East Midlands 2007-13 ERDF Programme – Update

Purpose of the Paper

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

Recommendation

Members of the LMC are invited to:

- Note the progress of the Programme since the LMC meeting in December 2011.

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1.   Programme Update

1.1   Summary

Programme implementation continues to progress well and, by the end of January 2012, some **153** projects (worth approx. **£120m** ERDF) had formally accepted or been offered funding agreements. Negotiations are well advanced with a further **84** projects (requesting **£63.6m** ERDF)[1] and those to be considered by the LMC Investment Sub Group at their first meeting on 28 February are detailed at **Annex A** (additional projects may be added to this list if ready).

From 1 July 2011, responsibility for delivering the ERDF Programmes transferred from the Regional Development Agencies to the Department for Communities and Local Government (DCLG) and work began on standardisation of processes. This is ongoing, but one outcome has been the introduction of a standard performance management template. The precise nature of the template is still being refined pending updates to the ERDF IT system, but the latest version of the template is attached at **Annex B.**

1.2   Programme Value

The East Midlands 2007-13 ERDF allocation is **€268.5m**. At the beginning of February 2012 this equated to approximately **£231m** having fallen back from a high of £261.5m in January 2009 (the lowest Sterling value to date was £177.3m in February 2007).

Programme Value:	€268,495,983
Euro Rate:	1.16
Current Programme Value:	£231,052,624
PA1 Value:	£99,816,371
PA2 Value:	£122,026,033
PA3 Value:	£9,210,220

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

1.3 Commitments

Funding agreements signed/offered		ERDF Funding (£)	ERDF Funding (€)	% allocation
PA1	61	70,768,343	81,125,470	70.90
PA2	86	47,856,192	55,430,960	39.25
PA3	6	1,989,229	2,269,101	21.60
Total	**153**	**120,613,764**	**138,825,531**	**52.2**

1.4 N+2 Spend Target

The 2011 N+2 target was achieved in June and by the end of the year sufficient claims had been submitted by project applicants to allow the programme to exceed the target by approximately **£14.6m**. This overachievement counts towards the 2012 target.

The 2012 N+2 target is approximately **£112m** (this is total spend since the start of the programme as N+2 targets are cumulative) but, as we are allowed to remove the programme advance provided by the European Commission at the beginning of the programme from the overall spend required to achieve the target, the programme will be required submit project claims totalling **£95.8m**. Together with the overachievement from 2011 and claims approved for payment by at the end of January, a further **£20.1m** of ERDF expenditure is required to achieve the 2012 target.

2. Priority Axis 1 (PA1)

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

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

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

2.2 Third Innovation Call for Activity

We received 56 EOIs worth £74.8m ERDF in May 2011. Of these, 27 were invited to full application. Two were rejected at application stage and a further six have since withdrawn. Two have now been offered funding agreements (committing approximately £3.3m ERDF), two (worth approximately £1m ERDF) are in contract negotiations and currently with legal services prior to being offered.

In summary, some 14 applications (worth approximately £18.6m) are approved or progressing towards approval and a further five (seeking approximately £10.2m) are in the pipeline to proceed to appraisal/endorsement once issues are resolved. Accordingly, if all these come forward we would need to allocate a further £10m to this call, over the original £19m agreed in 2011.

2.3   JESSICA

To be discussed separately at Agenda item 5 (Paper 2007-13 ERDF LMC – 10 February 2012 – Paper 02).

3.   Priority Axis 2 (PA2)

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

3.2   Following PMC endorsement of the 2011-2013 allocations, Districts refreshed their Local Investment Plans outlining priorities for investment in their areas. All Districts launched 'Calls for Activity' in summer 2011 and the response has been highly encouraging with **75** full applications resulting from these calls. Districts are now looking at further 'Calls for Activity' to commit their remaining funding.

4.   Evaluation

To be discussed separately at Agenda item 4 (Paper 2007-13 ERDF LMC – 10 February 2012 – Paper 03).

5.   Publicity

On Thursday 19 January 2012 HRH The Princess Royal formally opened the **Lincoln Engineering Hub** which has been supported with over £1.8 million from PA1, and match funding from Lincolnshire County Council, the Higher Education Funding Council for England (HEFCE), Siemens and the University.

Her Royal Highness toured the facilities on the University of Lincoln's Brayford Campus and met students and staff before unveiling a plaque to mark the occasion. Accompanied by The Lord-Lieutenant for Lincolnshire, The Princess met the University's Vice Chancellor, the Head of the School Dr Jill Stewart and the engineering academics and professionals from the University and Siemens who have helped found the new School of Engineering – the first to be built in the UK for more than 20 years[2].

6.   Management and Control

6.1   Further to discussion at the LMC meeting in December 2011, Members will wish to note that the **Annual Control Report 2011** was sent to the Commission by the Audit Authority on 19 December. It gives an *unqualified opinion* for all English

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[2] http://www.lincoln.ac.uk/news/2012/01/455.asp

Regions and confirms the concluded error rate for the East Midlands Programme at **1.57%.**

7. Broadband

7.1   Further to discussion at the December LMC meeting, members will wish to note that the Commission have now clarified eligibility of broadband investment in Competitiveness programme areas and guidance has been issued by DCLG – **Annex C**

8. Approach to Outputs, Results and Impacts

At the meeting in December 2011, Members requested a fuller explanation of the rationale and objectives of the East Midlands Operational Programme and its approach to Outputs, Results and Impacts.

In line with best practice, a clear framework and logic chain underpins the East Midlands Operational Programme. This framework is consistent with the Rationale, Objectives, Appraisal, Monitoring, Evaluation and Feedback cycle described in the HM Treasury Green Book. ERDF and associated match funding acts as the input into achieving these objectives, buying a range of activities that produce outputs that lead to results and impacts:

- **Inputs:** resources from ERDF and other finance;
- **Programme operations:** activities secured by the inputs;
- **Outputs:** the goods and services created by the activities (e.g. number of businesses assisted);
- **Results:** the immediate effect of the outputs (e.g. number of gross jobs created); and
- **Impacts:** the wider impact of the supported activities taking into account displacement, leakage and additionality.

This logic chain is illustrated in the following chart.

Chart 1: The Programme Logic Chain
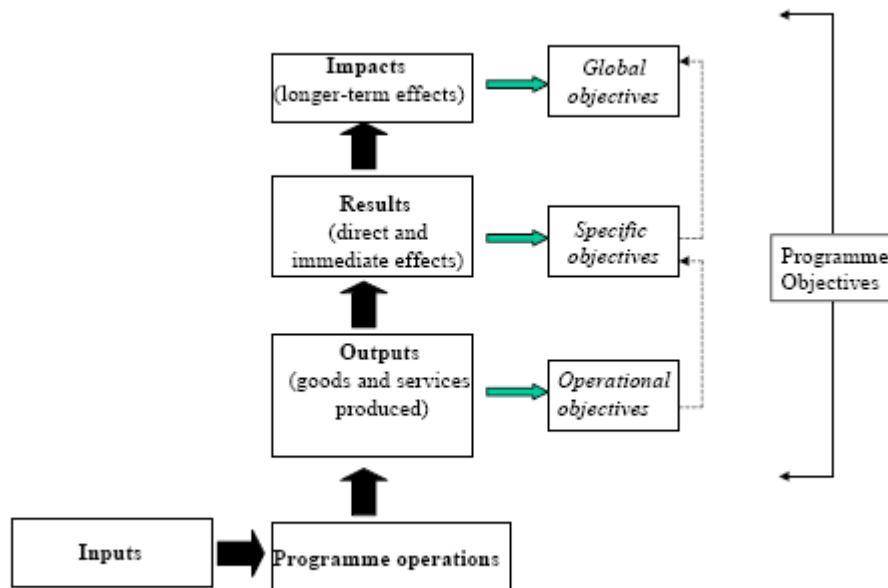
Source: Indicators for Monitoring and Guidance, European Commission, January 2006

Indicators for monitoring and measuring the progress of the Operational Programme have been developed at the national level. The development process took account of previous experience of what can be realistically measured on a timely basis (the approach was mindful of national policy to reduce the administrative burden on business). Regions were invited to select those indicators most applicable for measuring progress and delivery of activities in their Operational Programmes. These indicators are monitored and reported in the annual reports. Additional regional indicators specific to the Programme may be developed and agreed by the LMC as part of any programme monitoring and evaluation framework.

8.2   Targets for outputs, results and impacts for the East Midlands Operational Programme

A summary of the projected outputs from the Operational Programme is provided in Table 1 below (further detail is provided at Priority Axis level in Section 4). These indicators have been chosen from the national menu based on the content of the Operational Programme and initial allocation of resources between indicative activities. The table shows that the Operational Programme is expected to generate the following outputs in relation to the funding made available to the region through the ERDF Competitiveness Programme:

- Over 9,000 businesses assisted to improve performance;
- Over 2,000 businesses engaged in new collaborations with the UK knowledge base;
- €216 million of public and private investment leveraged;
- Over 36,000 square metres of new or upgraded floorspace;
- Around 2,700 people assisted to start a business; and
- 17ha of brownfield land reclaimed.

It is expected that these outputs will result in:

- Over 8,000 jobs created;

- Over 7,000 businesses improving their performance;
- Around 2,000 new businesses created; and
- Around 4,000 graduates placed in SMEs.

It should be noted that for 'business assistance' activities (for which only SMEs are eligible), the nature of assistance will be recorded and monitored in terms of whether it is:
- Innovation activity;
- Energy efficiency activity;
- Resource efficiency activity; or
- Enterprise activity.

Business assistance will also be recorded and monitored according to whether assistance was provided to a social enterprise.

Table 1.1: Outputs expected from the Operational Programme

Output	Target
No of businesses assisted to improve performance*	9,300
No of businesses engaged in new collaborations with the UK knowledge base	2,300
Public and private investment leveraged (€)	216,000,000
Sq metres of new or upgraded floorspace (internal premises)	36,100
No of people assisted start a business	2,700
Brownfield land reclaimed or redeveloped (ha)	17

*it is anticipated that approximately 20% of these businesses will receive support related to energy and resource efficiency.

Table 1.2: Results expected from the Operational Programme

Result	Target
No of jobs created	8,600
No of businesses improving performance	7,200
GVA resulting from businesses improving performance (€)	263,000,000
No of graduates placed in SMEs	4,000
No of new businesses created and new businesses attracted to the region	2,000

Table 1.3: Impacts expected from the Operational Programme

Impact	Target
Increase in GVA (€)	221,000,000
Increase in employment	4,600
Increase in businesses	700

9.   Recommendation

Members of the LMC are invited to:

- Note the progress of the Programme since the LMC meeting in December 2011.

Projects for LMC Investment Sub Group consideration

EMX	Title	Applicant	Date Appraisal Completed	ERDF Amount
PA1				
05569	G:Step	University of Leicester	29/07/11	£767,707
06793	MAS 3	PERA	27/09/11	£2,168,647
08007	Institute for Advanced Manufacturing	University of Nottingham	16/11/11	£979,028
08008	Postgraduate Placements in SMES	University of Nottingham	16/01/12	£293,205
PA2				
08023	Chesterfield Gateway Enhancement scheme	Chesterfield Borough Council	10/01/12	£326,315
08026	Chesterfield Innovation Support	Chesterfield Borough Council	10/01/12	£126,400
08000	Humberstone Gate East Gateway	Leicester City Council	16/01/12	£1,540,700
07353	Enterprising New Arrivals	TREC	24/10/11	£184,536
08027	Corby Enterprise Support	The University of Nhants	23/01/12	£577,377
PA3 TA				
To be advised	Lincs TA	Lincs CC	30/01/12	£143,562

EAST MIDLANDS PROGRAMME PERFORMANCE

30/01/2012
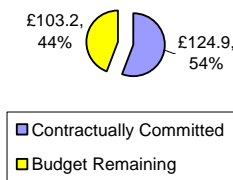
Annex B

Chart A - BUDGET VS EXPENDITURE £M

- £73.0, 32%
- £158.1, 68%

■ Total Programme Budget Unspent
■ Total Declared Expenditure (Agg Claims)
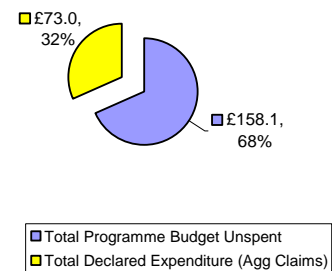
Chart B- COMMITTED FUNDS £M

- £103.2, 44%
- £124.9, 54%

■ Contractually Committed
■ Budget Remaining

Chart C -COMMITMENT BY PRIORITY £M

Priority 1: £100, £73, £25
Priority 2: £122, £56, £38
Priority 3: £9, £2, £1

■ Budget
■ Committed
■ Pipeline

Chart F- N+2 PERFORMANCE

	2011	2012
Target	58.1	95.8
Actual	75.7	75.7

■ Target
■ Actual

£M
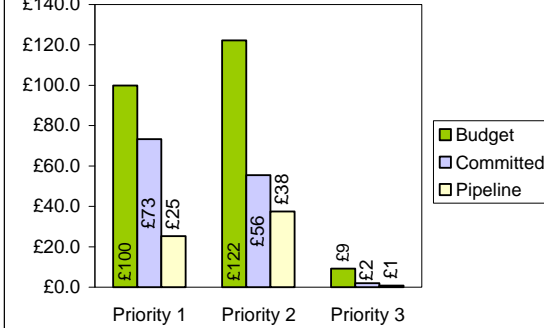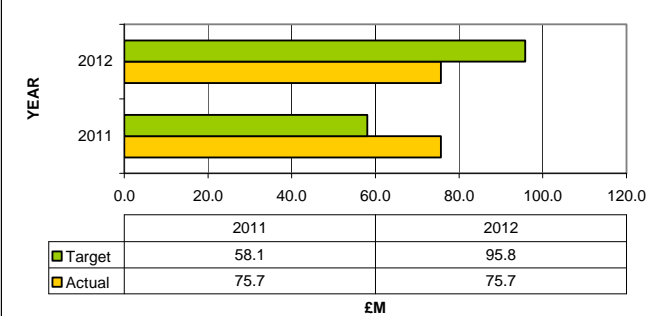
Chart G -PROJECT ENGAGEMENT VISITS

- No of Live Projects: 153
- No PEV completed: 129
- No PEV outstanding (3months): 0

■ No of Live Projects
■ No PEV completed
■ No PEV outstanding (3months)

Chart K -ARTICLE 16 2009

- £463,702, 8.2%
- £0, 0%
- £5,218,545, 91.8%

■ £ checked (error free)
■ Concluded Errors
■ Unconcluded Errors

Chart L -ARTICLE 16 2010

- Visits completed: 7
- Draft Reports Received: 7
- Final Reports completed: 2

Chart M- ARTICLE 16 2010

- £77,483, 1.1%
- £0, 0.0%
- £7,181,277, 98.9%

■ £ checked
■ Concluded Errors
■ Unconcluded Errors
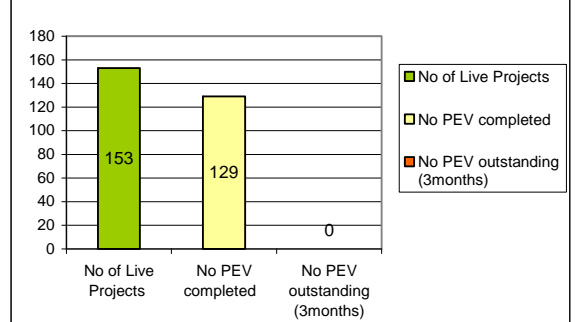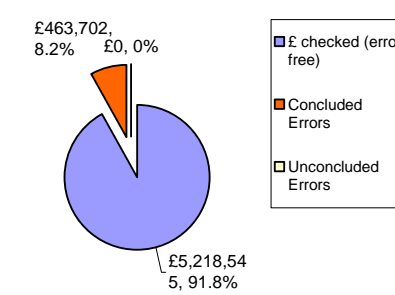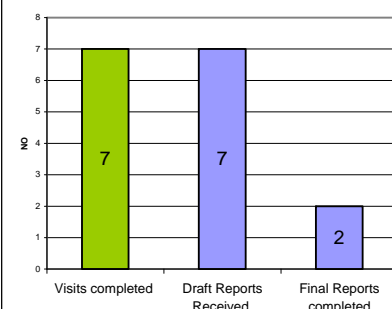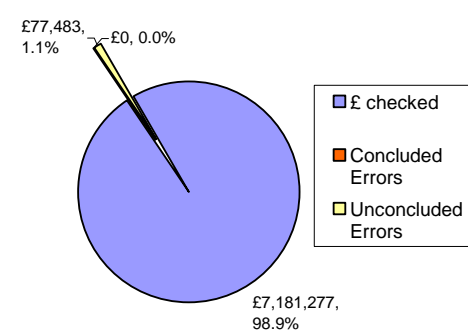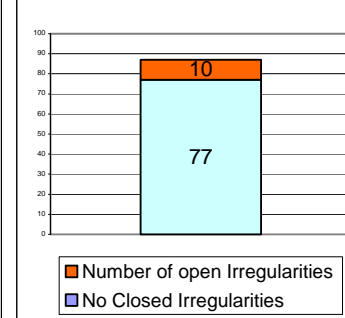
Chart H -NO IRREGULARITIES

- 10
- 77

■ Number of open Irregularities
■ No Closed Irregularities

Chart I -IRREGULARITIES £M

- 0.170
- 0.478

■ Value of open Irregularities
■ Value of Closed Irregularities

Chart J- PAV VISITS

- No of Live Projects: 153
- Target for completed PAVs to date: 134
- No PAV completed and resolved: 134
- No PAV with outstanding issues: 123
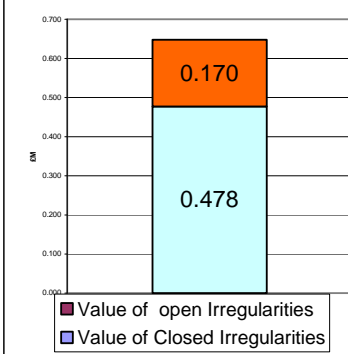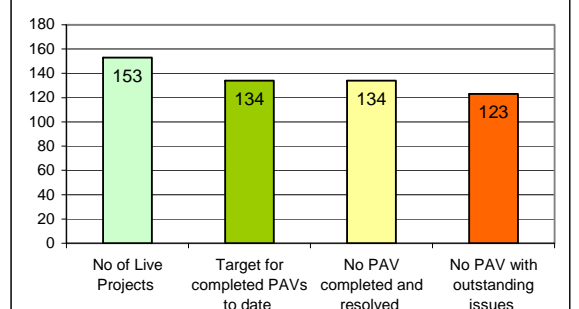
Result: Businesses assisted to improve performance

No of businesses assisted to improve performance: 9,300 / 12,417 / 6,342

■ Target ■ Contracted ■ Actual

Output: Businesses engaged in new collaborations

No of businesses engaged in new collaborations with UK knowledge base: 2,300 / 3,159 / 1,319

■ Target ■ Contracted ■ Actual
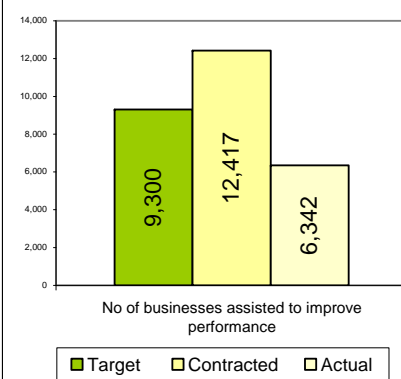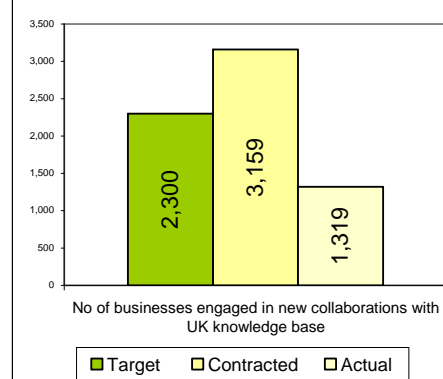
Output: Private and Public investment leveraged

Public and private investment leveraged: 216,000,000 / 74,387,578 / 30,143,166

■ Target ■ Contracted ■ Actual
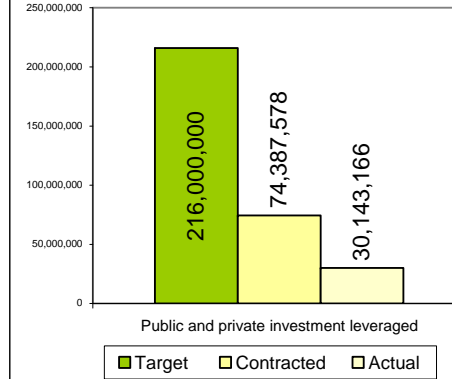
Output: New or upgraded Floorspace

Sq metres of new or upgraded floorspace (internal premises): 36,000 / 57,571 / 37,671

■ Target ■ Contracted ■ Actual
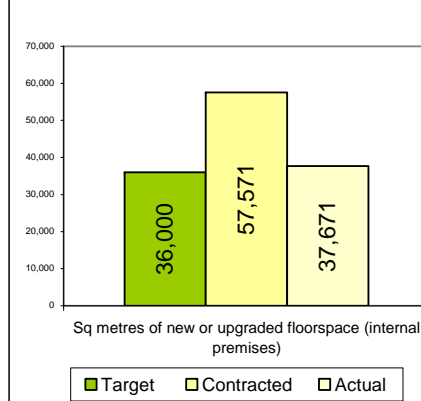
Output: Brownfield land reclaimed or redeveloped
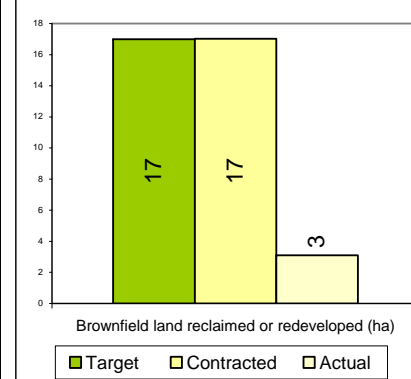
Brownfield land reclaimed or redeveloped (ha): 17 / 17 / 3

■ Target ■ Contracted ■ Actual

People assisted to start a business

No of people assisted to start a business: 2,700 / 4,197 / 2,758

■ Target ■ Contracted ■ Actual

Result: Jobs Created

No of Jobs Created: 8,600 / 5,154 / 1,816

■ Target ■ Contracted ■ Actual

Output: Businesses improving performance

No of businesses improving performance: 7,200 / 5,147 / 624

■ Target ■ Contracted ■ Actual
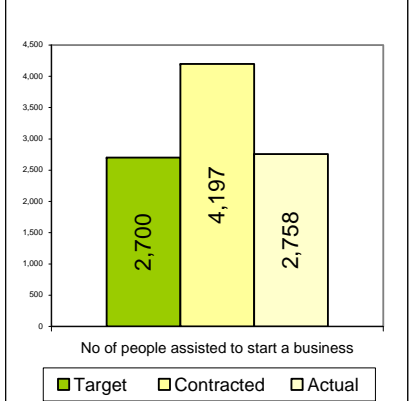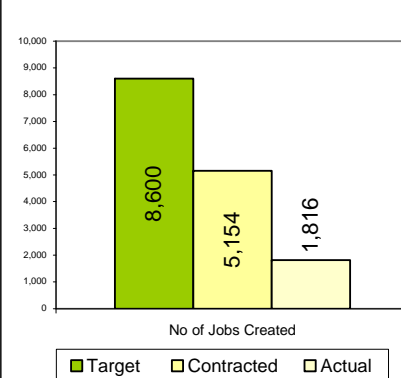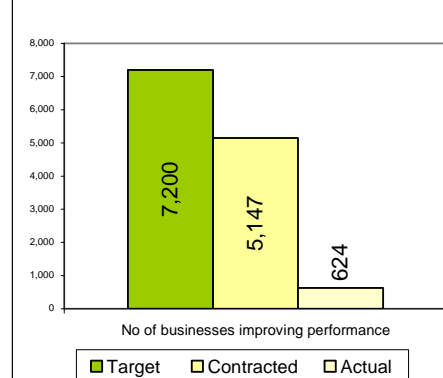
Result: New businesses created and new businesses attracted to the region

No of new businesses created and new businesses attracted to the region: 2,000 / 1,684 / 219

■ Target ■ Contracted ■ Actual
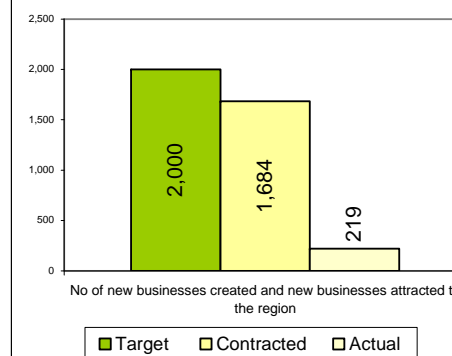
Result: New Collaboration

No of businesses engaged in new collaborations with UK knowledge base: 2,300 / 3,159 / 1,319

■ Target ■ Contracted ■ Actual
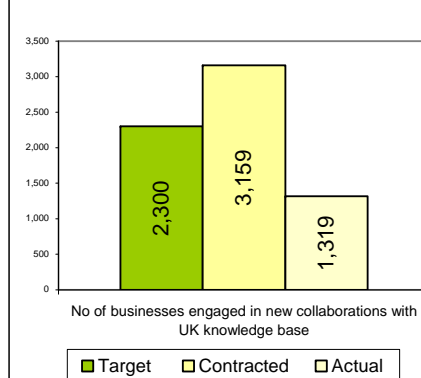
Result: Graduates placed in SMEs

No of graduates placed in SMEs: 4,000 / 1,572 / 638

■ Target ■ Contracted ■ Actual
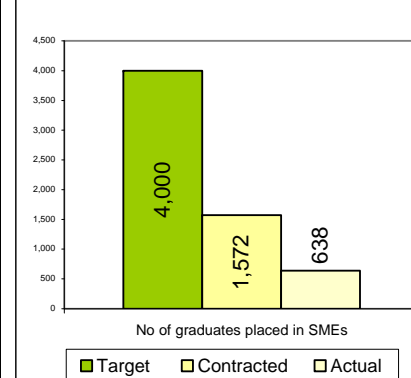
Result: GVA resulting from business improving performance

GVA resulting from businesses improving performance: 264,000,000 / 136,878,774 / 23,980,465

■ Target ■ Contracted ■ Actual

Annex C
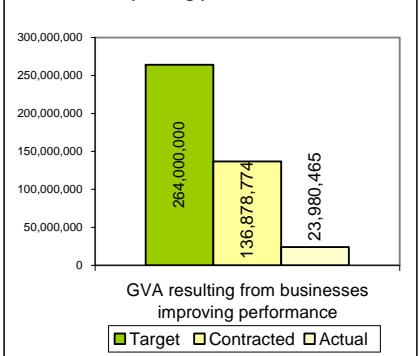
ERDF AND BROADBAND: GUIDANCE ON ELIGIBILITY

This note sets out guidance for DCLG Programme Delivery Teams and potential beneficiaries on eligibility for using ERDF to pay for the installation of broadband connections for SMEs in Competitiveness regions. The note should be read as guidance only and should not be taken as a statement of the law or compliance with the EC Regulations. It is effective from the date of issue.

Regulatory aspects

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

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

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

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

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

Eligible network components

In order for SMEs to gain access to the internet, they need to connect to core networks that ultimately connect to the national and international locations where applications ultimately reside. There will be a point where services are delivered to and from the core network (the 'motorway'), known as a 'Point of Presence' (PoP) ('motorway junction'). In order that SMEs gain access to Next Generation Access (NGA) or 'superfast broadband', it is essential that the technology connects them to core PoPs.

In urban areas the PoP might be a telephone exchange, but existing provision in rural areas is not always of the same standard. For example, many rural exchanges do not have the space or power to act as a core PoP.

Different infrastructure providers will also utilise different core networks to provide Next Generation Access to SMEs, and not all providers will use BT telephone exchanges, either as a means of connecting SMEs or as PoPs connecting onto their own core network.

In addition, the EC Guidelines on use of State Aid for broadband also mandate that technological neutrality should be enshrined in any public intervention (Community Guidelines for the application of State Aid rules in relation to rapid deployment of broadband networks (2009/C 235/04)). Indeed, in practice, a range of technical

means of access (fibre/copper/satellite/radio) will often be used to ensure the most economically advantageous means of providing access to SMEs in rural areas.

Any technical solution should therefore be eligible for support from ERDF provided it is required to connect an SME to a PoP. Upgrading or extending existing core networks should not be eligible. The diagram below shows examples of eligible expenditure using differing technological means to provide a SME with Next Generation Access.

Diagram: examples of eligible expenditure to connect an SME to a core PoP
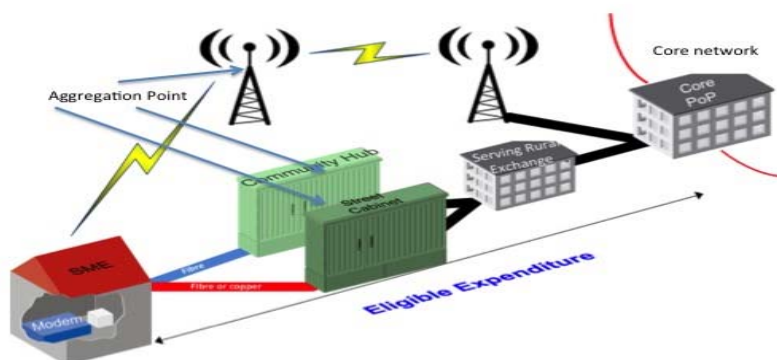
Distinguishing between expenditure to supply the capability to connect SMEs and other expenditure

It follows from the above that expenditure that is necessary to have the capability to connect an eligible SME to a core PoP should be eligible for ERDF support. The eligible expenditure should be the minimum required to provide the network that has the capability to connect from eligible SMEs to core PoPs within the intervention area. Any additional incremental expenditure to connect any other users to the network provided under the intervention (such as ineligible SMEs and residential premises) should not be eligible and should be excluded from assessments of eligible costs. In other words, ERDF can only support expenditure on SMEs. Any supply to ineligible organisations and residential premises must be a by-product of the eligible expenditure and be at no additional cost: any additional costs will not be eligible for ERDF. Methodologies will need to be able to demonstrate that ERDF has been claimed only in respect of what is needed to connect SMEs as set out above.

DCLG will consider example methodologies for determining eligible expenditure by projects against this principle working closely with pilot projects on broadband. DCLG will review the effectiveness of this guidance in the light of those methodologies and may issue supplementary guidance.