provide six examples of projects that we are aware of across other ERDF programmes that may be of interest and use when firming up the proposed project possibilities for round 4.

- The **Adnams Bio Energy project** in the East of England involves the development of an anaerobic digestion (AD) facility to treat 12,500 tonnes of food waste per year to divert it from landfill. This will act as a demonstrator, as the first AD facility to inject gas into the grid. The biogas will also be used for vehicle fuel. A visitor centre will be located on the site to disseminate information about green issues. Adnams brewery will use the facility as well as other firms.
- The **Peninsula Research Institute for Marine Renewable Energy (PRIMaRE)** in the South West is a collaboration between the Universities of Exeter and Plymouth. It is a virtual institute with staff based across both Universities. The purpose is to broaden the academic base in the two universities to establish a robust, interdisciplinary knowledge base, underpinning the emerging marine energy sector across the region.
- **Wave Hub** was partly funded by the South West ERDF Convergence programme. It provides shared offshore infrastructure for the demonstration (and proving) of arrays of wave energy generation devices. It consists of an electrical hub (which acts like a socket) on the seabed 16 kilometres off the north coast of Cornwall to which wave energy devices can be connected. Once connected, new technologies can be tested and demonstrated.
- In the West Midlands, the **Low Carbon Vehicle Technology Project** comprises 15 separate technical R&D workstreams, each of which is led by a partner who will work closely with selected SMEs to develop solutions including: Battery Cells & Packs, Drive Motors, Power Electronics and High Voltage Electrical Distribution.
- East of England's recently announced **Evalu8 project** aims to install 600 plug-in posts for electric vehicle owners across the region, with clusters at Bedford, Cambridge, Ipswich, Norwich, Peterborough, Luton, Hertfordshire, Thames Gateway South Essex, and Stansted Airport. The lack of public plug-in points is seen as the

biggest barrier to buying an electric vehicle. As well as the charging network, Evalu8 will provide an open innovation test bed for new technologies. This will help not only the development of next generation electric vehicles, but also provide significant supply chain opportunities and marketing potential, responding to driver behaviour.

- The **Low Carbon Shorter Knowledge Transfer Partnership** (LowC-SKTP) project in the East of England aims to lever Higher Education Institution (HEI) expertise in low carbon technologies to SMEs in the region through effective knowledge transfer. Participating companies, working closely with a university or college, benefit from the services of a graduate working for their business for the duration of the project. The graduate is employed by the university or college, but spends 100% of their time at the business and serves as a conduit for information from the academic mentor specialising in the field. The aim of is to enable the business to achieve a reduction in carbon emissions whilst significantly improving its sustainability, efficiency and profitability.

Recommendations from chapter 5

- Revisions are required to output, result, and impact targets in order to make the performance framework more ambitious and, as part of this, more likely to increase overall value for money. More generally, the performance framework, targets and methods for indicator measurement need to be clearly communicated to all new and existing projects.

With respect to impacts:

- **Net employment**: building upon the recommended target for gross jobs (720), we recommend that this target is increased to 440 (i.e. assuming an additionality ratio 0.61 as per the OP).
- **Net GVA**: overall, the programme lifetime target (as per contracted outputs) appears achievable, but consideration should be given to prioritising future projects that can offer the potential to increase GVA
- **Ecological footprint**: we suggest that the impact indicator to reduce the rate of the region's ecological footprint is removed, with focus on the closely related CO_2 reduction impact indicator.
- **Carbon reduction**:
  - Clarity is required regarding whether the carbon reduction measure is *at the point of consumption* rather than *production*
  - Clarity is required on the measurement of the target. The OP target cites a reduction in the *<u>rate of growth</u>* whereas the target is reported as an absolute *<u>overall reduction</u>*.
  - Clarity on how this target can be cost effectively measured by projects is also required.
  - The programme lifetime target (as per contracted outputs) appears below that which could reasonably be expected to be achieved.
- **Uptake of innovative actions**: we recommend that this target is removed with attention and efforts focusing on more tangible outputs and impacts. This indicator currently has no monitoring data recording against it.
- With the programme to date having funded a large number of projects covering a broad range of projects, round 4 could consider funding fewer, more focused activities.
- All round 4 projects should conform to the following criteria:
  - demonstrate that they can fill gaps in the existing portfolio of activity
  - align with programme objectives, and demonstrate value added with respect to GVA and/or employment and/or carbon emission reduction
  - align with the emerging priorities of the new coalition government
  - are able to secure match funding and spend allocated resources within the required timeframe.
- There is a strong justification for 'sustainable transport' and 'renewable energy' initiatives to be taken forward as priorities in the fourth bidding round, supported by cross-cutting knowledge transfer activity and development of funding instruments.

6: Effectiveness of management, administration arrangements and Strategic Added Value

Introduction

6.1 This section provides the overall assessment of the processes and resources that have been devoted to translating the programme's objectives into activities and operations. This has involved considering the effectiveness of governance arrangements and administrative processes for project development, selection, delivery, management and monitoring in ensuring that the priorities of the OP have been economically pursued. It is not an in-depth audit to ensure compliance with EU requirements, nor does it scrutinise the appraisal, claims and monitoring processes in detail.

6.2 The main research techniques for assessing the effectiveness of programme management and administration arrangements have been qualitative, involving consultations with strategic and programme management stakeholders, workshops with case officers and delivery partners and the review of documentation.

6.3 The section commences with a brief overview of the current management and administration arrangements before providing an assessment of their effectiveness and then concluding with recommendations.

Overview of the management and administration arrangements

Managing Authority

6.4 SEEDA are the intermediary body with delegated Managing Authority responsibility for the SEEOP. The programme team consist of eight staff members:

- European Programme Manager (Business and Skills): main strategic contact for the programme, also oversees SEEDA's ESF programme
- Lead European Project Manager: day to day management of the SEEOP
- Four European Project Managers: each managing between four and seven projects
- Accounts and Claims and Project Monitoring Officer
- An Article 13 Officer

Programme Monitoring Committee (PMC)

6.5 The PMC oversees strategy and delivery for both the programmes. Representation on the PMC is from a wide range of organisations, including local authority Council Members and officials, business membership organisations, and other relevant public sector organisations (such as the Environment Agency). The PMC, which meets once a quarter, has been chaired by the Regional Director of Government Office for the South East (GOSE).

Project Select Committee (PSC)

6.6 The PSC is a sub-group of the PMC that appraises project applications and makes recommendations to the PMC on the projects to approve. The sub-group, which has also been chaired by GOSE, also involves a wide membership including both voting and non voting advisors.

Programme management team and Technical Assistance

6.7 The key activities that Technical Assistance (TA) is applied to are as follows:

- developmental (supporting project development and capacity building), including application guidance and assessment
- management information (support for the provision of management and monitoring information to ensure effective programme management)
- evaluation (developing baselines and commissioning studies to support the Annual Implementation Reports (AIRs) and to satisfy evaluation requirements)
- partnership (coordination of the PMC and sub-groups, and support for partnership working – at strategic and beneficiary levels)
- communications.

6.8 As the intermediary organisation, SEEDA has been responsible for all processes from pre-commissioning through to paying claims and final evaluation and clear segregation of duties is required between project development, selection and delivery; and appraisal, claims payment and monitoring requirements.

Systems for project development, appraisal and contracting

6.9 A summary of the project development, appraisal and contracting arrangements across the three bidding rounds is provided in Table 6-1. Experiences from across other ERDF programmes are then provided.

Table 6-1: Summary of project development, appraisal and contracting

Stage	Round 1	Round 2	Round 3
Basics	Applicants asked to develop projects under one of four headings: • Sustainable procurement • Sustainable transport • Sustainable construction • Reduce/recycle and re-use Capital allowance 0%	Applicants asked to develop projects under one of five headings: • Transport • Alignment with existing strategic priorities • Loan fund activity • Retro-fitting Capital allowance 10% of the value of any one project	Applicants asked to develop projects under a matrix encouraging activities that provided 'specific solutions for businesses' Capital allowance 50% (in an attempt to encourage more transport related proposals)
First Stage Check	First stage involved the assessment of Expressions of Interest from applicants	Removal of the two stage bidding process, due to the minimal value attached to the round 1 EOI process and an attempt to a) encourage more innovative projects and b) allow a degree of flexibility in an attempt to counter the loss of SEEDA match funding.	As per round 2 but with more specific guidance
Assessment	Second stage involved assessment of detailed applicants – this was undertaken by the programme team	Detailed assessment undertaken externally by Aurora Consulting	As per round 2
PSC presentation	Short-listed applicants were then asked to present and take Q&As from the PSC	As per round 1	As per round 1
Clarification	A final clarification stage, which build upon any queries raised by the PSC, was then undertaken by the programme team	As per round 1	As per round 1
Contracting	Contracts awarded to successful applicants	As per round 1	As per round 1
Summary critique	**EOI stage seen as adding minimal value as only a small number of applicants were eliminated at this stage.** **Assessment seen as too inconsistent and subjective** **Applicants unprepared for presentation to the PSC/PSC lacked the necessary technical expertise (i.e. on matters regarding environmental technologies and business efficiency activities).** **Very low number of quality transport projects received.**	**Application – contracting process undertaken in seven months which was seen as a significant improvement from round 1 (which took around a year)** **Assessment stage seen as more objective, but new issues emerged regarding the rigour which applications are subject to prior to presenting to the PSC** **Issues emerged regarding conflicts of interest within the PSC** **Very low number of quality transport projects received.**	**As per round 2, plus:** **Expert advisors (from within SEEDA and other organisations) provided valuable insights as non voting members of the PSC.** **Overall poor bid quality.**

Source: SQW

Learning from other ERDF programmes

6.10 The UK's ERDF programmes have relied upon a range of options for generating projects. Moreover, within individual programmes, often there is more than one approach. For example, in the North East the programme has used three forms of call:

- **Open calls**: these are open to any eligible organisations and are publicised widely
- **Limited calls**: these are limited by subject (and time)
- **Non-Competitive Selection**: this is for major projects or programmes that have been so well researched in the process of putting the overall programme together that they are taken on board non-competitively. Examples include Business Link, MAS and the new JEREMIE Fund.

6.11 Similarly, in the East of England and the East Midlands the programme has used a mix of open calls, limited calls and more specific selection processes. In the East Midlands, the open calls were found to be most effective when commissioning sub-regional projects, as it was thought that this system encouraged extra bids, whereas the more selective process has tended to be used for pan-regional projects which have largely extended/ boosted pre-existing activities.

6.12 In comparison, the South West programme's primary aim has been to exploit specific opportunities and needs, rather than open ended bidding. This project generation approach relies upon the programme partners having fixed agreement on the type of activity they wish to see commissioned but flexibility in the method of delivery. The commissioning process therefore concentrates on identifying the project deliverer and determining the exact shape of the proposal. The process may sometimes include an EOI stage to identify the deliverer and a pre-commissioning stage where work is undertaken to determine whether a proposal is viable and should move on to the full commissioning stage. Although there is no formal open bidding process, organisations may still approach the programme with potential project ideas.

6.13 In the Ireland Wales INTERREG programme, after three open calls, a **Strategic Call** for applications was launched, seeking larger projects with more targeted subject matter. We understand that this call was judged to be reasonably successful.

6.14 Table 6-2 summarises the processes for appraising and approving projects in several ERDF programmes. It is evident that there is no uniform approach to project development and approval and the level of complexity varies. In some areas, such as the North East and South West, the RDA makes the final approval decision whereas elsewhere, a PMC Sub-Committee in the Ireland Wales programme makes the final approval decision. Interestingly, across these programmes it is RDA officials and not a broadly represented PSC (as is the case in the SEEOP) that make the key decisions regarding project approval.

Table 6-2: Comparison of ERDF project approval process

Programme	Approval processes
South West	Stage 1: Programme team identifies and agrees key commissioning opportunities that fit with the programme strategy. Stage 2: RDA commissioning team works with key partners to develop project specification, set up commissioning team with external expertise (where appropriate), commission supportive research (where appropriate), invite EOI where more than one party could deliver. Stage 3: Receive formal project application and full business plan. Stage 4: RDA appraisal team carry out appraisal (external appraisers used for RDA-led projects) and specialist peer review for complex/ specialist projects. Stage 5: Endorsement Advisory Group (sub-group of PMC) undertakes peer review and provides recommendations. Stage 6: RDA takes decision to support based on partners' views and agrees contract.
North East	Stage 1: Applicant submits Project Initiation Plan (PIP) and the secretariat appraises for eligibility/ fit, with 'technical input' from sector experts in ONE. Approval required (or not) for next stage. Stage 2: Applicant prepares Full Business Case, with the secretariat appraising and advice from full technical appraisal done by ONE experts. Stage 3: Approval by RDA (Up to £1.5m ERDF: decision made by ONE managers group chaired by ONE Head of Legal and procurement, £1.5m to £2.5m ERDF: decision made by ONE Directors team, £2.5m to £10m ERDF: decision made by ONE Board.)
East of England	For the open calls: Stage 1: Bidders submit short concept form which is considered by the programme's Delivery Group. Bids are either rejected by the programme team or requested to submit a business plan. Stage 2: Submission of a full business case, with a detailed options appraisal and cashflow analysis along with an ERDF application. A project appraisal case paper is submitted to the programme's Delivery Group along with a recommendation on whether they should consider funding the project. Proposals are either supported (in which case they move on to stage 3) or rejected. Stage 3: Supported projects are then considered by the RDA for final approval and project offer letter. The specific commissioning route follows a similar process but with a project sponsor playing the role of the open-bidder. At stage three, RDA approval results in an ITT being advertised. A mini reappraisal of the final proposal ensures delivery arrangements are consistent with the project approval.
Wales-Ireland	Stage 1: Call for proposals announced, followed by support and workshops for applicants. Stage 2: Applications submitted and assessed by the Joint Technical Secretariat. Stage 3: Successful applications then reviewed by Steering Committee for final approval and grant offer letters.
East Midlands	Stage 1: Submission of an EOI form which is assessed by the districts/ partnerships. Successful EOIs are then invited to submit a full application. Stage 2: Full application submitted to the programme secretariat for assessment/ appraisal. Applications are subject to an independent appraisal by the emda Shared Resource Centre (SRC) in accordance with OffPAT Guidelines.

Source: SQW

Monitoring and performance management

6.15 The programme uses the Communities and Local Government (CLG) Management Control and Information System (MCIS) to manage and monitor the programme. As we reported in chapter 4, despite difficulties associated with the MCIS, the financial and monitoring data that we have received from the programme team has been accurate, up to date and provided through one, clearly set out, central database.

Communications strategy

6.16 The programme has finalised its communications strategy in December 2010 which aims to meet Article 2 of the Council Regulation number 1828/2006 of 8 December 2006. The strategy establishes the managing authority's responsibility to prepare a communications strategy. In addition to this requirement, the strategy also sets out opportunities for communications and publicity activity and, through this, is also intended to be an aid for funded projects. The communications strategy is discussed in greater detail below (paragraph 6.37).

Assessment and recommendations of the effectiveness of the management and administration arrangements

6.17 Looking forward to the fourth bidding round, this section provides our assessment and recommendations for future management and administration arrangements. It is based on the widespread consultations undertaken for this evaluation augmented by our own assessment.

Day to day programme management

6.18 The management team has been in post since the beginning of the programme, and all remaining team members have been in post for a number of years. The team are viewed both by the projects and wider stakeholders as being both experienced and knowledgeable with respect to managing the EU requirements demanded of the programme

Strategic management – SEEDA and PMCs/sub-groups

6.19 At the level of the PMC, strategic management of the programme was seen by consultees to be working effectively. Whilst there was feedback received from a number that the programme team needed to take more consideration to how the PMC was serviced and facilitated, the general view was that the programme team, and the Head of European Programmes in particular, acted as an excellent conduit between the PMC and programme activities.

6.20 As highlighted in Table 6-1 above, the PSC has faced a number of difficulties associated with:

- having enough time to properly consider applications before they are presented
- managing conflicts of interest with regards to project applications
- having the required expert/technical knowledge to assess applications.

6.21 With the first two having now been largely addressed through the removal of the two stage selection process which has allowed more time for the PSC to consider applications, and the voluntary departure of a PSC member[28], the key area in need of attention is with regards to technical expertise. This issue is not isolated to the PSC, indeed, it was recognised through the stakeholder consultations that expert inputs were required across all levels of the project

[28] It should be noted that this does not imply, nor do we have evidence to suggest, that this individual was accused of being involved, or was knowingly involved, in matters deemed as representing a conflict of interest.

development, appraisal and contracting process. With many of the staff at SEEDA that in the past have provided this expertise likely to leave as the Agency begins to wind down its operations in 2011, this is a critical issue for the fourth bidding round.

6.22 *Our recommendation, therefore, is that the PMC consider procuring, on a fixed annual day allocation, appropriate expert advisors. Advisors (which could be internally or externally sourced) would need to have specific theoretical and practical application expertise in the priorities that steer funding decisions in round 4.*

Project development, appraisal and contracting process

6.23 With previous bidding rounds having taken from between seven months to a year, the critical issue with round 4 is time. The majority of stakeholders argued that a two stage process should be re-introduced, but with a more rigorous EOI assessment stage. If technical expertise is to be brought in, this would allow efforts to focus on the credible, second stage bids. However, with funds being transferred to CLG in the summer of 2011, a two stage process would need to be managed over this transition period.

6.24 Our proposed solution to this is to adopt **a more targeted commissioning process** that:

- develops project specifications in-house which, along with expert advisors, tightly aligns to programme priorities for round 4 (see Table 5-3)
- establishes a small panel of preferred suppliers
- runs 3/4 mini-competitions with preferred suppliers, with project applications supported (independently) by expert advisors
- retains the assessment process (undertaken by Aurora Consulting, but with a need to investigate how this can be made more rigorous so that projects that get as far as the PSC are all considered viable)
- retains the presentation stage to the PSC, but with the attendance of independent expert advisors (in a non voting capacity)
- retains the clarification stage, but supported by expert advisors.

6.25 Building on the priorities for round 4 introduced in Table 5-3, we recommend that projects should continue to be scaled-up in size (to a minimum of £1m of ERDF funding). Scaling-up the size of projects should help maximise the impact and hence mainstream/sustainability potential. In addition, and on a more practical note, given that there is so little time to process round 4, the team should be aiming to work-up no more than 6/8 bids (with around 3/4 being successful).

6.26 We understand that consideration is also to be given to reserving £0.5/£0.6m as a top-up pot for expanding/extending some projects contracted under rounds 1-3. Projects suitable for top-up should meet the following criteria:

- offer significant, scalable impacts

- offer genuine sustainability potential (through either the sustainability of activities – i.e. mainstreaming - or impacts – i.e. embedding behaviours in SMEs - of the project)
- are able to guarantee match funding and actual spend.

Match funding

6.27 In order to assess future potential sources of match funding, in addition to placing specific emphasis on this issue throughout our consultations, we have also undertaken a review of other ERDF programmes. The findings are presented below.

Views of stakeholders

6.28 To date, a only a small number of SEEOP projects have involved genuine cash match, most match being secured through either staff time or 'retrospective match' whereby projects previously funded via other sources call this initial period 'phase 1' and match this against ERDF funds to support a 'phase 2'. With match funding likely to be ever more difficult to secure for currently contracted *and* future projects, we recommend that the PMC call for a *risk assessment and associated mitigation/management plan to be developed for every project currently running under the programme.*

6.29 We were informed that local authorities have, via staff time and actual funds, been a key provider of match for the programme and that, more generally, local authorities are likely to be the best source of match going forward. Other potential sources are HEIs. However, it was also cited that many HEIs in the region had negative experiences from the 2000-06 Objective 2 programme making it possible that they would be not be willing to engage in the SEEOP.

6.30 With respect to private match, the key issue is that delivery organisations cannot be 'for profit organisations'. There are, however, three ways that the private sector match can be secured:

- Through actual providers of the project: private sector organisations can only be part of the bidding consortium if they charge *actual* (i.e. at cost) rather than *commercial* rates – this was reported as a major issue as even if a firm is willing to come on board what can happen is that if a better 'commercial' offer comes along they can leave.
- Through the delivery organisation undertaking an open procurement process: in this case successful private organisations can charge their *commercial* rates – but the PSC have tended to question bids with extensive private sector delivery partners on a value for money and added value basis.
- Through businesses beneficiaries: it was reported that the programme team have relaxed the official requirement to have all SME's signed up and committed to match at the application stage, but do still require invoices and bank statements from every businesses to verify match – this is very difficult to collect as many SME's will refuse to provide these details on a confidentiality basis. Moreover, the administration required to manage this is significant for projects (and not sufficiently built-in at the application stage).

6.31 *As part of planning for round 4, all of these possibilities need to be re-considered in light of the changed economic circumstances.* Indeed, the first method may be more attractive to firms in current times needing to cover fixed costs through the recession/upturn. The second requires the PSC to feel more comfortable with private sector delivery partners – this may require further guidance/protocols to ensure that value for money is being achieved. The third method also requires further consideration, particularly with respect to the how the project application process can 'design in' the administration costs and expectations on businesses involved in projects.

6.32 Whilst it is acknowledged that the south east is unlikely to benefit significantly from Regional Growth Fund (RGF) resources, consideration is still required of the extent to which match funding might be secured through the RGF. In addition to the public match funds that this could provide, RGF could also provide a vehicle for engaging with private sector firms who are interested in, and administratively set-up for, providing match funding for ERDF projects. SEEDA have tried to ensure that all round 1 RGF bids in the region are aware that they can potentially match fund against ERDF and that this should be set out as an option in bids. We understand that there are a number of bids that will be submitted as part of the round 1 of the RGF (the deadline for submissions was the 21st January 2011) including, for example, investment in the Solar Tidal Energy Investment Centre[29] which could well support activity relevant to round 4 of the SEEOP.

6.33 Our understanding is that there are also a number of private sector match opportunities in the region (e.g. BAE systems are interested in investing in, and hiring out use of, expensive engineering machinery in an unused shed) that should be explored, although it is acknowledged that issues surrounding state aid and stipulations regarding private sector revenue generation would need to be assessed and overcome.

Match funding across other ERDF programmes

6.34 Almost all ERDF programmes have struggled to attract high rates of private and third sector match funding. The main exception to this appears to be the East of England programme which has so far secured £35m (55% of total match funding) from the private sector. This includes large private sector contributions for a low carbon venture capital fund and for an anaerobic digestion facility at the Adnams Brewery (see chapter 5 for a summary of this project).

6.35 A primary reason for the success of the East of England programme in attracting private sector match funding has been the involvement of private businesses in the management groups of the programme. Moreover, the programme team includes three individuals with the role of 'facilitator' whose job it is to raise awareness of the programme, proactively approach relevant organisations with project ideas, and support project partners with the processes up to the submission of a business plan. These arrangements have greatly supported the programme's engagement activities.

6.36 For the programmes that have struggled to secure match funding, a persistent issue has been the ERDF rules and regulations concerning the limit on profit/benefits that individual private

[29] The Solent Ocean Energy Centre is a marine energy park for developers of 1st, 2nd and 3rd generation firms in and around the Isle of Wight and Solent region.

sector organisations can receive through ERDF. Combining this with the perception of overly bureaucratic application and monitoring requirements has resulted in the ERDF programmes being particularly unattractive to the private sector.

Communications strategy

6.37 There was widespread recognition amongst stakeholders that the programme needed to develop a more detailed communications plan. It will be important that the new Communication Strategy allows for the consideration of actions in the following areas:

- ***Existing project leaders***: how to facilitate improved networking/knowledge sharing amongst existing project leaders
- ***Disseminating good practice more widely:*** how to ensure that good practice is understood and embedded in other businesses across the region
- ***Improving involvement from the regional micro and small business base:*** whilst this is dependant on the type of organisations likely to be involved in round 4, further consideration is required regarding to extend the reach of the programme to the region's micro and small business base, both possibly as beneficiaries and as project match funders
- ***Wider communications to relevant stakeholders:*** other bodies (such as HESE, but also central Government Departments) that are not currently involved in the programme need to be made more aware of the programme – this will particularly important if high profile projects (such as electrical car infrastructure) are going to be pursued.

SAV and partnership working

6.38 As the SEEOP looks forward, we believe that the PMC, in whatever form it takes post transition to CLG in the summer of 2011, has the potential to play a much wider strategic added value role. Building upon the recommendations regarding the need for larger, more strategically focused projects in the round 4, coupled with the enforced period of change/transition that the PMC and the programme are now embarking upon, this provides an opportune time to develop a more ambitious remit for the PMC. Indeed, whilst the PMC will need to maintain its neutrality with regards to its support for project applications, the senior and well networked members that make up the committee have an important role to play in promoting and supporting the development of the programme across the region's counties, local authorities and/or LEPs; as well as within the private sector.

Risks to delivery

6.39 Table 6-3 below sets out the risk register for the programme.

Table 6-3: Risk register

Risk Key: (H)igh/(M)edium/(L)ow	Likelihood	Impact
That match funding for current projects will fall away and that round 4 will fail to secure match for future projects	M	H
Losing members of the ERDF programme team as SEEDA wind down over 2011 and ERDF funds are transferred to CLG in the summer	M	M
Reputational damage to the region and the UK if the ERDF transition is not managed effectively – as highlighted in chapter 2, with the role of LEPs (and the Regional Growth Fund) and their potential relationship with ERDF still unclear, future management arrangements will need to monitored very carefully over the coming months.	M	H
The loss of technical experts within SEEDA that have been able to provide valuable advice and critique on project applications	H	M
That demands on monitoring continue to deter small businesses from applying for funding	H	M

Source: SQW

Recommendations from chapter 6

- Our recommendation is that the PMC consider procuring, on a fixed annual day allocation, appropriate expert advisors. Advisors (who could be internally or externally sourced) would need to have specific theoretical and practical application expertise in the priorities that steer funding decisions in round 4.
- A more targeted commissioning process should be adopted that:
  - develops project specifications in-house which, along with expert advisors, tightly aligns to programme priorities for round 4
  - establishes a small panel of preferred suppliers
  - runs 3/4 mini-competitions with preferred suppliers, with project applications supported (independently) by expert advisors
  - retains the assessment process (undertaken by Aurora Consulting, but with a need to investigate how this can be made more rigorous so that projects that get as far as the PSC are all considered viable)
  - retains the presentation stage to the PSC, but with the attendance of independent expert advisors (in a non voting capacity)
  - retains the clarification stage, but supported by expert advisors.
- Scaling-up the size of projects should help maximise the impact and mainstream/sustainability potential.
- The programme team should be aiming to work-up no more than 6/8 bids (with around 3/4 being successful).
- We understand that consideration is also be given to reserving £0.5/£0.6m as a top-up pot for expanding/extending projects contracted under rounds 1-3. Projects suitable for top-up should meet the following criteria:
  - offer significant, scalable impacts
  - offer genuine sustainability potential (through either the sustainability of activities – i.e. mainstreaming - or impacts – i.e. embedding behaviours in SMEs - of the project)
  - are able to guarantee match funding.
- With respect to match funding, we recommend that the PMC call for a risk assessment and associated mitigation/management plan to be developed for every project currently running under the programme.
- As part of planning for round 4, all identified private match funding possibilities need to be re-considered in light of the changed economic circumstances
- That the communications strategy prioritises activity in the following areas:

- *Existing project leaders*: how to facilitate improved networking/knowledge sharing amongst existing project leaders
- *Disseminating good practice more widely:* how to ensure that good practice is understood and embedded in other businesses across the region
- *Improving involvement from the regional micro and small business base:*, further consideration is required regarding to extend the reach of the programme to the region's micro and small business base
- *Wider communications to relevant stakeholders:* other bodies that are not currently involved in the programme need to be made more aware of the programme.

7: Recommendations

Recommendations

26. The recommendations from the review of the SEEOP are detailed below. In terms of timescale, there are recommendations that require consideration:

- immediately (i.e. they will determine the design of round 4
- within the next two/three months (i.e. they will determine the arrangements for round 4 projects)
- in the medium term (i.e. they can be considered over the next three/six months).

Recommendations that require immediate consideration
1. Whilst the strategy of the programme is still relevant and valid, with the programme now established and reaching its final funding round, consideration should be given to developing more detailed and specific objectives that can influence the activities that will be supported under round 4.
2. With the programme to date having funded a large number of projects covering a broad range of projects, round 4 could consider funding fewer, more focused activities.
3. All round 4 projects should conform to the following criteria: • demonstrate that they can fill gaps in the existing portfolio of activity • align with programme objectives, and demonstrate value added with respect to GVA and/or employment and/or carbon emission reduction • align with the emerging priorities of the new coalition government • are able to guarantee match funding and spend allocated resources within the required timeframe
4. There is a strong justification for ‘sustainable transport’ and ‘renewable energy’ initiatives to be taken forward as priorities in the fourth bidding round (supported by cross-cutting knowledge transfer activity and the development of funding instruments).
5. The PMC should consider procuring, on a fixed annual day allocation, appropriate expert advisors. Advisors (who could be internally or externally sourced) would need to have specific theoretical and practical application expertise in the priorities that steer funding decisions in round 4.
6. A more targeted commissioning process should be adopted that: • develops project specifications in-house which, along with expert advisors, tightly aligns to programme priorities for round 4 • establishes a small panel of preferred suppliers • runs 3/4 mini-competitions with preferred suppliers, with project applications supported (independently) by expert advisors • retains the assessment process (undertaken by Aurora Consulting, but with a need to investigate how this can be made more rigorous so that projects that get as far as the PSC are all considered viable) • retains the presentation stage to the PSC, but with the attendance of independent expert advisors (in a non voting capacity) • retains the clarification stage, but supported by expert advisors.

7. We recommend that in line with the trend regarding the size of projects contracted, projects should continue to be scaled-up in size (to a minimum of £1m of ERDF funding). Scaling-up should help maximise the impact and mainstream/sustainability potential. In addition, and on a more practical note, given that there is so little time to process round 4, the team should be aiming to work-up no more than 6/8 bids (with around 3/4 being successful).
8. We understand that consideration is also be given to reserving £0.5/£0.6m as a top-up pot for expanding/extending projects contracted under rounds 1-3. Projects suitable for top-up should meet the following criteria: • offer significant, scalable impacts • offer genuine sustainability potential (through either the sustainability of activities – i.e. mainstreaming - or impacts – i.e. embedding behaviours in SMEs - of the project) • are able to guarantee match funding.
Recommendations that require consideration in the two/three months
9. With diminishing political traction being placed upon interventions at the 'regional level', the programme needs to think through and articulate: • the appropriate spatial scale that projects should be designed to affect and/or influence • the programme's relationship with new emerging sub/cross-regional geographies (i.e. the five Local Enterprise Partnerships in the South East).
10. Greater clarity is required regarding the Equalities CCT and how the programme is working towards achievements in this area. This needs to be considered alongside discussions surrounding the appropriate spatial focus of the programme.
11. The process/theory(ies) of change for each Priority Axis 1 theme need to be explored in greater depth so that the relationships between GVA, employment creation and CO_2 emissions over time can be better understood.
12. Revisions are required to output, result, and impact targets in order to make the performance framework more ambitious and, as part of this, more likely to increase overall value for money. More generally, the performance framework, targets and methods for indicator measurement need to be clearly communicated to all new and existing projects.
13. With respect to impacts: • **Net employment**: building upon the recommended target for gross jobs (720), we recommend that this target is increased to 440 (i.e. assuming an additionality ratio 0.61 as per the OP). • **Net GVA**: overall, the programme lifetime target (as per contracted outputs) appears achievable, but consideration should be given to prioritising future projects that can offer the potential to increase GVA • **Ecological footprint**: we suggest that the impact indicator to reduce the rate of the region's ecological footprint is removed, with focus on the closely related CO_2 reduction impact indicator. • **Carbon reduction**: ➢ Clarity is required regarding whether the carbon reduction measure is *at the point of consumption* rather than *production* ➢ Clarity is required on the measurement of the target. The OP target cites a reduction in the <u>*rate of growth*</u> whereas the target is reported as an absolute <u>*overall reduction*</u>. ➢ Clarity on how this target can be cost effectively measured by projects is also required. ➢ The programme lifetime target (as per contracted outputs) appears below that which could reasonably be expected to be achieved. • **Uptake of innovative actions**: we recommend that this target is removed with attention and efforts focusing on more tangible outputs and impacts. This indicator currently has no monitoring data recording against it.

14. As part of planning for round 4, all identified private match funding possibilities need to be re-considered in light of the changed economic circumstances
Recommendations that require consideration in the medium term
15. The definition of the environmental goods and services sector is not clearly set out making it difficult to highlight areas of sectoral opportunity that the programme can target. As part of this evaluation we have worked with the programme team to develop this definition
16. Equality of opportunity CCT – there are currently no targets associated with this CCT. This is an issue that requires consideration.
17. With respect to match funding, we recommend that the PMC call for a risk assessment and associated mitigation/management plan to be developed for every project currently running under the programme.
18. That the communications strategy prioritises activity in the following areas: • *Existing project leaders*: how to facilitate improved networking/knowledge sharing amongst existing project leaders • *Disseminating good practice more widely:* how to ensure that good practice is understood and embedded in other businesses across the region • *Improving involvement from the regional micro and small business base:*, further consideration is required regarding to extend the reach of the programme to the region's micro and small business base • *Wider communications to relevant stakeholders:* other bodies that are not currently involved in the programme need to be made more aware of the programme.

Annex A: OP SWOT analysis

Table A-1 Socio-economic baseline SWOT assessment:

Strengths	Weaknesses
A highly prosperous region: - High levels of output - High rates of productivity - High average income levels	Strong economic performance remains below the best internationally High environmental costs: - High levels of energy consumption - High CO_2 emissions overall - Increasing levels of waste - High levels of emissions from transport - Highest ecological footprint nationally
Strong international Gateway: - Major airports, especially Heathrow and Gatwick airports; - Channel Tunnel freight and passenger stations - Major seaports	Sub-regional economic disparities: - Some areas underperforming on economic measures - Variation in productivity performance - Pockets of multiple deprivation - underperforming coastal areas. - Identifiable economic 'contours' of performance
Favourable location with strong accessibility: - Proximity to London and Europe	
Strong, knowledge-based, economy: - Service sectors predominant with strengths in financial services and business services - High proportion of knowledge-intensive industries - Strong in Hi-tech manufacturing and service sectors - Strong innovation performance Strong attractor of Foreign Direct Investment	Engagement of certain groups, e.g. BAME, disabled, older workers, is low in comparison with national average and within each group there remain significant disparities Evidence of disparities in access to opportunities for specific communities
Strongly performing labour market: - Low unemployment rate - High economic activity rate - Low levels of worklessness	High levels of congestion and associated economic, social and environmental costs High cost of housing
Vibrant business base: - High number of businesses - High business start-up rate - Very strong survival rates	Weak levels of infrastructure Poor intra-regional connections in rural areas
Highly skilled workforce: - Large proportion of residents qualified to degree level	
Areas of high environmental quality - Recognised for areas of national and international quality - Internationally renowned built and cultural heritage	
Positive record on sustainable development Good record in recycling and renewable energy production	

Strengths	**Weaknesses**
Low levels of CO_2 emission per capita and, overall, by industry	
Opportunities	**Threats**
Capitalising on the region's knowledge base and its research excellence in a range of disciplines including environmental technologies	Increasing global competition in key sectors and strength of emerging economies such as China and India
Strong sectors with growth potential - Creative and cultural sectors - Environmental market sectors	Reducing competitiveness of manufacturing, service and knowledge base as costs rise
High proportion of knowledge workers with strong links to global knowledge networks	Reduced attractiveness to Foreign Direct Investment and increased 'off-shoring' of activity
Increasing links between businesses and Higher Education (HE) offer the potential to increase innovation outcomes	Ageing population and shrinking workforce
Opportunities in emerging environmental market areas, strong policy push	Increasing number of households and rising demand for land
New GVA opportunities, such as from exploiting waste streams	Water shortages, climate change and coastal erosion
Government investment in growth areas and growth points including Thames Gateway	Lack of investment in essential transport, homes, skills and the environment leads to the relocation of key productive companies, weakening the region's competitive position
Capturing and enhancing sustainable development and more efficient use of existing resources	Increasing scarcity of natural resources
Scope for dissemination and sharing of good practice in adopting more efficient production techniques (both in service and manufacturing sectors)	Reducing visual attractiveness of the region.
Development and exploitation of low carbon technologies which will help to improve resource efficiency in the region	Region reaches a 'Tipping Point' whereby disinvestment leads to a stagnating or diminishing economic performance
Involvement of under-represented groups in these areas represents a significant untapped potential resource	Adverse effects on biodiversity brought about by increasing pollution levels
Skills base and business culture to enable innovative approaches and exploit new market opportunities	Increasing competition from Schipol airport to Heathrow's status as Europe's major international hub airport

Source: South East Operational Programme, pp28-30

Annex B: Performance framework review

Table B-1 Assessment of output targets :

Indicator (and programme target quantity)	Indicator (and contracted quantity)	Programme spend per unit range (whole programme value)[30]	External spend per unit comparisons	Assumptions within the targets	Key findings and recommendations
Businesses involved in the programme (2,130)	11,748	Programme spend per unit is £14,936	Spend per unit comparisons are available for gross business assists. For example, BIS[31] state an average or £3,418 (bus. dev and competitiveness interventions) and £16,611 (science, innovation and R&D innovations) AWM[32] found a range of £11k-£82k	Target is broken down as follows: • Businesses assisted to improve performance (750) • Firms involved in business networks (800) • Business engaged in collaboration with UK knowledge base (270) • Businesses developing R&D links with other businesses (70) • Businesses engaged in developing sustainable mobility strategies (240)	With the contracted target regarding the number businesses involved in the programme over five times the target set out in the OP, this would suggest that that the original OP lifetime target is too low. This is supported by spend per unit benchmark comparisons, which show that at, based upon the OP target, the spend per business involved in the programme would equate to £14,936, above available benchmarks. Given the range of activities being undertaken we would suggest that a suitable unit cost per business assist should be around £5,000 – this equates to a target of around 9,000 businesses being involved in the programme. This compares against a contracted target of 11,748 so this should be achievable. If this suggestion is accepted, the five output indicators that make up the 'businesses involved in the programme' target should be increased on a pro-rata basis (with the exception of businesses engaged in developing sustainable mobility strategies, since our understanding is that this is no longer a priority for the programme). This output should be replaced with a more appropriate target that reflects the nature of projects funded to date and likely to be funded under round 4.

[30] For all tables in this annex, the unit cost comparison for the programme is based on the Sterling value of the budget allocations in the OP for the programme (ERDF and UK match funding combined)
[31] BIS (then BERR) (2009), *Impact of RDA spending: National report*. Benchmark figures refer to business development and competitiveness interventions unless otherwise stated
[32] AWM (2009), *Performance Benchmarks*, prepared by SQW. Benchmark figures refers to Enterprise and Business Development interventions

Table B-2 Assessment of results targets:

Indicator (and programme target quantity)	**Indicator (and contracted quantity)**	**Programme spend per unit range (whole programme value)**[33]	**External spend per unit comparisons**	**Assumptions within the targets**	**Key findings and recommendations**
Business improving performance (1,250)	4,407	Spend per unit unavailable for sub-sets. See figures above for 'business involved' outputs in the programme	No benchmark comparator	The OP target of 1,250 equates to 59% of the overall OP 'business involved' target The contracted target of 4,407 equates to 38% of the overall contracted 'business involved' target	Taking the suggested revised output target for 'businesses involved' in the programme (9,000) and the proportion of these that, as per the OP, should be expected to also see improved business performance (59%), this would equate to a revised target of 5,310. This figure is 45% of all contracted 'businesses involved' outputs (i.e. 7 percentage points higher than at present), but this should be achievable.
Gross new jobs created (180)	450	Programme spend per unit is £176,744	BIS found an average spend per unit for gross jobs created of £5,782 (Bus. development and competitiveness interventions), £17,357 (science, innovation and R&D innovations)	The overall programme target of 180 new jobs will result from business support activities. Based upon OP targets this equates to less than 1 job per business involved in the programme (0.08/jobs per business). .	Comparing the spend per unit to the range of external benchmarks suggests that consideration should be given to increasing this target. The primary focus of the programme (both to date and going forward), has not been on improvement/innovations in production and consumption, not employment creation per se. As a result, we would not expect employment targets to be as high as available benchmarks. That said, taking the recommended revised output target for businesses supported by the programme (9,000), a target of 720 gross jobs created (compared to a current contracted target of 450) should be achievable. This would equate to £63,034 per gross job created. Whilst this is still well above general benchmarks the revised target of 720 would, given the objectives of the programme, the current economic climate and the fact that just 48 gross jobs have been achieved by the programme to date, provide an achievable and more ambitious target.
Businesses making	2,930	Spend per unit unavailable for	No benchmark comparator	The OP target of 550	Taking the recommended revised output target for

33 For all tables in this annex, the unit cost comparison for the programme is based on the Sterling value of the budget allocations in the OP for the programme (ERDF and UK match funding combined)

Indicator (and programme target quantity)	Indicator (and contracted quantity)	Programme spend per unit range (whole programme value)[33]	External spend per unit comparisons	Assumptions within the targets	Key findings and recommendations
financial savings from improved efficiency (550)		sub-sets. See figures above for 'business involved' outputs in the programme		equates to 26% of the overall OP 'business involved' target The contracted target of 2,930 equates to 25% of the overall contracted 'business involved' target	'businesses involved' in the programme (9,000) and the proportion of these that, as per the OP, should be expected to also see improved business performance (26%), this would equate to a revised target of 2,340 (compared with the original OP target of 550 and a contracted target of 2,930). This figure is just 20% of all contracted 'businesses involved' outputs so should be straightforward to achieve.
SMEs reducing energy, waste or water usage by 10% (not specified)	2,494	Spend per unit unavailable for sub-sets. See figures above for 'business involved' outputs in the programme	No benchmark comparator	The contracted target of 2,494 equates to 21% of the overall contracted 'business involved' target	Overall programme lifetime target (as per contracted outputs since OP target not specified) appears achievable and appropriate.
Businesses achieving independent environmental accreditation (not specified)	593	Spend per unit unavailable for sub-sets. See figures above for 'business involved' outputs in the programme	No benchmark comparator	The contracted target of 593 equates to 5% of the overall contracted 'business involved' target	Overall programme lifetime target (as per contracted outputs since OP target not specified) appears achievable and appropriate.
Business increasing turnover attributable to new and improved products by 5% (110)	490	Spend per unit unavailable for sub-sets. See figures above for 'business involved' outputs in the programme	No benchmark comparator	The OP target of 110 equates to 5% of the overall OP 'business involved' target The contracted target of 490 equates to 4% of the overall contracted 'business involved' target	Overall programme lifetime target should be increased to reflect the recommended increase in the number of businesses involved in the programme. Taking the recommended revised output target for 'businesses involved' in the programme (9,000) and the proportion of these that, as per the OP, should be expected to also see increased turnover through new and improved products (5%), this would equate to a revised target of 450. This figure is lower that the current contracted target (490) so this should be achievable.
10% reduction (on existing levels) in	31	Spend per unit unavailable for sub-sets. See figures above for	No benchmark comparator	The OP does not provide a	This is to be investigated further, but our current view is that this is an inappropriate target. Further consideration is

Indicator (and programme target quantity)	**Indicator (and contracted quantity)**	**Programme spend per unit range (whole programme value)[33]**	**External spend per unit comparisons**	**Assumptions within the targets**	**Key findings and recommendations**
road congestion and pollution levels (not specified)		'business involved' outputs in the programme		methodology for how this output is measured at the project level.	required to assess whether this target should be assessed in terms of carbon reduction.
Businesses tendering for public contracts (75)	99	Spend per unit unavailable for sub-sets. See figures above for 'business involved' outputs in the programme	No benchmark comparator		The programme lifetime target (as per the OP output target) appears achievable and appropriate
Development and dissemination of good practice (not specified) (expertise	n/a	n/a	No benchmark comparator		Recommend re-classifying this indicator as an output rather than a result.
Additional recommendations					A *result* indicator should be considered for 'increase in R&D investment as a result of programme' (this is not an indicator available within the basket of ERDF indicators used by the programme)[34]. This is important to evidence the increased R&D capacity that greater investment will provide. This should replace the current impact indicator: 'broad uptake of innovative actions piloted in the region' which currently has no monitoring data recording against it. A Gross GVA indicator should be introduced as a *result* to support the net (impact) calculation. It is unclear how net GVA has been calculated or how projects are expected to calculate the gross the net conversion. We would recommend introducing a gross GVA target with a gross-net additionality ratio of around 0.35 (as per the BIS benchmark report). On the current contracted target this would equate to a gross GVA of £136m.

[34] OffPAT, Technical Note of Combined Indicators for RDA Single Budget and ERDF Programme 2007-13, Version 3, June 2009

Table B-3 Assessment of impact targets :

Indicator (and programme target quantity)	Indicator (and contracted quantity)	Programme spend per unit range (whole programme value)[35] for a) OP target and b) contracted target[36]	External spend per unit comparisons	Assumptions within the targets	Key findings and recommendations
Net additional employees (110)	340	a) Programme spend per unit is £318,140 b) Programme spend per unit is £77,353	BIS found an average spend per unit for gross jobs created of £14,221 (Bus. development and competitiveness interventions), £37,938 (science, innovation and R&D innovations)	Overall additionality ratio for OP gross-net jobs created is 0.61 (i.e. 0.39 deadweight) Overall additionality ratio for contracted gross-net jobs created is 0.76 (i.e. 0.24 deadweight)	Building upon the recommended target for gross jobs (720), we recommend that this target is increased to 440 (i.e. assuming an additionality ratio 0.61 as per the OP). This would equate to £95,546 per gross job created. Whilst this is still well above general benchmarks the revised target of 440 would, given the objectives of the programme, the current economic climate and the fact that just 47 net jobs have been achieved by the programme to date, provide an achievable and more ambitious target.
Net increase in GVA (£21.5m)	£47.7m	a) Programme GVA per £1 spent is £0.68 (i.e. a GVA to cost ratio of 0.68:1) – this rises to 2:1 when persistence is taken into account[37] b) Programme GVA per £1 spent is £1.80 (i.e. a GVA to cost ratio of 1.8:1) – this rises to 5.4:1 when persistence is taken into account	BIS[38] found an achieved net GVA to cost ratio or 7.1 : 1 – i.e. for every £1 of programme spend, a return of £7 of GVA	The OP target of £21.5m equates to £10,094 per OP 'business involved' target The contracted target of £47.7m equates to £4,060 per contracted 'business involved' target	Overall, the programme lifetime target (as per contracted outputs) appears achievable, but consideration should be given to prioritising future projects that can offer the potential to increase GVA on a greater than 5.4:1 basis (which characterises the programme at present based upon the contracted net GVA target).

[35] For all tables in this annex, the unit cost comparison for the programme is based on the Sterling value of the budget allocations in the OP for the programme (ERDF and UK match funding combined)
[36] For spend for unit based upon contracted targets we have used total contracted spend (ERDF and UK match funding)
[37] A benchmark of three years persistence has been taken from: BIS (then BERR) (2009), *Impact of RDA spending: National report*. For the sake of simplicity, this takes no account of the decaying effects of persistence
[38] BIS (then BERR) (2009), *Impact of RDA spending: National report*. Benchmark figures refer to business development and competitiveness interventions unless otherwise stated

Indicator (and programme target quantity)	**Indicator (and contracted quantity)**	**Programme spend per unit range (whole programme value)[35] for a) OP target and b) contracted target[36]**	**External spend per unit comparisons**	**Assumptions within the targets**	**Key findings and recommendations**
Reduce the rate of the region's ecological footprint (tonnes) (not specified)	6,001	Ecological footprint is measured in terms of global hectares per capita and takes account of carbon emissions from fossil fuels and competition between different land uses[39] . It is unclear how ecological footprint can be measured in tonnes.	No benchmark comparator	The OP does not provide a methodology for how this output is measured at the project level.	We suggest that the impact indicator to reduce the rate of the region's ecological footprint is removed, with focus on the closely related CO_2 reduction impact indicator.
Reduce rate of growth of the region's CO2 emissions (tonnes) (85,000)	143,596	a) Programme spend per tonne of carbon saved is £374 b) Programme spend per unit is £183	The National Audit Office suggests a benchmark of £220-230[40] per tonnes of carbon saved	The OP target of a 85,000 tonne reduction equates to a 40 tonne reduction per OP 'business involved' target The contracted target of a 143,596 tonnes reduction equates to a 12 tonne per contracted 'business involved' target	Clarity is required regarding whether the carbon reduction measure is *at the point of consumption* rather than *production* (i.e. to ensure that the programme is guarded from supporting the process of developing countries/regions 'exporting' carbon emissions overseas). Clarity is required on the measurement of the target. The OP target cites a reduction in the *rate of growth* whereas the target is reported as an absolute *overall reduction*. Clarity on how this target can be cost effectively measured by projects is also required. The programme lifetime target (as per contracted outputs) appears below that which could reasonably be expected to be achieved. Based on the available benchmark, the contracted target could be increased although further clarity is required regarding its definition and measurement before an appropriate target can be estimated.

[39] Reducing the South East England's Ecological Footprint, A Route Map, SEEDA, SEERA and WWF.
[40] Cost-Effectiveness Analysis in the 2006 Climate Change Programme Review, A review by the National Audit Office, January 2007. Benchmark taken for 'Carbon Trust, policy expansion – support for investment in energy efficiency in SMEs

Indicator (and programme target quantity)	Indicator (and contracted quantity)	Programme spend per unit range (whole programme value)[35] for a) OP target and b) contracted target[36]	External spend per unit comparisons	Assumptions within the targets	Key findings and recommendations
Broad uptake of innovative actions piloted in region (not specified)	606	n/a	No benchmark comparator	The OP does not provide a methodology for how this output is measured at the project level.	We recommend that this target is removed with attention and efforts focusing on more tangible outputs and impacts. This indicator currently has no monitoring data recording against it.
Additional recommendations					Consideration is required on how the Equality of opportunity CCT is integrated into the performance framework.

Annex C: Stakeholders consulted to date

C.1 Table C-1 below provides the names of the strategic and wider stakeholders consulted as part of the evaluation. Table C-2 provides the names of workshop attendees.

Table C-1: List of consultees

Name	Organisation	Job Title
Miranda Aprey	CLG	CLG observer on the PMC prior to Amanda Millhouse
Glen Atherfold	SEEDA policy lead – business support (BSSP)	SEEDA policy lead – business support (BSSP)
Alan Banks	EnviroBusiness	Chief Executive
Andrew Barter	Federation of Small Businesses	South East Policy Manager
Rachel Brisley	SQW	South West and Wales-Ireland ERDF project manager
Colin Byrne	GOSE	Regional Director
Melvin Caton	SEEDA	Head of Development, Waste and Energy
Alan Chatfield	Federation of Small Businesses	FSB Southampton Branch Chairman
Cllr Helyn Clack	Surrey County Council	Councillor
Heather Dean	Business Link South East (Serco)	Partnership Manager
Raffaella Ebani	ONE North East	Planning and Special Projects Manager
Siobhan Flynn	West Sussex County Council	Economic Development Manager
Paul Formstone	Surrey & West Sussex FSB	Regional Chairman
Angela Francis	SQW	Emda ERDF evaluation project manager
Daniel Garnier	Basingstoke and Deane Borough Council	International Partnerships and Tourism Officer
Vivienne Gray	Higher Education South East	Chief Executive
Richard Hatch	Environment Agency	Environment Planning Manager
Beatrice Hubert-Price	SEEDA	Senior ESF Contract Executive
Sandy Lovatt	Federation of Small Businesses	FSB Secretary, Reading & West Berkshire Branch
Cllr Alan Marsh	Kent County Council	Cabinet Member for Public Health and Innovation
Amanda Millhouse	Department of Communities and Local Government	MCIS Service Manager
Ron Moys	Kent County Council	Head of European Policy
Vincent O'Connell	Surrey County Council	Policy and Public Affairs Manager

Name	Organisation	Job Title
John Pinnell	GOSE	European Programme Manager
Shelagh Powell	East Sussex County Council	Senior Economic Development Manager
Susan Priest	SEEDA	Executive Director
James Ruel	SEEDA	European Programme Manager
Deb Sen	Partnership Working Limited	National Spokesperson for the FSB on Public Sector Procurement
Gemma Starr	SEEDA	Lead European Programme Manager
David Steed	GOSE	Head of European Programmes
Cllr Cec Tallack	Milton Keynes Council	Councillor
Case study consultees		
Shyam Chand	SEEDA	European Project Manager
Martin Charter	University for the Creative Arts	Director of The Centre for Sustainable Design
Deborah O'Brien	Ngage Solutions	Contract Manager, Sustainable Routes
Philip Wootton	Ngage Solutions	Project Manager, Sustainable Routes
Heather Dean	Ngage Solutions	Business Development Manager
Paul Hirons	SEEDA	European Projects Manager
David Trice	Remade South East	Project Officer
Diana Lock	Remade South East	Chief Executive
Adrian Champney	Business Support Kent	European Projects Manager
Ivor Francis	Business Support Kent	Business Development
Rachel Cheetham	PLATO GB & Mentor-net	Interim Programmes Director
Matthew Heath	SEEDA	European Project Manager

Source: SQW

Table C-2: Workshop attendees

Name	Organisation	Project
Project Leaders' workshop		
Jane Wallis	Reading Borough Council	LOCUS
James Edwards	Finance South East	South East Sustainability Fund
Steve Sharp	Marine South East	SMARTA
Alison McFadyen	WSX Enterprise	Design and Innovation For Business Sustainability (DIBS)
Diana Lock	Remade South East	Zerowise Projects

Name	Organisation	Project
Jim Simms	Ngage Solutions	Sustainable Routes (transport project)
Martin Charter	University for the Creative Arts	Sustainable Supply Chains Through Innovation (SUSCIN)
Ivor Francis	Business Support Kent	EGSME, Smart Construction, Low Carbon Essentials
Paul Batty	Environment Agency	Pathways to Zero Waste
ERDF Team workshop		**Title**
Gemma Starr	SEEDA	Lead European Programme Manager
Paul Hirons	SEEDA	European Programme Manager
Lidia Kalke	SEEDA	Accounts and Claims Monitoring Officer
Matthew Heath	SEEDA	European Programme Manager
Misbah Syal	SEEDA	European Programme Manager

Annex D: Review of European policy developments

D.1 The new European Structural Funds Programmes were designed for the period 2007-2013 to run concurrently with the period of the EU's Multi-Annual Financial Framework – the budgetary framework for the EU. In response to widespread criticisms, the Structural Funds were designed to be more flexible to respond to local and regional needs. This means that in the current programming period, there is scope to take into account new developments. This section examines what key developments in EU policy might need to be considered by the programmes, including the EU Budget Review, which has recently been published, and reflects the dramatic changes in the economic climate since the decision was taken in 2006 to undertake a full, wide-ranging review of EU spending.

D.2 Since the programmes were designed, there have been a number of developments at EU level which might impact on the programmes. In particular four developments are worth highlighting:

- EU climate change agreement;
- The impact of and policy response to the financial and economic crisis;
- The ongoing review of the EU budget and of cohesion policy; and
- The Europe 2020 agenda (the successor to the Lisbon Agenda).

D.3 To set these developments into context, it is first necessary to examine the starting point of the current programmes.

Starting point of the 2007-2013 Programmes

D.4 The EU strategic direction for the programmes is summarised in the 'Community strategic guidelines on economic, social and territorial cohesion, 2007-2013'[41]. They note that the programmes should "in accordance with the integrated guidelines for growth and jobs of the renewed Lisbon agenda" focus on three priorities:

- "improving the attractiveness of Member States, regions and cities by improving accessibility, ensuring adequate quality and level of services, and preserving the environment,
- encouraging innovation, entrepreneurship and the growth of the knowledge economy by research and innovation capacities, including new information and communication technologies, and

[41] European Commission, 2008, *The Community Strategic Guidelines on Cohesion 2007-2013*, Available at: http://ec.europa.eu/regional_policy/sources/docoffic/2007/osc/index_en.htm [Accessed 25 October 2010]

- creating more and better jobs by attracting more people into employment or entrepreneurial activity, improving adaptability of workers and enterprises and increasing investment in human capital."

D.5 The strategic guidelines also emphasise a number of key principles:

- "taking on board the renewed Lisbon agenda", including earmarking provisions to show how much of the expenditure is aimed at achieving the objectives of the Lisbon Agenda;
- Pursuing "the objective of sustainable development and boost synergies between the economic, social and environmental dimensions."
- Promoting equality between men and women
- Taking appropriate steps to prevent any discrimination on the basis of gender, race or ethnic origin, religion or belief, disability, age or sexual orientation

D.6 The Community guidelines acknowledge that "the most appropriate mix of investments ultimately depends on the analysis of the strengths and weaknesses of each Member State and region and specific national and regional circumstances." However, they also note that they are a framework which can be used to assess the programmes' "contribution to the Community's objectives in terms of cohesion, growth and jobs."

D.7 Given this emphasis at the outset of the 2007-2013 programme, there is a need to review the impact of any major EU policy developments in the economic, social and environmental fields to potentially adjust the strategic direction of the programmes.

Climate change policy

D.8 The most significant development in environmental policy in recent years has been the agreement of the EU climate and energy package. In March 2007 the EU's leaders endorsed an integrated approach to climate and energy policy that aims to combat climate change and to increase the EU's energy security while strengthening its competitiveness.

D.9 The EU has set a series of climate and energy targets to be met by 2020 (known as the 20-20-20 targets):

- "A reduction in EU greenhouse gas emissions of at least 20% below 1990 levels
- 20% of EU energy consumption to come from renewable resources
- A 20% reduction in primary energy use compared with projected levels, to be achieved by improving energy efficiency."[42]

D.10 The climate and energy package was agreed by the European Parliament and Council in December 2008 and became law in June 2009[43].

[42] European Commission, 2010, *The EU climate and energy package*, Available at: http://ec.europa.eu/environment/climat/climate_action.htm [Accessed 25 October 2010]
[43] NB The energy efficiency target is not legally binding.

D.11 Having the legally binding targets is a new level of commitment at the EU level. However, the economic crisis and the changing structure of the EU energy supply (away from carbon-intensive sources such as coal to lower carbon sources such as gas) might mean that the 20% reduction in GHG emissions might not be a very stretching target for the EU. A more ambitious 30% reduction is proposed only if there is an ambitious international agreement which failed to materialise in Copenhagen in December 2009.

D.12 As the EU Budget Review sets out:

> *"Tackling the challenge of resource efficiency, climate change, and of delivering energy security and efficiency, is one of the core objectives of the Europe 2020 strategy. This not only means gearing up the economy to deliver the agreed goals, but also kick-starting investment in greener technologies and greener services recognised as having some of the greatest potential for future exports and future jobs as an industry which already employs 3.5 million Europeans."*[44]

D.13 Arguably the targets on renewable energy and energy efficiency should provide a renewed emphasis on these areas in the Structural Funds programmes. There is still significant scope to do this. While in 2007-13, Cohesion Policy will invest €48 billion (out of €347 billion) to promote the fight against climate change, most of this is focused on transport. So far the programmes only stipulate that €4.8 billion will be invested in renewable energy and €4.2 billion in energy efficiency. Recent changes to Cohesion Policy rules on investments in energy efficiency and renewable energies in the residential sector should also open up more opportunities for investment in these areas.

The recent financial and economic crisis

D.14 The impact of the financial and economic crisis on European economies has been profound. The impact quickly spread from the financial sector to the real economy, causing a deep recession and a deterioration in labour markets across the EU. In addition, as EU countries used public spending to cushion the impact, public finances have deteriorated and are forecast to further suffer.

D.15 At EU level, the Commission attempted to coordinate Member State action as well as its own measures through the European Economic Recovery Plan, which was endorsed by the Member States at the end of 2008. The EERP contained three EU-level measure of particular importance for cohesion policy:

- The frontloading of cohesion funding and simplification to release funding quickly;
- The flexibility to revise programmes to take into account changed circumstances; and
- The accelerated expansion of lending activity of the European Investment Bank (EIB)

D.16 In terms of frontloading, "€4.5 billion in EU funding was released in April 2009 in the form of advanced payments to Member States from the cohesion policy budget, … bringing the total of advance payments made by the Commission to nearly €23.3 billion since 2007." The aim of the funding was intended to combat "the risk that Member States delayed long-term

[44] European Commission, 2010, *EU Budget Review*, p.10

major projects due to decreasing revenues to national budgets." The stated aim was to increase so-called "smart investment", i.e. investment in areas of high long-term growth potential.

D.17 At the same time a number of programmes were revised to take into account the changed economic environment: "In 2009, around 80 formal decisions were taken to modify the operational programmes."[45]

D.18 Given that Member States and regions have struggled to provide the additional funding to 'match' European investment, revisions to the Structural Funds rules came into force on 25th June 2010 to combat the impact of the crisis; "overcome[ing] this challenge to accelerate implementation of the programmes and simplify day-to-day management"[46] In reaction to the slower than expected start up and late approval of programmes, the rules on "de-commitment" of funds (for funds committed in 2007) were eased to give Member States more time to spend EU funds: Member States were previously obliged to pay back to the Commission any funds that they have not spent within two years of the approval of their request for funding. The new rules buy more time for projects which would have not been approved or implemented within the deadlines, avoiding Member States losing a total amount of about €220 million, including €9 million in the United Kingdom.[47] "The new regulation also simplified the structural funds rules in order to facilitate the management of EU funding, "to help accelerate the investments in the Member States and regions and to increase the impact of the funding on the economy."[48] Changes included:

- "introducing a single ceiling of €50 million … for "major projects" requiring the Commission's approval … allowing smaller-scale environmental projects to be approved by Member States alone and start up more quickly
- allowing major projects to be financed by more than one EU programme
- … simpler procedure for revision of programmes to adapt more quickly to the current challenges
- enhancing the use of financial engineering: possibility of setting up loan schemes to boost spending on energy efficiency and renewable energies in housing
- easing the obligation to maintain investments: these rules will now only apply to projects where appropriate such as infrastructure and productive investment sectors. They will not apply to undertakings which go unintentionally bankrupt

[45] European Commission, 2009, *Annual Activity Report 2009 Directorate General Regional Policy,* Available at: http://ec.europa.eu/dgs/regional_policy/document/aar2009_en.pdf [Accessed 25 October 2010]
[46] Europa, 2010, *EU adopts new measures to simplify management of funds to help regions tackle the crisis*, Available at: http://europa.eu/rapid/pressReleasesAction.do?reference=IP/10/838&format=HTML&aged=0&language=EN&guiLanguage=en [Accessed 25 October 2010]
[47] Europa, *Council facilitates access to EU structural funds to counter crisis*, Available at: http://europa.eu/rapid/pressReleasesAction.do?reference=PRES/10/155&format=HTML&aged=0&language=EN&guiLanguage=en [Accessed on 25 October 2010]
[48] Europa, *Council facilitates access to EU structural funds to counter crisis*, Available at: http://europa.eu/rapid/pressReleasesAction.do?reference=PRES/10/155&format=HTML&aged=0&language=EN&guiLanguage=en [Accessed on 25 October 2010]

- simplifying the rules on 'revenue-generating' projects … to reduce the administrative burden on Member States, revenues will now only be monitored until the closure of the related programme
- targeting additional advances of € 775 million (4% from the ESF and 2% from the Cohesion Fund) for Member States which received a loan under the IMF balance of payment scheme, or saw a GDP decrease of more than 10%: by applying these two criteria, this concerns Estonia, Latvia, Lithuania, Hungary and Romania."[49]

D.19 It is unlikely that the frontloading of spending will continue to offer a viable response to the crisis, not least because overall resources are limited. However, revising the programmes which have so far not taken this opportunity should be a priority to better deal with the impact of the crisis. The Commission asked regions as part of their national strategic reports "to report on the early results in delivering the new round of programmes. Those reports take on an added importance in the light of the new economic conditions. Where necessary they could present more reflected and fundamental proposals for the strategic revision."[50]

D.20 This could include a revision of the targets to be achieved, given that the target setting exercise was beset by difficulties, not least because the process lacked benchmark values (apart from those derived from previous programmes) and the indicator framework was difficult to apply. Unfortunately, these issues have not been remedied at the European level so programmes which are finding it difficult to meet the targets in their OP have little additional information they can draw on. However, they are free to pursue a revision of the targets in the OP, subject to approval by the Commission:

- "At the initiative of the Member State or the Commission in agreement with the Member State concerned, operational programmes may be re-examined and, if necessary, the remainder of the programme revised, in one or more of the following cases:
  - (a) following significant socio-economic changes;
  - (b) in order to take greater or different account of major changes in Community, national or regional priorities;
  - (c) in the light of the evaluation referred to in Article 48(3)[51]; or
  - (d) following implementation difficulties." (Art 33)[52]

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[49] Europa, 2010, *EU adopts new measures to simplify management of funds to help regions tackle the crisis*, Available at: http://europa.eu/rapid/pressReleasesAction.do?reference=IP/10/838&format=HTML&aged=0&language=EN&guiLanguage=en [Accessed 25 October 2010]

[50] Commission of the European Communities, 2008, *Cohesion Policy: investing in the real economy*, Available at: http://ec.europa.eu/regional_policy/sources/docoffic/official/communic/realeconomy/com_2008_876_en.pdf [Accessed 25 October 2010]

[51] "Member States shall carry out evaluations linked to the monitoring of operational programmes in particular where that monitoring reveals a significant departure from the goals initially set or where proposals are made for the revision of operational programmes."

[52] European Parliament, European Council, European Commission, "COUNCIL REGULATION (EC) No 1083/2006 of 11 July 2006", *Official Journal of the European* Union, 210, pp.45-46.

D.21 In the case of a wide-ranging revision of targets, it is likely that the Commission would require to see significant independent evaluation evidence to back up any changes.

D.22 The regulation quoted above also opens up the possibility to revise the programme priorities in light of the economic crisis and in response to the EU policy developments such as Europe 2020. For example, the nature of business support, the infrastructure required and the need to stimulate demand in labour markets will all have changed with the crisis. In labour market policy, there is potentially a very significant opportunity to use structural funds (ESF) pro-actively to cushion the adverse impact of the crisis.

D.23 As part of the response to the crisis, the EU also proposed a significant increase in lending by the EIB. In fact, the major part of the EU-level response was to be delivered by the EIB. The EIB has been expanding its lending portfolio in recent years with, for example, the aim of increasing the supply of venture capital. This type of activity was significantly expanded to counteract the impact of the credit crunch and the recession. The EP noted that "The EIB came up with a very swift and effective response when the crisis began. It stepped up its activities, for example by providing increased loans to SMEs. In fact, it made full use of every single piece of capacity available in stimulating and helping to realise the European Economic Recovery Plan."[53] But the EP also believes that there is further room for improvement: "To improve support to small and medium-sized firms (SMEs), MEPs call on the EIB to apply bolder risk-taking in its lending policy towards SMEs without jeopardising its triple A status and to make every effort to simplify the complicated and bureaucratic regulations found in certain projects, wherever they occur."[54] Because of the long term impact of the crisis on financial markets, firms' access to capital through the EIB is likely to be a crucial and cost-effective intervention in many programmes in future and should be explored further.

Review of and changes to EU spending and cohesion policy

Increased role for the European Investment Bank

D.24 The move to further expand and integrate EIB activity has been going on before the crisis but it was accelerated as part of the EERP. The integration of the EIB is part of a longer term development of EU cohesion policy, prompted by the need to focus available EU spending on the new Member States with low per capita GDP/incomes. There are currently two specific routes for EIB support in Cohesion Policy which, arguably, are better suited to the Member States / regions with significant experience of working with Cohesion funding for competitiveness objectives: JEREMIE (based on access to finance for SMEs) and JESSICA

[53] European Parliament, 2010, *MEPs welcome EIB's response to the financial crisis*, Available at: http://www.europarl.europa.eu/news/expert/infopress_page/035-74166-125-05-19-905-20100505IPR74165-05-05-2010-2010-false/default_en.htm [Accessed 25 October 2010]
[54] European Parliament, 2010, *MEPs welcome EIB's response to the financial crisis*, Available at: http://www.europarl.europa.eu/news/expert/infopress_page/035-74166-125-05-19-905-20100505IPR74165-05-05-2010-2010-false/default_en.htm [Accessed 25 October 2010]

(for sustainable urban development)[55]. It is likely that Cohesion Policy in the future will see further development of these concepts. [56]

D.25 Under the auspice of 'financial engineering', these funds are usually managed by the EIB and constitute joint initiatives, which will include the region, the EIB and other partners (such as venture capitalists and banks). With the 2008 EU Recovery Package, the scope of JESSICA became significantly enlarged and included expenditure on energy efficiency and the use of renewable energy in existing housing. With JEREMIE the significant 'holding fund' partner is the EIF (the European Investment Fund[57], which provides risk financing to SMEs for entrepreneurship and innovation).

D.26 With JEREMIE in place for longer than JESSICA, there are more lessons to be learned from previous experiences. For example, JEREMIE provides strong scope for a strategic approach to venture capital interventions. The 'Holding Fund' status also allows for flexibility in re-allocating finances between funds and incorporating new funds. Creating one 'single pot' of funds also means that EIB loans can be incorporated with ERDF finances.[58] This combination of resources is not automatic and the right set of circumstances and conditions apply to make this possible – i.e. making clear what each separate component of funding is for. As such, the exact nature of such a combination of funds must be reviewed on a case-by-case basis.

D.27 The EIB has also increasingly moved into providing finance for SMEs which have struggled with liquidity due to the financial crisis: "In 2009, the EIB made EUR 12.7bn available in credit lines to intermediary banks for on-lending to small businesses, an increase of 55% compared with the year before. The Bank reached more than 50 000 SMEs across the EU."[59] Given expected future difficulties for SMEs to obtain credit, this activity is likely to continue to expand. However, it depends on uptake by commercial financial intermediaries and more needs to be done to encourage their involvement in a number of countries, including in the UK. As the EU Budget Review stated, "the size of the infrastructure challenge is such that the EU needs to help to unlock private finance"[60]

Integration of ERDF and ESF

D.28 The 2007-2013 programmes have attempted to improve the integration between ERDF and ESF. In the new programmes, it is now possible to use funding more flexibly between the funds: "the ERDF and the ESF may finance, in a complementary manner and subject to a limit of 10 % of Community funding for each priority axis of an operational programme, actions falling within the scope of assistance from the other Fund, provided that they are

[55] For further details of the main funding mechanisms please see: European Committee, n.d., *Financial Engineering*, Available at: http://ec.europa.eu/regional_policy/funds/2007/jjj/index_en.htm [Accessed 25 October 2010]
[56] For further detail please see: European Investment Bank, 2009, *JEREMIE and JESSICA: Innovative financial instruments in EU Cohesion Policy*, Available at: http://www.eib.org/projects/events/jeremie-and-jessica-conference.htm [Accessed 25 October 2010]
[57] http://www.eif.europa.eu/
[58] North East Finance, 2009, *The North East of England JEREMIE programme*, Available at: http://www.eib.org/attachments/mitchell.pdf [Accessed 25 October 2010]
[59] European Investment Bank, 2010, *EIB loans for SMEs: a welcome ray of light in the current economic gloom*, Available at: http://www.eib.org/projects/news/eib-loans-for-smes.htm [Accessed 25 October 2010]
[60] European Commission, 2010, *EU Budget Review*, p.21

necessary for the satisfactory implementation of the operation and are directly linked to it." (Art 34, 2.)[61]

D.29 The streamlined structure of the funds should also help in the new programmes: "The geographical contiguity between both the ESF and ERDF programmes and their mono-fund nature should enable strong co-ordination between the two funding streams to take place."[62]

D.30 It is also now easier to finance projects jointly. For example, in the West of Scotland "One of the ESF Programme priorities will be delivered jointly with one of the priorities in the ERDF programme. Joint awards of funding under Priority 1 of the ESF Programme and Priority 3 (Urban Regeneration) of the ERDF Programme will be made to projects making linked separate applications under each priority. Priority 1 of the ESF Programme concentrates on supporting those outside the workforce to secure employment, particularly among the most disadvantaged groups, and has a clear strategic fit with the community economic development focus of Priority 3 in the ERDF Programme. Projects will not be required, but will be encouraged to put forward action plans that will show how ERDF and ESF funding can be used in tandem within the same project, although projects will not be required to apply for both Funds."[63]

D.31 However, this is not a simple process: "applications will need to be made separately to each Programme … .Applications will need to be specific in allocating distinct activities, expenditure and outcomes to each Fund. Projects will also be required to report on the co-ordination between both sets of Funds on an annual basis."[64]

The future of cohesion policy

D.32 At EU level, the Commission asked Fabrizio Barca to provide an expert report on future regional policy, 'An Agenda for a Reformed Cohesion Policy'[65], published in April 2009. It assesses effectiveness of cohesion policy as well as setting out a range of policy recommendations for the post 2013 period. During 2009, the then Commissioners Hübner and Samecki also set out their visions for the future of cohesion policy. DG REGIO has initiated the formation of an informal high level reflection group on the future cohesion policy (HLG) to develop the main building blocks of post-2013 Cohesion policy.

D.33 Some of the key questions raised "regarding the future Cohesion Policy are as follows:

- Cohesion policy: a policy for all European regions?

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[61] Europa, 2006, *Cohesion Policy regulations and Community Strategic Guidelines: relevant provisions for the environment*, Available at: http://ec.europa.eu/environment/integration/pdf/cohesion_policy.pdf [Accessed 25 October 2010]
[62] The Scottish Government, 2008, *Lowlands and Uplands Scotland: European Social Fund 2007-2013: Structural Funds Operational Programme*, Available at: http://www.scotland.gov.uk/Publications/2008/07/29142711/8 [Accessed 25 October 2010]
[63] The Scottish Government, 2008, *Lowlands and Uplands Scotland: European Social Fund 2007-2013: Structural Funds Operational Programme*, Available at: http://www.scotland.gov.uk/Publications/2008/07/29142711/8 [Accessed 25 October 2010]
[64] The Scottish Government, 2008, *Lowlands and Uplands Scotland: European Social Fund 2007-2013: Structural Funds Operational Programme*, Available at: http://www.scotland.gov.uk/Publications/2008/07/29142711/8 [Accessed 25 October 2010]
[65] European Commission, 2009, *Barca report*, Available at: http://ec.europa.eu/regional_policy/policy/future/barca_en.htm [Accessed 25 October 2010]

- Reinforced territorial dimension of Cohesion policy?
- Stronger focus on core-priorities?
- Stronger integration between cohesion policy and other Community policies?
- More focus on sustainable development and opportunities of a low carbon economy?
- Reinforced territorial cooperation in providing common solutions to shared problems?
- More differentiated approaches to policy delivery: more focus on results and performance, greater scope for experimentation, enlarged role for financial engineering?
- Renewed balance between performance, simplification and assurance of financial regularity?
- Adaptation of transition mechanisms (phasing in and phasing out) towards an overall sliding support mechanism?
- Greater effectiveness of additionality?" [66]

D.34 For the current programmes, the key decision is in how far they can provide the evidence to illuminate some of the questions noted above and whether they will, and desire to, be involved with cohesion policy in future.

D.35 This review of cohesion policy should be seen in the context of a more general review of EU spending. The EU has also reviewed the EU budget as a whole: "Reforming the budget, changing Europe"[67]. This process was supposed to be a review without any taboos to make the EU budget better fit the challenges the EU faces. Due to the dramatic change in the economic climate since the decision to undertake a full, wide-ranging review of EU spending and resources in 2006[68] the timescales for the review slipped. The EU Budget Review was published on 19th October 2010, and serves to clarifies the EU position on cohesion policy.

> *"Cohesion has proved one of the most successful ways for the Union to demonstrate its commitment to solidarity, while spreading growth and prosperity across the EU"*[69]

D.36 However, as the Review sets out, cohesion policy needs to be accurately targeted to meet the priorities and funding objectives of Europe 2020 to ensure that its added value is maximised, and results need to be analysed 'rigorously'. Further guidance will be provided in the coming months as the Commission converts the ideas in the EU Budget Review into legislative proposals for the new Multiannual Framework covering the period after 2013.

[66] European Commission, 2009, *Annual Activity Report 2009 Directorate General Regional Policy,* Available at: http://ec.europa.eu/dgs/regional_policy/document/aar2009_en.pdf [Accessed 25 October 2010]
[67] European Commission, 2010, *Budget review: Lessons learnt for tomorrow's budget*, Available at: http://ec.europa.eu/budget/reform/index_en.htm [Accessed 25 October 2010]
[68] European Parliament, European Council, European Commission, "Interinstitutional Agreement between the European Parliament, the Council and the Commission on budgetary discipline and sound financial management", *Official Journal of the European* Union, 139, p.15. See Declaration No 3.
[69] European Commission, 2010, *The EU Budget Review*, p.12

Europe 2020

D.37 Potentially the biggest influence on current and future programmes is the successor of the Lisbon Agenda, now dubbed Europe 2020. The current structural funds programmes were designed around meeting the key objectives of the Lisbon Agenda, with programmes asked to 'earmark' expenditure for this purpose: for the current programming period this has led to a "substantial increase, compared to the past, in investments supporting the growth and jobs agenda, especially in the areas of innovation, research, skills and human capital. In the less-developed regions in EU-27, under the Convergence Objective, 65% of the funds are intended for Lisbon- related expenditure, while the more-developed regions, under the Regional Competitiveness and Employment Objective, plan to invest 82% of the funds in Lisbon-related priorities.[70]

D.38 The Lisbon Agenda was designed to run for a decade, ending in 2010. The Commission has been drawing up the successor, starting with a consultation[71] which made no real reference to cohesion policy. The subsequent proposals of the Commission[72] and recent EU Budget Review remedy this, with the Review noting that "the explicit linkage of cohesion policy and Europe 2020 provides a real opportunity to both continue to help the poorer regions of the EU to catch up, and to develop further cohesion policy into an important enabler of growth for the whole of the EU."[73]

D.39 The EU formally adopted the Europe 2020 strategy for economic reform on 17th June 2010[74], which includes five headline targets:

- "aiming to raise to 75% the employment rate for women and men aged 20-64, including through the greater participation of young people, older workers and low-skilled workers and the better integration of legal migrants
- improving the conditions for research and development, in particular with the aim of raising combined public and private investment levels in this sector to 3% of GDP
- reducing greenhouse gas emissions by 20% compared to 1990 levels; increasing the share of renewables in final energy consumption to 20%; and moving towards a 20% increase in energy efficiency
- improving education levels, in particular by aiming to reduce school drop-out rates to less than 10% and by increasing the share of 30-34 years old having completed tertiary or equivalent education to at least 40%

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70 Commission of the European Communities, 2008, *Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions on the results of the negotiations concerning cohesion policy strategies and programmes for the programming period 2007-2013*, Available at: http://ec.europa.eu/regional_policy/sources/docoffic/official/communic/negociation/com_2008_301_en.pdf [Accessed 25 October 2010]

71 European Commission, 2009, *Public consultation on the Europe 2020 Strategy*, Available at: http://ec.europa.eu/dgs/secretariat_general/eu2020/consultation_en.htm [Accessed 25 October 2010]

72 European Commission, 2010, *Europe 2020: A strategy for smart, sustainable and inclusive growth*, Available at: http://ec.europa.eu/eu2020/index_en.htm [Accessed 25 October 2010]

73 European Commission, 2010, *The EU Budget Review*, p.12

74 European Commission, 2010, *Europe 2020: A strategy for smart, sustainable and inclusive growth*, Available at: http://ec.europa.eu/eu2020/index_en.htm [Accessed 25 October 2010]

- promoting social inclusion, in particular through the reduction of poverty, by aiming to lift at least 20 million people out of the risk of poverty and exclusion."[75]

D.40 While the European Council broadly endorsed the agenda[76], during consultation support for the targets was initially less clear. The R&D target has been criticised both in terms of whether it can be achieved and whether it is the right objective. The education target ran into difficulties due to devolved responsibilities for education and the variations in systems. Finally, the appropriateness of using the poverty target was questioned. As a result, these targets were revised (see above for final headline targets). For instance, the population for the poverty target is defined as "the number of persons who are at risk-of-poverty and exclusion according to three indicators (at-risk-of poverty; material deprivation; jobless household) leaving Member States free to set their national targets on the basis of the most appropriate indicators, taking into account their national circumstances and priorities."[77]

D.41 The Task Force and Commission will develop further on these headlines. This will feature in the final report of the Task Force in October 2010. In the meantime, the Commission has published Integrated Guidelines[78] to provide direction to Member States concerning the necessary reforms for economic change and growth which underpin the Strategy. Europe 2020's headline targets are supported by seven "flagship initiatives"[79]. Member States are now tasked with developing national targets, as part of their National Reform Programmes. Progress will be monitored annually, requiring considerable analysis of critical areas such as macroeconomic, structural and competitive developments across Member States, as well as their overall financial stability.

D.42 There are ten guidelines (guidelines one to six are economy-focused and seven to ten are employment-based) and associated reforms which are expected to be delivered across the Member States. Given the varying 'starting points' of the different Member States, it will be for each to decide on the type and level of reforms which are devised and adopted. All Member States will be required to adopt reform packages. It is anticipated that these guidelines will remain in place until 2014, in order to provide a strong implementation focus. The guidelines range from ensuring the quality and sustainability of public finances (through budgetary consolidation) to improving resource efficiency and reducing greenhouse gases (through market-based instruments and 'green procurement').

D.43 The above guidelines point to a radical step-change in the economic and social policy frameworks in place across Europe's Member States. Europe 2020 implies that serious and far-reaching reforms are necessary across Europe to set the right conditions for future economic growth. This also implies a fundamental review of the key policy drivers across each Member State, from education to tax and employment policies. The Structural Funds

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[75] European Council, 2010, *European Council 17 June 2010 Conclusions*, Available at: http://ec.europa.eu/eu2020/pdf/115346.pdf [Accessed 25 October 2010]
[76] General Secretariat to the Council, 2010, *European Council 25/26 March 2010 Conclusions*, Available at: http://www.consilium.europa.eu/uedocs/cms_data/docs/pressdata/en/ec/113591.pdf [Accessed 25 October 2010]
[77] European Council, 2010, *European Council 17 June 2010 Conclusions* Available at: http://ec.europa.eu/eu2020/pdf/115346.pdf [Accessed 25 October 2010]
[78] European Commission, 2010, *Europe 2020: Integrated guidelines for the economic and employment policies of the Member States*, Available at: http://ec.europa.eu/eu2020/pdf/Brochure%20Integrated%20Guidelines.pdf
[79] http://ec.europa.eu/eu2020/pdf/COMPLET%20EN%20BARROSO%20%20%20007%20-%20Europe%202020%20-%20EN%20version.pdf [Accessed 25 October 2010]

will be one of the key instruments to implement these guidelines and might need to be revised to take full account of the changed strategic direction. The EU Budget Review sets out that "The Structural Funds should be fully exploited to develop the next generation of research infrastructures, based on regional specialisation."[80]

[80] European Commission, 2010, *The EU Budget Review*, p.9

Annex E: Review of UK policy developments to May 2010

Introduction

E.1 This annex presents the findings of a review undertaken of UK policy developments since the ERDF programme was launched in 2007. The review focuses on key developments in UK national policy since the May 2010 general election – on the 'new world' emerging, and the implications for the strategy of the programme.

E.2 Further analysis of the implications of the policy developments include a review of developments at a European level set out in a separate annex, and details on the national and regional political and economic landscape under the new coalition government are provided in the main body of the report.

E.3 The policy developments considered in the remainder of the annex are:

- the 'new world' emerging
- climate change, sustainable production and consumption
- the future of Cohesion Policy in the UK
- the future of sub-national development
- local economic policy in the South East.

The 'new world' emerging

E.4 The recession and successive public sector cut backs have resulted in a drastic shift in the economic context within which the ERDF Programme operates. Since the coalition government was formed in mid May 2010, the government has begun to set plans into action to address the key objective of cancelling out the national deficit within five years. As set out in the Spending Review 2010, government policy aims:

> *"to secure economic stability at a time of continuing uncertainty in the global economy and put Britain's public services and welfare system on a sustainable long term footing."*[81]

E.5 In targeting economic stability, the Coalition Government is implementing a stringent regime of cuts. Table E-1 sets out some of the departmental budgets over the coming years, as reported in Spending Review 2010. This provides an indication of the economic climate the ERDF programme is now operating in.

[81] HM Treasury, 2010, *Spending Review 2010*, p.5

Table E-1: Budgets set out in the Spending Review 2010

	Baseline		Plans			Cumulative real growth
	2010-11	**2011-12**	**2012-13**	**2013-14**	**2014-15**	
Departmental Programme and Administration Budgets (Resource DEL excluding depreciation)						
CLG Communities	2.2	2.0	1.7	1.6	1.2	-51
CLG Local Government	28.5	26.1	24.4	24.2	22.9	-27
Business, Innovation and Skills	16.7	16.5	15.6	14.7	13.7	-25
Energy and Climate Change	1.2	1.5	1.4	1.3	1.0	-18
Green Investment Bank	-	-	-	1.0	-	-
Total (all departments)	**326.6**	**326.7**	**326.9**	**330.9**	**328.9**	**-8.3**
Departmental Capital Budgets (Capital DEL)						
CLG Communities	6.8	3.3	2.3	1.8	2.0	-74
CLG Local Government	0.0	0.0	0.0	0.0	0.0	-100
Business, Innovation and Skills	1.8	1.2	1.1	0.8	1.0	-52
Energy and Climate Change	1.7	1.5	2.0	2.2	2.7	41
Total Capital DEL (all departments)	**51.6**	**43,5**	**41,8**	**39.2**	**40.2**	**-29**

Source: Extract from HM Government, 2010, Spending Review 2010

Climate change, sustainable production and consumption

E.6 Since the Operational Programme was launched, climate change has become a bigger priority in national policy, with a heightened interest amongst policy makers, politicians and the public in understanding, mitigating and adapting to the threats of climate change. The EU and UK have both introduced carbon emission targets. A great number of government publications have been released on the issue of climate change, and an entirely new government department has been introduced to take responsibility for tackling energy and climate change.

E.7 Key recent announcements are summarised below.

'UK Low Carbon Transition Plan' (DECC, 2009)

Sets out a target of emission cuts of 18% on 2008 levels by 2020, with 40% of electricity coming from low-carbon sources.

£405 million is to be invested into research and development of low carbon technologies with help also to businesses to help manage the costs of climate change (e.g. insulation and energy efficiency).

It also strives to make the UK a centre of green technology by supporting the development and use of clean technologies (this includes up to £120 million investment in offshore wind and an additional £60 million to cement the UK's position as a global leader in marine energy).

EU renewable energy targets

Under the EU's renewable energy target, the UK is required to provide 15 per cent of all its primary energy from renewable sources. This will require an adequately qualified and educated supply chain of young people to provide a relevant future workforce.

'Low carbon Industrial Strategy' (HM Government, 2009)

This strategy stresses the importance and potential of moving to the low carbon economy. Three key principles are identified:

- the government setting stable frameworks for businesses
- encouraging intelligent intervention and low carbon innovation
- ensuring British-based companies and people are sufficiently well-equipped to meet the increased low-carbon demand.

The document identifies the need for business to achieve greater energy and resource efficiency and the ambition to make Britain a global leader in the development and production of low carbon vehicles. Investment is expected under the industrial strategy in the following low carbon projects:

- £120 million – offshore wind
- £60 million – wave and tidal power
- £15 million – civil nuclear power
- £10 million – ultra-low carbon vehicles
- £6 million – renewable construction materials
- £12 million – renewable chemicals
- £4 million – low carbon manufacturing.

‘The Coalition: our programme for government’ (HM Government, 2010)

Sets out the Coalition Government’s intention to move to a low carbon economy, “The Government believes that climate change is one of the gravest threats we face … We need to use a wide range of levers to cut carbon emissions, decarbonise the economy and support the creation of new green jobs and technologies. We will implement a full programme of measures to fulfil our joint ambitions for a low carbon and eco-friendly economy.”

‘Budget 2010’ (HM Treasury, 2010)

The Budget provides further details on the Government’s plans. The document identified the need to reform the energy market and attract additional private sector funding, in order to ensure £200 billion of investment up to 2020 to provide secure low carbon energy.

The Budget intended to help create the right incentives for building a low-carbon economy, and for attracting private sector investment in the UK’s infrastructure.

‘Spending Review 2010’ (HM Government, 2010)

The Spending Review reiterated the coalition government’s objectives, including around the transition to a low carbon economy. It announced major new reforms and investment in low carbon technologies, including investing:

- Enabling households to improve the energy efficiency of their homes at no upfront cost, repaying through the savings they make on their energy bills, through a Green Deal
- up to £1 billion for one of the world’s first commercial scale carbon capture and storage demonstrations on an electricity generation plant
- more than £200 million for the development of low carbon technologies including offshore wind technology and manufacturing at ports sites
- support for low carbon vehicles through an incentive scheme offering up to £5,000 towards the cost of a new ultra low emission vehicle from January 2011, and support for electric car charging infrastructure
- £860 million of new support over the Spending Review period to support households and businesses investing in renewable heat measures
- increased expenditure through existing support mechanisms that are funded through obligations on energy companies, that will lead to a total of £5.6 billion of support for renewable electricity installations over the Spending Review period
- £1billion of DEL funding and proceeds from asset sales to fund the UK-wide Green Investment Bank. The institution will be able to reinvest the proceeds from its investments.

‘Local growth: realising every place’s potential’ (HM Government, 2010)

The White Paper reiterates the Government’s commitment to transition to a low carbon economy. It provided the first indication of the level at which interventions would take part. The paper set out that LEPs would take a role in ensuring the green economy is developed appropriately at a local level, while Central Government has a role in terms of providing information and support to the LEPs (particularly in terms of supply chains), and taking a leading role where there are large infrastructure issues which cross LEPs.

The Government’s approach to policies for growing the green economy will be based on the following elements:

- Low carbon, green investment - Supporting low carbon, green innovation and providing strategic innovation investment for nationally significant research
- Green infrastructure – LEPs to lead on, unless there are large cross-LEP infrastructure issues, which will be taken forward nationally
- Stimulation of supply chains – Government will facilitate the development of UK-based supply chains in developing green markets, where there are significant opportunities but information barriers exist. Government will provide LEPs with information and support to ensure businesses are aware of emerging opportunities
- Green Low Carbon Clusters – LEPS to coordinate clusters, while Central Government support.

E.8 The coalition government has re-iterated the need to keep climate change issues at the heart of policy. Through the Coalition Programme for Government, Budget 2010, Spending Review 2010 and the White Paper the Government has begun to set out its plan to support the transition to a low carbon economy and create a Green Investment Bank.

E.9 According to the Spending Review 2010, the Green Investment Bank "will make a radical contribution to financing green infrastructure through having an explicit mandate to tackle risk that the market currently cannot adequately finance."[82] The Bank, which will be independent from political control, will be capitalised with £1 billion of DEL funding and proceeds from the sale of Government owned assets and will aim to catalyse further private sector investment into green infrastructure. The proceeds from these investments will be reinvested.

The future of Cohesion Policy in the UK

E.10 Recent government policy has seen measures announced to diminish the gaps between regions, with particular focus on introducing measures to increase business employment and growth in regions historically reliant on public sector employment. Key announcements are summarised below.

'Budget 2010' (HM Treasury, 2010)

The Budget set out the Government's intention to introduce measures to increase business employment and growth – particularly focusing on encouraging the creation of private sector jobs in regions reliant on public sector employment. Measures include:

- Regional Growth Fund for the years 2011-12 and 2012-13
- Businesses in targeted areas to get a substantial reduction in employer National Insurance Contributions.

'Spending Review 2010' (HM Government, 2010)

The Spending Review announced that of the Regional Growth Fund will be £1.4 billion over 3 years, extended from the £1 billion and 2 years reported at Budget.

'Supporting UK business' (Business Finance Taskforce, 2010)

In the report, the Taskforce proposed the creation of a new Business Growth Fund targeting the needs of growing companies (with a turnover of £10m - £100m), with equity funding of £2m - £10m, to be complemented by loans and trade finance offered by banks. The Taskforce banks (the six largest UK banks) intend to build an investment portfolio to reach a total of £1.5 billion over a number of years.

'Local growth: realising every place's potential' (HM Government, 2010)

The White Paper on local growth set out the Government's strategy for ensuring that all places benefit from sustainable growth. In the White Paper the Government said it would "manage the wind down and

[82] HM Treasury, 2010, *Spending Review 2010*, p.24

closure of the RDAs to maximise value and take the opportunity to look again at key European funding for economic development."

It provided further details of the Regional Growth Fund, the objectives of which are to:

- stimulate enterprise by providing support for projects and programmes with significant potential for generating economic growth and creating additional sustainable private sector employment
- support in particular those areas and communities that are currently dependent on the public sector to make the transition to sustainable private sector-led growth and prosperity.

The funding will be made up with contributions from DfT, CLG and DEFRA, with £580 million capital and £840 million resource funding, with no internal ring fences but a minimum threshold of £1 million for bids.

The intention is to increase the private sector leverage of the fund and minimise administrative burden. Priority for RGF funding will be given to bids that bring significant private sector funds and ensure sustainable employment growth The Government announced an intention to explore ways that the Regional Growth Fund can be used to complement the Business Growth Fund as the position on bank equity develops. The Government is also encouraging the alignment of the Regional Growth Fund with ERDF, where the aims of bids are eligible for support from both funds

E.11 Funding for the Regional Growth Fund, as set out in Spending Review 2010, is replicated in Table E-2.

Table E-2: Regional Growth Fund

	£ million				
	2010-11	**2011-12**	**2012-13**	**2013-14**	**2014-15**
Resource DEL	-	215	205	420	-
Capital DEL	-	280	300	-	-
Total	-	495	505	420	-

Source: HM Government, 2010, Spending Review 2010

E.12 The South East is unlikely to receive much benefit from these measures due to the socio-economic conditions in the region. According to the Government White Paper, during the qualifying period, only businesses set up outside of the Greater South East will be eligible for reductions in their employer NICs. In terms of Regional Growth Fund, "all areas of England are eligible to bid … although some parts of the country, particularly where there is currently high employment, low-levels of deprivation and a vibrant private sector, may struggle to demonstrate how they meet the second objective of the Fund."[83]

The future of sub-national development

E.13 The decision to shift decision making away from central government to the local level and to abolish Regional Development Agencies (RDAs) and create Local Enterprise Partnerships (LEPs) in their place is core to the coalition government's policy for sub-national development. The announcements around this agenda are summarised below.

'The Coalition: our programme for government' (HM Government, 2010)

The Coalition Government set out their intention to replace Regional Development Agencies (RDAs) with Local Enterprise Partnerships (LEPs).

'Budget 2010' (HM Treasury, 2010)

[83] HM Government, 2010, *Local growth: realising every place's potential*, p.32

LEPs will enable improved coordination of public and private investment in transport, housing, skills, regeneration and other areas of economic development. They are based around major cities and other natural economic areas

‘Spending Review 2010’ (HM Government, 2010)

The Spending Review provided some more information to shed light on the future of sub-national development. In particular it states that:

- “LEPs will provide strategic leadership in their areas to set out local economic priorities, and play a pivotal role in helping rebalance the economy towards the private sector.”
- Local authorities will have ‘radically increased’ freedom to manage their budgets – including choices on how services are delivered within reduced allocations

‘Local growth: realising every place’s potential’ (HM Government, 2010)

The White Paper set out the new approach to local growth. Recognising the drivers of growth to be local (and thus that decisions should be made at a local level), the paper sets out the Government’s approach – to shift power away from central government to local communities, citizens and independent providers. The paper sets out three key themes for the role of central government in local growth:

- Shifting power to local communities and businesses
- Promoting efficient and dynamic markets and increasing confidence to invest
- Focused investment.

The paper announced that the forthcoming Localism Bill will provide local authorities with a general power of competence, providing them with more power to act on behalf of their communities.

The White Paper also provided further details about Local Enterprise Partnerships, although emphasised that LEPs are not defined in legislation, and should differ across the country in both form and function to best meet local circumstances and opportunities. In general, it reported that the Government will normally expect to see business representatives form half the board, with a prominent business leader in the chair. Other partners could include universities, FE colleges, social and community enterprises.

At the time of the White Paper, 62 proposals had been made to become LEPs. The first phase consists of 24 LEPs. The remaining applicants were not considered ready to establish their boards, but will be reconsidered once the plans have been revised.

The role of LEPs (though varied) could include:

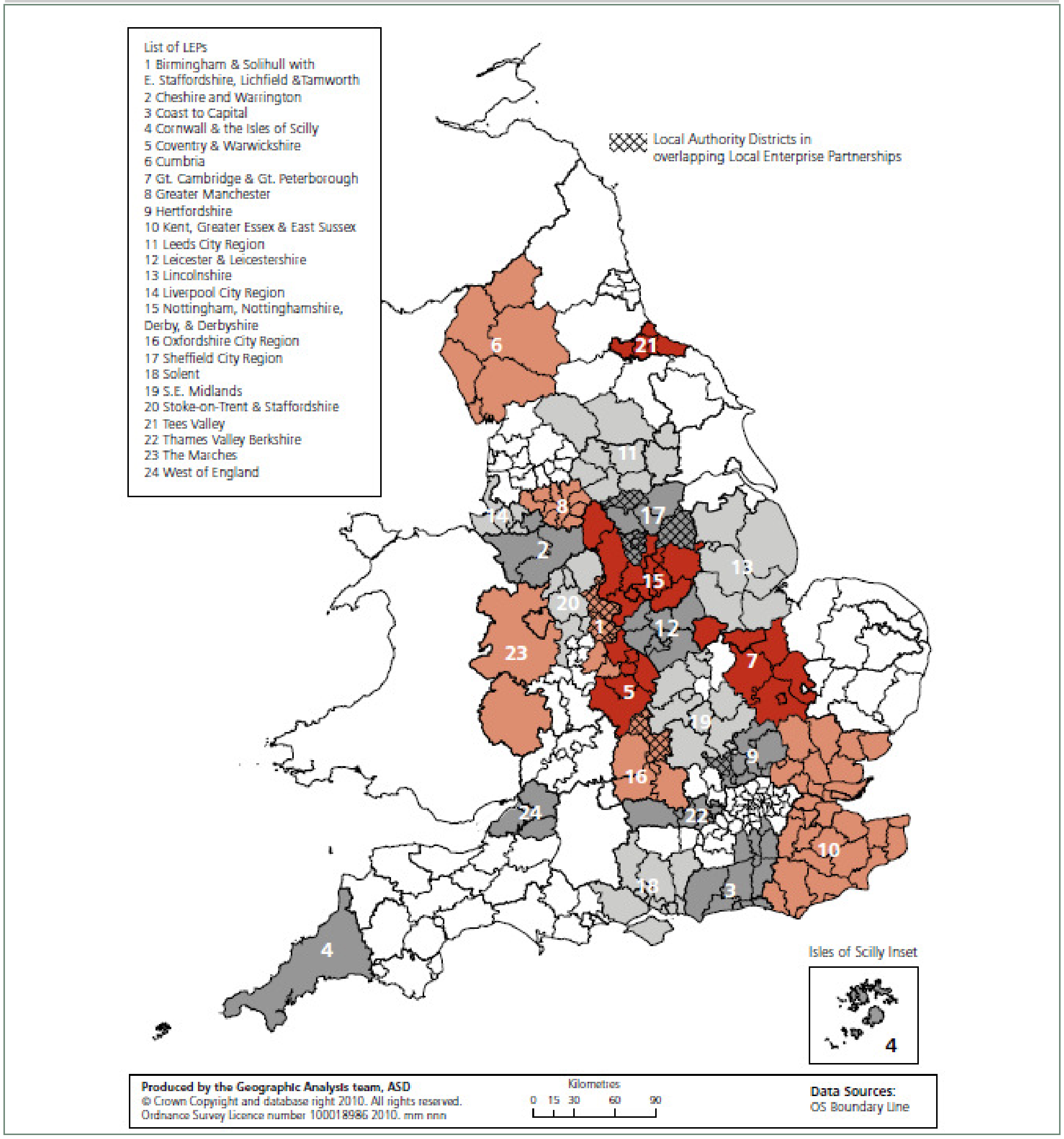
- working with Government to set out key investment priorities, including transport infrastructure and supporting or coordinating project delivery
- coordinating proposals or bidding directly for the Regional Growth Fund
- supporting high growth businesses, for example through involvement in bringing together and supporting consortia to run new growth hubs
- making representation on the development of national planning policy and ensuring business is involved in the development and consideration of strategic planning applications
- lead changes in how businesses are regulated locally
- strategic housing delivery, including pooling and aligning funding streams to support this
- working with local employers, Jobcentre Plus and learning providers to help local workless people into jobs
- coordinating approaches to secure funding from the private sector
- exploring opportunities for developing financial and non-financial incentives on renewable energy projects and Green Deal
- becoming involved in delivery of other national priorities such as digital infrastructure.

The White Paper stated that Local enterprise partnerships and proposed partnerships may wish to submit bids to the Regional Growth Fund, but will not receive preferential treatment against bids from other private or public-private partnerships. The Government is strengthening the advisory role for local authorities and LEPs on the ERDF ‘Programme Monitoring Committees’ for each region.

New structures of management and delivery of ERDF will have to be approved by the UK audit authorities and the European Commission. As such, the White Paper announced that the Government is currently working with local authorities, universities and other stakeholders to develop the framework within which ERDF will operate. **The new delivery structure will be announced at Budget 2011**

E.14 Figure E-1 illustrates the locations of the first phase Local Enterprise Partnerships.

Figure E-1: First Phase Local Enterprise Partnerships



Source: HM Government, 2010, Local growth: realising every place's potential, p.39

E.15 Given that ERDF funding in the South East has been managed and distributed regionally through the South East of England Development Agency (SEEDA), the decision to abolish RDAs has considerable implications for future ERDF funding. The coalition government is currently working with local authorities, universities and other stakeholders to develop the framework within which ERDF will operate. The new delivery structure for ERDF funding will be announced at Budget 2011.

Local economic policy in the South East

E.16 The box below outlines some of the strategies that have been set out local economic policy for the South East in recent years.

‘The Regional Economic Strategy 2006-2016: A Framework for Sustainable Prosperity’ (SEEDA, 2006)

The Regional Economic Strategy had three core objectives

- Global Competitiveness - Build on excellence for global competitiveness
- Smart Growth - Investing in potential to lift underperformance
- Sustainable Prosperity - Safeguarding quality of life as a competitive advantage.

Three headline targets were set out:

- Achieve an average annual increase in GVA per capita of at least 3%
- Increase productivity per worker by an average 2.4% annually, from £39,000 in 2005 to at least £50,000 by 2016 (in constant prices)
- Reduce the rate of increase in the region’s ecological footprint, stabilise it and seek to reduce it by 2016.

‘The Regional Economic Strategy 2006-2016: Annual Monitoring Report’ (SEEDA, 2009)

Progress against objectives was reported to be “significantly affected by the recession.”

‘Spending Review 2010 for the South East’ (HM Treasury, 2010)

Confirmed investments in capital programmes in the South East include:

- £248 million refurbishment of Epsom and St Helier University Hospital’s St Helier site
- £69 million to support phase 3 of the Diamond Synchotrol project in Oxfordshire to support research into life, physical and environmental science
- £37 million upgrade to Pirbright Laboratory, Guildford.

Other key initiatives to support growth in the regions may bring benefits to the South East:

- £1.4 billion Regional Growth Fund over 2011-12, 2012-13 and 2013-14
- Tax Increment Financing to enable local authorities to borrow against locally raised business rates
- introduction of Local Enterprise Partners
- greater local authority control over funding
- Community Budgets in 16 local areas, including Kent, from April 2011. This will involve the pooling of departmental budgets to help councils and their partners to work together to support families with complex needs.

E.17 In policy terms, there is a good alignment between the Regional Economic Strategy and the ERDF programme, with their objectives around increasing competitiveness and growth while focusing on reducing the region’s ecological footprint. However, it is not yet clear what the implications of coalition government policy will be for the South East.

Annex F: Update on baseline conditions

Introduction

F.1 This Annex presents the findings of an update to baseline conditions in the South East ERDF programme area since 2005, the base year for much of the socio-economic analysis in the Operational Programme.

F.2 The baseline conditions update considers changes in national macro-economic conditions and the impacts of the recession in the South East. The analysis then provides an update on changes in key socio-economic and environmental indicators, focusing on the contextual conditions that gave rise to the ERDF Programme, and key indicators that the programme is seeking to influence. The baseline focuses particularly on indicators relating to:

- employment creation and safeguarding
- Gross Value Added (GVA)
- CO_2 emissions.

F.3 It is not yet possible to see the full implications of the recession in the baseline conditions update, in part due to a time-lag in data availability. The programme should continue to monitor changes in socio-economic conditions as data is released.

F.4 Given the relatively modest size of the ERDF Competitiveness Programme when compared against aggregate public sector economic development funding on in the region, it will not be possible to observe any influence of the programme in terms of changes in socio-economic conditions.

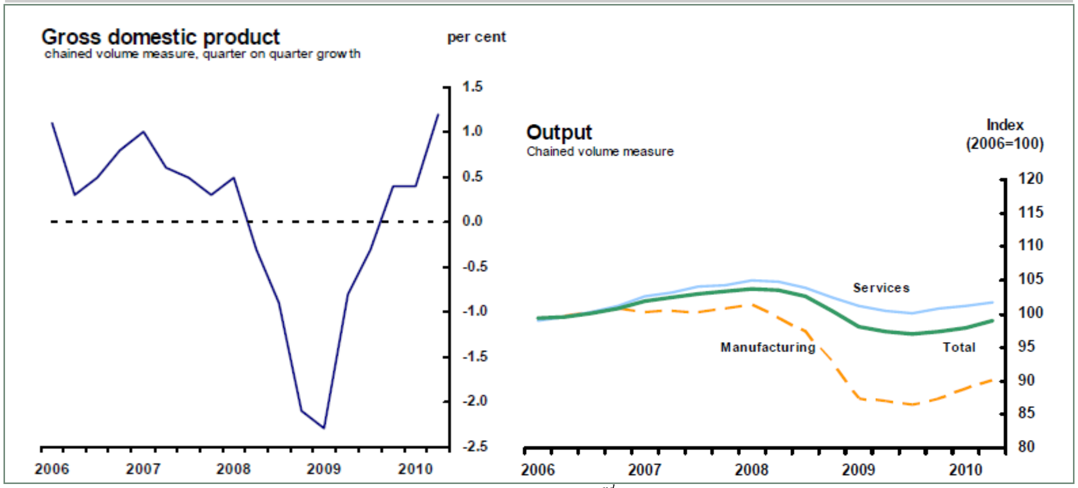
F.5 Further analysis on the implications of socio-economic changes on the programme provided in the main body of the report.

Overview of macro-economic conditions

F.6 The recent UK recession has had profound impacts on the business climate and consumer confidence. The UK officially entered recession in the last quarter of 2008, as GDP fell by 1.5% following a 0.6% drop in the previous quarter (thus two consecutive quarters of negative growth).[84] Figure F-1 shows the changes in national economic conditions, as set out in the Office of National Statistics Q2 2010 Statistical Bulletin.

[84] BBC, 2009, *UK in recession as economy slides*, http://news.bbc.co.uk/1/hi/business/7846266.stm

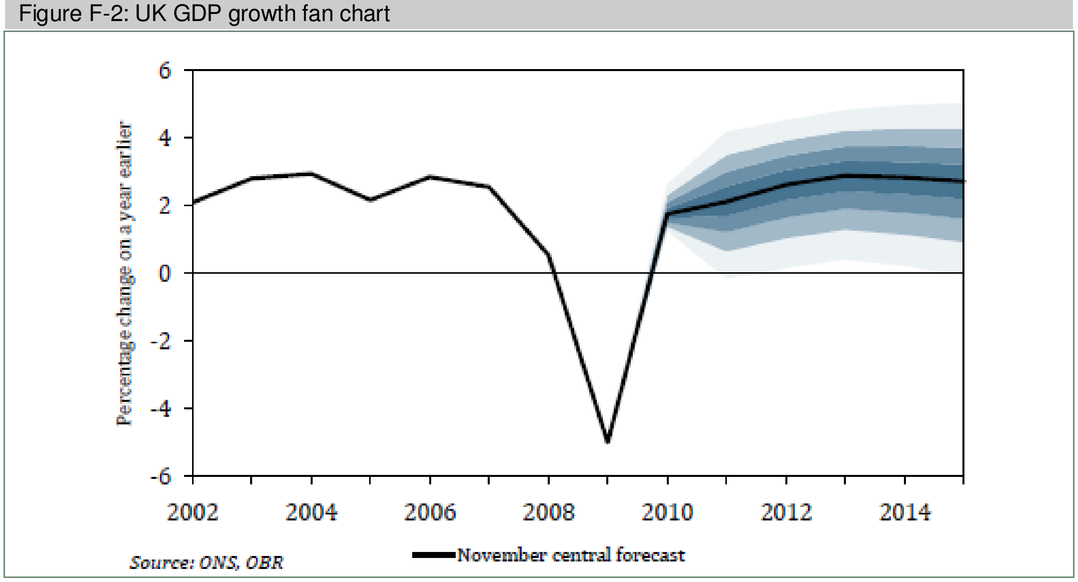
Figure F-1: National economic performance, 2006-2010



Source: ONS, 2010, Statistical Bulletin: Quarterly national accounts – 2nd quarter 2010

F.7 The figure shows a sharp fall in GDP and a significant shrinking in output, particularly in the manufacturing sector. However, the economy returned to positive growth in quarter 4 of 2009. Indeed, Office for Budget Responsibility (2010) reported stronger UK GDP growth for both the second and third quarter than expected in the interim OBR's June forecast – boosted by a stronger contribution from the construction sector and higher than expected stock building and consumer spending.

Figure F-2: UK GDP growth fan chart



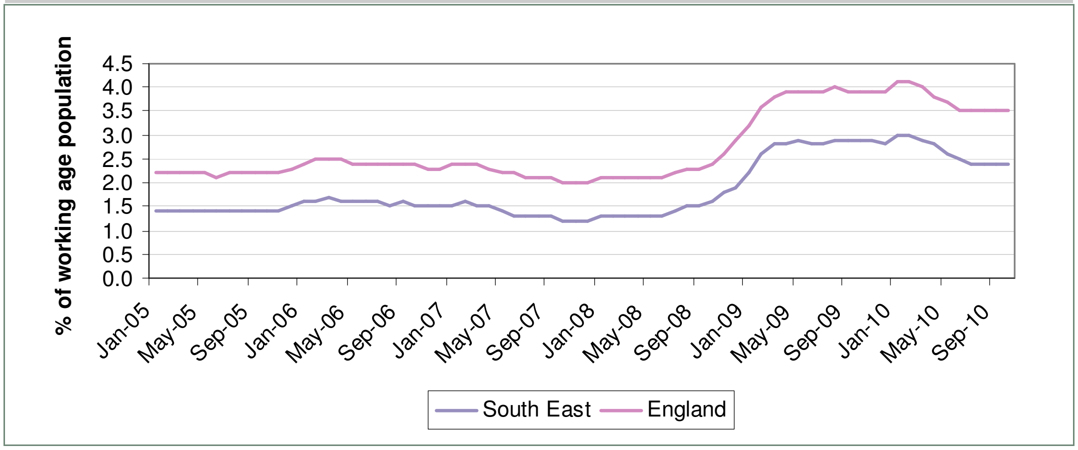
Source: Office for Budget Responsibility, 2010, Economic and fiscal outlook, p.39

F.8 The Institute for Employment Studies' *Impact of recession on the labour market in the South East* stated that "initial signs suggest the economy in the South East is one of the most resistant to recession given its relatively strong performance in high value added sectors, though the recession is having a serious negative effect on business performance and employment."[85]

[85] Institute for Employment Studies, 2009, *Impact of the Recession on the Labour Market in the South East*, p.xi

F.9 One of the major impacts of the recession has been an increase in unemployment. Figure F-3 shows the proportion of the working age population claiming Job Seekers Allowance (JSA) between January 2005 and October 2010.

Figure F-3: Proportion of the resident working age population on the claimant count, 2005-2010



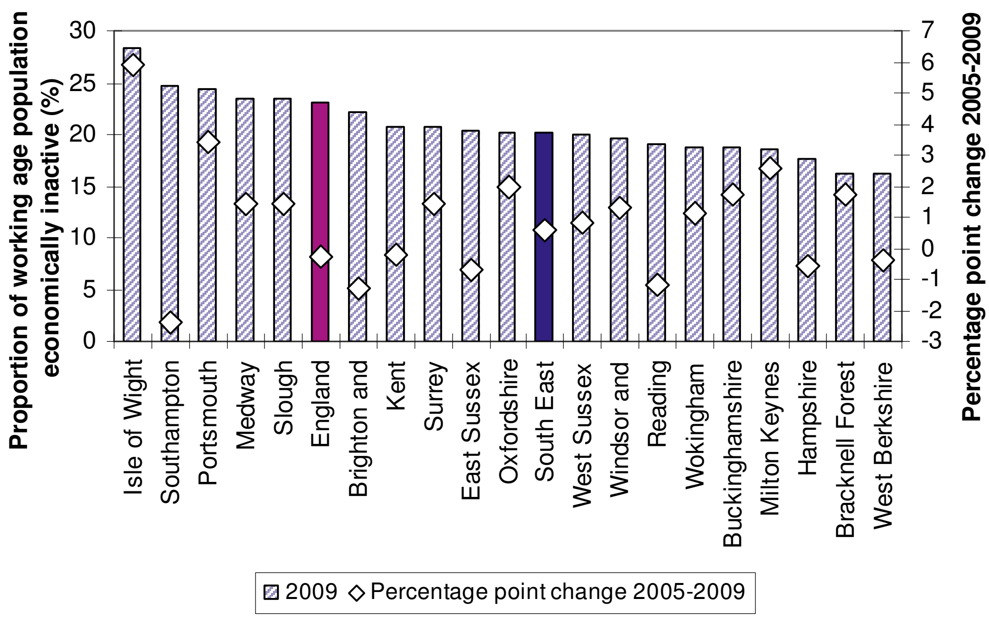
Note: Rates for 2010 are calculated using the mid-2009 resident working age population
Source: Claimant Count. Accessed via Nomis

F.10 The figure shows that unemployment in the South East remained fairly stable until mid-2008, before increasing from November 2008. The rate of unemployment levelled off between May 2009 and November 2009 and has since declined and stabilised at just under 2.5% of the working age population in July 2010.

F.11 Throughout the period, unemployment in the South East followed a similar trend to England, although it has had a consistently lower proportion of residents claiming JSA. The gap has widened slightly – from a 0.8 percentage point difference in July 2008 to a 1.1 percentage point difference in October 2010 – suggesting that the South East had been less hit by the recession.

F.12 Figure F-4 illustrates the proportion of working age residents who are economically inactive.

Figure F-4: Economic inactivity in the South East, 2005-2009, by area



Source: Annual Population Survey

F.13 Rates of economic inactivity in the working age population are lower across most of the South East than in England. However some areas of the South East have notably higher levels of economic inactivity. On the Isle of Wight, there has been almost a six percentage point rise in economic activity between 2005 and 2009 – from 22.5% to 28.4%.

F.14 Table F-1 sets out the proportion of residents who are economically inactive, by population group, across England and the South East.

Table F-1: Proportion of population groups who are economically inactive, 2005 and 2009

Group	South East			England		
	2005	2009	Percentage point change (2005-2009)	2005	2009	Percentage point change (2005-2009)
Men	13.0%	13.8%	0.8%	16.4%	16.6%	0.2
Women	26.1%	26.6%	0.5%	30.3%	29.6%	-0.7
Ethnic minority	26.0%	23.6%	-2.4%	34.3%	32.4%	-1.9
Disabled	37.1%	39.1%	1.9%	47.0%	45.5%	-1.5
All residents	19.6%	20.2%	0.6%	23.4%	23.1%	-0.3

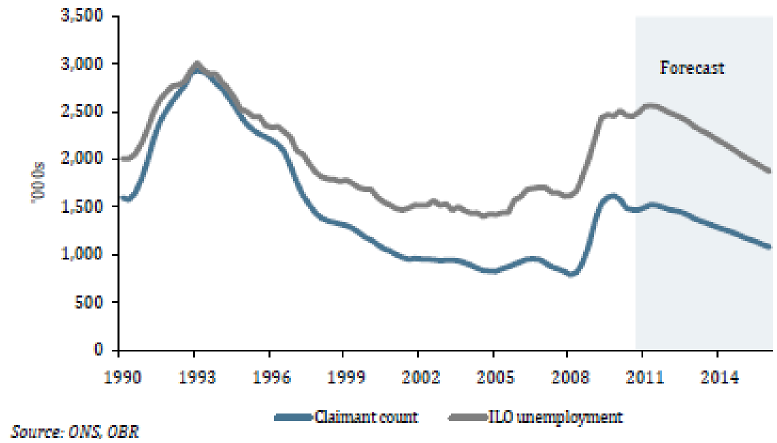
Source: Annual Population Survey

F.15 Since 2005, there has been an increase in the proportion of economically inactive residents in the South East across all the listed population groups except among ethnic minorities. However, there are smaller proportions of economically inactive residents in the groups than across England – highlighting that economic activity is a comparatively smaller issue in the South East than elsewhere in the country. The proportions of economically inactive residents with a disability or from an ethnic minority in the South East remain notably lower than

England. In 2009, 39.1% of South East residents with a disability were economically inactive compared to 45.5% of residents across England. In the same year, 23.6% of South East residents from an ethnic minority were economically inactive, compared to 32.4% of those across England.

F.16 The Office of Budget Responsibility (OBR), formed in May 2010 to make independent assessments of the public finances and the economy, has recently released forecasts on its expectation for unemployment levels in the next few years.

Figure F-5: Office of Budget Responsibility forecasts of total employment, 1990-2015



Source: Office for Budget Responsibility, 2010, Economic and fiscal outlook, p.62

F.17 The figure shows the total number of unemployed falling slowly from 2011, returning to near pre-recession levels by 2015. In the next five years, the OBR forecasts that total employment will rise from 29 million in 2010 to 30.1 million in 2015, an increase of 1.1 million. However, within this 'general government' employment is forecast to fall by just over 400,000 between 2010-11 and 2015-16[86].

F.18 Table F-2 sets out the years when employment is expected to return to pre-recession levels.

Table F-2: Forecasts for when employment will return to pre-recession levels

	Experian	Cambridge Econometrics
Ashford	2010	2010
Canterbury	2010	2010
Sevenoaks	2010	2010
Tunbridge Wells	2010	2010
Dartford	2012	2014
Kent	2012	2014
Thanet	2012	2014
Tonbridge & Malling	2012	2014

[86] Office for Budget Responsibility, 2010, *Economic and fiscal outlook*

	Experian	Cambridge Econometrics
South East	**2013**	**2015**
Shepway	2013	2017
UK	**2014**	**-**
Gravesham	2021	2019
Medway	2021	2016
Dover	2022	2016
Maidstone	2025+	2019
Swale	2025+	2024

Source: Experian and Cambridge Econometrics forecasts, in SEEDA, 2010, Kent & Medway Economy Update

F.19 Employment in the South East is expected to come out of the return to pre-recession levels before the UK, but some areas will be worse hit, with employment in Swale not expected to return until after 2024.

F.20 In light of the policy decisions taken at the June 2010 *Budget* and October *Spending Review 2010*, the OBR predicts that UK will recover from the economic decline of 5% in 2009, with growth of 1.8% in 2010, 2.1% in 2011, 2.6% in 2012, 2.9% in 2013, 2.8% in 2014 and 2.7% in 2015[87]. Growth is forecast to be driven by the private economy, although business investment is not expected to return to pre-recession patterns until the second quarter of 2013.

F.21 However, recovery is expected to be weaker than the UK's historical experience, reflecting "the headwinds to growth from the outlook for credit conditions, efforts to reduce private sector indebtedness and the scale of the fiscal consolidation, which is yet to have its full effect on the economy."[88]

Update to baseline conditions

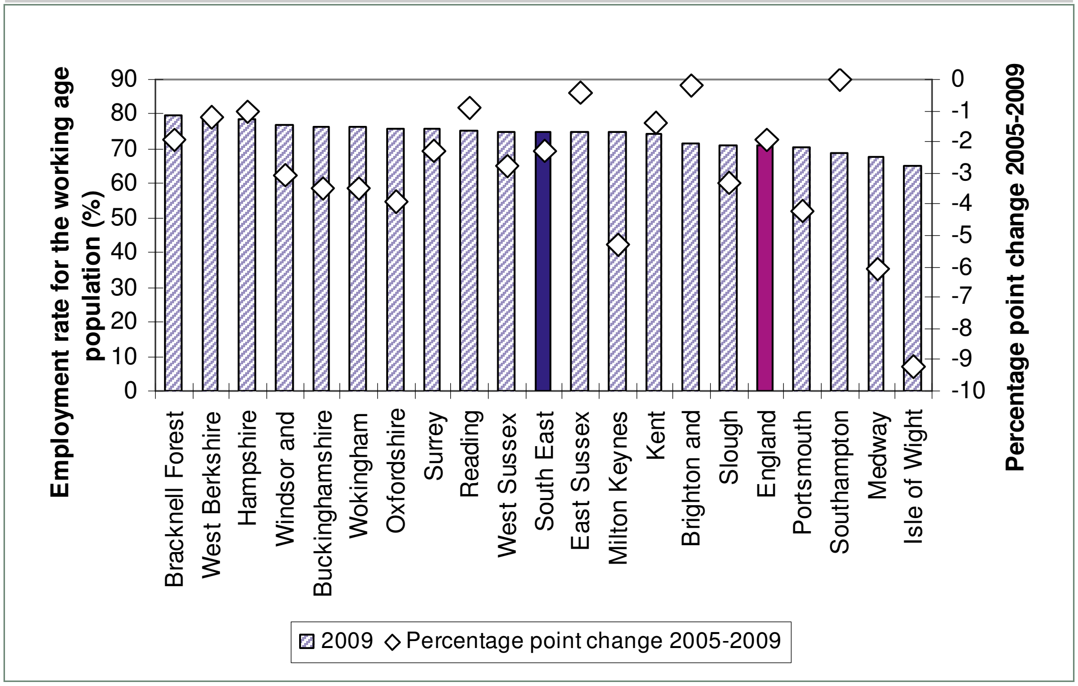
Employment creation and safeguarding

F.22 Given that one of the objectives of the Programme relates to job creation, it is important to understand the labour market, both in terms of size and sectoral concentrations.

F.23 Figure F-6 highlights variations in the employment rate across different parts of the South East in 2009, and shows how these rates have changed since 2005.

[87] Office for Budget Responsibility, 2010, *Economic and fiscal outlook*
[88] Office for Budget Responsibility, 2010, *Economic and fiscal outlook*, p.39

Figure F-6: Employment rate in the South East, 2005-2009 by area



Source: Annual Population Survey

F.24 Overall, the employment rate in the South East is just over 4 percentage points higher than the English national rate (75% compared to 70.9%), although the gap has narrowed slightly since 2005. Between 2005 and 2009 the employment rate in the South East has fallen by 2.3 percentage points, while the rate across England has fallen by 1.9. It is not possible to see the full implications of the recession in the data as yet, although the claimant count seemed to suggest that the South East may have been slightly less affected than the rest of the country.

F.25 Despite this, the figure shows that some areas of the South East have experienced larger declines in their employment rate to 2009. The Isle of Wight in particular has experienced a fall in their rate of 9.2 percentage points between 2005 and 2009 – from 74.4% to 65.2%.

F.26 Table F-3 sets out the rates of employment by population group, across England and the South East.

Table F-3: Rate of employment, 2005 and 2009, by population group

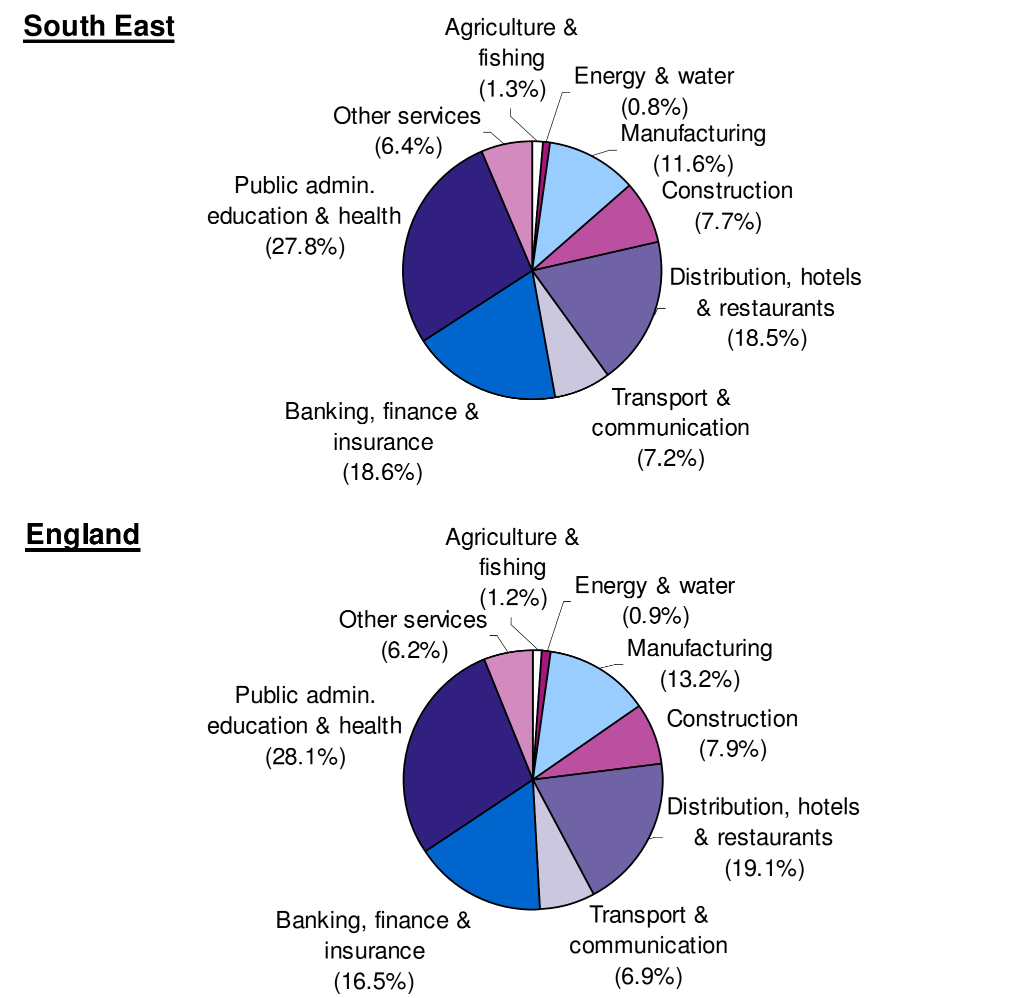
Group	South East			England		
	2005	2009	Percentage point change (2005-2009)	2005	2009	Percentage point change (2005-2009)
Men	83.6	83.1	-0.5	79.1	78.8	-0.3
Women	71.1	70.4	-0.7	66.7	66.5	-0.2
Ethnic minority	68.7	69.4	0.7	58.8	59.1	0.3
Disabled	58.7	58.5	-0.2	49.0	48.8	-0.2

Source: Annual Population Survey

F.27 The employment rates for women, ethnic minority and disabled residents continue to be higher than the corresponding groups at a national level. Women in the South East appear to be marginally worse hit – with a percentage point decrease of 0.7% in the employment rate, compared to a national decrease in the employment rate of 0.2%

F.28 Figure F-7 provides a sectoral split of workers in the South East and England.

Figure F-7: Sectoral breakdown of those in employment, by broad industrial sector, 2009



Source: Annual Population Survey

F.29 The sectoral breakdown of resident employment in the South East is broadly in line with the national breakdown. Public administration, education & health, distribution, hotels & restaurants and banking, finance & insurance remain the largest sectors regionally, employing 63% of resident employees in 2009.

F.30 Table F-4 sets out the early implications of the recession on the five broad sectors that employ the most residents and the high-tech science, engineering and manufacturing technology sector, which is of further interest to the Programme and study.

Table F-4: Early implications of the recession on sectors in the South East

Sector	Proportion of employment in the South East	Implications of the recession[89]
Public admin, education & health	27.8%	• A big driver for employment growth in the recent past • The implications of the current public sector cutbacks on the size of the sector and the employment figures will not appear in the data for some time
Distribution, hotels & restaurants	18.5%	• Uneven impact on employers in the sector ➢ Some benefiting from influx of foreign tourists resulting from currency fluctuation ➢ Some suffering from reduced domestic custom as people have less disposable income
Banking, finance & insurance	16.6%	• A big driver for employment growth in the recent past • Experienced the initial impact of job loss sharply as the financial crisis affected the sector before the recession began • Worst effects felt in investment banking • South East particularly affected due to the high concentration of financial services firms within the region and the number of commuters who reside in the South East and are employed in Central London
Manufacturing	11.6%	• One of the worst hit sectors at the time of writing (2009), particularly during the initial stages of the recession ➢ Output and employment have fallen substantially
Construction	7.7%	• One of the worst hit sectors at the time of writing (2009), particularly during the initial stages of the recession ➢ Output and employment have fallen substantially
Science, engineering and manufacturing technologies		• Automotive employers badly affected by redundancies and temporary lay offs, which has also had an effect on their supply chains

Source: Institute for Employment Studies, 2009, Impact of the Recession in the Labour Market on the South East

F.31 The Institute for Employment Studies (2009) reported that in the recent past, employment growth in the South East had been driven by expansion in financial services and the public sector (especially health and education), while construction had also supported employment growth. In 2009, Public administration, education and health continued to be the biggest sector for employment of residents in the South East, employing 27.8% of those in employment (the sector employs 28.1% of those in employment across England). The full implications of the public sector cuts on employment in the South East and across England will not be clear in the data for a number of years. The extent of the impact from the cuts on the South East will depend on the extent to which the private sector is able to absorb the spare capacity in the regional economy. However, it is clear that jobs created through the ERDF Programme and continued diversification away from the badly hit sectors will be advantageous for the region.

F.32 Median annual earnings for the years between 2005 and 2009 are set out in Table F-5.

[89] Institute for Employment Studies, 2009, *Impact of the Recession on the Labour Market in the South East*,

Table F-5: Workplace based earnings – gross annual pay, 2005-2009

	2005	2006	2007	2008	2009
Total					
South England	24,229	24,798	25,583	26,778	27,493
England	23,280	23,729	24,480	25,549	26,138
Male					
South England	26,857	27,602	28,578	29,882	30,445
England	25,468	26,000	26,731	28,023	28,664
Female					
South England	20,370	20,922	21,302	22,468	23,051
England	19,652	20,091	20,745	21,792	22,437

Source: Annual Survey of Hours and Earnings

F.33 Throughout the period, median earnings in the South East have been consistently higher than across England. However, there continues to be a persistent differential in the earnings of men and women, which is somewhat more pronounced in the South East than across England. In 2009, men in the South East earned on average £7,394 more than women, compared to an average pay gap £6,227 across England.

Gross Value Added

F.34 Comprehension of the changing business dynamics within the region is important to understanding the conditions in which the Programme operates. However, unfortunately the data does not yet show the full implications of the recession on the business population.

F.35 Table F-6 sets out changes in the size of the business population between 2005 and 2009.

Table F-6: Percentage change in the number of enterprises

	2005-6	2006-7	2007-8	2008-9	2005-9
South East	1.5%	2.9%	2.4%	-0.4%	6.6%
England	1.9%	2.9%	3.0%	-0.4%	7.7%

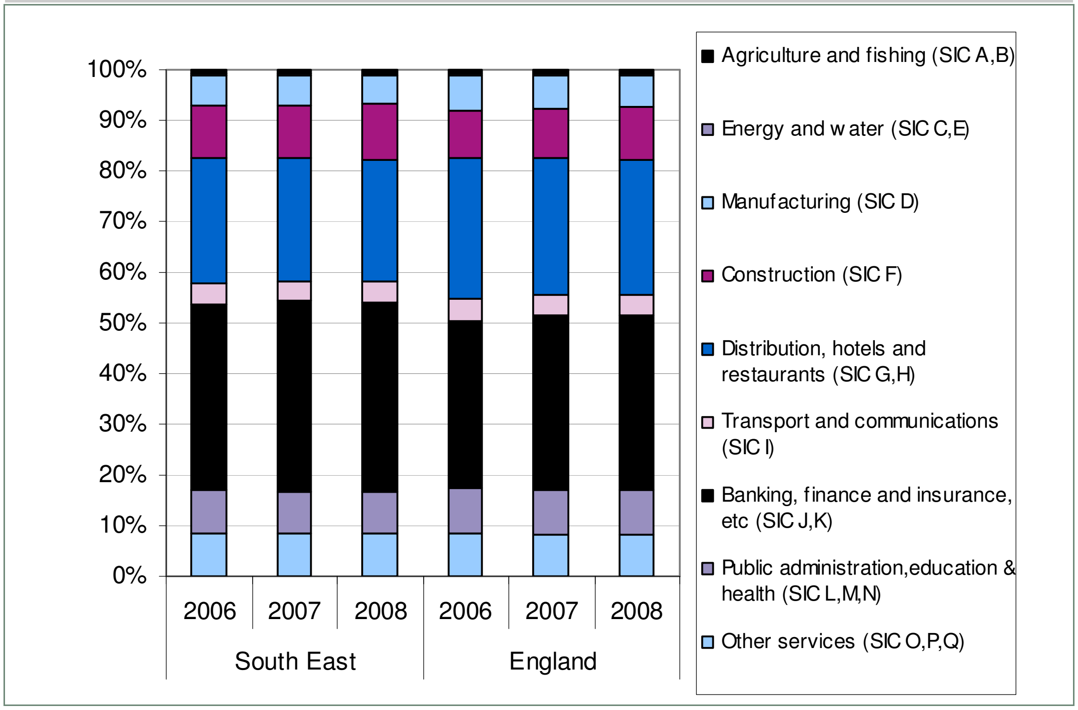
Source: Inter Departmental Business Register

F.36 Across the region, there has been a 6.6% increase in the number of businesses between 2005 and 2009 (compared to a 7.7% increase across England in the same period). The South East business population contracted slightly between 2008 and 2009 (by 0.4%). The extent of any further shrinkage in the business population as a result of the recession is not yet clear due to limitations in data availability.

F.37 The sector makeup of business units[90] in the South East and England has not changed substantially between 2006 and 2008 (Figure F-8).

90 Business units do not readily correspond to the commonly used terms firms, companies or businesses by which employers are sometimes identified. They are roughly equivalent to workplaces but because of the way the data are collected two or more units can be present in the same workplace. For example, a bank may have several branches and offices in a city, each one of these would be counted as a separate data units

Figure F-8: Workplace local units by broad industry sector, 2006-2008



Source: Annual Business Inquiry

F.38 Across the region, the number of units in construction increased by 9% within the period, although it is believed to have declined in the recession. In the period 2006-2008, there was also growth of 6% in banking, finance and insurance. The sector was particularly prominent in Wokingham and Windsor and Maidenhead, where it made up over 45% of employment in 2008.

F.39 Table F-7 sets out the number of business units within the Environmental Goods and Services sector in England.

Table F-7: Business Units in the Environmental Goods and Services Sector, 2006-08

	South East				England			
	2006	**2007**	**2008**	**% change**	**2006**	**2007**	**2008**	**% change**
0141 : Agricultural service activities	2,329	2,488	2,705	16%	12,786	13,176	13,948	9%
0201 : Forestry and logging	345	350	416	21%	1,564	1,570	1,666	7%
0202 : Forestry and logging related service activities	57	60	99	74%	246	242	387	57%
3120 : Manufacture of electricity distribution and control apparatus	196	186	159	-19%	986	975	868	-12%
3710 : Recycling of metal waste and scrap	99	101	113	14%	693	743	766	11%
3720 : Recycling of non-metal waste and scrap	132	143	151	14%	1,064	1,104	1,123	6%

	South East				England			
	2006	**2007**	**2008**	**% change**	**2006**	**2007**	**2008**	**% change**
4100 : Collection, purification and distribution of water	69	73	106	54%	628	620	746	19%
5157 : Wholesale of waste and scrap	186	182	159	-15%	1,578	1,532	1,380	-13%
9001 : Collection and treatment of sewage	244	250	191	-22%	1,510	1,470	1,215	-20%
9002 : Collection and treatment of other waste	440	463	516	17%	2,761	2,876	3,270	18%
9003 : Sanitation, remediation and similar activities	69	74	207	200%	433	450	1,255	190%
Environmental Goods and Services Sector	**4,166**	**4,370**	**4,822**	**16%**	**24,249**	**24,758**	**26,624**	**10%**

Source: Annual Business Inquiry

F.40 Almost 20% of all Environmental Goods and Services units in England are located in the South East region. In 2008, EGS units made up 1.2% of all South East business units, following a 16% rise in the number of EGS units between 2006 and 2008. A particularly big increase has been experienced in the sanitation and remediation sector, which increased from 69 units in 2006 to 207 in 2008 (a 200% percent increase). Other parts of the EGS sector to have experienced considerable increases in unit numbers include:

- Agricultural service activities
- Collection and treatment of other waste
- Collection, purification and distribution of water
- Forestry and logging

F.41 However, not all these increases in business units have translated into increases in jobs. While there have been substantial increases in the number of employees in the collection and treatment of other waste sector (increase of 2,515 employees 2006-08) and in sanitation and remediation (increase of 1,410), the period has also witnessed a decrease of 1,096 employees in agricultural service activities. Other sectors to shed jobs in the region included the collection and treatment of sewage (-1,578 employees) and the manufacture of electricity distribution and control apparatus (-1,168 employees). Overall there was an increase of 478 jobs in the EGS sector between 2006 and 2008.

F.42 East Sussex and Oxfordshire had the largest proportion of business units in the EGS sector in 2008 – 1.7% and 1.6% respectively, while in Brighton and Hove this proportion was only 0.5%.

F.43 In contrast with the growing Environmental Goods and Services sector, the high tech manufacturing and service sectors have declined in the period (Table F-8).

Table F-8: Employees in the Environmental Goods and Services Sector, 2006-08

	South East				England			
	2006	**2007**	**2008**	**% change**	**2006**	**2007**	**2008**	**% change**
244 : Manufacture of pharmaceuticals, medicinal chemicals and botanical products	13,776	13,148	9,721	-29%	51,458	47,240	39,480	-23%
300 : Manufacture of office machinery and computers	3,882	3,833	4,330	12%	15,915	16,070	14,941	-6%
321 : Manufacture of electronic valves and tubes and other electronic components	3,312	3,224	3,242	-2%	17,476	17,902	18,106	4%
322 : Manufacture of television and radio transmitters and apparatus for line telephony and line telegraph	6,596	5,288	5,170	-22%	17,305	13,764	15,525	-10%
323 : Manufacture of television and radio receivers, sound or video recording or reproducing apparatus and associated goods	3,690	3,363	3,032	-18%	12,315	11,489	10,928	-11%
353 : Manufacture of aircraft and spacecraft	9,181	10,646	11,069	21%	76,817	83,271	85,723	12%
High Tech Manufacturing Industries	**40,437**	**39,502**	**36,564**	**-10%**	**191,287**	**189,735**	**184,703**	**-3%**

Source: Annual Business Inquiry

F.44 The high tech manufacturing industry declined over the period 2006-08, both in the South East and nationally. Across the region, the number of units declined by 12% and the number of individuals employed in the sector decreased by 10%.

F.45 Table F-9 shows gross value added (GVA) and GVA per head between 2005 and 2008.

Table F-9: Overview of GVA, 2005-2008

	GVA per head (£)				Total GVA (£ million)			
	2005	**2006**	**2007**	**2008**	**2005**	**2006**	**2007**	**2008**
South East	20,804	21,781	22,770	23,320	170,272	179,429	189,184	195,423
England	18,589	19,496	20,458	21,020	938,123	989,674	1,045,257	1,081,418

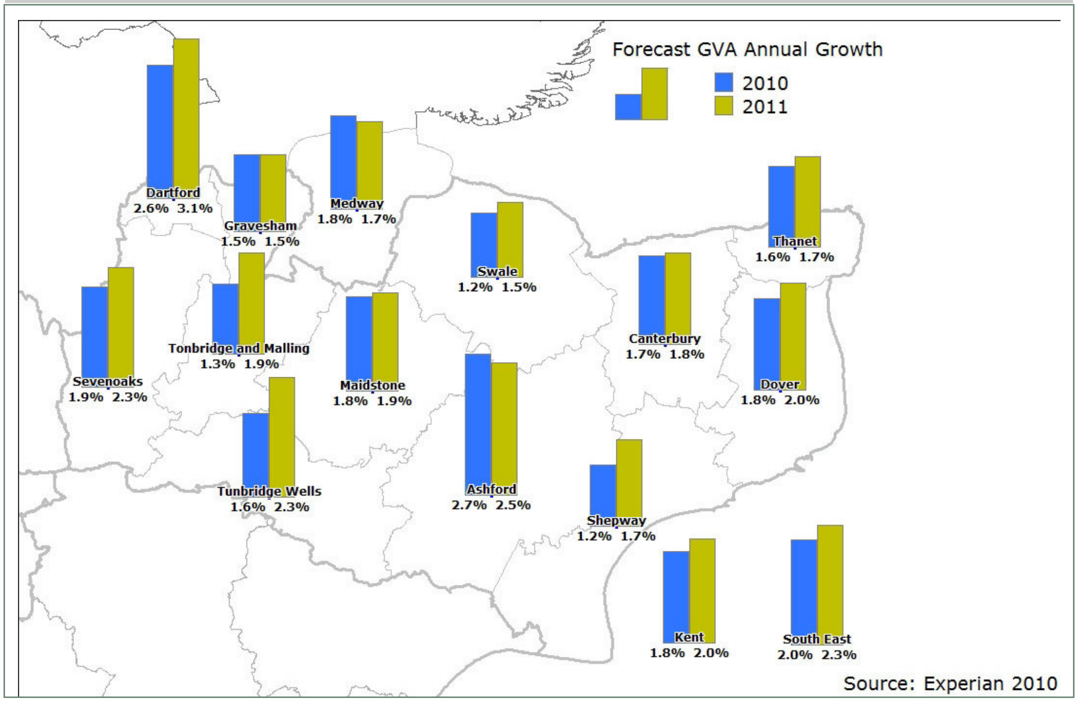
Source: Office for National Statistics

F.46 The gap in GVA per worker between the more productive South East region and England grew slightly between 2005 and 2008, by which point GVA in the South East was £2,300 higher per worker.

F.47 Total GVA in the South East has risen by 15% in the period (from £170 billion in 2005 to £195 billion in 2008). In 2007, over a quarter of all GVA came from real estate, renting and business activities. As highlighted by the Institute for Employment Studies (2009), the recession has severely affected the property sector, with large numbers of job losses in estate agency and 'significant' knock on effects in associated occupations, although the residential lettings market continues to grow.

F.48 The impact of the recession on sectors and areas in the South East is not yet clear from the data. SEEDA (2010) shows the variations across the region (Figure F-9)

Figure F-9: GVA Annual Growth, forecast 2010-11, by area



Source: SEEDA, 2010, Kent & Medway Economy Update

7.1 However, 2010 Experian forecasts (Table F-10) suggest that it will not be until 2016 when all sub-regions' output levels return to pre-recession levels.

Table F-10: Forecasts for year output will return to pre-recession (2007) levels

Area	GVA recovery year
Ashford	2010
Canterbury	2010
Sevenoaks	2010
Tunbridge Wells	2010
South East	**2011**
Dartford	2011
Thanet	2011
UK	**2012**
Kent	2012
Tonbridge & Malling	2012

Area	GVA recovery year
Gravesham	2013
Maidstone	2014
Medway	2014
Shepway	2014
Swale	2015
Dover	2016

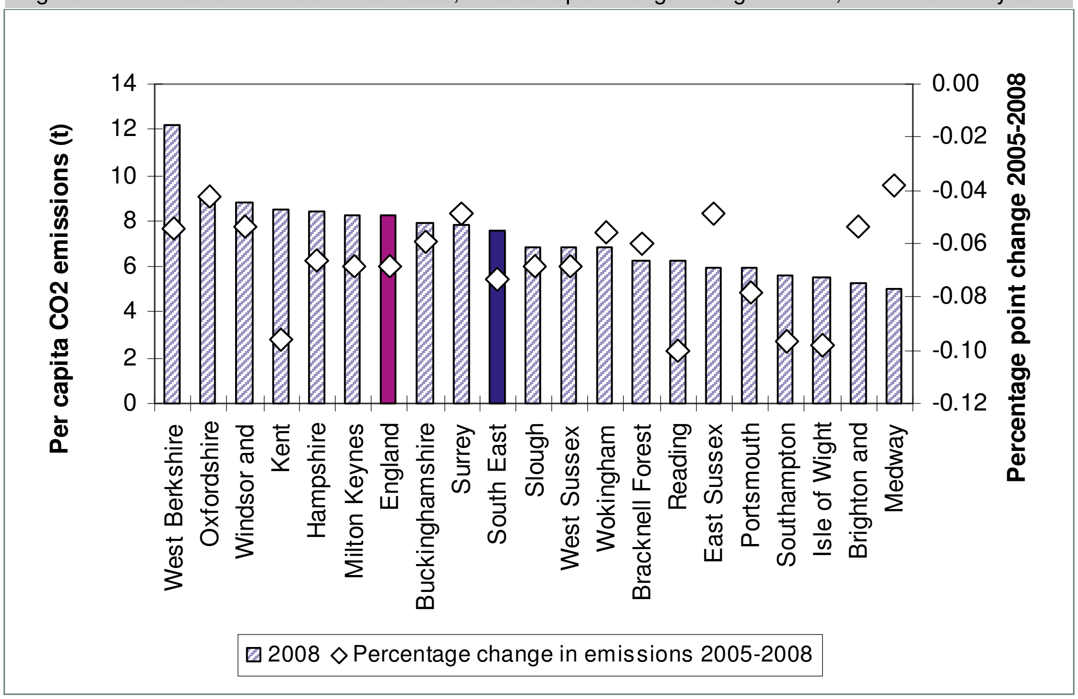
Source: Experian and Cambridge Econometrics forecasts, in SEEDA, 2010, Kent & Medway Economy Update

CO_2 emissions

F.49 Given the Programme aim of supporting environmental sustainability, an understanding of the level of emissions in the region continues to be important.

F.50 Figure F-10 provides a breakdown of carbon dioxide emissions across the South East.

Figure F-10: Local CO2 emission estimates, 2008 and percentage change 2005-8, broken down by area

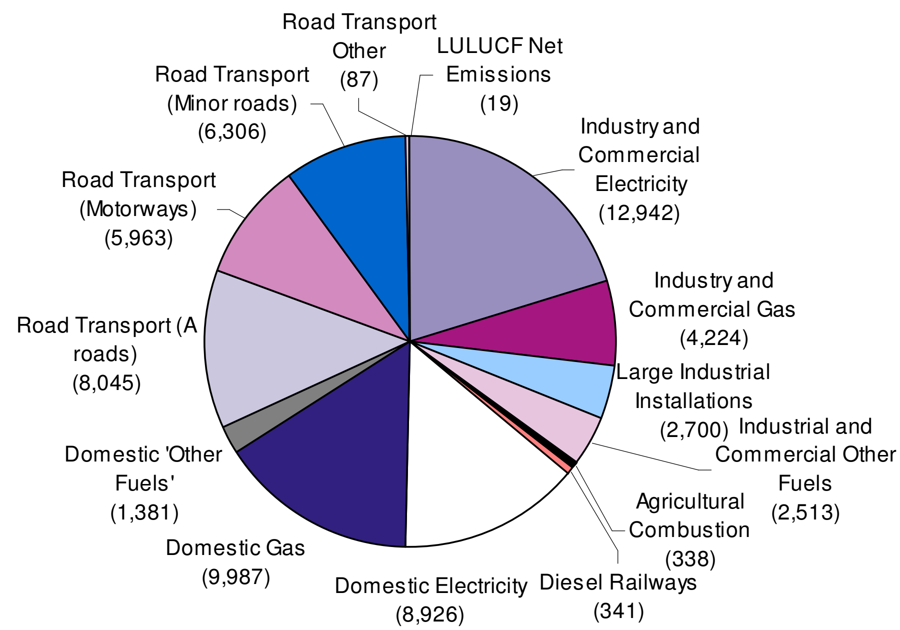


Source: DECC

F.51 In 2008, the South East had lower carbon dioxide emissions per capita than England (7.6 compared to 8.2 tonnes per capita), and had experienced a bigger reduction in per capita emissions since 2005. However, there continue to be considerable variations in per capita emissions across the region – from 5.0 tonnes per capita in Medway to 12.2 tonnes in West Berkshire.

F.52 Figure F-11 illustrates the sectoral breakdown of 2008 carbon dioxide emissions.

Figure F-11: 2008 CO2 emission estimate for the South East (kt CO_2), 2008, broken down by sector



Source: DECC

F.53 Half of all CO_2 emissions in the South East in 2008 came from three sectors:

- industry and commercial electricity (20% of emissions)
- domestic gas (16%)
- domestic electricity (14%).

Given that an additional 32% of emissions come from road transport, the potential benefits of ERDF investment in sustainable transport projects are clear.

Annex G: Case study reports

Case Study 1: The SUSCIN project

Project details

Table G-1: Summary of SUSCIS project details

Name of Project	Sustainable Supply Chains through Innovation (SUSCIN)
ERDF amount allocated £	£124,905
ERDF amount spent £	£65,108 (50% of total spend as of September 2010)
Match allocated £	£124,905 (SEEDA)
Match spent £	£65,108 (50% of total spend as of September 2010)
Priority Axis Theme	Encouraging Sustainable Consumption Practices
Intended/actual start date	2009
Intended/actual completion date	2011

Source: SQW

Issues

G.2 The SUSCIN project provides an interesting example of the programme's support for sustainable procurement. Given the limited resources available to the programme, sustainable procurement is a means through which the programme can lever wider influence and greater benefits. Equipping SMEs with the tools and knowledge to better compete for contracts has the potential to create economic benefits lasting beyond the life of the ERDF funding.

Rationale and objectives

G.3 The rationale for the project lay in the premise that procurers lacked sufficient knowledge needed to implement sustainable procurement and suppliers of sustainable products/ services often struggled to market their products effectively. Experience collected from buyers suggested that the main barriers included: a limited understanding of sustainability; confusion on how to integrate sustainability into the procurement process whilst still adhering to EU procurement directives and delivering value for money; and a lack of resources in general. On the other hand, suppliers, and particularly SMEs, were found to lack market access to the public sector and to have an overall lack of necessary marketing skills.

G.4 The objectives of the SUSCIN project were to break down some of the identified barriers to sustainable procurement. These broadly fell into three categories:

- building the skills and capacity of SMEs
- building awareness of sustainable procurement opportunities
- improving the skills of buyers to implement sustainable procurement practices.

G.5 The SUSCIN project had a strong fit with a number of the aims and objectives identified in the South East Operational Programme. In addition to supporting the development and introduction of effective sustainable procurement strategies, the SUSCIN activities could also contribute to raising the levels of knowledge and innovation across all business sectors whilst also stimulating ecologically-driven market sectors.

Inputs and activities

G.6 The SUSCIN project comprises a package of activities, including:

- Meet-the-buyer brokerage events that bring together carefully selected buyers and suppliers of green products and services. Unlike the typical 'generalised' meet the buyer events, SUSCIN events focus on providing a forum for procurers to meet innovative suppliers of green products.
- The SUSCIN Forward Commitments process originally focused 'speed-dating' style events where green suppliers had the opportunity to book appointments with large buyers to meet face-to-face. At each event, buyers often met around six different suppliers. More recently, Forward Commitments has been rebranded as 'Green Dragons' where selected suppliers and pre-commercial green businesses have the opportunity to pitch to a small panel of major buyers. The core idea behind this is to use sustainable public procurement processes to stimulate green markets and R&D.
- SUSCIN's 'Greenthink!' workshops provide assistance for SMEs to help identify innovation needs for small companies, potential market opportunities, and also to support SMEs in selling, marketing and effectively communicating their products. This latter aspect is particularly constructive for green entrepreneurs who often hold a wealth of engineering knowledge but relatively fewer business skills.

Key achievements, outputs and results

Key achievements and critical success factors

G.7 Overall, the SUSCIN project is viewed as highly successful. It has achieved strong positive feedback from beneficiaries and helped to develop new models for engaging stakeholders in sustainable procurement processes. The Meet the Buyer and Forward Commitments/ Green Dragons approaches have widened the scope and opportunity for green suppliers to connect with buyers.

G.8 A significant achievement for the project has been its success at attracting and engaging with SMEs. SUSCIN has been so successful that SEEDA has actively encouraged other regional projects to learn from the SUSCIN project directors. Critical to this success has been the knowledge, links, and databases of the individuals and organisations leading the SUSCIN project. The mix of project partners (The Centre for Sustainable Design, Action Sustainability, and Remade South East) brings a wide range of experience and strong reputations that encourage SME participation. SUSCIN project directors have also actively marketed the project to their contacts to ensure that SMEs are aware of the support available to them.

G.9 SUSCIN has also sought to make the absolute most out of the events it has coordinated. The brokerage events in particular have been used to not only bring buyers and sellers together, but to develop processes to encourage knowledge exchanges between SMEs. Linking small suppliers with other small suppliers has provided further benefits from SUSCIN activities.

Overcoming challenges

G.10 The SUSCIN project has not been without its own set of challenges. These fall into two distinct categories:

- **Internal challenges**: The very nature of the ERDF funding processes provides projects with a sizeable administration obligation. This provides a significant challenge to those delivering the projects to ensure that both project activity and administration are given sufficient resources. Some of these issues for the SUSCIN project have been magnified by confusion regarding output definitions and expectations for monitoring impacts (although it was noted that some of these challenges have been overcome with time).
- **External Challenges**: The product development and procurement aspects of the SUSCIN are relatively advanced and entail significant commitment from those seeking to benefit from SUSCIN support. Getting buyers and sellers involved in this process, particularly in the recent recession, has been a challenge. Developing green innovation or procuring sustainable products is not always high on businesses' agenda. To overcome this challenge SUSCIN has made best use of the partners' contacts databases and actively engaged in direct marketing and speaking to businesses to chivvy their involvement.

Outputs, results and impacts

G.11 Consultees noted that the project is making good progress towards achieving its targets. As of October 2010, the project was close to already achieving its main lifetime output target of supporting businesses to improve their performance. A remaining challenge for the project is to collect evidence around the impacts of the project on business performance. Given initial communication issues between SEEDA and the project, this information is now being retrospectively collected.

Additionality and value for money

G.12 Without the ERDF support, consultees thought that virtually none of the SUSCIN activities would have taken place. The main reason for this was simply a view that with tight public budgets it is unlikely any other organisation could have funded the project. In this case, green SMEs would continue to miss out on procurement opportunities as there is no other similar project in the region.

G.13 The achievement of outputs relative to project spend suggests a high degree of value for money – particularly when compared to some of the other South East ERDF projects. As noted previously, the success of the project has largely been driven by the ability of those involved to successfully attract and engage with SMEs. The partners' skills mix covers eco-design, supporting innovation, and sustainable procurement practices.

Cross cutting themes

G.14 The SUSCIN project strongly supports the programme's environmental cross-cutting theme. The project activities have helped to increase sustainability through supply chains in ways that encourage greater resource (water and energy) efficiency and encouraged the procurement of greener locally sourced solutions.

G.15 Additionally, the project has sought to further the equalities cross cutting theme through striving to support women led business (25% of target) and BAME led businesses (10% of target)

Future delivery and scaling-up good practice

Risks to the project

G.16 In terms of achieving impact, a number of risks for the project were identified.

- Environmental products are often viewed as nice-to-have rather then as necessities. Within the wider context of the economic downturn market opportunities for green SMEs may significantly reduce.
- Similarly, as a large procurer, scaling back public sector finances is likely to also reduce opportunities for all SMEs.

G.17 Fortunately for the SUSCIN project, the public match funding from SEEDA is secured through to the project's scheduled end in 2011.

Scaling up good practice and lessons for the future

G.18 The SUSCIN project has not only provided well-received support for SME suppliers *and* procurers, it has also developed and tested innovative new models for delivering the support. Having built these ways of working the SUSCIN project partners will be able to take these ideas and techniques forward once the ERDF funding period ends.

G.19 The project provides an important lesson in terms of effectively engaging with SMEs – a difficult task for many public sector support programmes. The key points to this were the reputation and skills mix of the partners delivering the project combined with active outreach and marketing to ensure that businesses were aware of the project and understood the types of support available to them.

Conclusions

G.20 The SUSCIN project has successfully supported – and helped to implement – the aims and objectives of the South East Operational Programme. Through working to improve the region's sustainable procurement processes the project is on course to make a marked contribution to the health of South East SMEs whilst also contributing to a greater level of sustainability and a reduced tread of the region's ecological footprint. The project has provided effective levels of support (in terms of outputs) whilst at the same time developing new and innovative models to reach its target audience.

Case Study 2: PLATO - sustainable business practices project

Project details

Table G-2: Summary of project details

Name of Project	PLATO - Sustainable business practices (PLATO Sustain)
ERDF Amount allocated £	£275,000
ERDF Amount spent £	£160,291 (58%)
Match allocated £	£275,000 from SEEDA
Match spent £	£160,291
Priority Axis Theme	Resource efficient business practices
Intended/actual start date	2009
Intended/actual completion date	2011

Source: SQW

Issues

G.21 The ERDF programme aims to support the competitiveness of businesses in the region but not at the expense of environmental damage. One of the ways of achieving this is by raising business awareness of the economic benefits of seeking environmental improvements.

G.22 PLATO - Sustainable business practices raises awareness of the costs and benefits of sustainable business practices among the CEOs and senior managers of South East SMEs. The project seeks to reduce the environmental effects of the region's businesses by influencing the behaviour and decisions of businesses through their senior decision-makers.

Rationale and objectives

G.23 Although businesses in the South East are fairly innovative, they are still hesitant to adopt innovations related to environmental sustainability. The businesses tend to view sustainability related aspects as an additional cost rather than a necessary positive development with benefits. PLATO Sustain was set up to change these attitudes by offering SMEs in the region a business and personal development programme which both demonstrates the benefits of sustainability practices and encourages the senior managers to implement sustainable businesses and resource efficient practices by the use of sustainable design and innovation.

G.24 The project aims to:

- address the barriers to sustainable innovations and the adoption of environmental management practices
- improve energy and resource efficiency
- exploit new market opportunities

- stimulate innovation and knowledge transfer
- encourage the introduction of low carbon and low econolical footprint materials, processes and systems
- encourage procurement of goods and products from sustainable and ethical sources.

G.25 The project is based on an existing model which was first developed in Belgium in 1980s and has since been tried and tested around Europe. The model is based on the idea of action learning sets where a small group meets regularly to support each another in learning and in taking purposeful action on work issues. Action learning sets and peer-to-peer learning are well known tools in academia but less so in business education and training.

G.26 The ERDF Programme funding as well as SEEDA's match funding were required to pilot the approach in the UK. From the point of view of the programme, the project idea fit well with the SME support and environmental aims of the ERDF programme.

Inputs and activities

G.27 The project has had five key activities:

SME recruitment

- The recruitment of businesses focused on SMEs from built environment, manufacturing, food industry, packaging and service sectors.
- The recruitment was done in partnership with various partners, including the Sustainable Business Partnerships, Train to Gain, Business Link Sustainable Business Team and Envirobusiness
- Geographically the recruitment focused on the Eight Diamonds for Investment and Growth at Milton Keynes, Oxford, Reading, Basingstoke, Crawley, Ebbsfleet, Brighton and South Hampshire. However, businesses from the lower growth areas were also able to access the project.
- Around 130 businesses were recruited to join the programme for two years.

Group facilitator recruitment

- The businesses were grouped into eight groups based on the Diamonds for Investment and Growth, and each group had two volunteer senior executives as facilitators for their meetings. The facilitators are senior and experienced people from large organisations with a proven track record of introducing sustainable business and innovation practices. The facilitators were given facilitation training.
- In addition to group facilitators, there were two floating facilitators from the Higher Education Institutions visiting each group to advice and update the groups on available information sources, technology and training opportunities. These facilitators were aimed at increasing business links with HEIs.

Group activities

- The eight business groups were brought together in individual group meetings on a monthly basis to discuss a range of management and business issues, including strategic management, behavioural change, R&D and commercialisation, knowledge transfer, internal systems such as environmental management systems, sustainable products, procurement, finance and access to new clients.
- In addition to the monthly meetings, quarterly pan-regional meetings were arranged.

Individual action plans

- Participating businesses created individual Action plans for their businesses for growth (GVA and productivity); development of resource efficient products and service, processes and facilities; and constructive people engagement. The plans were updated through out the programme.

Extranet

- The PLATO Extranet is a web portal and an accessible resource designed to hold information on business topics and encourage sharing of knowledge and ideas between the PLATO businesses.

Key achievements, outputs and results

Key achievements and critical success factors

G.28 The project was first of its kind in the UK so even at the national level this pilot project was very innovative. It was particularly clever in its approach to address the top management of companies who are in the best position to make the required sustainability and environmental management and design changes in the companies. As the business leaders were supported in developing their behaviour change and people management skills the approach enabled the businesses to transform their practices and processes at all levels and reduce the overall environmental impact of the business.

G.29 The project has been very successful in engaging businesses. This has largely been attributed to the project team's ability to recruit experienced and high profile facilitators and other speakers for the group activities. The well known names have attracted businesses and given the project the required credibility.

G.30 The project has also managed to successfully change their business practices due to always discussing environmental sustainability issues in the context of wider business issues. The programme is inherently designed to couple business growth and sustainability which has ensured that the senior managers are able to see the economic rational and business case for the required changes, and consequently commit and carry out the required plans for change.

G.31 The peer support element has also been an important part of the PLATO's offer. Giving businesses the ability to tackle business issues in a constructive and friendly environment where they benefit from the experiences of other businesses, both successes and failures, has been particularly valued by the participants. One business[91] who participated in PLATO stated:

> *'It gives you the courage to say "I can go out and try" and have no fear of failure. Its unique structure creates a confidential, safe environment within which everyone can benefit by sharing skills, knowledge, experiences and resources.'*

G.32 The project has been active in sharing its knowledge and working with a wide range of partners. In addition to direct project partners, the project has worked closely with Cranfield University and also the Centre for Sustainable Design at UCA. Some joint research with Cranfield University has also been published in the academic literature. The individual businesses have also continuously been encouraged to work with the local Universities.

Overcoming challenges

G.33 Engaging businesses in such difficult economic times has been challenging. As the business attitude towards sustainability issues has been reserved to start with and during the recession, economic viability of the firm has taken precedence, it has been difficult to get businesses to sign up and attend the group sessions. As a result, the groups have seen a few firms dropping out and the project has had recruit new businesses to replace them. However, some of the businesses have found the group very helpful in coping with the recession. They now have a very committed core group of participants.

G.34 The project has suffered from some internal loss of staff which has led to a frequent change of project managers. However, the team has managed not to let this interfere with their outward facing delivery work.

Outputs, results and impacts

G.35 The project has output targets in three categories: businesses recruited, businesses engaged in new collaboration with UK knowledge base, and businesses developing R&D links with other businesses. Initially the lead organisation was worried that the outputs in the last two categories would not show until the end of the project period. Hence, SEEDA and the lead organisation agreed to backdate all outputs for the final year.

G.36 So far the project has exceeded their recruitment target of 130 businesses and considering the difficult circumstances the project has been faced with, this is an excellent result. The progress against the other two output categories is also very promising so there is confidence that the project will meet these without any problems.

G.37 The project is also inline to achieve the results and impacts but as behavioural change takes time, it can be that the legacy of the project is not fully evident by the end of the programme period. In the mean time, the various case studies compiled by PLATO GB and presented on their website provide some evidence of achievements in CO_2 emissions savings and GVA improvements in individual businesses. There is also other anecdotal evidence suggesting that

[91] PLATO GB (2010). PLATO™ Helps Transport Business Deliver. Business case study. http://www.platogb.co.uk/CaseStudies.aspx

the businesses are implementing their action plans and making the changes they have discussed in the group discussions with their peers.

Additionality and value for money

G.38 The PLATO format is fairly flexible and it can be used for helping businesses with various topics or issues. In the absence of the ERDF funding, the project would have most likely still gone ahead but instead of environmental sustainability it probably would have focused on another topic which is of interest to the business.

G.39 The ERDF funding has removed the financial barriers for businesses to get involved and it has been key in getting so many businesses to sign up. They could have tried to set the project up as a paid service but considering the recession, that would have been very challenging.

G.40 The consultees believed the project has delivered good value for money because they have managed to leverage the funding well. They have exceeded the required number of businesses supported and also succeeded in getting well known business leaders to contribute to the project as volunteers. The consultees were also confident the efficiency of the project will be proven in the long run; this would be evidenced by the increased take up of environmental accreditations and the lowered carbon footprint of the businesses in the region.

Cross cutting themes

G.41 The project fits well with the programme's environmental sustainability cross-cutting theme by promoting behaviour and process change and leading to greater resource efficiency in SMEs. They have also addressed the equality issues where ever possible. This has, for instance, included consideration of making efforts to invite female or ethnic minority business representatives as well as thinking about accessibility of meeting venues.

Future delivery and scaling-up good practice

Risks to the project

G.42 The project is inline to achieve its targets and aims, and there are no major risks threatening the success of the project. However, should a double dip recession become reality and the businesses would become financially more squeezed, their attention might be directed to other areas, leaving environmental issues lower down on their agenda.

G.43 The main challenge for the project is the embedding of the behaviour change. The project was designed to help businesses for a limited period of two years. Whilst some major changes with long term impacts can be achieved during this time, fully embedding environmental sustainability in businesses is likely to take longer than that. In terms of future support, all members will automatically become part of the PLATO Alumni programme which consists of access to the web resources and continuing membership of the PLATO network. However, in terms of active support the project is currently looking at ways to continuing the activities with their current members beyond ERDF funding.

Scaling up good practice and lessons for the future

G.44 The project has not finalised a formal exit strategy as of yet, but they are currently in the process of creating one. The businesses in the project have bonded well and many of the businesses have expressed interest to continue the activities in the future. There is potential to commercialise the project and move into a pay-in model where the activities would be funded by membership fees. However, this will only be discussed formally with the current members later on in the spring so it is not clear whether this approach is truly viable.

G.45 One key lesson from this project is that to convince businesses, such projects need to define a monetary value to demonstrate the value of support the businesses receive, because businesses are mainly driven by the economic bottom line. As the membership in this pilot project has been free, the participating businesses have found it difficult to conceptualise the economic benefit and financial return on their time. Providing strong messages about the financial benefits and demonstrating the value of participating could make the recruitment easier.

G.46 The project has also highlighted the importance of providing appropriate people management training for the facilitators. The facilitators have been technically very good but the group activities could have been made more effective if the facilitators would have been provided with more training on people and social facilitation skills.

Conclusions

G.47 PLATO Sustain aims to make the regional SMEs more resource efficient through educating their senior managers about sustainable business processes and practices. The project has been very successful in engaging businesses, both in terms of supporting them but also getting influential business leaders to contribute to the project as volunteer group facilitators. The high flier facilitators have been key to the project’s ability to exceed their business support targets.

G.48 The project has helped many businesses to think about environmental sustainability and take actions towards it. However, future challenges lie in maintaining and embedding this approach in the long run. The project is looking at the ways of continuing the activity in the future, potentially on commercial basis, to ensure this.

Case Study 3: SMART Construction

Project details

Table G-3: Project summary

Name of Project	**Demonstrating Sustainable Materials and Technologies to the Construction Sector (SMART Construction)**
Amount allocated £	£249,088
Amount spent £	£103,210 (41%)
Match allocated £	£249,088 (by SEEDA)
Match spent £	£103,210
Priority Axis Theme	Innovation for a Sustainable Economy
Intended/actual start date	2009
Intended/actual completion date	2011

Source: SQW

Issues

G.49 The construction sector is a large contributor to the regional emissions and the adoption of sustainable construction technologies and materials by the building industry is critical to the achievement of SEEDA's Climate Change and Ecological Footprint targets. Increasing demand for sustainable construction products also presents SMEs in the construction sector with opportunities to develop new business.

G.50 This project is an interesting example of how the ERDF programme can with a single project have transformational impacts on the South East economy through addressing both environmental sustainability issues and supporting growth in the environmental technologies sector.

Rationale and objectives

G.51 A significant proportion of South East emissions can be attributed to the construction sector and as demand for new development in the region continues, construction emissions represent an important area for emissions reductions. The tightening legislation is also pushing construction businesses to think harder about their emissions. However, the construction businesses lack awareness and understanding of sustainable construction materials and technologies appropriate for their own businesses. There is no single source of information to provide them with practical information and guidance they would need to adopt more sustainable materials.

G.52 This project aimed to address these issues and support the take up of sustainable construction products by construction SMEs across the SEEDA region. The project hoped to do this by:

- **Developing and delivering an integrated package of sustainable construction briefing modules and workshops** by a unique partnership of national and regional sustainable construction experts. The sessions focus on proven, readily available products that optimise both environmental and economic impact. The briefings provide practical information on product availability, performance and economics, and cover the full range of sustainable construction product areas, including renewable energy, energy and water efficiency, sustainable and recycled materials and sustainable construction design.

- **Ensuring the programme is taken up by construction SMEs across the SEEDA region** by deploying key regional brokerage and sector support Partners (Business Links and the SEEDA Sector Consortia), and a region wide promotional campaign.
- **Working with Local Authority Partners** who include the briefing workshops within their campaigns to promote the adoption of SC products within their own new build and refurbishment programmes. The partners also provide demonstration centres where participating SMEs can see the technologies first hand.

Inputs and activities

G.53 The SMART Construction consists of the following key activities

- **Workshop Development and Delivery**
  - A portfolio of briefing modules was developed to offer tailored support appropriate for the needs of different SME audiences. To provide the participants the opportunity to see the sustainable construction technologies and materials first hand, the workshops were delivered at existing and planned demonstration centres across the SEEDA region. The sustainable construction technologies and materials covered in the modules are selected on the basis of environmental impact and economic benefit, including the new business opportunities they provide for SME builders themselves. To ensure the products included meet the identified SME priorities, the module content is market tested with construction SMEs, trades and professionals.
- **SME Brokerage and Recruitment**
  - The project is lead by Business Support Kent who at the time of the project initiation was on one of the organisations contracted to deliver the Business Link services in the South East. To complement the regional Business Link Sustainable Business Service, the South East regional Business Links have lead on brokering the workshop programme to construction SME's in the South East region. They have also subcontracted further partners to deliver sessions to certain target groups.
  - There has also been a regional promotion and telemarketing campaign for the programme and the project partners have promoted and incorporated the workshop modules in their own business support programmes. Local Authorities have also delivered workshops as part of their campaigns,

including briefings for SMEs within their own building and refurbishment programmes.

Key achievements, outputs and results

Key achievements and critical success factors

G.54 Overall, the SMART Construction project is perceived to have been a success. It has been particularly successful in initially pulling together an innovative partnership which is unique in its breadth and knowledge. In terms of regional coverage, the partnership has been wide enough to ensure the whole South East region receives benefits from the project. Through partnering with local authorities with notable regeneration areas (such as Kent Thameside) the project has also supported lesser performing parts of the region and harder to reach groups.

G.55 The project has also been proactive in creating linkages and collaborating with other existing schemes and project. For instance, they have maintained close links with the ESF funded EnviroSkills project, also run by the lead organisation, which provides businesses with free analysis on their environmental training needs and signposts them to relevant ESF subsided courses. The collaboration has involved referrals and signposting of businesses both ways. They have also signposted businesses to other ERDF funded projects which they have been involved in, including a forum on lifecycle analysis of environmental technologies and the Energy Grant 500 project.

G.56 Another success factor for the project has been the practical demonstration of the benefits of sustainable construction materials to the SMEs. The project was set up to communicate to the businesses why they should use sustainable construction materials and it has succeeded very well in doing that. Providing practical demonstrations of how the more sustainable alternatives work in practice has helped the businesses to become interested in the products whilst demonstrating the economic benefits of using more sustainable construction materials has helped the SMEs to make the business case for their use.

G.57 In engaging the businesses, especially the ability of the project to attract the right kind of speakers for their target audience (i.e. well-respected and high profile sector experts) has been the secret to their success. The project has also managed to engage the right people in the SMEs and target the awareness raising sessions to suit them so that they not only go in "at the right level" but also presented the information to the construction professionals in a manner that is understandable to them.

Overcoming challenges

G.58 Despite being successful in finding appropriate ways of communicating with businesses, the project has encountered challenges in getting the businesses to actively engage with the project. The recession that hit half way through the ERDF Competitiveness programme brought the construction sector into a standstill. As the financial concerns and securing new business in tightening conditions became the main aim of the sector's SMEs, they were less willing to take the time to attend the demonstration events. The consultees also believed that the climate change and sustainability issues have dropped down in the national policy agenda as the recession has directed the attention to the economic recovery. This has sent the businesses an even stronger signal of the economic concerns being the main focus in the period of recovery. As a result of this, the project has had to rethink their project content and re-focus it around key business drivers so that their offer is as attractive to businesses as possible. They have highlighted more the economic reasons for using sustainable construction materials so the business case is evident for the SMEs.

G.59 Business Support Kent has suffered from a severe cutback in the Business Link Service. These changes have meant a reduction in referrals and no access to the regional business database. To mitigate the impact of this, they have had to move from the initial partnership arrangements to a subcontracting system, working with providers who have a market place presence. For instance, in order to catch the architect audience, SMART Construction has had to deliver their sessions through organisations with a known footing in the design and architecture sector to maximise the chances of capturing the relevant audience.

Outputs, results and impacts

G.60 The project has delivered a good number of high quality events, seminars, and road shows which have been well attended and have received high praise from the delegates attending. The project has also been flexible to adapt their plans regularly, for instance, by piggy-backing on to any big events happening in the region. Examples of SMART construction events held in 2009 and 2010 are included in the table below.

Table G-4: Examples of SMART Construction events in 2009 and 2010

Name of the event	Location	Purpose and content	Successes
Retrofitting Sustainability – three workshops, 2009	Eastleigh, Milton Keynes and Crawley	Main content delivered by BioRegional Development Group. Additional speakers from ReMade Southeast present briefly on their ZeroWise programme and from London 2012 on opportunities for the construction industry.	• Over 80 delegates registered and around 70 approached • Very positive feedback on the case studies, level of expertise on the part of all the speakers and practical approach. • Based on feedback from the first session the second and third sessions were adjusted.
Construction Expo, 2009	Chatham's Historic Dockyards	• Three key products available for people to try: ➢ eco-paint ➢ lime mortar and bricks as a sustainable alternative to cement ➢ lime plaster • A seminar by Dick Strawbridge on sustainable	• 64 registered • Positive feedback overall

Name of the event	Location	Purpose and content	Successes
		refurbishment	
Annual Road show, 2009		• A series of coach trips to BRE's Innovation Park, including an overview of Innovation, lunch, and a tour. • A representative from one of the build teams on-site gave a short talk and Q&A relating to building low-impact buildings and lessons learned.	• 76 SMEs supported
SMART Conference, 2010	Kent	• High profile speakers on how the construction industry is coping with tightening legislation to meet national carbon reduction targets • Two Masterclasses on sustainable building materials and how to win tenders • Exhibition on building materials and processes. • Meeting trainers to help develop the skills for new markets	• 130 delegates and 69 referrals for further output analysis
Piggy-back events			
Hampshire Sustainable Business Awards, 2009	Hampshire	• Piggy-backing on the awards. • SMART sponsored the Sustainable Built Environment award.	• Further visibility for SMART in Hampshire • Case studies have been put on the SMART website and some further events are planned in relation to the winner.
Kent 2020, 2009	Kent	• SMART manned a stand for general awareness raising at Eco Zone	• Interest from companies, especially towards FIT workshops advertised at the stand
RIBA, 2009		• A modified version of Retrofitting events for the audience with a special focus on how architects could sell their "green credentials" to RIBA clients.	• The event was met with a great deal of enthusiasm with 51 delegates attending.

Source: SQW based on information from SEEDA

G.61 The project suffered from confusion about the output definitions which meant that half way through the project, they had actually achieved fewer outputs than they thought they had. This was a challenge for the project because the project was, by design, more geared towards providing light touch business support. After the definitions were clarified, the project team ended up re-contacting some of the supported businesses for further follow-on support. However, as this was not possible for all beneficiary businesses, the project team and SEEDA ERDF programme team jointly agreed a re-profile of the outputs targets.

G.62 The project is now making better progress against these targets and they are now closer to achieving their targets than it initially seemed. This has been attributed to the hard work of the project team and positive collaboration with the SEEDA programme team. The project leads and the SEEDA project manager are seen to have been flexible and persistent in jointly making the project a success.

G.63 The consultees believed the project had successfully engaged with the target audiences. It is difficult to measure yet any notable increases in the uptake of sustainable construction materials by the SMEs or impact on employment or regional emissions. However, the consultees are confident that the awareness of businesses on sustainable construction materials has improved and the impact of it is likely to be evident in the long run.

Additionality and value for money

G.64 Without the ERDF support the SMART construction activities would not have taken place. At the time of the proposal, the lead organisation was best placed to pull together such an innovative partnership. However, in the absence of SEEDA's match funding they would have been unlikely to find an alternative funder for the project due to the tightening climate in the public sector.

G.65 The project is seen to have been good at linking with their other European funded activities as well as other events that are being organised by other organisations. This is seen to have had a positive impact on the value for money the project delivers.

Cross cutting themes

G.66 The project contributes directly towards the aims of the environmental sustainability cross-cutting theme. It does this by reducing the emissions of the construction sector through the promotion of more sustainable materials for the sector.

G.67 It has been challenging for the project to address the equality cross-cutting theme due to some of the inherent limitations of the construction sector. For instance, majority of the work force is male and there are very few disabled people employed in the sector. However, they have considered the equalities aspects where ever possible. They have examined access issues to their event venues and ensured their invitations are sent to as wide of an audience as possible, including construction professionals over the age of 60.

Future delivery and scaling-up good practice

Risks to the project

G.68 Potential double dip recession is a risk for the project. Engaging businesses in tough economic times has proven challenging and a second recession could jeopardise the ability of the project to engage with the required number of businesses.

G.69 The public sector funding cuts are another concern for the project. The lead organisation's own funding has been cut and that has lead to loss of some internal capacity. So far, they have been able to cope with this but further cuts can have an impact on the project. As the match funding currently comes from SEEDA and this spend has been already committed, there are no imminent match funding issues. However, the project needs to look at new funding sources when designing the exist strategy and planning for sustainable delivery of activities.

Scaling up good practice and lessons for the future

G.70 The project has looked at the potential to scale up the benefits of the project by applying the content and knowledge in a wider range of settings. The initial intention was to offer the content package developed in this project to local authorities in the South East to help them in their construction procurement processes. However, due to the public sector funding cuts the authorities are procuring less and less, so even if adopted, the impact of this is likely to be limited.

G.71 Currently there is no defined exit strategy and the funding cuts pose challenges in ensuring sustainability of the activity. However, the lead partner is in the process of looking at the different options for continuing the work. The Project Management Group aims to device a final plan for long term sustainability in the first quarter of 2011.

G.72 In terms of lessons, the project has highlighted the importance of realism and flexibility. The project was faced with tough economic conditions which impacted their ability to recruit businesses and in hindsight more cautious forecasts about the number of businesses assisted would have made it easier for them to achieve their targets. However, the flexibility of the project team to adapt their plans to fit the changing conditions has helped the project to move on and continue making progress.

Conclusions

G.73 SMART Construction is an innovative project addressing a sustainability knowledge gap in small construction businesses. It was unique in its approach to pull together a partnership of key experts to create an awareness raising package of events and briefings and deliver it effectively to SMEs in the region. The events were well designed and successful because they not only explained the reasons for adopting sustainable construction materials but also provided the construction professionals the opportunities to see and try the materials in practice.

G.74 Despite being faced with challenges in external circumstances with the recession and internal issues of losing funding and direct access to businesses, SMART Construction project has made the most out of the situation that they are in. They have been flexible and consistently adapted their plans to fit the chancing context, which has helped them to continue making progress.

Case Study 4: ZeroWISE Bulky Waste

Project details

Table G-5: Summary of project details

Name of Project	ZeroWISE Bulky Waste
ERDF amount allocated £	£160,684
ERDF amount spent £	£66,730 (42% of total spend as of September 2010)
Match allocated £	£160,684 (SEEDA)
Match spent £	£66,730 (42% of total spend as of September 2010)
Priority Axis Theme	Encouraging resource efficient business practices in production
Intended/actual start date	2009
Intended/actual completion date	2011

Source: SQW Consulting

Issues

G.75 The environmentally-responsible disposal of bulky waste items[92] poses a substantial challenge in the South East, resulting in an estimated 915,550 tonnes[93] of bulky waste going to landfill each year. The ZeroWISE Bulky Waste ERDF project is a research project on implementing recycling, re-use and energy-from-waste solutions to divert bulky waste items from landfill. The project provides an opportunity for the private, public and third sector to work together and share lessons on how waste can be reduced and new markets can be created.

Rationale and objectives

G.76 The project provides the opportunity for Remade South East[94] to facilitate and inspire the development of new ways of handling bulky waste, with seven local partners including small and medium enterprises (SMEs), Councils and voluntary organisations[95]. It aims to explore innovative solutions to dealing with bulky waste and to unlock new market opportunities for pre-processing and re-processing bulky waste.

G.77 The goal of the project is to identify a minimum of six new waste markets and to divert 30,000 tonnes of bulky waste items away from landfill over the life of the three year project, by finding environmentally-friendly solutions for bulky waste items from both public and private sector sources. The project, joint funded by ERDF and SEEDA, provides a unique opportunity for organisations to undertake this type of research, meeting "perfectly" the programme specification of 'Reduction, Reuse and Recycling of material'. Innovative

[92] Bulky waste items include: carpets, mattresses, plasterboard, large plastic items, furniture and treated wood.
[93] Estimate from: Remade South East, 2010, *An Investigation of Bulky Waste Arisings & Flows in South East England*
[94] A not-for-profit company
[95] Partners include: East Sussex County Council, Medway Council, MDJ Light Brothers, Ball Contractors, Countrystyle Recycling, Neighbourhood Furniture Store, Kingsnorth Waste Management.

research, perceived as too risky to be funded by business, was able to be commissioned, catalysing progress in waste disposal in the South East.

G.78 ZeroWISE Bulky Waste is one of three ERDF funded projects managed by Remade South East and running in parallel[96].

Inputs and activities

G.79 The project involves activities by the partners in five work streams:

- **South East Bulky Waste Survey** to gauge the impact on landfill and assess methods of collection, treatment and market suitability
- **Market trials for bulky materials** to develop methods for pre-processing and reprocessing bulky materials for new end markets
- **Trial collections of bulky items from households and businesses** to encourage SMEs and social enterprises to test business models which ensure that bulky materials are removed while still in a serviceable condition, and can thus be re-used
- **Exploration of energy from waste solutions** to test for the most economic and environmentally beneficial options for generating energy from contaminated bulky waste[97]
- **Raising awareness** of the issues and solutions regarding the disposal of bulky waste for businesses, local authorities and social enterprises through awareness raising sessions.

G.80 Activities have spanned the research and trial/implementation of new approaches to waste management. In terms of re-processing, initial research into the best ways (and machinery required) to break down and process bulky waste precedes action from specialist partners (e.g. Kingsnorth Waste Management for plastics recycling). In this process, the project helps partners to set up waste processing facilities and has the potential to establish new markets for waste products.

G.81 The range of partners involved has lead to a wide range of different activities and initiatives taking place; from recycling of plasterboard and wood, to the shredding of mattresses (including the development of routes for material once reprocessed), to the reuse of furniture and more.

G.82 The project has partners across the region and involves the sharing of knowledge and best practice by way of reports, case studies and guidance for the replication of trials across the South East. As such, although demonstration trials are held in Medway and East Sussex, the project addresses the pan regional nature of the programme.

[96] The three projects are designed to complement each other and carry over the rationale into different sectors. The focus of the other projects is construction waste and food waste.
[97] Such as carpets, mattresses and soft furnishings

Key achievements, outputs and results

Key achievements and critical success factors

G.83 Consultees perceive that the project is having a meaningful effect on the waste industry. This is evident in terms of the waste-diversion outputs achieved to date. By October 2010, the project had already diverted 21,167 tonnes of bulky waste from landfill (4,233 CO_2 equivalent savings), 70% of the tonnage target for the project. The project is anticipated to exceed this tonnage target.

G.84 Two successful networking events have been held, attracting 86 delegates. These events enabled businesses, local authorities and social enterprises to come together to discuss methods and routes for diverting different types of waste, and provided an opportunity to disseminate learning. The innovative nature of the project as one of the first projects in the country to address the disposal of bulky waste is believed to have led to the high levels of engagement of parties at these events.

G.85 Good partnership working, facilitated by good project management and support, is felt to be key to the success of the project. Although each partner has a unique role within the project, bringing individual experience and expertise, given the interlinking nature of the project, communication and agreed action plans between partners and Remade South East has been paramount to the project successes.

G.86 The process of administering the Bulky Waste project was felt to be eased by the multiple ERDF projects Remade South East is leading on. A back of house team was tasked with managing the administrative requirements of the three projects, and they were able to streamline the systems in terms of the monitoring systems and the collection process for evidencing outputs, and share knowledge and learning as appropriate.

Overcoming challenges

G.87 The considerable administrative obligations associated with ERDF funding have proved a challenge for the project. Initial uncertainty and a lack of clear guidance over output definitions and SEEDA's evidencing expectations meant that the project targets needed to be re-profiled in 2010. Although the Bulky Waste project is now on track to achieve and evidence the re-profiled targets, clearer guidance and communication at the beginning of future bidding rounds would prevent this experience being repeated.

G.88 The project has also experienced some challenges associated with working with private companies – particularly those unsure of the rigorous administrative requirements of working on a European funded project. Two partners dropped out at an early stage in the project and Remade South East have had to take on the additional burden associated with administration for a number of other partners. This has diverted resources away from project delivery, although is not believed to have compromised achievement of outputs. One consultee noted that the administrative rigour of managing ERDF projects had improved Remade South East as a business – in terms of their administrative structures.

Outputs, results and impacts

G.89 The Bulky Waste project promised to deliver a set of concrete measurable outcomes to reduce ecological footprint, as well as further positive knock-on effects as a result of best practice dissemination. The project is on track to deliver the re-profiled targeted outputs and by October 2010 had already diverted 21,167 of the 30,000 tonnes of bulky waste from landfill set out in the objectives.

Additionality and value for money

G.90 Consultees felt that due to the risks and costs of undertaking research which is not purely product based, such research into the recycling and reuse of bulky waste materials would not have occurred without the support of ERDF funding. The coordination of partners such that the issue of bulky waste is dealt with holistically is a key result of the project, as businesses would not initiate research which they see as being outside of their brief. The early research conducted as part of the project has stimulated the market so that people in markets are now taking up the mantle of environmentally-responsibly bulky waste disposal and running with it.

G.91 While a small number of the elements may have developed organically over a longer period of time, for instance innovation around plasterboard waste following a change in legislation prohibiting plasterboard going to landfill, even here the project accelerated this process. It was felt that with other materials, progress would not have advanced significantly were it not for the project.

G.92 The project has become much more than the sum of its parts. It has been provoked change in partners' mindsets and aspirations about the items that can be reused or recycled. For instance, since the beginning of the project one partner, MDJ Light Brothers, has run a campaign to recycle the metal from old heating boilers in partnership with a local company's subsidised replacement boiler scheme. Partners are also more likely to share and discuss new ideas because of the relationships built up through the project.

G.93 Although the majority of the benefits fall within the region, progress is also shared with businesses outside the region, for instance through networks like Carpet Recycling UK. The project is perceived to be innovative – the first in the South East and one of the first in the UK to look at the whole area of bulky waste, as a result attendees from outside the South East have been present at Remade South East's regular networking events.

G.94 The project is felt to demonstrate value for money, although this is difficult to measure – particularly given that the spillovers described above will lead to long term benefits beyond the funding.

Cross cutting themes

G.95 The Bulky Waste project strongly supports the programme's environmental cross cutting theme, through the development of markets for bulky waste to prevent pollution and fly-tipping. As a result of the market trials, around 30,000 tonnes of bulky waste will have been diverted from landfill, consequently making 6,000 CO_2 equivalent savings. Other work streams of the project are raising awareness of the need to reduce the region's ecological footprint and handle waste responsibly.

G.96 In addition, the project meets programme requirements on Equality of Opportunity, although does not demonstrate any explicit opportunities for enterprises led by disadvantaged groups.

Future delivery and scaling-up good practice

Risks to the project

G.97 The Bulky Waste project does not face any imminent risks and is on track to deliver its (re-profiled) targets. However, the project is reliant on a number of partners and, particularly in light of the current economic climate, there are always risks associated with businesses going into liquidation – as happened early in the process.

Scaling up good practice and lessons for the future

G.98 The benefits from the Bulky Waste project are designed to be self-sustaining beyond the life of the project, with partners committed to take activities forward after the ERDF. The project is mainstreaming sustainable best practice for bulky waste and generating a stronger working relationship between the waste sector, social enterprises and local authorities.

G.99 There are two important lessons to take forward from the project:

- **Administration** – Through clear guidance and communications it is important that all partners and SEEDA understand what will be delivered from the start of the project. This understanding will allow for realistic targets for outcomes to be set.
- **Choice of partners** – When working with partners it is important to ensure that all parties know and sign up to the full commitment of the work. Knowledge and, where possible, experience of the administrative requirements will ensure that partners are able to deliver. A smaller number of partners would ease the management burden on the lead partner, both in terms of the logistics and support required.

Conclusions

G.100 The project has been a catalyst for changing perceptions and approaches to waste management in the South East. The research undertaken has developed new environmentally-beneficial processes to be implemented, creating a lasting legacy in the treatment of bulky waste materials.

G.101 The relationships established between the waste sector, social enterprises and local authorities should lead to continued innovation and collaborative activities in the future, and real progress on the programme's environmental cross cutting theme.

Case Study 5: Sustainable Routes

Project details

Table G-6: Summary of project details

Name of Project	Sustainable Routes
ERDF amount allocated £	£578,333
ERDF amount spent £	£125,202 (22% of total spend as of September 2010)
Match allocated £	£578,333 (from partners and SMEs)
Match spent £	£125,202
Priority Axis Theme	Encouraging sustainable consumption practices
Intended/actual start date	2009
Intended/actual completion date	2012

Source: SQW Consulting

Issues

G.102 Transport is a significant challenge for the South East region, both in respect to the economic costs associated with congestion and the environmental costs of pollution. While local authorities have pursued a predominantly commuter and large organisation[98] focused approach to travel planning, success engaging small businesses has been limited. Sustainable Routes addresses the gap in the market by engaging small and medium enterprises (SMEs) in travel planning as a mechanism to increase efficiency and reduce emissions. As the only transport related ERDF project to have been contracted to date, the Sustainable Routes project provides a useful insight into the programme's support of the sustainable transport agenda and allows reflection on the best ways to engage SMEs in travel planning.

Rationale and objectives

G.103 The rationale for the project is to create a more design led system of travel planning, which reduces the impact of business travel on the environment. By taking up green travel plans and changing their behaviour, small and medium enterprises could improve competitiveness through a reduction in costs and lost time associated with congestion and business travel. Thus SMEs could increase their profit margins as well as make carbon dioxide savings by making their travel more efficient. However, they would not change their behaviour without support because of a lack of sufficient knowledge and the initial financial outlay associated with designing and implementing a travel plan. The project provided the opportunity for ngage solutions, an established business support organisation, to identify the best delivery route for spreading this message, engaging directly with SMEs concerning business travel. This represents a movement away from the local authority model, where authorities had struggled to engage with small businesses in cases where a travel plan wasn't a stipulation of planning conditions.

[98] Authorities have principally worked with schools and hospitals.

G.104 The objectives of the Sustainable Routes project are fourfold and stem from this rationale:

- increase the number of SMEs engaging in travel planning
- change business and employee behaviour to deliver productivity and environmental benefits
- reduce carbon dioxide emissions
- identify the best delivery route.

G.105 The Sustainable Routes project responds directly to the Programme objectives set out in the Operational Programme. It was designed to encourage sustainable consumption practices in business through developing sustainable mobility; reducing the rate of growth of the region's ecological footprint, whilst stimulating economic growth – recognising that congestion is a known challenge to the region's economic competitiveness and ability to attract inward investment.

Inputs and activities

G.106 The Sustainable Routes project consists of two activities:

- **online assessment** – ngage solutions has developed an online assessment tool to be filled out by businesses, which instantly provides them with a corporate snapshot through two reports (one company specific report based on responses to the questionnaire and one more general report on savings that can be made). In simple non-bureaucratic language the reports estimate the likely costs and environmental and financial benefits of adopting sustainable transport policies.
- **match funded grant** – Businesses can apply for a match-funded grant of up to £1,000 to implement their Travel Efficiency Plan. These grants are flexible and can be spent on a wide range of improvements, from webinar software to improve facilities for working from home to a shower facility in the office to encourage employees to cycle to work. The match funding is provided by businesses and partner local authorities including Buckinghamshire and Milton Keynes County Councils and Wokingham Borough Council.

G.107 The box below briefly highlights a success story of the Sustainable Routes project.

Pinewood Studios

The Pinewood Studios Group was one of the first companies to receive a grant of £1,000 from Sustainable Routes to help implement a company-wide travel plan. Staff, tenants and visitors are encouraged to travel to and from the three Studio sites using a free Shuttle Bus Service, rather than their own vehicles.

The introduction of the system is estimated to save 1,055 tonnes of CO_2 each year.

Key achievements, outputs and results

Key achievements and critical success factors

G.108 Sustainable Routes is perceived to be a standout ERDF project. The project has been highly successful at engaging small and medium enterprises and raising awareness of the big difference that small changes in travel can make to businesses. Partly as a result of the ease of registration and application, 220 businesses had already completed the online assessment and received their reports before the project's half way point, compared to the whole project target of 255. The creation of the automated online assessment tool to produce specific, accurate reports for businesses instantaneously has also been deemed to be a key achievement. Prior to its creation, each Travel Efficiency Plan had to be prepared manually.

G.109 A large part of the success of the project so far has been attributed to the team. Following initially disjointed project management, caused by rapid staff turnover, the current team have worked successfully together and are well suited to their roles, with a strong understanding of SMEs. The contract manager is able to provide strong overarching support and direction, while the project manager provides a constant presence on the ground, promoting Sustainable Routes to SMEs through networking meetings and high quality marketing materials. These achievements could not have occurred without sound back office support from the ngage team

Overcoming challenges

G.110 In the early stages of the project, there were also some issues around the claims administration procedures. Clear guidance in the grant application form has clarified the grant rules, which has mitigated this challenge for future applicants.

G.111 The Sustainable Routes project has also faced an ongoing challenge getting businesses and local authorities to provide match funding – something which has been particularly challenging in times of recession and public sector cutbacks.

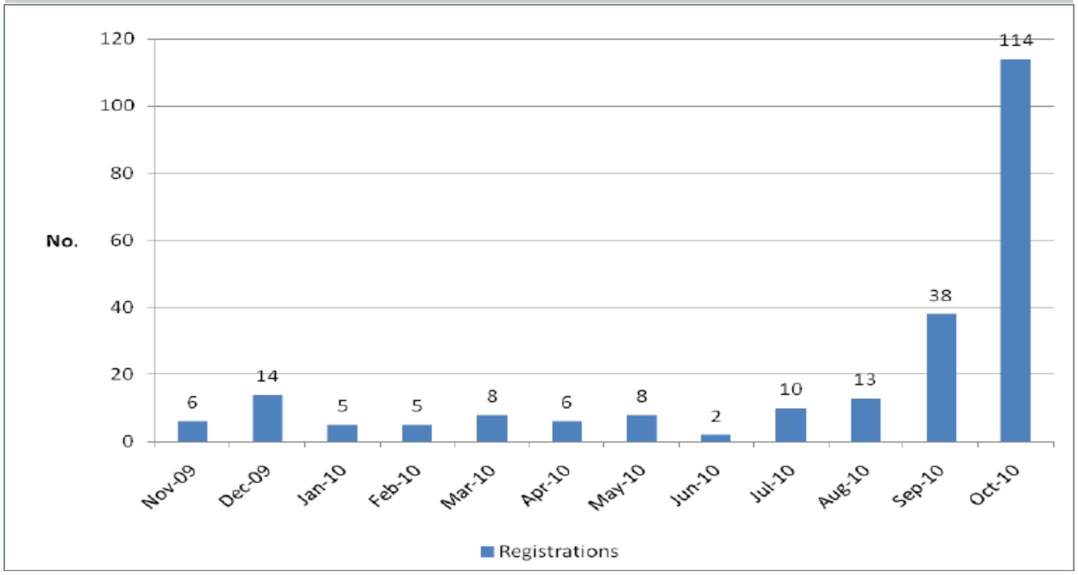
- SMEs – The conversion of the Travel Efficiency Plans into grants has been lower than expected, which one consultee suspected had been exacerbated by the bleak economic outlook. However, there are mechanisms in place to improve this including marketing and follow ups. The Project Manager's role networking and providing support to businesses on the ground was felt to be important in addressing this challenge.
- Local authorities – Obtaining Local Authority match funding has been a challenge given the scale of the public sector cutbacks. As travel planning is not part of the authorities' statutory obligations, staff and budgets have been severely cut.

G.112 Obtaining match funding is crucial to the future success of the project and continues to present a challenge moving forward. However, alongside this challenge there is opportunity. Rising fuel charges mean that transport costs have become an increasingly prominent issue for business. Sustainable Routes provides the opportunity to focus on lowering these transport costs through Travel Efficiency Planning.

Outputs, results and impacts

G.113 Consultees noted that the project is making good progress at engaging businesses in Travel Efficiency Planning, particularly since the Travel Efficiency Planning process became automated in September 2010 (Figure G-7 below illustrates the number of registrations). However, there was initially a lower than expected take up of grants due to the reluctance of SMEs to commit to any expenditure, which has led to an initial underspend.

Figure G-1: Number of registrations



Source: QandA Research, 2010, Sustainable Routes Interim Evaluation – First Mini-Report, p.13

G.114 The Sustainable Routes project is expected to achieve its targets by its specified end date, although a remaining challenge is to collect evidence around the impacts of the project on business performance. Given initial communication issues between SEEDA and the project, there was initially a level of misunderstanding as to what counted as an output and how they needed to be evidenced.

G.115 The Sustainable Routes project has the potential to improve travel efficiency, and thus reduce both the financial and environmental costs associated with business travel. According to the interim evaluation, the 56 grants agreed by the end of September 2010 (just over £50,000 in total), could lead to potential savings of £740,000 in the first year and £1,311,043 in the second year, in addition to 110,620kg saving in carbon dioxide emissions.[99] This highlights the potential benefits associated with reducing emissions in the South East region in addition to helping SMEs in the current economic climate.

Additionality and value for money

G.116 The high expected rate of return on grants agreed to September 2010 (as explained above) demonstrates the project's potential to achieve value for money.

G.117 Without ERDF support, consultees thought that the Sustainable Routes activities would have been unable to take place. In developing the project, ngage solutions has sought to recognise

[99] QandA Research, 2010, *Sustainable Routes Interim Evaluation – First Mini-Report*, p.3

that the delivery model for encouraging businesses to adopt Sustainable Transport policies needs to evolve and change, to deliver more effective and efficient outcomes through closer joint working between regional, sub-regional and local partners. Without the project, local authorities, who had not been able to encourage SMEs to engage in voluntary travel plans, would have remained the sole providers of travel plans, and the businesses engaged through Sustainable Routes would not have been involved in Travel Efficiency Planning and thus the benefits of the project would have been lost.

Cross cutting themes

G.118 Sustainable Routes strongly supports the programme's environmental sustainability cross cutting theme by encouraging participant SMEs to rationalise their business travel and as such reduce their travel emissions.

G.119 The project was also designed to add to the equalities cross cutting theme. The Equalities Project Plan fulfils ERDF requirements and set Equality and Diversity Impact Measures, which are reviewed and monitored against. In order to ensure the project is inclusive of a wide range of groups, appropriate marketing materials are used to ensure broad take up.

Future delivery and scaling-up good practice

Risks to the project

G.120 The future uncertainty around both public and private sector match funding, particularly in the current economic climate, continues to present a risk to the project. However, mechanisms are in place to manage this risk and, from a business perspective, the focus around long-term financial as well as CO2 savings combined with a renewed focus on increasing travel efficiency in a time of spiralling fuel prices may help to lessen these risks.

Scaling up good practice and lessons for the future

G.121 In addition to the initial businesses engaged and supported, the Sustainable Routes project has asked questions about the most appropriate organisations to take forward travel planning with small and medium enterprises. The project has already proven very successful in encouraging businesses to take the first step towards changing their behaviour by going through the Travel Efficiency Planning assessment process. However, taking this interest and engagement forward and encouraging businesses to subsequently invest in implementing the plan has proven more challenging – particularly in a difficult economic climate.

G.122 Following the project, there will be much that can be taken forward. An evaluation is being undertaken by QandA Research and will be fed into SEEDA. At the end of the project, conversations will be held with National Travel Business Network and the Department for Transport, to strategically relay findings from the project to be taken forward. A key point will be to discuss the role for business support organisations role moving forward. Opportunities will also be examined to disseminate the online assessment tool which was created as part of the project. As one consultee commented: "there is tremendous potential for scaling up the tool."

G.123 The Sustainable Routes project highlights an important lesson around engaging effectively with SMEs – that the lead organisation is crucial to the buy-in and resulting changes in SME behaviour. It is important that the organisation has considerable knowledge and understanding of working with SMEs, including what information they are able to provide and how to incentivise them to change their behaviour. Also, a presence on the ground through networking and a willingness to modify the approach as appropriate is important.

Conclusions

G.124 The project has shown that by promoting sustainable travel planning as a way of saving money as well as reducing emissions, Sustainable Routes has been successful at encouraging SMEs to consider their travel arrangements. However, translating new Travel Efficiency Plans into cash investment presents a challenge, particularly in the current economic climate, and is the focus of continued work.