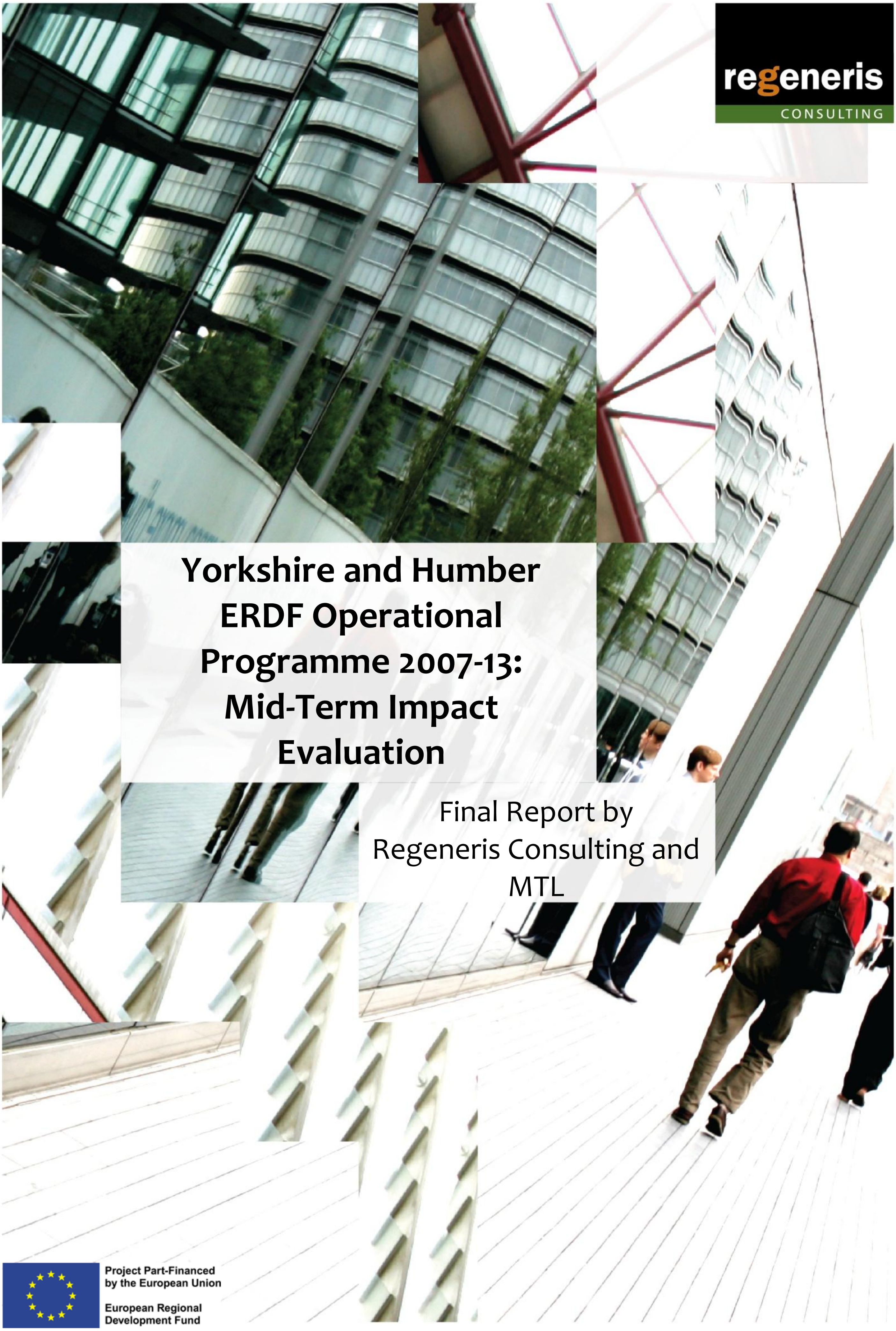

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Yorkshire and Humber ERDF Operational Programme 2007-13: Mid-Term Impact Evaluation

Final Report by Regeneris Consulting and MTL

Project Part-Financed by the European Union

European Regional Development Fund

Yorkshire Forward

Yorkshire and Humber ERDF Operational Programme 2007-13: Mid Term Impact Evaluation

September 2011

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Contents

Executive Summary

1. The Yorkshire and Humber 2007-13 ERDF Programme has achieved a lot to date in a difficult economic climate. It has:

- Committed £350m of funding (67% of the full Programme), with particular successes in Priorities 3 and 4 (both with 88% of allocated spend now committed).
- Achieved several major investments that should have a lasting economic impact in the region, including £30m in a VCLF fund, £18m investment in nuclear research facilities in Sheffield, and £30m in broadband infrastructure in South Yorkshire.
- Successfully engaged a wide range of delivery partners and shown the flexibility to respond to external changes, in particular with the amendments to the Operational Programme made in October 2010 to increase the Programme's low carbon focus.
- Ensured a strong suite of projects have been developed, with the result that satisfaction levels of beneficiaries is very high.
- Retained its commitment to cross-cutting themes (CCTs) with most projects able to show small but significant progress, particularly around the environmental CCT.

2. However the Programme faces three major risks to successful delivery over the remaining period:

- **Key Risk 1: Loss of Programme funding for the region**, as a result of:
  - Not hitting its N+2 defrayment targets, in the short term.
  - Having funds clawed back by the EC as a result of significant under-performance against its agreed output and result targets, in the longer term.
- **Key Risk 2: Failure to attract sufficient new investable project bids**, as a result of:
  - Limited match funding availability.
  - Limited capacity to develop project proposals.
  - Alignment of the Operational Programme constraining potential projects from coming forward.
- **Key Risk 3: Weak economic benefits for the region**, as a result of:
  - A skew towards capital spend failing to deliver the required measurable economic impact.
  - A drop in project quality with the loss of Yorkshire Forward expertise at the development and appraisal stages.

- Project disruption arising from delays in processing claims and project variations.

- Under-performance by projects in delivering and capturing outputs and results.

3. The following recommendations have been made to address these challenges:

- **Recommendation 1:** There should be no virement of funds between Priority Axes at this time, however the indicative allocations to objectives within each Priority Axis should be adjusted and the strategic pause in new project submissions to P4 should be maintained.

- **Recommendation 2:** Resources should be targeted towards securing major projects that will enable the 2011 N+2 defrayment target to be met, or at least the shortfall minimised.

- **Recommendation 3:** Partners should collectively agree a suite of future project proposals that could absorb remaining headroom spend and fill current investment gaps.

- **Recommendation 4:** Technical Assistance funding should be used to help draw upon under-utilised sources of match funding.

- **Recommendation 5:** Regional and national experts should assist the Executive in the development and appraisal of ERDF proposals.

- **Recommendation 6:** The Programme should immediately address under-performance of result targets, but prepare for a likely re-quantification of targets with the EC.

- **Recommendation 7:** The Executive and DCLG should ensure that sufficient resources are in place to address delays at project appraisal stage and to tackle the backlog of claims and contract variations.

- **Recommendation 8:** The Executive should focus contract management on helping and encouraging projects to achieve their output and result commitments.

- **Recommendation 9:** Partners should employ mechanisms used in other regions to use SME contributions as eligible match funding.

1. Introduction and Overview

Aims of the Evaluation

1.1 The Mid Term Impact Evaluation is the third substantive piece of work undertaken as part of the Strategic Evaluation of the Yorkshire and Humber 2007-13 ERDF Competitiveness Programme, following an Embeddedness Report in October 2009 and a Programme Performance Report in June 2010.

1.2 The overall purpose of the mid-term impact evaluation is to provide partners with:

1) A stocktake of **progress** in spending, outputs, results and associated early impacts and an oversight of those projects already up and running, by Priority and by geography.

2) An assessment of likely **future** impacts based on projects which have been contracted, and other committed spend. This will allow us to draw conclusions on whether the Programme is on course to meet its strategic objectives.

3) Recommendations on **re-prioritising** un-committed resources.

4) Recommendations on any changes needed to the **targets** and the way the Programme is quantified.

5) Advice on how future **governance and management** structures should operate alongside external partners following transition of the ERDF Executive to DCLG.

Yorkshire and Humber ERDF Programme 2007-13

1.3 The Yorkshire and Humber region was allocated €584m in ERDF support for its Competitiveness and Employment Programme 2007-13, all of which is required to be match funded in order for the ERDF funding to be drawn down. At the exchange rates when the Programme began, the ERDF figure was worth £394m[1]. However, with a weakening Pound against the Euro, the estimated figure at current exchange rates is £519m[2]. Out of the total Programme funding, 46% is ring-fenced for South Yorkshire as a phasing-in region, reflecting its previous access to Objective 1 Programme funding.

1.4 The Programme is broken down into five Priority Areas, of which the first four are the main delivery Priorities and the fifth comprises Technical Assistance to support delivery:

- Priority 1: Promoting Innovation and R&D
- Priority 2: Stimulating and Supporting Successful Enterprise
- Priority 3: Sustainable Communities
- Priority 4: Economic Infrastructure for a Competitive Economy (South Yorkshire only)
- Priority 5: Technical Assistance.

[1] Original Quantification is based on an exchange rate of €1.48 = £1.

[2] European Commission exchange rate for May 2011 is €1.125 = £1

1.5 Across the five priorities, the headline output and result targets that the Programme aims to deliver are:

- 16,927 business assisted
- 4,072 new businesses created
- 25,508 new jobs created (gross)
- 14,126 jobs safeguarded (gross)
- £851m increase in GVA (gross)

1.6 The targets for jobs created and safeguarded, and for increase in GVA were all reduced in 2010, following amendments to the Operational Programme to increase the low-carbon focus of the Programme, and the figures above reflect these new Programme targets.

The Mid-term Impact Evaluation

1.7 The evaluation has involved a range of desk-based research & analysis as well as fieldwork tasks. These include:

- **Data review and analysis**, using information from the Programme's management information systems
- **Review of the changing policy and socio-economic conditions**
- **Consultations with members of the ERDF Executive**
- **Strategic stakeholder consultations** with members of the PMC/LMC, PMBs and other public, private and third sector partners
- **Project reviews,** involving detailed consultations with project deliverers
- **Beneficiary Survey,** involving consultations with beneficiary businesses over a cross-section of projects from Priorities 1, 2 and 3 to assess quality of project delivery and derive Programme impact estimates.

1.8 The table below summarises how the methodology has covered the five evaluation requirements, and how these are incorporated within the report structure.

Table 1-1: How the Evaluation Requirements have been met in the Evaluation Report

Evaluation Requirement	Fieldwork contributing to this	How incorporated in this report
A stocktake of progress in spending, outputs, results and associated early impacts and an oversight of those projects already up and running, by Priority and by geography	Data Review, Beneficiary Survey, Project Reviews	Chapter 2 sets out an overview of spend and output, result and impact progress. Chapters 6-10 set this out in greater detail at Priority axis / CCT level.
An assessment of likely future impacts based on projects which have been contracted, and other committed spend. This will allow us to draw conclusions on whether the Programme is on course to meet its strategic objectives	Beneficiary Surveys, Data Review, Project Reviews	Chapter 2 sets out headline assessment of impacts and draws conclusions of Programme progress towards its strategic objectives. Chapters 6-10 break these down to Priority axis / CCT level.
Recommendations on re-prioritising un-committed resources	Data Review, Review of Changing Socio-economic and	Chapter 3 sets out detailed recommendations on how

Table 1-1: How the Evaluation Requirements have been met in the Evaluation Report		
Evaluation Requirement	**Fieldwork contributing to this**	**How incorporated in this report**
	Policy Context, ERDF Executive Consultations, Partner Consultations	uncommitted resources should be re-prioritised
Recommendations on any changes needed to the targets and the way the Programme is quantified	Data Review, Review of Changing Socio-economic and Policy Context, ERDF Executive Consultations, Partner Consultations	Chapter 3 sets out detailed recommendations on re-quantification required.
Advice on how future governance and management structures should operate alongside external partners following transition of the ERDF Executive to DCLG	Review of Changing Policy Context, ERDF Executive Consultations, Partner Consultations	Chapter 5 sets out conclusions on governance and management. Chapter 3 summarised the detailed recommendations with regard to this.

1.9 The report comprises the following chapters:

- Chapter 2 sets out the headline conclusions on overall Programme progress
- Chapter 3 sets out the detailed recommendations arising from the mid-term impact evaluation
- Chapter 4 sets out the review of the changing socio-economic and policy context since the Programme was approved
- Chapter 5 sets out analysis and conclusions on Programme management and governance, with a focus on future management of the Programme and relationships with external partners.
- Chapters 6 to 9 set out analysis and conclusions related to the four main Programme Priority axes, including an overview of spend and output, result and impact achievement, as well as assessing the quality of the current portfolio of projects, gaps in the investment portfolio, and likelihood of being able to fill these gaps.
- Chapter 10 sets out key conclusions and analysis linked to the Programme's cross-cutting themes.

2. Programme Progress Overview

2.1 This chapter sets out the headline analysis and conclusions from the mid-term impact evaluation. The first part of the chapter draws together the analysis of Programme progress against Programme expenditure, output, result and impact targets. The second part provides a narrative of the key conclusions from the evaluation, with reference to the recommendations made by the evaluation. These recommendations are set out in detail in Chapter 3 of the report. More detailed analysis and conclusions at Priority level are set out in the respective Priority chapters.

Analysis of Programme Progress

Programme Expenditure

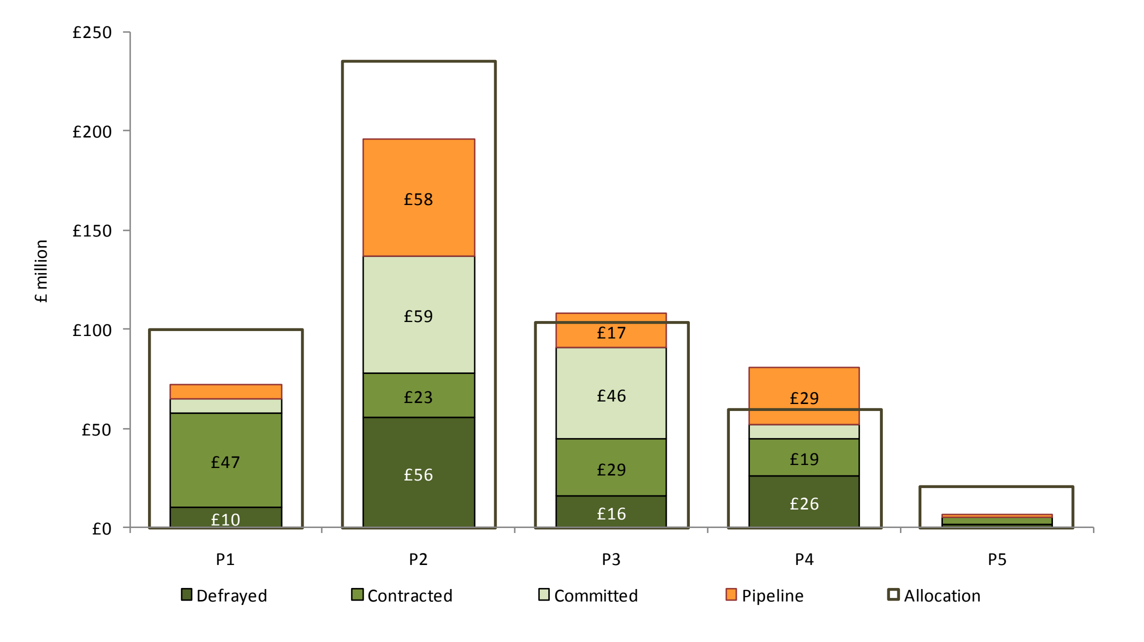
Figure 2-1: Progress on Expenditure and Commitments Against Funding Allocation, June 2011[3]

Source: Programme monitoring data, June 2011

2.2 The Programme has spent a total of £110m (21% of Programme), and has a further £121m (23%) contracted, £119m (23%) committed and £113m (22%) in the earlier project pipeline. Overall this leaves headroom of £56m (11%), of which the vast majority is in the Rest of Region (£53m). **This leaves a significant contracting challenge for the second half of the Programme**.

[3] Contracted spends relates to funds contracted in live projects, but not yet defrayed. Committed relates to projects that have received outline business plan approval but are either developing their Full Business Plans or are contracting but not yet contracted. Projects listed as pipeline refer to those working towards outline business plan approval.

Figure 2-2: Progress on Expenditure & Commitment Against Funding Allocation, June 2011 (Full region)



Source: Programme monitoring data, June 2011

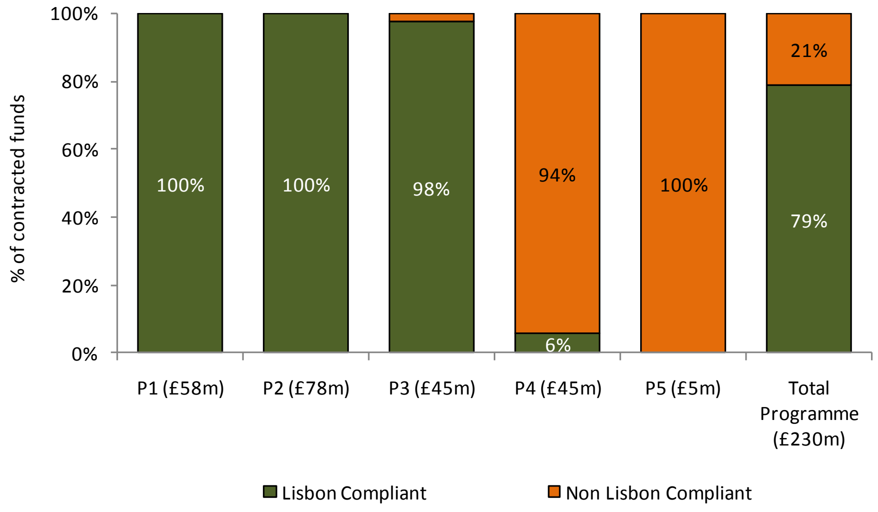
2.3 Spend breakdown by Priority Axis shows that:

- Priority 1 has 65% (£65m) committed, but faces a significant challenge to secure match funding for the remaining headroom.
- Priority 2 is the largest Priority but only has 58% (£137m) committed. It has a further 25% (£58m) in the pipeline, mainly capital investments, which risk skewing it away from its original objectives. Securing match for the P2 headroom is also a key challenge.
- Priority 3 has 88% (£91m) committed, however around half of this is still to be contracted.
- Priority 4 has 88% (£52m) committed, of which most is now contracted. There is a further £29m of pipeline projects, which require prioritisation.
- Priority 5 has only 26% (£5.3m) contracted. The headroom of £14m needs to be used to support bid development to fill headroom in P1 and P2.

Lisbon-Compliant Expenditure

2.4 The variation to the Operational Programme made in October 2010 reduced the expected proportion of Lisbon-compliant spend in the Programme from 86% to 76% (just above the minimum 75% compliance level required). With this tighter margin of error, close monitoring of Lisbon-compliant spend, is increasingly important. To date, the contracted spend in the Programme is 79% Lisbon-compliant.

Figure 2-3: Proportion of Contracted Spend that is Lisbon-Compliant



Source: Programme monitoring data, June 2011

Progress Against N+2 Defrayment Targets

2.5 The Programme has faced continuously challenging N+2 targets, compounded by a front-loaded spend allocation in the South Yorkshire phasing-in area. While project spend profiles (Figure 2-4) suggest that the Programme is on course to meet the N+2 targets for 2011-14, these spend profiles are overly-optimistic. The risk-adjusted estimates of what projects will actually spend by the end of 2011 (Figure 2-5) gives a more realistic view, which shows that **the Programme is at risk of losing in the region of around £40m of ERDF funding in 2011, as a result of failure to hit the N+2 defrayment target**.

Figure 2-4: Expected N+2 Performance Based on Annual Spend Profiles

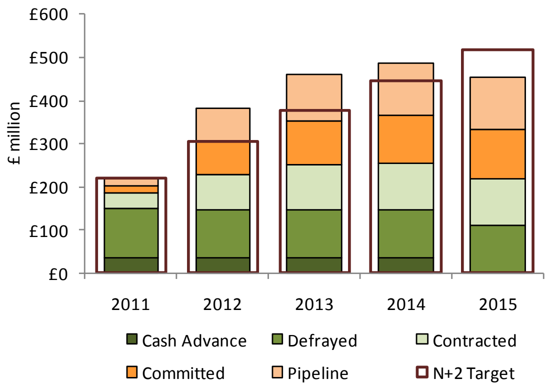
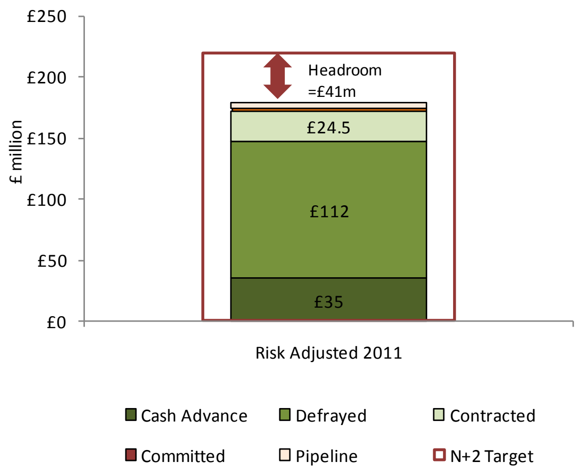


Figure 2-5: 2011 N+2 Performance Based on Risk-adjusted Spend Profiles



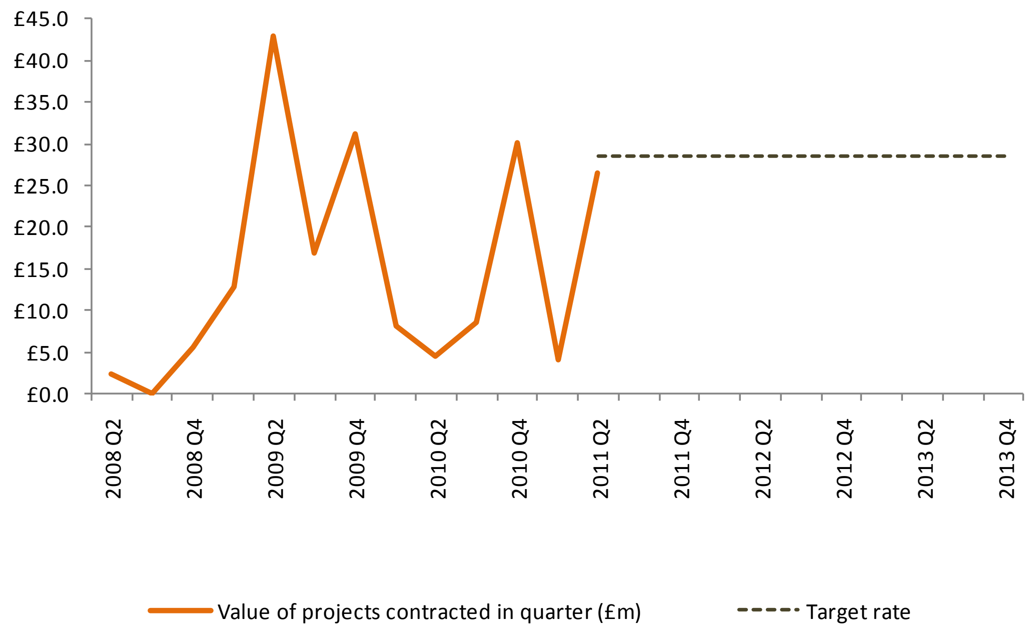
Source: Programme monitoring data, June 2011

2.6 The Executive can seek to limit this shortfall by: addressing a backlog of claims (estimated to be around £10m); securing the proposed JESSICA investment, with up to £20m ERDF that would be transferred to a holding fund; and getting the Hull Energy Centre (£17m ERDF) to Full

Business Plan approval in 2011, enabling this value to be taken away from the 2011 N+2 target, given its *Major Project* status[4].

Rate of Contracting Spend

Figure 2-6: Quarterly Rate of Contracting by the Programme and Future Required Rate



Source: Programme monitoring data, June 2011

2.7 The Programme was late in starting, with the first project not being contracted until June 2008. Contracting levels were then high throughout 2009 with a peak of £60m in Quarter 4 2009 (which included £30m for the VCLF project).

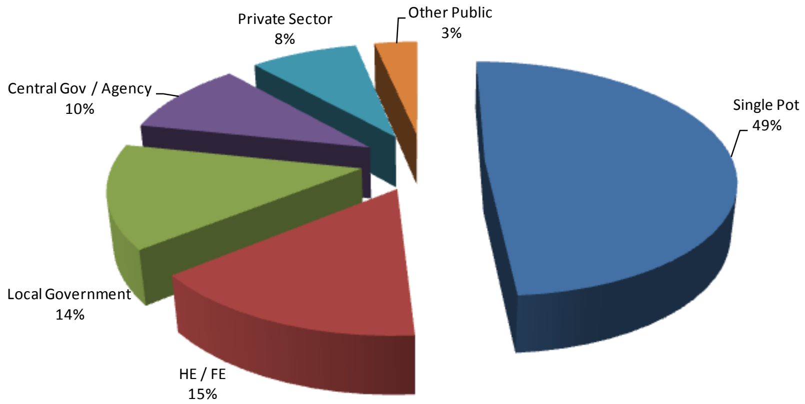
2.8 **Assuming that all funds need to be contracted by the end of 2013, the Programme now needs to contract £28m of projects every quarter from Q3 2011 through to Q4 2013. This represents a significant challenge, given that it has only achieved this in three of the thirteen quarters so far.**

Match Funding

2.9 The Programme has had an uneasy relationship with Yorkshire Forward over the first half of the Programme and less match funding has come forward from Single Pot than might have been expected. Nevertheless **Single Pot funding has still made up almost half of all match funding to date, which highlights the scale of the match funding challenge now that this source has gone**.

[4] A project of this size is identified as a *Major Project* and following local approval, requires EC approval; given the timescales for this process, the regulations allow *Major Projects* to be regarded as defrayed for the purposes of N+2 for the year in which they are approved.

Figure 2-7: Match Funding Across All Priority Axes.

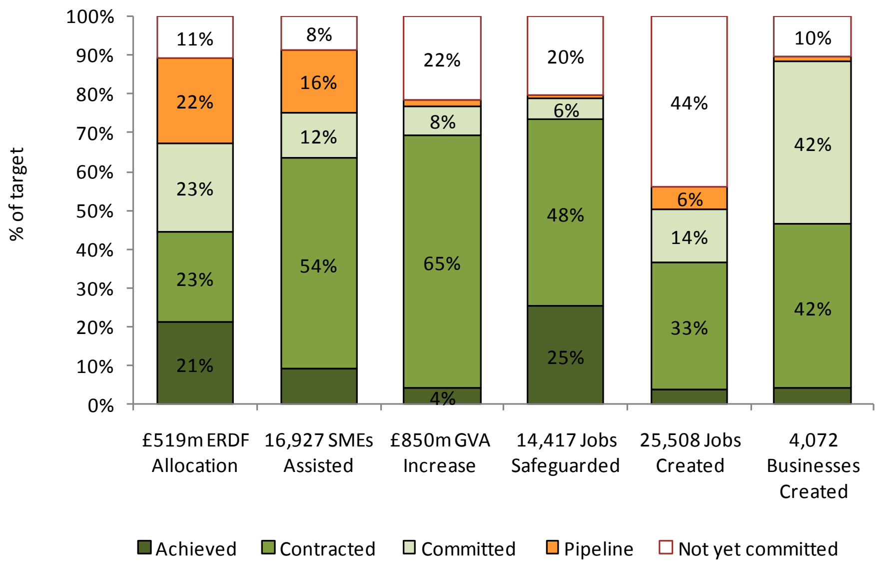


Source: Programme monitoring data, June 2011.
Note: Based on £254m of match funding for contracted projects.

2.10 Universities and local authorities are the next largest contributors and will be looked to as the main source for match funding over the remainder of the Programme. Private sector funding to date has been fairly limited, the majority of which was for the VCLF project. Over the remainder of the Programme this is likely to be a much more important source of match funding.

Outputs and Results

Figure 2-8: Overview of Progress against Targets for Headline Indicators



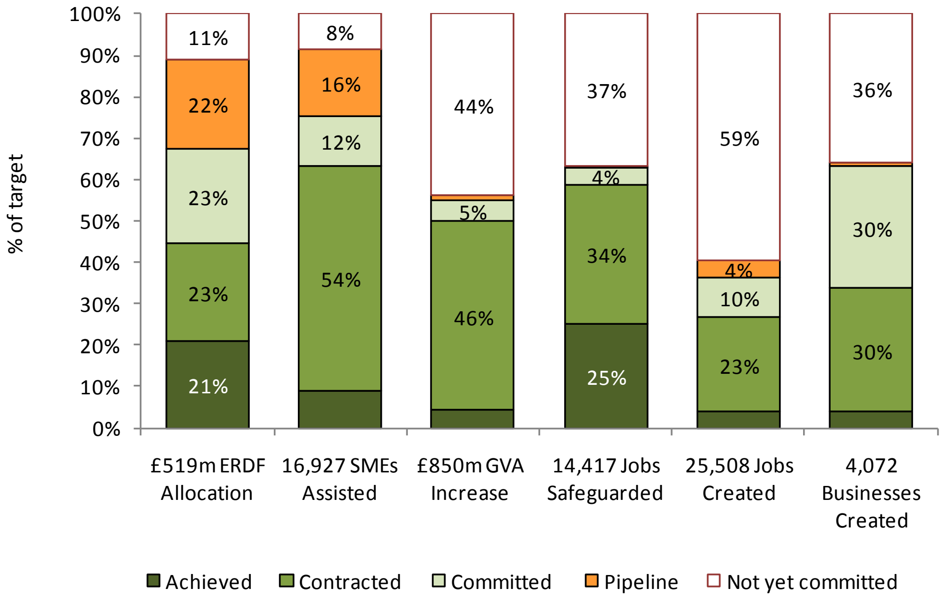
Source: Programme monitoring data, June 2011

2.11 Across the five headline outputs and results, the Programme has contracted well, with only *jobs created* falling short (50% committed) when compared against the spend allocation (67% committed). A full breakdown of performance against all output and result targets is provided at Appendix A.

2.12 Project deliverers broadly feel that the *SME assist* output targets remain achievable, but believe that their contracted result targets are over-ambitious and unlikely to be achieved.

2.13 Across the Programme it is estimated that the shortfall on results could be as much as 20-30%. With a skew towards capital projects in the pipeline this could leave key result indicators (particularly job creation) critically short of target. Figure 2-9 below shows a risk-adjusted overview of expected achievement by current projects.

Figure 2-9: Risk-adjusted Assessment of Progress against Targets for Headline Indicators



Source: Regeneris Consulting, using programme monitoring data, June 2011.

2.14 **This more realistic picture of progress shows the Programme is facing a significant challenge in delivering its key result targets, most notably for job creation.**

2.15 An analysis of the cost per *job created* is set out in Appendix A and helps to explain the poor performance against *job creation* targets: the Operational Programme expected an average cost per *job created* of £20k. *Job creation* targets in contracted projects have been £24k on average, and under-performance in delivering these results may see the average cost rise to around £31k per *job created*.

CCT Indicators

2.16 There is a mixed performance against CCT targets across the Programme. Equality and diversity targets have performed much better than environmental sustainability targets, which now look very difficult to achieve.

2.17 In a tighter economic climate, project deliverers have been reluctant to take on additional CCT targets that are not the direct focus of their activity. The equality and diversity targets are easier to monitor, but are not felt to add significant value to what projects are already delivering. The environmental sustainability targets are less easy to incorporate into projects, but where they have been, it is felt that they are creating more additional value eg higher

BREEAM ratings for new buildings than would otherwise have been delivered.

Figure 2-10: Progress in Contracting Against Equality and Diversity CCT Targets

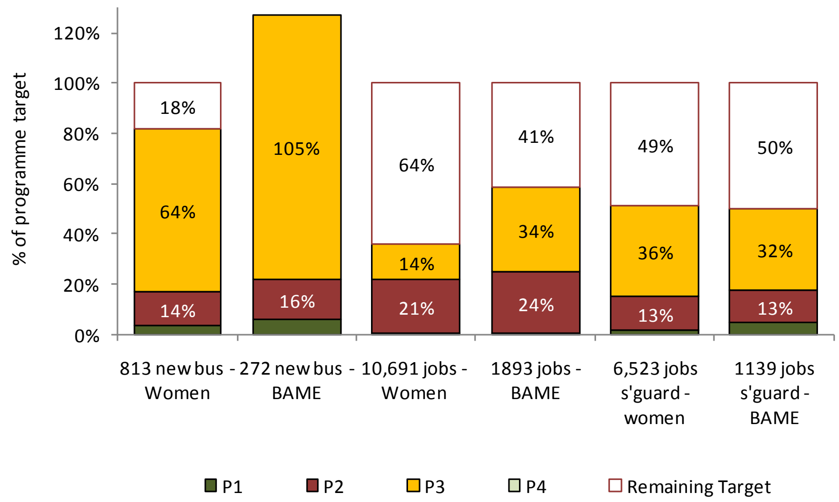
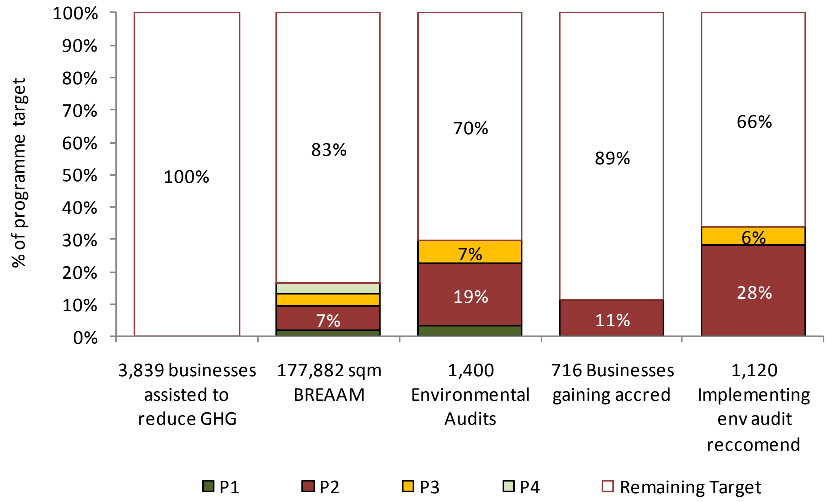


Figure 2-11: Progress in Contracting Against Environmental Sustainability CCT Targets



Source: Programme monitioring data, April 2011

Programme Summary Assessment

2.18 The matrix below (Table 2-1) summarises progress by Priority and individual objective. The assessment covers spend; outputs and results; coverage of indicative activities; and strength of partnerships to deliver on Programme objectives, and draws on the more detailed analysis set out in the respective Priority chapters of this report.

2.19 The assessment table was used in the Phase 2 Evaluation Report from June 2010, and the arrows show whether the rating has got better, worse, or stayed the same since the previous assessment.

Summary of Current Programme Performance.

Table 2-1 Programme Summary Assessment – June 2011

	Priority 1			Priority 2				Priority 3				Priority 4	
Objective	**1: Innovation and R&D Investment.**	**2: Innovation and R&D Infrast're**	**3: Knowledge Tech. & Processes**	**1: Integrated Business Support**	**2: Enterprise Culture**	**3 Hi-Tech Clusters & Sectors**	**4 : Low-carbon Business Growth**	**1: Improve Connect'ty**	**2: Economic Activity & Enterprise**	**3: Social Economy Jobs**	**4: Particip'n Knowledge Economy**	**1: Urban Centres**	**2: Digital Infrast're**
Spend	Behind Schedule, Weak Prospects ↓	On Schedule: Strong Prospects ↑	On Schedule: Weak Prospects ↔	On Schedule: Weak Prospects ↑	Behind Schedule, Weak Prospects ↓	On Schedule: Strong Prospects ↑	Behind Schedule, Weak Prospects ↔	On Schedule: Strong Prospects ↑	On Schedule: Strong Prospects ↑	Behind Schedule, Strong Prospects ↑	Behind Schedule, Few Prospects ↔	On Schedule: Strong Prospects ↑	Contracted ↔
Outputs – Business Assists	On Schedule: Strong Prospects ↑			Behind Schedule, Weak Prospects ↓				Contracted ↔				N/A	
Results – Businesses Created	Behind Schedule, Few Prospects ↔			Behind Schedule, Weak Prospects ↔				On Schedule: Weak Prospects ↔				N/A	
Jobs Created	Behind Schedule, Few Prospects ↓			Behind Schedule, Weak Prospects ↔				On Schedule: Weak Prospects ↔				Unachievable ↓	
Jobs Safeguarded	Contracted ↔			Behind Schedule, Strong Prospects ↓				Contracted ↔				Unachievable ↓	
Gross GVA	Behind Schedule, Few Prospects ↓			Behind Schedule, Strong Prospects ↑				Behind Schedule, Few Prospects ↓				N/A	
Thematic Intervention Areas	Behind Schedule, Weak Prospects ↓	Behind Schedule, Weak Prospects ↔	On Schedule: Strong Prospects ↔	On Schedule: Weak Prospects ↑	Behind Schedule, Weak Prospects ↓	On Schedule: Strong Prospects ↑	Behind Schedule, Weak Prospects ↔	On Schedule: Strong Prospects ↔	On Schedule: Strong Prospects ↑	Behind Schedule, Strong Prospects ↑	Behind Schedule, Few Prospects ↓	Behind Schedule, Weak Prospects ↓	On Schedule: Strong Prospects ↔
Partnerships	Behind Schedule, Weak Prospects ↓	On Schedule: Strong Prospects ↑	Behind Schedule, Weak Prospects ↓	On Schedule: Weak Prospects ↔	Behind Schedule, Weak Prospects ↓	On Schedule: Strong Prospects ↑	Behind Schedule, Weak Prospects ↓	On Schedule: Strong Prospects ↔	On Schedule: Weak Prospects ↓	On Schedule: Strong Prospects ↑	Behind Schedule, Few Prospects ↓	On Schedule: Weak Prospects ↑	On Schedule: Strong Prospects ↔

Table 2-2: Programme Summary Assessment Framework		
Status		**Descriptor**
1	Achieved	Lifetime commitments and requirements of the Programme have been delivered
2	Contracted	Lifetime commitments and requirements of the Programme have been contracted and in place
3	On Schedule: Strong Prospects	Commitments and requirements are in hand given point in time and the pipeline of developments is strong enough to reassure that matters are in hand and progressing well
4	On Schedule: Weak Prospects	Commitments and requirements are in hand given point in time but the pipeline of developments is not strong and further development work will be needed to ensure upcoming milestones are met.
5	Behind Schedule, Strong Prospects	Commitments and requirements are behind where they should be given point in time but the pipeline of developments is strong enough to provide reassurance that the slippage should be made up.
6	Behind Schedule, Weak Prospects	Commitments and requirements are behind where they should be given point in time and the pipeline of developments is not strong. Further development work should ensure upcoming milestones are met.
7	Behind Schedule, Few Prospects	Commitments and requirements are behind where they should be given point in time and significant additional development work is needed to establish a pipeline of developments if the Programme is to have a chance of meeting upcoming milestones.
8	Unachievable	Commitments and requirements are so far behind where they should be that the targets and objectives of the Programme will not be achieved.
-	N/A	Not Applicable

Changes in Assessment of Progress from June 2010 – June 2011

- In **Priority 1**, there has been a reduction in available revenue spend (worsening the outlook for Objective 1), but an increase in Objective 2 capital projects. The position has improved regarding business assist targets, but key result targets such as business and job creation now look very difficult to achieve. While relationships with universities have continued to develop, the loss of the RDA and Business Link means that the partnership base for delivering Objectives 1 and 3 has deteriorated.

- In **Priority 2**, the spend prospects across all objectives continue to be weak, although the recent round of capital bids has improved prospects for Objective 3. Consequently key output and result indicators remain a concern. Again, the loss of the RDA and Business Link have reduced the strength of delivery partnerships upon which the Priority can call.

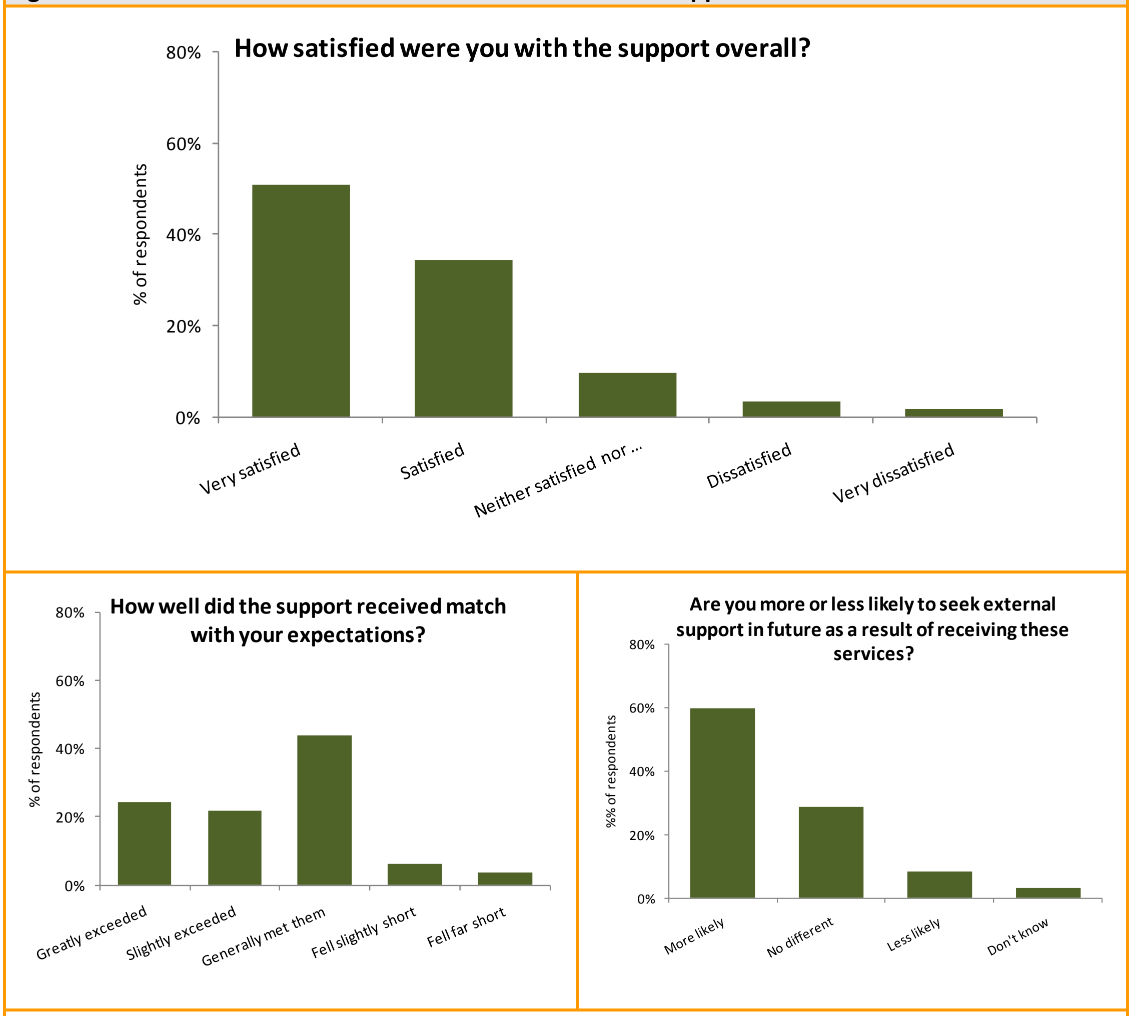
- In **Priority 3**, there is a more positive picture, with a fair or good position on spend against Objectives 1-3. Contracting of outputs and results looks strong, and thematic spread and delivery partnerships is favourable. The Programme is struggling to deliver against Objective 4, which is now misaligned with national policy and funding and is unlikely to thrive.

- In **Priority 4**, Objective 2 is covered by Digital Region, and spend prospects look strong for Objective 1. There are few workspace projects and this has led to continued weak performance against P4's floorspace and job creation/safeguarding targets, which now look unachievable.

Project Delivery

2.20 The beneficiary survey gathered data on the levels of satisfaction with business support delivered under the Programme.

Figure 2-12: Satisfaction Levels with ERDF-funded Business Support



Source: Regeneris Consulting Survey of Programme Beneficiaries, June 2011

2.21 **Projects delivering business assistance appear to be of high quality, meeting the needs of their clients:** 85% of respondents said they were satisfied or very satisfied with the support received and 90% felt that it met or exceeded their expectations.

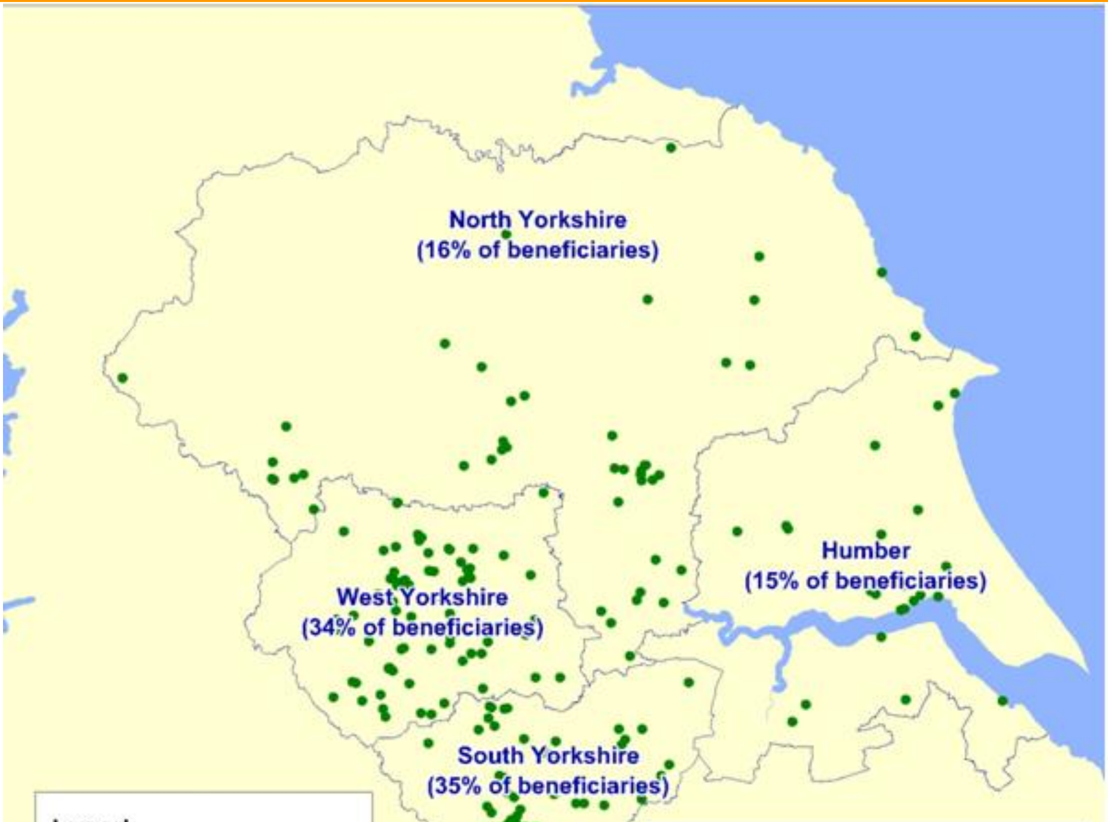
2.22 Furthermore, 60% felt that they were more likely to seek external support again in the future, reflecting a level of success in overcoming the *imperfect information* market failure[5] cited as part of the rationale for intervention by many projects.

2.23 The mapping of beneficiaries highlights an equitable spread of delivery activity across the Programme area. Of the projects covered in the survey, 36% of the spend allocation was for

[5] Imperfect information is cited by many project applicants as a market failure whereby businesses are unaware of the benefits of investing in external business support to improve their business performance.

South Yorkshire, and 35% of the beneficiaries from this spend were in South Yorkshire. In the rest of the region, the majority of other beneficiaries were in the West Yorkshire area, reflecting the significantly larger population in this sub-region.

Figure 2-13: Map of Beneficiaries from Region-wide Projects, covered by Impact Survey



Region-wide projects in survey sample

	% of allocation	% of beneficiaries
South Yorkshire	36%	35%
Rest of Region	64%	65%

Source: Project Beneficiary Data, June 2011

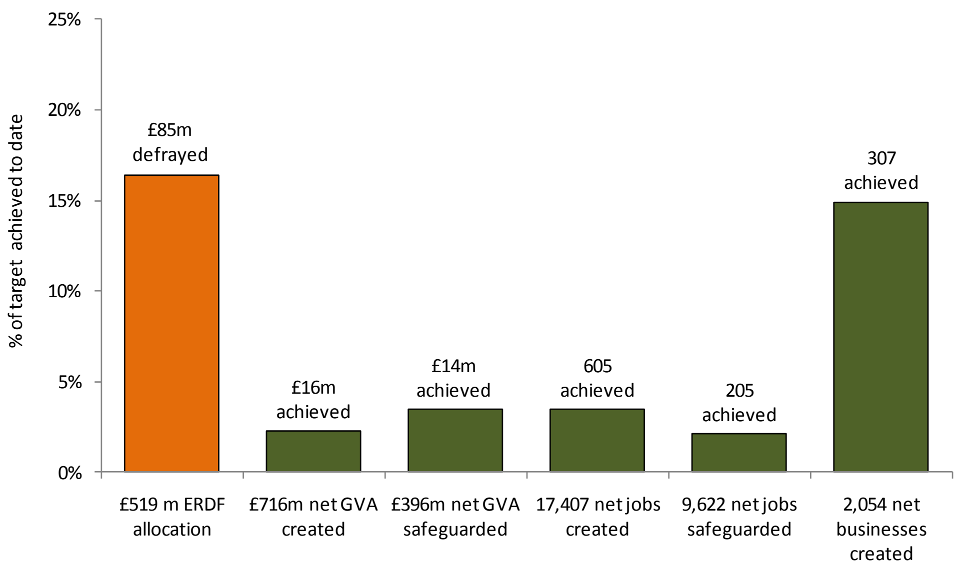
Note: Beneficiaries only mapped for projects set up to deliver across the whole region.

Programme Impacts

Impacts Achieved to Date

2.24 The impact survey involved consulting 351 supported businesses across 13 live projects in Priorities 1 to 3, to draw an estimate of the net impacts of the Programme to date. The findings have been grossed up to represent the impact generated by all Programme spend to date.

Figure 2-14: Impacts Achieved against Target



Source: Regeneris Consulting Assessment of Programme Impacts, June 2011.

2.25 The data highlights **limited progress towards the main impact indicators, with less than 5% of any indicator target achieved to date, other than businesses created**, which is significantly boosted by strong performance in Priority 3. The low level of impact at this stage of the Programme can be explained by a number of factors:

- Firstly, impacts lag behind the delivery of support, and therefore further impacts may be generated by assistance already delivered.

- Secondly, there is a lag between investment in sites and premises and the reporting of new or improved floorspace delivered. Only a very small amount of floorspace has been reported to date, so it is not yet possible to reflect the impact of capital projects in this analysis.

- Thirdly this analysis follows the methodology for quantifying impacts used in the Operational Programme, which bases GVA increase on job creation and safeguarding alone. In practice, much of the GVA impacts will be driven by productivity improvements which tend to have limited or even negative effects on employment. Charts showing a more rounded picture of GVA impact (but less comparable to Programme targets), are set out in Appendix B.

Impacts by Type of Support and Beneficiary

Figure 2-15: Analysis of Impacts Generated by Type of Support and Type of Beneficiary

Source: Regeneris Consulting Survey of Programme Beneficiaries, June 2011

Note: GVA estimates based on achieved and expected impacts of interventions delivered.

2.26 The survey also provides information on the types of assistance and beneficiary that have generated the greatest GVA impacts. The data shows that:

- Financial assistance projects deliver by far the largest impact (on average £58k GVA per assist), reflecting the increasing need for finance following the credit crunch and continued difficulties accessing credit.
- Intensity of business assists (ie number of days assistance provided) is not a critical factor, suggesting that providing the right support is more important in generating impacts, than the length of the assistance.
- Assistance supporting well established and already expanding businesses creates the greatest additional GVA impact. To maximise impact the Programme should consider increasing its focus on high growth sectors and businesses.

Returns on Investment

2.27 Based on analysis of achieved and anticipated impacts by supported businesses, and using methods comparable to those used in setting Programme targets, the following returns on investment are estimated across Priorities 1-3.

Table 2-3: Overview of Returns on Investment for Net Impacts Achieved

	Priority 1		Priority 2		Priority 3		Total	
	OP Target	Impact Analysis	OP Target	Impact Analysis	OP Target	Impact Analysis	OP Target	Impact Analysis
GVA created per £1	£1.4	£0.3	£2.0	£0.7	£0.8	£0.9	£1.4	£0.7
GVA safeguarded per £1	£0.3	£0.2	£1.3	£0.4	£0.4	£0.5	£0.8	£0.3
Cost per job created (£000s)	£30	£162	£21	£57	£44	£22	£29	£60
Cost per jobs safeguarded (£000s)	£120	£273	£30	£65	£90	£60	£50	£105
Cost per business created (£000s)	£515	*	£158	*	£282	£54	£242	£260

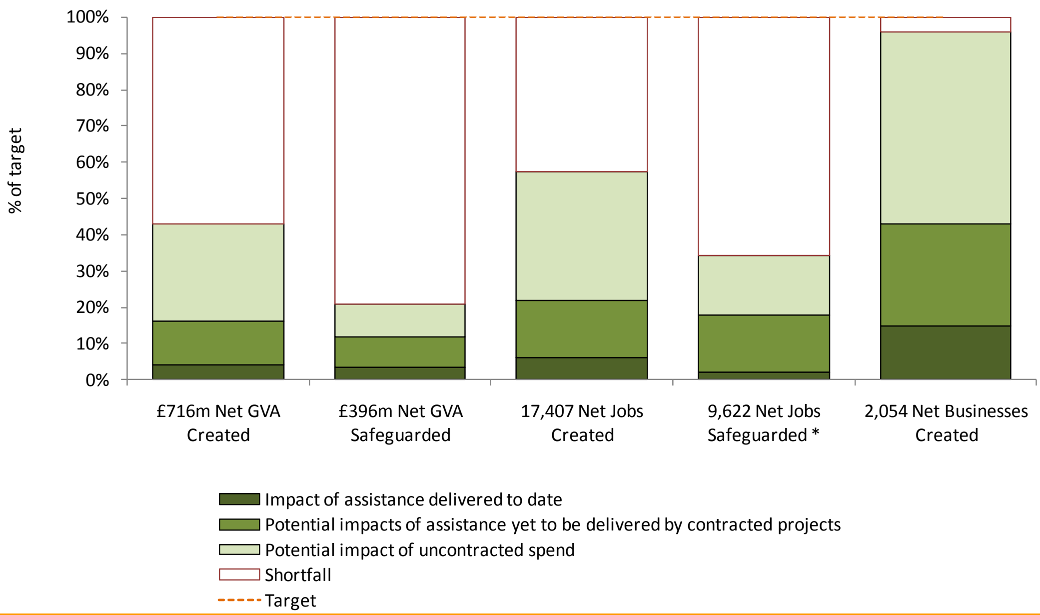
Source: Regeneris Consulting Assessment of Programme Impacts, June 2011.
Notes:
* Figures marked with an asterisk are not available as the relatively small survey samples in P1 and P2 covered few projects that directly focused on business creation.
* Margins of error at a 95% confidence level are +/- 14% for P1, +/- 10% for P2, and +/- 5% for P3 and Total.

2.28 The data shows that Priority 3 is performing very well in impact achievement, most notably in net business creation, whereas **Priorities 1 and 2 are not currently delivering impacts at the rate expected in the Operational Programme.**

2.29 The return on investment figures do not include the impacts of capital spend (as very few floorspace outputs have yet been reported), and only cover GVA impacts in relation to job creation and safeguarding (ie not including productivity improvements), in line with the methods used in setting Programme targets. Even allowing for these factors though, P1 and P2 look set to struggle to meet the impact targets set for them.

Projected Future Impact of the Programme

Figure 2-16: Projected Future Impact Target Achievement



Source: Regeneris Consulting Assessment of Programme Impacts.

Project Part-Financed by the European Union

European Regional Development Fund

2.30 Estimating likely final impact of the Programme at this stage is difficult, given the relatively low rate of progress in spend, and the changing context within which the Programme is operating. Figure 2-16 illustrates what the Programme might achieve if it continues to perform in the way it has. This analysis includes the impacts of all Programme revenue and capital spend by 2015 (assuming no funding is lost), and has been calculated in a way directly comparable to the method used in setting the Programme targets. Full details of the methodology and assumptions on which this is based are set out in Appendix B.

2.31 The assessment shows that, based on performance to date, the Programme might be expected to deliver only 43% of its net GVA created and 21% of its net GVA safeguarded target, 57% of its net jobs created and 34% of its net jobs safeguarded target, but 96% of its net businesses created target. It is clear that **weak performance on impact achievement is a significant risk to the Programme.**

2.32 Whilst the findings should be viewed with caution, this analysis highlights that the Executive needs to do more to ensure that project deliverers are converting outputs into results, and that those results are generating impacts. This can be achieved through improved contract monitoring and ensuring that project evaluations go ahead.

Scenarios

2.33 The Programme faces important choices as to how remaining headroom spend is used, in a more challenging match funding climate. In particular, the Programme faces an options of whether to allocate more resources to easier-to-match capital projects, or whether to seek to retain the current allocations focusing more on revenue business support.

2.34 To illustrate the consequences of different options, a set of four scenarios have been developed which model the impacts of different approaches on overall Programme spend, outputs, results and impacts. The scenarios and the assumptions made in each are summarised in Table 2-4, but broadly comprise:

- Scenario 1: A best case scenario in which the 2011 N+2 target is met, with a JESSICA project coming forward. A mix of capital and revenue projects are pursued with the remaining headroom.
- Scenario 2: £40m is lost in 2011 as a result of failure to hit the N+2 target, however no further funds are lost as the Programme focuses more heavily on capital activity. This however leads to fewer contracted results, and consequently fewer net impacts.
- Scenario 3: The Programme sticks rigidly to its revenue business support aims, and as a result, loses funds in 2011 and future years by failing to hit N+2 targets. It is assumed that more revenue spend is achieved however, and as a result the measurable results and impacts are higher.
- Scenario 4: £40m is lost in 2011 as a result of failure to hit the N+2 target, however a more balanced capital / revenue split is agreed, meaning little further funding is lost from the Programme. Retaining a strong revenue focus however ensures that result and impact achievement is not too greatly reduced.

2.35 The charts that follow (Table 2-5) show projections of what the Programme would achieve in terms of spend, outputs and impacts under each scenario. The charts are broken down to show what will be achieved by projects currently at contracted, committed and pipeline stage as well as what will be achieved by projects not yet contracted (headroom spend).

Scenario Findings

2.36 The scenarios are necessarily based on a number of broad assumptions and so should only be viewed as an illustration of the impact of different future trajectories for the Programme. Nevertheless, a number of key points can be drawn from the comparative scenarios:

- If the JESSICA and Hull Energy Centre investments do not go ahead then the Programme is likely to minimise the loss of further funding by refocusing headroom spend strongly to capital projects (Scenario 2). The challenge of annual N+2 targets means that **the Programme could lose further funding if it puts too strong an emphasis on seeking revenue projects in the current climate of public funding cuts**.

- Output achievement is linked to whether remaining funds are targeted to capital or revenue projects. A stronger focus on capital spend will increase the achievement of the floorspace indicator; a stronger focus on revenue spend will increase the achievement of business assists.

- **Revenue funding leads to greater achievement of key result indicators**, such as job creation and safeguarding and business creation. Despite the additional loss of funding, the revenue-focused scenario (Scenario 3) still outperforms the capital focused scenario (Scenario 2) on achievement of these key results.

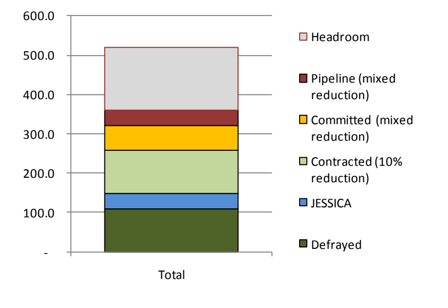
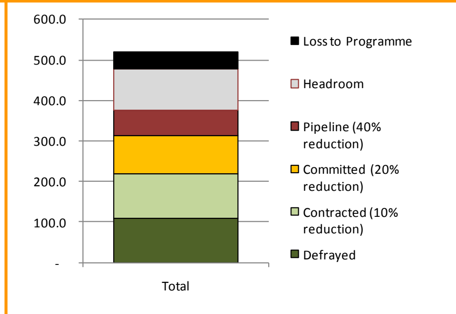
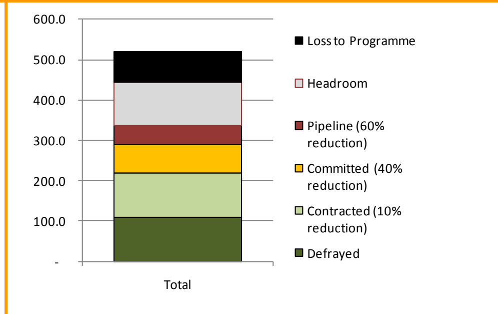
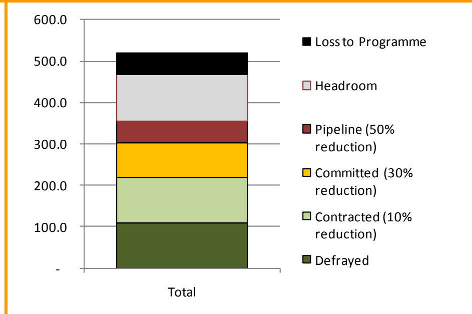
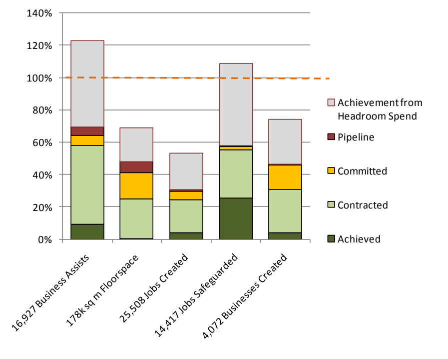
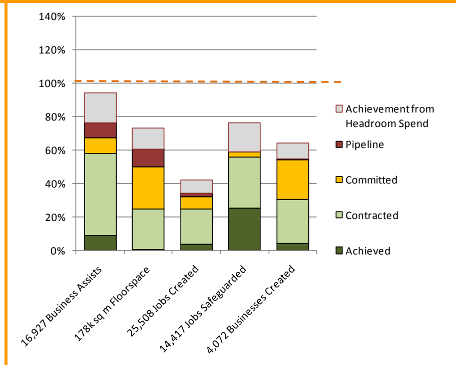
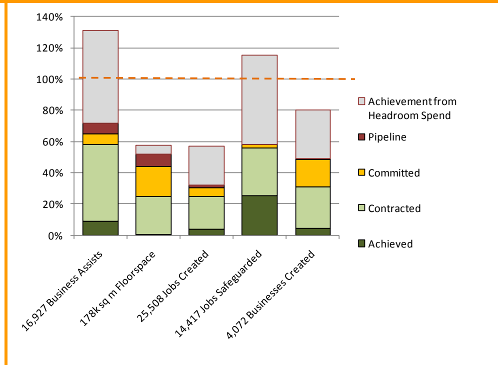
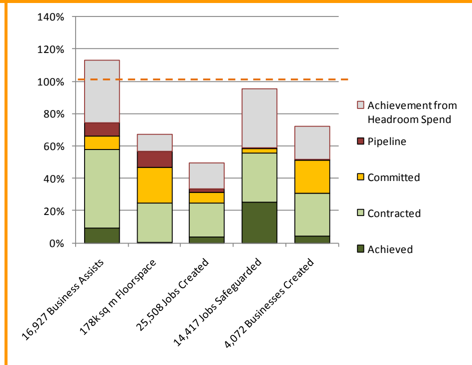
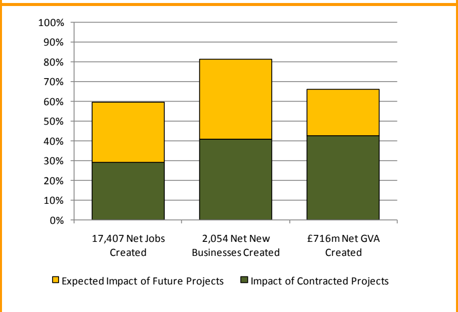
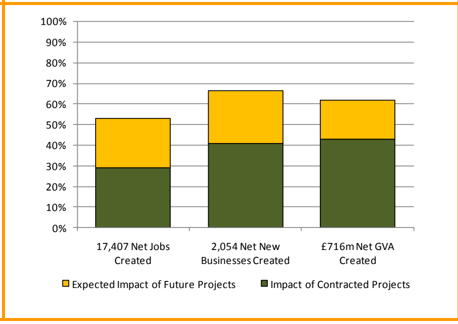
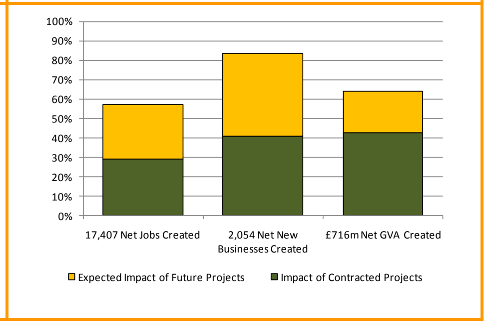
- **Revenue funding leads to greater achievement of measured impact indicators**, such as net jobs, business created and GVA. As with the result indicators, even with additional funding lost, the revenue-focused scenario would achieve the greatest measurable impact for the Programme.

- **The use of headroom spend needs to strike a balance between capital and revenue**, ensuring that the region successfully defrays all of the Programme allocation (which favours a capital-focused approach), and achieving result and impact targets (which favours a revenue-focused approach). Scenario 4 illustrates this sort of balance being struck.

Table 2-4: Summary of Scenario Assumptions

	Assumptions across all scenarios	Scenario 1: JESSICA	Scenario 2: Capital Focus	Scenario 3: Revenue Focus	Scenario 4: Balanced Investments
Scenario Description		JESSICA and Hull Energy Centre schemes go ahead and remaining headroom is balanced between Capital / Revenue	JESSICA does not go ahead and remaining headroom is Capital dominated.	JESSICA does not go ahead and remaining headroom is Revenue dominated.	JESSICA does not go ahead and remaining headroom is balanced between Capital and Revenue projects.
Spend Assumptions	• 10% under-spend on contracted projects, reflecting reduced or withdrawn match funding • A proportion of committed/pipeline projects will not go ahead due to match withdrawal or rejection of business plan.	• Higher withdrawal of projects currently committed (only 52% contracted) and pipeline (only 34% contracted), as capital projects opt for the JESSICA route • Overall headroom spend split 68% Cap, 32% Rev.	• Most capital projects are successful, so lower withdrawal of projects currently committed (80% contracted) and pipeline (54% contracted) • £40m lost to Programme as 2011 N+2 target not met • Overall headroom spend split 80% Cap, 20% Rev.	• Limiting capital spend leads to greater rejection of projects currently committed (only 60% contracted) and pipeline (only 41% contracted) • Programme strives to limit capital and maximise revenue spend, having some success but with further shortfalls against N+2 targets leading to total of £80m lost • Overall headroom spend split 44% Cap, 56% Rev.	• Contracting of projects at committed stage is 70% and projects at pipeline stage is 50% • £40m lost to Programme as 2011 N+2 target not met • Use of headroom, seeks to secure significant revenue spend, but allowing greater proportion of capital spend given match funding practicality. Overall headroom spend split 59% Cap, 41% Rev.
Output, Result and Impact Assumptions	• Under-spend leads to 10% under-achievement in contracted outputs • 30% under-achievement of result indicators, given reduced outputs and low conversion rates from outputs to results • Impact estimates based on actual impact to date, and using benchmarks for cost per net job, business and £GVA for Cap/Rev spend (using figures from this evaluation).	• Reduced spend at committed and pipeline level proportionally reduces output and result achievement.	• Reduced spend at committed and pipeline level proportionally reduces output and result achievement.	• Reduced spend at committed and pipeline level proportionally reduces output and result achievement.	• Reduced spend at committed and pipeline level proportionally reduces output and result achievement.

Table 2-5: Summary of Spend, Output & Result and Impacts under Four Future Programme Scenarios

	Scenario 1: JESSICA	Scenario 2: Capital Focus	Scenario 3: Revenue Focus	Scenario 4: Balanced Investments
Spend				
Outputs and Results				
Impacts				

Conclusions

Summary

2.37 The Programme has achieved a lot to date in a difficult economic climate, however faces three major risks to successful delivery of the Programme over the remaining period:

- **Key Risk 1: Loss of Programme funding for the Region**, as a result of:
  - Not hitting its N+2 defrayment targets, in the short term.
  - Having funds clawed back by the EC as a result of significant under-performance against its agreed output and result targets, in the longer term.
- **Key Risk 2: Failure to attract sufficient new investable project bids**, as a result of:
  - Limited match funding availability.
  - Limited capacity to develop project proposals.
  - Alignment of the Operational Programme constraining potential projects from coming forward.
- **Key Risk 3: Weak economic benefits for the region**, as a result of:
  - A skew towards capital spend failing to deliver the required measurable economic impact.
  - A drop in project quality with the loss of Yorkshire Forward expertise at the development and appraisal stages.
  - Project disruption arising from delays in processing claims and project variations.
  - Under-performance by projects in delivering and capturing outputs and results

2.38 The Programme achievements and key risks to the Programme are discussed in further detail below. The conclusions also refer to the numbered recommendations which are set out in full in Chapter 3.

Programme Achievements

2.39 The changing economic and policy climate has had a significant impact on the fortunes of the Programme. The recession impacted upon levels of business investment and job and business creation. The decisions to close RDAs, remove Single Pot funding and reduce other key match funding sources, in the Summer of 2010, have impacted heavily on Programme delivery and commitments.

2.40 Nevertheless, the Programme has:

- Committed £350m of funding (67% of the full Programme), with particular successes in Priorities 3 and 4 (both with 88% of allocated spend now committed)
- Achieved several major investments that should have a lasting economic impact in the region, including £30m in a VCLF fund, £18m investment in nuclear research facilities in Sheffield, and £30m in broadband infrastructure in South Yorkshire
- Successfully engaged a wide range of delivery partners and shown the flexibility to respond to external changes, eg in the amendments to the Operational Programme made in October 2010 to increase the Programme's low carbon focus
- Ensured a strong suite of projects have been developed, with the result that satisfaction levels of beneficiaries is very high
- Retained its commitment to cross-cutting themes (CCTs) with most projects able to show small but significant progress, particularly around the environmental CCT.

2.41 Partners continue to support the strategic direction of the Programme and the breakdown of activity across the four main Priority axes.

Key Risk 1: Loss of Programme Funds

2.42 In the shorter term, there is a high risk of the Programme losing funding as a result of failing to hit its N+2 defrayment target. In the longer-term, there is a low-to-medium risk of the Programme having funding clawed back as a result of significant under-performance against current output and result targets.

N+2 defrayment targets

2.43 The ERDF Programme has had targets for defrayment of spend for each year (from 2009 onwards), and met these targets for 2009 and 2010. However, on the current trajectory, the 2011 N+2 target will not be met and around £40m of ERDF could be lost this year from the region.

2.44 There are two main causes of the shortfall against the N+2 target:

- **Not enough of the Programme spend has been contracted**. The 2011 N+2 target is to have *defrayed* 42% (£219m) and while 67% (£350m) of the Programme is committed, only 44% (£230m) is *contracted*, much of which is profiled to be spent in future years. The low rate of contracting has clearly made the N+2 target very difficult to achieve.
- **Not enough contracted spend has been defrayed**. A combination of project delays and backlogging of payments pending project variations and verification activity has limited defrayment of contracted spend. This is particularly pronounced in Priority 1 (18% of contracted spend has been defrayed) and Priority 3 (36% of contracted spend has been defrayed)

2.45 There are two main actions that can be taken to address or minimise the impact of missing the N+2 target:

- **Focus on major projects that may enable 2011 N+2 targets to be met** (Recommendation 2). The JESSICA scheme, if contracted, would enable £20m to be transferred into a JESSICA Holding Fund and count towards defrayed expenditure. The Hull Energy Centre, if approved at FBP stage would be classified as a major project and require EC review and approval, enabling the £17m ERDF for this project to be taken off the N+2 target for 2011.

- **Speed up the resolution of variation / verification issues and process the backlog of claims (c. £10m)** to increase levels of defrayed spend (Recommendation 7).

2.46 Going forward, the Executive and DCLG also need to address the capacity gaps in project appraisal which have affected the level of committed projects reaching contracted stage (Recommendation 7).

Failure to Achieve Programme Output and Result Targets

2.47 In the longer term, if the Programme significantly under-performs in delivering against its agreed output and result targets, then it is possible that the EC could seek to claw-back some of the funding for the Programme.

2.48 While this has rarely happened in practice, it is important for the Programme to mitigate against this risk by seeking to re-quantify the Programme targets in areas where it feels there is likely to be significant under-performance (Recommendation 6)

Key Risk 2: Failure to Attract Sufficient New Project Bids

2.49 The Programme will fail to spend the funding allocated for the region if it does not receive sufficient eligible bids to draw down this funding. There are several potential constraints to new projects coming forward, including: limited availability of match funding, limited capacity for bid development, and the alignment of the Programme to meet project demand.

Limited Match Funding Availability

2.50 Around half of the match funding for the Programme to date has come from Single Pot, which ceased to fund new projects in 2011. With spending cuts across the public sector, match funding from other sources such as local authorities and universities has also been reduced. Availability of match funding will be a considerable constraint to new project development for the remainder of the Programme period.

2.51 The Programme has already responded to this be allowing more projects with private sector match funding to come forward which has led to a stream of capital development projects bids.

2.52 Two further actions can be taken to further increase the availability and utilisation of match funding for the Programme:

- **Seek to use SME contributions as eligible match funding** for business support activity (Recommendation 9). Being able to directly match ERDF to private SME contributions could create significant new project opportunities for revenue business support, particularly in Priority 2 where there is limited revenue match available in the region.

- **Better use of Technical Assistance funds to help unlock match funding sources** (Recommendation 4). There is significant resource remaining in Priority 5, and this needs to be used to help local partners (especially universities and local authorities), and national partners (such as TSB and BIS) to match their funding resources with ERDF.

Limited Capacity to Develop Project Bids

2.53 As a result of public sector spending cuts, many partner organisations have faced staff reductions, leaving fewer resources for the time-intensive project development and bid writing required of ERDF submissions. Without additional support many may opt not to bid for ERDF.

2.54 With the loss of Yorkshire Forward as a lead partner, the responsibility now falls to other partners, in particular local authorities and universities, to ensure that an appropriate stream of project bids come forward. Given the reduced capacity of these bodies, and to limit abortive time on unsuccessful project bids, it is recommended that partners engage in a number of action planning sessions to identify and pursue eligible projects that can come forward in the region to absorb the remaining Programme headroom and fill key investment gaps for the Programme (Recommendation 3)

2.55 Changes to the scope for activities under Priority 5 in January 2011 have allowed project development activity to be funded with Technical Assistance funds. If partners can agree the broad set of projects that they will seek to bring forward, then they will be well positioned to draw down Technical Assistance to provide additional bid development capacity (Recommendation 4).

Alignment of the Operational Programme

2.56 The split of the Programme's funding allocation across five priorities, and indicatively between a set of objectives within each Priority axis, is a constraint on the value of projects that can be approved. An important case in point is in Priority 2, where Objective 3 with an indicative allocation of 25% of Priority funds could significantly over-commit given project demand, but Objectives 1 and 2 with a combined indicative allocation of 65% are likely to struggle to commit all of this funding.

2.57 To ensure that the alignment of the Operational Programme does not limit new projects coming forward, the indicative allocations between the objectives under each Priority axis should be reviewed. The revised indicative allocations need to be set at a level which can realistically enable all of the Programme funding to be contracted and defrayed, given levels of project demand (Recommendation 1).

Key Risk 3: Under-Achievement of Economic Benefits

2.58 Ultimately the Operational Programme aims to create and safeguard jobs, businesses and GVA in the region. Even if all of the Programme's funding is allocated and defrayed, it will fail to deliver its anticipated economic benefits for the region if:

- **The Programme's outputs and results are not fully contracted for**. There is a particular risk of this if headroom in Priority 2 is excessively skewed towards capital premises investment rather than revenue business support activity

- **The contracted outputs and results are not achieved by projects**. There are particular risks to this as a result of a drop in the quality of project design, disruption to project delivery, and poor conversion of outputs to results by projects.

Skew Towards Capital Spend

2.59 There is an increasing demand for capital projects, particularly in Priority 2, and there is sense in revising the indicative allocation to Priority 2, Objective 3 in response. However, an excessive skew towards capital spend would affect the contracting of key jobs created and safeguarded, businesses created and GVA result indicators. Lower contracting of results would subsequently lead to lower impact achievement.

2.60 In reviewing indicative allocations to objectives within each Priority axis, it is important to strike a balance between setting a funding allocation that is realistic, given the levels of project demand, but also seeking to maximise the impact that the overall suite of projects will have in the region (Recommendation 1).

Project Quality Dropping

2.61 The loss of thematic expertise within Yorkshire Forward (eg sector specialists, Policy Product Range leads for enterprise, competitiveness, urban renaissance etc) means that ERDF project bids will lose this expert advice at project development and appraisal stages. If this gap is not addressed, then projects will not be refined to improve their design at project development stages, and weaker projects that might previously have been filtered out, may now be approved. Both of which would clearly see a reduction in the quality of projects over the remaining Programme period.

2.62 This risk could be significantly mitigated against by increasing the advisory input from local expert partners and drawing on the expertise of existing staff within BIS, TSB, DCLG, or other departments, particularly for higher value projects (Recommendation 5).

Disruption to Project Delivery

2.63 Several projects, across all Priority axes have experienced disruption to project delivery as a result of significant delays in processing and paying claims and approving contract variations. For smaller bodies in particular the cash-flow problems arising from delayed payments can lead to projects having to be put on hold, while for all projects, delays to contract amendments creates uncertainty for the deliverer.

2.64 In most cases, delivery partners have been adept at maintaining project progress in the face of these additional challenges, however it is inevitable that levels of disruption will result in under-performance in some projects. The adoption of new systems and processes following transition to DCLG will lead to additional delays, further increasing the backlog of claims and contract variations to process.

2.65 Now that the Executive has transferred to DCLG, it is critical to review the overall capacity and balance of the team across its key functions. For post-contract support, the team must look to address capacity gaps in processing claims and project variations, in order that the current backlog is addressed and projects do not suffer this level of disruption over the remaining Programme period (Recommendation 7).

Under-Performing Projects

2.66 On the face of it, the Programme appears to be progressing well in delivering its output and result targets. Overall, 44% of spend has been contracted, and this is expected to deliver 63% of the Programme's business assists target. These assists are contracted to deliver 46% of the businesses created target and 37% of the jobs created target (plus 73% of the jobs safeguarded target).

2.67 Two critical factors put a more challenging complexion on this initial view however:

- **Projects do not expect to hit their contracted result targets:** feedback from projects suggests that while most feel they will achieve their business assist targets, they are likely to fall short of their result targets, particularly business and job creation. Expected achievement of results is estimated to be as much as 20-30% lower than contracted figures. Projects have cited over-ambitious initial targets, the recession and a failure to take account of the inherent lag in achieving results from innovation projects (in Priority 1) by way of an explanation.

- **Contracting for business assists will not continue at the same rate:** significant reductions in available match funding for business assist activity could steer the Programme towards capital rather than revenue projects which will lead to fewer direct businesses and jobs being created. This is already evident in the project pipeline. If all of the current projects in the pipeline are contracted, it will lead to 89% of spend contracted, but only 56% of the jobs created target contracted.

2.68 To ensure that the suite of projects funded by the Programme maximise their positive economic impact in the region, the Executive need to more closely monitor project performance and respond to under-performance. In particular, projects that are failing to convert *business assists* into *new and safeguarded jobs, businesses and GVA*, need to be supported to address project weaknesses, adjust their focus or downsize, if they are failing to deliver the impacts expected by the Programme (Recommendation 8).

3. Detailed Recommendations

Recommendation 1

There should be no virement of funds between Priority Axes at this time, however the indicative allocations to objectives within each Priority Axis should be adjusted, and the strategic pause in new project submissions to P4 should be maintained.

3.1 Whilst there is clearly considerable variation in how successful different Priority axes have been with contracting spend, there are several important factors which point to virement of funds between the Priority axes being inappropriate at this time:

- **Strategic balance of Programme**. Partners continue to support the overall strategic direction of the Programme and do not feel there are substantive strategic grounds for a radical shift in the allocation of Programme spend.

- **Virement is a lengthy process**. Amendments to the Operational Programme require significant capacity. At the present time, the Programme has other higher priorities, notably achievement of the 2011 N+2 target.

- **Missing the N+2 Target would change the position**. Failure to hit the 2011 N+2 target is a significant threat. If that happens, there will automatically be an opportunity to review the balance of remaining headroom funds. Conversely if major projects are secured and the N+2 target is hit, the overall balance of contracted projects would significantly change.

- **Lisbon compliance**. Following the amendments made to the Programme in October 2010, the overall spend allocation is only just over the minimum 75% Lisbon compliance level. It is therefore not be feasible to vire any funding from Lisbon-compliant to non-compliant activity. This effectively rules out virement into Priority 4.

3.2 There is no strong strategic rationale to alter the balance of the Programme through virement. While the under-performance of Priorities 1, 2 and 5 does require the question to be raised, the Lisbon-compliance requirements effectively prevents the Programme viring into Priority 4, and expected future match funding difficulties in Priority 3, mean that there is little practical scope to go down this route.

3.3 Furthermore, the high risk of failure to hit the 2011 N+2 target, means that the Programme may face budget re-allocation decisions in January 2012 anyway.

3.4 **Recommendation 1a. The Programme should not pursue any level of fund virement between Priorities at this time, but this should be reviewed in January 2012, when performance against the 2011 N+2 target is known.**

3.5 Within Priorities 1 and 2 however, where the greatest headroom remains, it is clear that a shortfall of revenue match funding for the remainder of the Programme will mean that certain objectives are now likely to be unachievable. In both priorities a re-balance of indicative funding allocations between their respective objectives is recommended as set out in the tables below.

3.6 These figures are set out indicatively, however it is recommended that they be finalised following discussion with LMC / PMB partners, and in particular following discussion with Action Planning groups for Priorities 1 and 2 (Recommendation 3).

3.7 **Recommendation 1b. The funding allocations between objectives should be reviewed and amended in agreement with LMC/PMB partners, using the tables below as a starting point.**

3.8 Conversely, Priority 4 now has a project pipeline that would significantly over-commit the P4 funding allocation. In June 2011, the LMC made the decision to put a strategic pause on new project submissions under Priority 4.

3.9 **Recommendation 1c. The Executive retains the strategic pause in Priority 4 project submissions until it has processed the current backlog. Subject to suitability of the project pipeline, it should then close the Priority to new applications. If there is a need to prioritise projects, public transport infrastructure projects should be given highest priority in order to fill the investment gap against OP indicative actions and P4 objectives.**

Recommendation 2

Resources should be invested in securing major projects that will enable the 2011 N+2 defrayment target to be met, or at least the shortfall minimised.

3.10 Based on expected spend of currently contracted projects, the Programme will fail to hit its 2011 N+2 target, with a shortfall of up to £40m being lost from the Programme.

3.11 There are two main opportunities at present that could still enable the Programme to meet its N+2 target, or minimise the shortfall:

- Contracting the proposed £40m JESSICA scheme (£20m ERDF), which would involve transferring the ERDF funds into a JESSICA holding fund, counting towards fund defrayment.

- Securing full business plan approval for the Hull Energy Centre project, which given its value would classify as a *major project* (requiring review by the EC), and would therefore mean the c.£17m ERDF for this project would be taken off the 2011 N+2 target.

3.12 If both of these were achieved by the Executive, any N+2 shortfall would be minimised and the majority of Programme funds would be retained.

3.13 **Recommendation 2a. The Executive and partners should focus project development resources towards securing these two investments, in order to minimise loss of funds to the Programme.**

Table 3-1: Initial Recommendations for Rebalancing Priority 1 Allocations Across Priority Objectives

		Current Allocation		Estimate of Contracted Spend	Remaining Uncontracted Spend	Suggested Revised Allocation		Remaining Uncontracted spend	Rationale for Recommended Revisions
O1	SY	33%	£14.8m	£2.9m	£11.9m	15%	£6.7m	£3.8m	Limited investment to date in O1 other than for Collaborative R&D. Availability of future match is a key constraint but, if contracted, KTPs and Yorkshire Innovation Fund would use around £6m of remaining headroom.
	RoR		£18.5m	£5.4m	£13.1m		£8.3m	£2.9m	
O2	SY	33%	£14.8m	£20.1m	- £5.3m	45%	£20.0m	- £0.1m	Several major investments made to date. University capital funding will be an important match opportunity going forwards. Universities need to identify opportunities to use this funding, particularly in the Rest of Region area.
	RoR		£18.5m	£2.6m	£15.9m		£25.0m	£22.4m	
O3	SY	33%	£14.8m	£5.2m	£9.6m	40%	£17.7m	£12.5m	Mixed success to date in contracting. Going forward, £17m for Hull Energy Centre would largely meet renewable demonstrator element. HEIF / TSB funds should enable match for significant additional revenue activity.
	RoR		£18.5m	£9.6m	£8.9m		£22.2m	£12.6m	

Table 3-2: Initial Recommendations for Rebalancing Priority 2 Allocations Across Priority Objectives

		Current Allocation		Estimate of Contracted Spend	Remaining Uncontracted Spend	Suggested Revised Allocation		Remaining Uncontracted spend	Rationale for Recommended Revisions
O1	SY	40%	£31.2m	£12.1m	£19.1m	35%	£27.8m	£15.7m	O1 will struggle with future match funding, however half of the uncontracted funds could be used by pipeline projects, notably £15m for NY Broadband and Yorks Digital Authentication (£5m). Future P2 revenue match likely to rely on SME contributions, and this is more likely to come forward for O1 than O2 schemes.
	RoR		£62.3m	£30.1m	£32.2m		£54.5m	£24.4m	
O2	SY	25%	£19.9m	£6.9m	£13.0m	15%	£11.9m	£5.0m	Match funding for enterprise / start-ups will be particularly difficult. There are around £13m of projects in pipeline for O2, most notably the £7.5m Creative Yorkshire Content Fund. If all reach contract, this would only leave around £6m further headroom for O2 projects, under revised allocations, which should be achievable.
	RoR		£38.9m	£8.9m	£30.0m		£23.3m	£14.4m	
O3	SY	25%	£19.9m	£2.8m	£17.1m	40%	£31.8m	£29.0m	£72m already in the pipeline for O3, and likelihood that much more could be allocated, as private sector match can be heavily utilised under O3. Increasing allocation too greatly however could limit result and impact target achievement by an overly capital-focused suite of projects.
	RoR		£38.9m	£5.2m	£33.7m		£62.3m	£57.1m	
O4	SY	10%	£7.9m	£3.6m	£4.3m	10%	£7.9m	£4.3m	£4m in the pipeline already for O4 and indications that there will be further demand for projects. No extension recommended to O4 however, as much of it is non Lisbon-compliant activity.
	RoR		£15.6m	£7.7m	£7.9m		£15.6m	£7.9m	

Source: Regeneris Consulting Gap Analysis, April 2011

3.14 **Recommendation 2b. If necessary the Executive should use part of its Technical Assistance funding to bring in additional consultant support to particularly support development of these two projects.**

Recommendation 3

Partners should collectively agree a suite of future project proposals that could absorb remaining headroom and fill current investment gaps.

3.15 The pipeline of suitable project bids coming forward is one of the greatest challenges facing the Programme over the remaining period, particularly exacerbated by the loss of Yorkshire Forward as the main project developer and deliverer, and the significant reductions in available, eligible match funding.

3.16 Up to this stage, other partners, such as local authorities and universities have mostly had arms-length engagement with the Programme, and have not maximised opportunities to match ERDF with their funding.

3.17 If this position continues the Programme will struggle to use all of the available spend allocated for the region, and will lose funds each year as N+2 challenges persist. Turning around this position requires a significant shift in approach, with partners taking a far more proactive role and bringing forward new projects to fill the remaining Programme headroom. This needs to begin immediately, through an Action Planning process led by partners to identify and agree projects to come forward.

3.18 **Recommendation 3a. The stakeholder event planned for September 2011 should bring together strategic partners to begin a process of Action Planning for how the remaining Programme headroom in Priorities 1 and 2 can be used.**

3.19 The groups need to be clear on their aims and objectives, as well as ensuring that the right people are engaged. The following outline Terms of Reference provide a starting point for this.

Figure 3-1: Outline Terms of Reference for Action Planning Groups

	Priority 1	Priority 2
Objectives	*To generate a pipeline of projects by December 2011 that could absorb remaining headroom in Priority 1 / 2 by* *1) Advising on new or enhanced eligible activity areas* *2) Identifying under-utilised match funding sources* *3) Developing Outline project concepts to come forward.*	
Membership	• Universities • Business and Sector Support Bodies • LEPs • Local Authorities • ERDF Executive (advisory role) • And potentially TSB & BIS	• Local Authorities • LEPs • Universities • Business and Sector Support Bodies • Voluntary & community sector representatives, particularly where linked with enterprise activity • ERDF Executive (advisory role) • And potentially BIS

Figure 3-1: Outline Terms of Reference for Action Planning Groups		
	Priority 1	Priority 2
Reporting Line	Both groups report directly to their respective Priority Control Managers who will sit as observer/advisors	
Roles	• Identify new activities that could be included under the Priority Axis as eligible activity where it would enable additional blocks of investment to come forward • Identify and support blocks of investment activity to could come forward as ERDF bids, including major projects and packages of smaller similar projects. • Explore opportunities for better matching available eligible match funding in the region with ERDF. • Review indicative funding allocations across objectives within the Priority Axis, and make recommendations on how these should be revised.	
Operation	• Each group to be co-ordinated by the relevant Priority Control Manager and Chaired by a member elected from the partners involved. • Groups to meet as often as required to maintain momentum of activity, probably monthly between September-December 2011 and reviewed thereafter. • Task and finish groups to be set up by members to pursue key blocks of investment and ensure these lead to project submissions.	

3.20 **Recommendation 3b. Partners review and modify the outline Terms of Reference above as required, and adopt them to guide the function of these groups over the period to December 2011. At the initial sessions partners should agree a timescale for next steps and how they will continue to monitor progress in meeting Programme headroom in the respective priorities**

3.21 Given the challenging timescales for de-commitment of ERDF funds, it is recommended that partners work to identify a full pipeline of projects by December 2011, to coincide with the N+2 deadline. Greater certainty about the pipeline, headroom and new operating context should mean the Programme is better positioned to make informed strategic decisions into 2012.

3.22 To generate the much-needed partner commitment to this new approach, the Action Planning groups should be positioned as the primary channel by which new projects come forward to the Programme over the next 4 months. Partners should clearly understand the opportunity and challenge they are being presented with. If the proactive Action Planning approach is a success Priority Prospectuses may be rendered surplus to requirement, although there is likely to still be additional headroom and scope for projects to come forward outside this process.

3.23 **Recommendation 3c. The Executive should clearly communicate to partners that Action Planning groups are the primary route for new project submissions to the Programme. Subject to their success in bringing forward a strong pipeline of projects by December 2011, the Executive should consider publishing a reduced prospectus for 2012 that closes large parts of the Programme to new applications.**

Recommendation 4

Technical Assistance funding should be used to help draw upon under-utilised sources of match funding.

3.24 To date, Technical Assistance funding in Priority 5 has been under-utilised by partners. Going forward it is a potentially powerful resource to support project development, at a time when partner capacity to do this is weak.

3.25 Partners have concerns about drawing down Technical Assistance funds for development of their ERDF project proposals. The application process to draw down TA is time consuming, and with no assurance that their ERDF projects are likely to be supported, partners could invest a lot of time and resource into a TA post that eventually does not help to secure any ERDF project funds.

3.26 These risks however can be significantly reduced following the Action Planning sessions set out under Recommendation 3:

- By gaining agreement from regional partners and early assurance from the Executive that a project appears to be eligible, a potential applicant has greater assurance that their project will be successful
- By working together through Action Planning sessions, it will be possible for partners to identify opportunities for joint bids to draw down TA support. In this way partners can reduce time spent in drawing down TA funding (as they may only need one joint bid, rather than several separate bids).

3.27 **Recommendation 4a. Partners should use the Action Planning Groups to identify and agree where they will seek to draw down TA funding to support bid development, and opportunities for this to be done jointly across several partners.**

3.28 The Executive and partners should also explore opportunities with contacts at DCLG, BIS, TSB and other Government departments for these bodies to draw down TA funding that could be used to help lever funding into the Yorkshire and Humber region to be matched with ERDF.

3.29 National bodies / departments may wish to draw down TA across several regions to fund a joint post / posts that can have the same role, developing bids to the ERDF Programmes across several regions.

3.30 **Recommendation 4b. The Executive and partners should explore with TSB, DCLG, BIS and other Government departments opportunities to draw down TA funding for the development of ERDF bids to match their existing support in the region. Outcomes should be fed into the Action Planning Groups .**

Recommendation 5

Regional and national experts should assist the Executive in the development and appraisal of ERDF proposals.

3.31 One of the important losses to the Programme as a result of the closure of Yorkshire Forward, is the loss of thematic experts who were able to review projects in development and appraisal and advise both project developers and appraisers on the merits and weaknesses of projects. The loss of this support may mean a fall in project quality, as projects fail to benefit from expert attention that would have improved project impact and alignment with other resources and activities.

3.32 Compunding this loss, the publishing of OBPs for partner comment, which was seen very positively by partners, has stopped following the transfer of ERDF material to the DCLG website.

3.33 It will be important for the Executive and partners to fill this expertise gap, particularly for more complex projects, such as Priority 1 innovation projects. For smaller projects, a more formalised approach to enable local experts to feed in to development and appraisal would be appropriate; for larger projects, experts from DCLG, BIS, TSB and other departments should assist, or the Executive should buy-in external expertise.

3.34 **Recommendation 5a. DCLG should enable the Executive to continue to publish submitted OBPs on the DCLG website for partners to comment on.**

3.35 **Recommendation 5b. Partners with particular thematic expertise across the range of Programme target sectors and activities should assist the Executive in project appraisal. The Executive should develop a more formal opportunity for such experts to review and advise on project development and appraisal linked to their specialist knowledge.**

3.36 **Recommendation 5c. For larger and more complex projects (ie those >£2m), DCLG, BIS, TSB and other relevant departments should provide the Executive with expert advice to assist with the appraisal of bids. Where there are gaps in capacity/expertise, the Executive should buy-in external appraisal expertise.**

Recommendation 6

The Programme should immediately address under-performance of result targets, but prepare for a likely re-quantification of targets with the EC.

3.37 A request to revise and re-quantify an Operational Programme can be made to the European Commission, under Article 33 of the General Provisions, in the following instances:

- following significant socio-economic changes
- in order to take greater or different account of major changes in Community, national or regional priorities
- in the light of Programme evaluation
- following implementation difficulties.

3.38 Achievement of result indicators to date is low, and across the Programme delivery partners anticipate they will under-perform on contracted results by 20-30%. The future scenarios modelled clearly indicate that the Programme is unlikely to hit its targets, most notably on job creation. If this position persists, then a re-quantification of indicators would be appropriate, and could be pursued on the basis of all of the conditions listed above. In particular the changing socio-economic context has had a critical impact on the Programme with the effect of the recession dampening demand for many types of business growth support, and altering the focus of many businesses from job and turnover creation to consolidation and safeguarding jobs and turnover.

3.39 While it is currently anticipated that a re-quantification of Programme indicators will be necessary, it is not recommended that the Executive seeks to take this forward now, for the following reasons:

- Programme re-quantification is a time-consuming process for the Executive, which would detract from the more important priority of meeting the N+2 defrayment target for 2011.
- With the majority of the Programme allocation still uncontracted, a backlog in performance data submitted by live projects, and a significantly different socio-economic and policy context facing the Programme in the remaining delivery period, it is difficult at this stage to estimate how the targets would need to be altered.
- Before seeking re-quantification, the Executive should seek to address the under-performance in result achievement by contracted projects (see Recommendation 8). They should only seek to re-quantify targets if this is unsuccessful.

3.40 **Recommendation 6a. The Executive should prepare to negotiate a Programme re-quantification in January 2012 if needed, after it has completed the following steps:**

- **Gain a detailed understanding of expected output and result achievements by improving detailed contract monitoring. Where projects are under-performing the Executive should seek to support projects to address this (see Recommendation 8)**
- **Continue to develop the project pipeline to get a stronger understanding of the likely output and result achievement by projects using the remaining uncontracted spend (see Recommendation 3)**
- **Reassess expected Programme achievement in January 2012, when achievement against the 2011 N+2 target is also known, and identify any output and result targets that look unachievable.**

Recommendation 7

The Executive and DCLG should ensure that sufficient resources are in place to address delays at project appraisal stage and to tackle the backlog of claims and contract variations.

3.41 The transfer of the Executive to DCLG in July 2011 has led to an upheaval in project delivery, compounding existing capacity problems faced by the team which had already led to a pinch point in the project development process at appraisal stage and a backlog of claims and contract variations to be processed. To further worsen the Executive's capacity position, several senior members of the team left their posts at the point of transition, removing much needed expertise and experience.

3.42 The Executive has recruited to fill key vacancies in the team, although there are several remaining vacancies and a capacity gap. DCLG needs to support the Executive to ensure that there is sufficient capacity across all key functions, and that weaknesses in project development and post-contract processes can be addressed.

3.43 **Recommendation 7a. The Executive should review its capacity to deliver against all of its key functions, and DCLG should support the Executive team to ensure that sufficient resources are made available to enable current weaknesses to be addressed. In particular, this should ensure that:**

- Sufficient capacity is available at **project appraisal** stage to ensure that there is minimal delay in progressing full business plans through to approval stage
- The Executive continues to **champion the Programme's cross-cutting themes** through a CCT manager or identified lead, to maintain the good progress made and continue integration across all activity
- Further time is committed to enable **quarterly project meetings** (in line with Recommendation 8), providing developmental support to live projects, enabling them to maximise their performance and impact
- Sufficient capacity is available to **process contract variations** and to check eligibility and **process claims for payment**
- The Executive ensures **evaluation plans** are followed. The Executive should appoint a champion within the team to ensure that lessons are learnt and impacts captured from supported projects.

Recommendation 8

The Executive should focus contract management on helping and encouraging projects to achieve their output and result commitments.

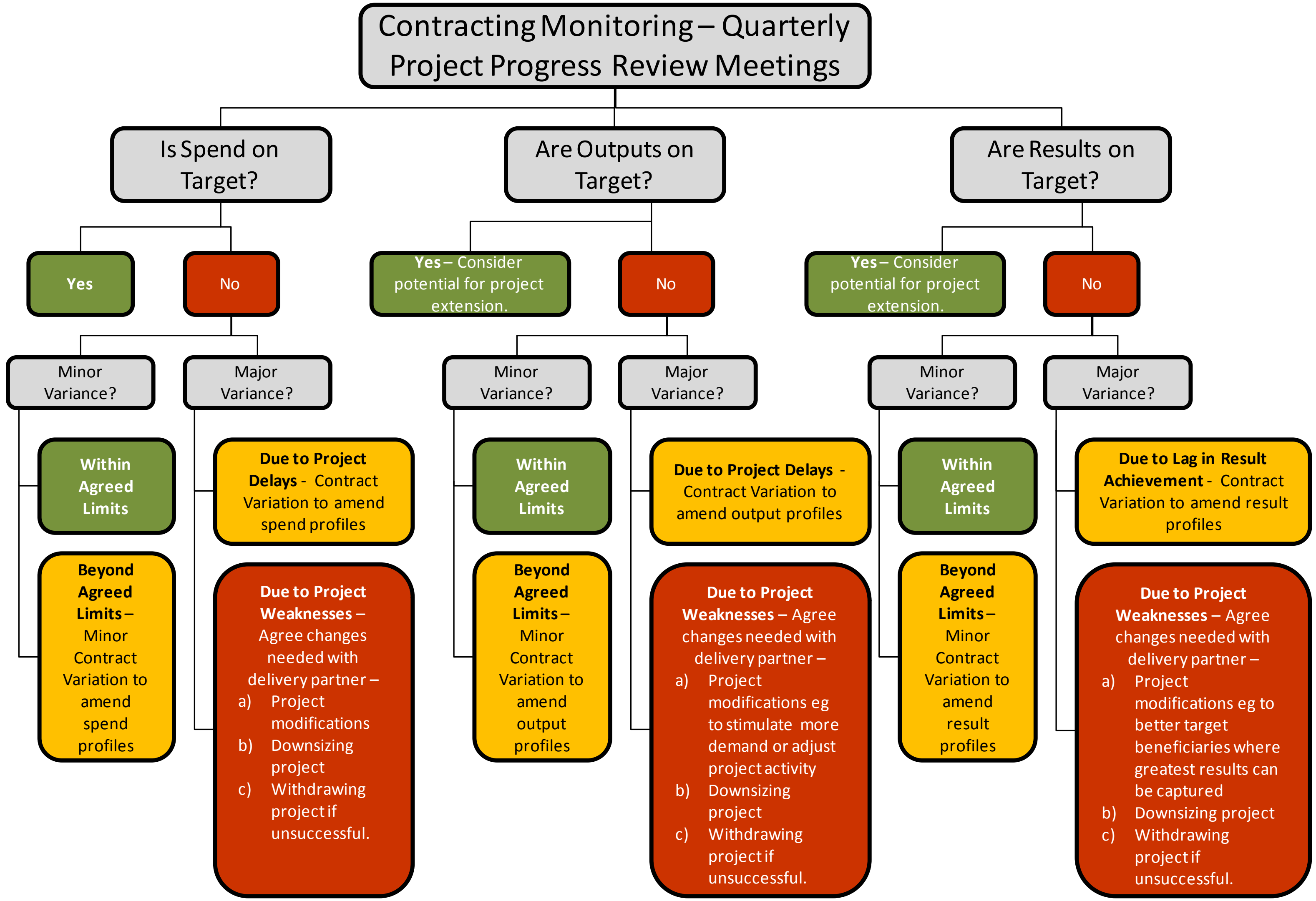
3.44 Result achievement is a major challenge for the Programme. Many project deliverers feel that while they can control the delivery of business assist outputs, translating these into results in line with their contract targets is out of their direct control, and more challenging.

3.45 Priority control and project development managers have understandably, (given the consistently challenging N+2 targets) heavily focused their time on pipeline development, at the expense of contract monitoring. Consequently the Executive does not currently have a full overview of expected achievements among contracted projects, and has not given enough support to under-performing projects. Given the growing body of contracted spend, getting the most out of projects will become increasingly important.

3.46 The tone and focus of project monitoring meetings should shift away from compliance and regulation towards performance and impact. The remit of staff from the Executive when undertaking these sessions should be to support, encourage and facilitate rather than regulate and officiate. The relationship can still be one of challenge but needs to be more developmental if the Programme is going to get the most it can from its investments.

3.47 **Recommendation 8a. The Executive should commit the time to meet projects quarterly for update meetings to keep a close eye on performance in achieving spend, output and result targets and to provide regular support and advice on delivery. The Executive should be more proactive in** supporting extensions to successful projects **as well as addressing project under-performance, using the broad approach set out in Figure 3-2**.

Figure 3-2: Example Contract Management Approach to ensure that Spend, Outputs and Results Remain on Track.



3.48 Project deliverers also need to take greater responsibility for delivering their result targets. For example, a diagnostic review with a prospective client before any support is provided can help identify businesses' needs and provide important expectations of what the intervention is expected to achieve in terms of results and impacts on the bottom-line performance of the business. This process can help projects target their support and resources on beneficiaries which are most likely to help the Programme meets its overall objectives. Other areas where projects might require similar advice from the Programme include marketing, procurement, use of experts and industry standards, intelligence-led business planning & management, client after-care and collaboration/ alignment with other services.

3.49 **Recommendation 8b. Programme officers should support and advise all projects on improving performance and securing greater impacts on the businesses they assist. Project should be encouraged to adopt new practices and learn from others.**

Recommendation 9

Partners should employ mechanisms used in other regions to use SME contributions as eligible match funding.

3.50 Match funding for revenue business support has been critically affected by public sector funding cuts, and with significant uncontracted money in Priorities 1 and 2, it will now be very difficult for these Priority axes to deliver their business support aims using public sector match alone.

3.51 Since the scale of public-sector funding cuts started to emerge, UK regional ERDF Programmes began to more seriously consider opportunities for private sector match. While most Programmes have used private sector match for finance and infrastructure projects, there is a mixed picture in utilising SME contributions towards business support activity.

3.52 In several regions, including Yorkshire and Humber, there has been concern that SME contributions would be regarded as income generated by a project, which is disallowed under Article 55 of the regulations.

3.53 In other regions however, ERDF Executives have found ways to utilise such funding without infringing regulations. Descriptions of the approach taken in the North East and East of England regions are set out in the tables below, as well as the strengths and weaknesses of these approaches.

3.54 **Recommendation 9a. The transfer of all regional ERDF Executives to DCLG should mean all regions will move to a common interpretation of regulations. The Executive and partners should take the opportunity now to review this with DCLG and its counterparts in other regions to agree a common approach and process for the use of SME contributions as match funding.**

Table 3-3: Approach to Utilising SME Contributions as Match Funding in the North East
The North East Executive has published an eligibility guide dealing with SME contributions. The guidance sets out a process whereby SME contributions can be used when the SME pays the full cost for an intervention to the delivery agent, and then claims back half of this cost after the intervention is completed from the project accountable body. The guidance highlights the increased emphasis on the SME to maintain a full audit trail, and that it is critical that the SME pays for the support up-front and later claims back the ERDF contribution (in order that the funding is not recorded as income generation). Both of these factors are clearly a disincentive for SMEs to engage. The guidance encourages projects to utilise SME contributions where they can, and several live projects in the North East are successfully using this as part of their match funding mix.

Table 3-4: Approach to Utilising SME Contributions as Match Funding in the East of England
The East of England Programme only allows SME contributions as match where an accountable body, such as a local authority, sets up a delegated grant scheme which SMEs can bid into for the purchase of goods or services. Similarly to the approach in the North East, the SME buys the good or service from a separate delivery agent, and then claims back a proportion of the cost from the ERDF fund administered by the project accountable body. This can create difficulties as the ERDF applicant (the accountable body) is unable to evidence the match funding at the point of bidding for ERDF (because the beneficiaries are not yet identified), so the applicant is required to underwrite this match funding, placing additional risk on them. This approach has been successfully employed in several live projects however, and SME contributions continue to be an important part of the match funding mix.

4. Socio-Economic and Policy Context

4.1 This chapter provides a summary update of the changing socio-economic and policy context under which the Programme has operated since 2007.

4.2 The socio-economic data is set out in a summary table over the following pages, and covers changes in Population, Industry and Employment, Competitiveness and Investment, Enterprise, Innovation and R&D, Skills and Income, and Worklessness. The root of the critical changes to the socio-economic context are the economic downturn and recession which have dominated the main part of the Programme delivery period to date.

4.3 For each of the sections above the table sets out a range of indicators and the latest available data (mainly 2008 data), along with change since the Operational Programme baseline (mainly 2005 figures). It also sets out notable sub-regional variations in trends, comparison to national performance, and the implications of the changing conditions for the Programme.

4.4 The policy context update draws on critical policy developments and sets out their implications for Programme delivery. The majority of the critical changes are those following the 2010 General Election and the programme of austerity measures introduced, including significant changes to regional structures, as well as large-scale reductions in public sector funding.

4.5 To conclude this chapter, a summary table provides an assessment of risk to the delivery of the four main Priority axes and their respective objectives, and to the delivery of the two cross cutting themes for the Programme.

Socio-Economic Context

Table 4-1: Summary of Socio-Economic Performance in the Yorkshire and Humber Region Since the Programme Baseline (2005 unless otherwise stated)

Theme	Sub-theme	Headline (latest year of data)		Change since baseline (positive or negative)		National Performance	Sub-regional Variations	Implications of Change for Programme
		SY	RoR	SY	RoR			
Population	Population 2005-9 (Mid Year Population Estimates)	1,317,300	3,940,800	29,100 (+2.3%) ↑	118,300 (+3.1%) ↑	Y&H has 10% of national population.	York, Leeds & Bradford each increased at a rate above the regional level; NE Lincs only sub-region to decline 05-09.	-
	Working Age Population 2005-9 (Mid Year Popn Estimates)	822,000	2,451,500	22,500 (+2.8%) ↑	80,700 (+3.4%) ↑	WAP represents 62% of total population in YH. This is the second highest of all English regions.	North Lincs & East Riding suffered declines 2008-2009 whilst Leeds, Sheffield & York experienced increases in WAP between 2005-9.	-
Industry & Employment	Total Employment 2005-8 (ABI) & 2009 (BRES)	523,687	1,663,517	-10,833 (-2.0%) ↓	-1,685 (-0.1%) ↓	Overall, sectoral changes in Y&H reflect those nationally. Nationally employment levels rose by 1% over same period.	Four LA areas show overall employment decline of between – 4% to – 6% compared with overall change of -1% across the region (Barnsley, Hull, N. Lincs & Rotherham).	Areas which have seen the greatest rise in unemployment may be in greater need of job match support or support with setting up a new business.
	Firms 2005-8 (ABI)	31,857	119,636	704 (+1.8%) ↑	5,449 (+3.9%) ↑	3% increase in total firms in YH compares to 6% nationally.	Small/micro firms have seen a 6.3% increase 05-08, Firms with 200+ employees have seen a 3% increase. Between 2005-8, North Yorks has seen an increase in firms in line with national levels (6%), whilst Sheffield has seen no increase over the same period.	Lower rates of growth than nationally shows Programme needs to continue to focus on increasing achievement of business creation results. Likely that number of firms will have fallen further since latest available data.
Competitiveness & Investment	GVA per capita 2005-8 (ONS)	£17,096		£1,673 (+10.8%) ↑		The level for Yorkshire and Humber lags the 17% increase nationally, highlighting that there is still some way to go to raise levels of productivity in the region.	Hull (+41%) and Rotherham (+30%) have demonstrated particular increases between 2003/4-2007/8 whilst York and Selby show the lowest at +8%. Leeds has the highest GVA per capita of all LAs whereas Barnsley has the lowest.	The lower rate of GVA growth compared with national levels highlights the continued need for the Programme to focus on innovation and generating high technology, knowledge based businesses in target growth sectors and clusters, where growth might be easiest to achieve.
	Jobs Density 2005-8 (ONS) (No. of jobs / resident popn aged 16-64)	0.68	0.75	-0.03 % point ↓	-0.03 % point ↓	YH's (0.75) job density is lower than the UK (0.79) average and has declined more.	Barnsley has particularly low jobs density (0.55) compared to Leeds and York, both with 0.87.	The regional trend is for a decline in the number of jobs available for every resident across the 21 local authorities. Job creation in the region remains a critical priority for the Programme.

Table 4-1: Summary of Socio-Economic Performance in the Yorkshire and Humber Region Since the Programme Baseline (2005 unless otherwise stated)

Theme	**Sub-theme**	**Headline (latest year of data)**		**Change since baseline (positive or negative)**		**National Performance**	**Sub-regional Variations**	**Implications of Change for Programme**
		SY	RoR	SY	RoR			
	UK Competitiveness Index (UKCI) 2006-2010 - index increase/decrease (benchmarking of regions/localities[6])	87.3		-3.2 index decrease		Overall Y&H ranks second lowest of all English regions with an index of 87.3 behind only the North East.	Harrogate, Hambleton & Craven are highest in the rankings of Y&H LAs, although even the highest in Y&H is ranked only 104 out of 379 English councils. Hull ranks lowest; at only 6 from the bottom of all English LAs in terms of competitiveness.	Increasing the region's business competitiveness is and should continue to be an important focus for the Operational Programme.
	£ of Exports per head of population 2006-8 (UKCI)	£2.68		£0.21 (+8.7%)		Compared to an average UK increase of 21% or £0.70, Y&H performs relatively poorly.	Comparable data for LAs not available.	Lower increases than other regions and the UK average highlights the continued need for support to increase export levels from the region.
	Knowledge Based Employment 2005-8 (UKCI)	14.5%		+1.38 % points		YH has the third highest % point increase in proportion of knowledge based employment, behind only London and the West Midlands, although the actual proportion in 2008 is the second lowest of the 9 regions (14.5%).	Comparable data for LAs not available.	Proportion of knowledge based employment remains low relative to other regions. Programme needs to continue to focus on increasing employment in knowledge intensive sectors and clusters.
	Knowledge Based Businesses 2004-8 (UKCI)	16.9%		+0.95 % points		YH joint lowest with East Midlands in terms of proportion of KB businesses, almost 4 % pts below the UK average, although it marginally performs better in terms of increase 2005-8 and therefore future potential. The region has a large gap on the UK on this indicator.	Harrogate (22.8%) and Leeds (22.4%) have the highest proportions, although York (+2.6 % pt), Wakefield (+2.1% pt) and Hambleton (+2.0% pt) show the greatest increases in KB businesses of the 21 local authorities and are higher than the UK average (+1.2 % pt). Hull and NE Lincs have low proportions (11.5%, 12.7%) and have experienced declines (-1.8 % pt, -0.2 % pt) between 2004-8.	Proportion of knowledge based businesses remains low relative to other regions. Programme needs to continue to focus on strengthening knowledge intensive sectors and clusters.

[6] UK Competitiveness Index (UKCI) first introduced in 2000. Represents a benchmarking of the competitiveness of regions and localities, the index focuses on both the development and sustainability of businesses and the economic welfare of individuals and draws on datasets such as ABI, APS, ASHE, NOMIS etc to produce analysis of eg R&D expenditure, export activity, Knowledge Base employment.

Table 4-1: Summary of Socio-Economic Performance in the Yorkshire and Humber Region Since the Programme Baseline (2005 unless otherwise stated)

Theme	Sub-theme	Headline (latest year of data)		Change since baseline (positive or negative)		National Performance	Sub-regional Variations	Implications of Change for Programme
		SY	RoR	SY	RoR			
Enterprise	Business Births 2004/5-2008 (Business Demography ONS)	18,670		-1,260 (-6.32%)		YH third lowest total new business births and the second lowest 1 year new business birth survival rates of regions (2008); 2 % points below the UK average.	Overall, region has lower numbers of business births in 2008 than in 2004/5. NE Lincs, Selby and Bradford are the only three authorities which have experienced an increase in total business births.	Declining numbers of business births during the economic downturn highlights the need to continue to focus on business creation to support the regions recovery from recession. Business births likely to have further reduced since latest available data.
	Business Survival 2004-8 (Business Demography ONS)	94%, 78% (1 & 2 year survival rates 2004) 91%, 78% (1 & 2 year survival rates 2007/8)		No. of 1 year survivors 2004-8: -2,355 (-3 % points)		Average 1 year business survival rates, ranking 5th out of the 9 English regions in 2008.	1 yr survival rates lower overall in 08 than 05. NE Lincs particularly low in 2008 (46%) whilst Selby, Barnsley and Rotherham each have rates higher than regional and national averages (95%+). Scarborough and Sheffield show the largest % point declines (-4) between 05 & 08.	Declining rates of business survival show the Programme needs to ensure the businesses it supports are sustainable and have sufficient support infrastructure going forward from the Programme.
Innovation & R&D	Expenditure on R&D as % of GVA 2005-7 (UKCI)	1.1		+0.0 % point =		Lowest R&D spend as % of total GVA of the English regions, a fifth of the East of England proportion.	Comparable data for LAs not available.	Low levels of R&D expenditure persist in the region, highlighting the continued need for the Programme to focus on stimulating R&D activity under Priority 1.
	Innovation Active Firms 2009 (UKCI)	60.7%		No time series		Second highest proportion of enterprises which are innovation active of all the English regions; behind only the South East, with 63.3%	Comparable data for LAs not available.	Despite low levels of R&D spend, levels of innovation are high compared with other regions.
	Innovation Collaborations (% of innovating enterprises cooperating with partners, 2009)	60.7%		No time series			Comparable data for LAs not available.	Cooperating innovation firms show a propensity for knowledge transfer and greater capacity for improved process and product. YH sits third highest of the regions, behind the East of England (65.6) and the North West (60.7).

Table 4-1: Summary of Socio-Economic Performance in the Yorkshire and Humber Region Since the Programme Baseline (2005 unless otherwise stated)

Theme	Sub-theme	Headline (latest year of data)		Change since baseline (positive or negative)		National Performance	Sub-regional Variations	Implications of Change for Programme
		SY	RoR	SY	RoR			
Skills and Income	Qualifications (NVQ4+) 2004-9	156,900 (18.1%)	548,000 (22.4%)	51,600 (+33%)	143,900 (+29%)	YH has lower levels of higher qualifications and higher levels of no qualifications than the national average. Regional increases in higher level skills have occurred at a rate similar to national and UK levels.	York (41%) and N Yorkshire (32%) have the highest proportions of NVQ4+ qualifications whilst N E Lincs (17.3%) and Wakefield (19%) have the lowest, with Hull (+65%) and Doncaster (+52%) experiencing the highest % increases between 2004-9. Wakefield (+5.1%) and N Yorks (+5.2%) have the lowest % increases.	Low but increasing levels of higher qualifications is positive for the Programme's aims to increase the numbers of knowledge intensive jobs and businesses in the region.
	Qualifications (No Qualifications) 2004-9	117,500 (14.6%)	316,500 (12.4%)	-13,600 (-10%)	-44,900 (-14%)	YH has lower levels of higher qualifications and higher levels of no qualifications than the national average. Regional decreases in the number of people with no qualifications have occurred at a rate below national and UK levels.	Hull (18%) and Doncaster (17%) have the highest levels of low qualifications whilst York (8%) and East Riding (10%) have lower proportions than the national average. North Yorks has increased numbers of no qualifications over the period 2004-9 and NE Lincs and York have shown increases since the recession (2008-9).	Whilst the rest of the region has decreased the proportions of people with no qualifications at a rate higher than England and the UK, South Yorkshire is lagging behind at -13.4% (3 percentage points worse than the England average). This will continue to constrain the growth of knowledge intensive businesses in South Yorkshire.
	Earnings (mean gross weekly) 2005-10 (Workplace data)	£431	£434	17.5%	12.6%	YH has the lowest mean weekly pay of any region other than the North East (2010). London, the highest paid region sits almost £200 per week ahead of YH.	Hull and NE Lincs have persistently lower weekly pay levels than the rest of the region and other LAs, lagging at worst c. £70 behind the regional average (2010). Selby remains the highest paid local authority area 2005-10 (c. £200 greater than Hull, the lowest), although has experienced a lower than regional and national average increase over the period.	The increase in weekly pay at the same rates as national levels is positive, although the region continues to significantly lag the national average, highlighting the continued need to focus on growing higher value knowledge intensive sectors and clusters in the region.
Labour Force and Worklessness	Economic Activity aged 16-64 2005/6-2009/10	624,600 (73.7%)	1,907,800 (76.4%)	15,900 (+2.61% and +0.5 % point)	48,400 (+2.55% and -0.2 % point)	Economic activity in the region is just below the England and UK levels although the total number of economically active individuals has increased at a rate higher than that nationally.	N Yorks and East Riding have the highest proportions of economically active, in contrast to Hull and Bradford who sit 5 % points behind the national and UK proportion. Leeds has increased its numbers dramatically over the Programme period (12%), with the next largest increase experienced by Bradford. Wakefield has experienced a decline of -2.0% in the same period.	The increase in economically active people provides a favourable context for the Programme's business and job creation activity.

Table 4-1: Summary of Socio-Economic Performance in the Yorkshire and Humber Region Since the Programme Baseline (2005 unless otherwise stated)

Theme	Sub-theme	Headline (latest year of data)		Change since baseline (positive or negative)		National Performance	Sub-regional Variations	Implications of Change for Programme
		SY	RoR	SY	RoR			
	Unemployment as % of WAP 2005/6-2009/10 (APS)	9.3% (58,100)	8.9% (172,400)	15,000 (+35% actual or +2.2 % point)	78,300 (+83% actual or +4 % point)	9% unemployment in YH compares to 7.9% nationally; and is a 3.5 % point increase on the proportion in 2005/6. This figure reflects the impacts of the recession. The actual number of unemployed has increased by 93,300 (68%) which compares unfavourably to an increase of just over 50% nationally.	Hull and NE Lincs have particularly high unemployment , whilst York and East Riding have considerably lower levels than national and UK averages. Hull has also experienced one of the most significant increases both in actual number (+132%) and proportions (+7.6%) of unemployed of all LAs between 2005/6 and 2009/10. Actual increases in Hull (9,900) and Bradford (12,900) represent the highest proportions of 2010 WAP (8% and 6% respectively).	The impacts of recession on unemployment in the region increase the importance of new job and business creation by the Programme, as the region begins its recession recovery. Continued focus of Priority 3 on areas of higher worklessness and deprivation are increasingly important, as these areas have borne the brunt of recessionary impacts.
	Benefit Claimants (ONS, 2005-11)	40,179	109,427	19,793 (+104.1%)	54,462 (+104.1%)	Benefit claimants represent just below 5% of WAP in YH compared to below 4% nationally.	Calderdale, Kirklees and Barnsley have experienced the largest increases since the Programme baseline; all three at a rate almost twice that experienced nationally. NE Lincs has the lowest increase over the period although claimants represent the second highest proportion of WAP (after Hull) of local authorities in the region.	Increases in benefit claimant levels reflect recessionary impacts, however it will be important to avoid short term worklessness turning into long term unemployment, by continuing to generate new jobs and create opportunities for people to start their own businesses and for job matching activity.

Policy Context

Table 4-2: Summary of Key Changes to the Policy Context Since Start of Programme Delivery

Theme and Policy	Specific change or initiative	Implications and Considerations for Programme
Abolition of Regional Development Agencies	Abolition by March 2012. Some of RDAs' current functions will continue at a national rather than local level, including MAS, UKTI, Grants for R&D. Majority of local / regional programmes will cease to be RDA-funded, and most will thus come to an end. RDA assets will be transferred, some of which will go to HCA.	Loss of agency staff may contribute to levels of uncertainty for projects, whilst the transfer of functions to other bodies (CLG, BIS, LEPs etc) is likely to result in some delays to processes or payment. Funding for initiatives being delivered nationally is likely to be reduced from RDA funding levels, and currently uncertain as to whether it will be possible to match fund nationally delivered activity with regional ERDF funds.
Loss of Single Pot funding.	Single Pot funding will end in March 2012. Some commitments after this time will be transferred to other bodies, but there will be no new allocations made.	Single Pot funding has been the largest source of match funding for the Programme to date. Its loss creates a major match funding challenge for the Programme. Existing projects with Single Pot funding committed beyond March 2012 have also seen funds withdrawn.
Abolition of Government Offices	GOs abolished in April 2011 – responsible for overseeing European Social Fund and other activity; coordination of future activities by other relevant Government departments may make alignment with ERDF more difficult.	New arrangements for managing ESF may make alignment with ERDF more difficult.
Local Enterprise Partnerships	Public-Private partnerships of local authorities, businesses and partner organisations. 4 LEPs approved across Yorkshire and Humber, based around the four city/sub-regions.	Whilst LEPs are likely to contribute to the future governance (and potentially delivery) of the Programme, they lack resources to provide match funding and given their sub-regional geographies, may focus on local interests rather than the region's strategic priorities.
Regional Growth Fund	£1.4bn between 2011-14, intended for projects which will lever private sector investment, generate economic growth and employment as well as rebalance areas dependent on the public sector.	Limited chance of RGF as match; 7 projects in Yorkshire and the Humber received funding under round 1, of which none were matched with ERDF. Process and objectives of each fund mean that despite efforts by BIS and CLG to align these funds, match opportunities will be difficult.
Public Sector Cuts	£6.3 billion cross-government savings for 2010-11.	Match funding from local authorities and universities will be affected, exacerbating the match funding challenge with the loss of Single Pot.
Discontinuation of LAAs and National Performance Indicators, and Localism Bill	Shake up of local and regional action plans, performance and improvement measurement and increased devolution of power to the local level.	Loss of local evidence base as performance measurement reduces, which may affect evidence available to inform development and shaping of Programme priorities and focus. However reduction in bureaucracy for local authorities and increasing devolution of power / future big society agenda may increase the capacity

Table 4-2: Summary of Key Changes to the Policy Context Since Start of Programme Delivery		
Theme and Policy	**Specific change or initiative**	**Implications and Considerations for Programme**
		and engagement of local authorities and communities in delivery of ERDF in future.
New arrangements for the delivery of business support	BIS to take in-house (or via arms length bodies such as UK:TI and TSB) the future design and coordination of Lisbon type business support (sectors, innovation, trade and inward investment etc). BL to be replaced by national call centre and website.	Uncertainty about future funding and organisation of existing regional schemes, especially where contract is with and the majority of match funding comes from Yorkshire Forward. Loss of Business Link funding significantly reduces match funding opportunities for activity under Priority 2.
New forms of financing: Tax Increment Financing	Reinvestment of a proportion of future business rates back into infrastructure and related development (ie on regeneration projects). Designed to unlock major economic renewal opportunities for which money would be otherwise unavailable.	TIF funding represents a potential new match funding source for local authorities to utilise. The extent to which local authorities are likely to take up this opportunity is currently unclear.
Enterprise Zones	21 new Enterprise Zones across England – to enable business growth by offering tax breaks, relaxed planning rules and super-fast broadband.	Two enterprise zones agreed in principle within the Sheffield City Region and Leeds City Region LEP under first EZ tranche. Bids have been submitted by the Humber and North Yorkshire LEPs in the second round. Enterprise Zones may create new match funding opportunities and a new focus for investment. Partners should explore opportunities to bring forward match funding or complementary projects.
Technology and Innovation Centres	£200m+ to be invested in centres which will enable a critical mass of business and research innovation: access to equipment and expertise, emerging technologies and new funding streams.	High value manufacturing technology and innovation centre with regional partners (incl. AMRC, NAMRC) due to launch Oct 2011. Programme could capitalise on projects coming through this TIC by leveraging private sector investment or providing links in to the centre's activity for SMEs.
HEI and Further Education	Higher education White Paper; all but five universities to have funding cut (£940m or 12.6% cut). HEIF funding allocations and increasing tuition fees from 2012.	Funding cuts may impact on the ability of Universities to bring forward match funding for projects in the shorter term, however recent HEIF allocations and the prospect of increased revenues from higher tuition fees from 2012 may create important match opportunities in the second half of the Programme delivery period.

Conclusions

4.6 The following table draws together an overall assessment of areas of the Programme where the changing socio-economic and policy context pose considerable risk to overall delivery and achievement of Programme objectives.

Table 4-3: Summary of Risks to the Programme as a Result of Changing Socio-Economic and Policy Context		
Priority	**Objectives**	**Risk to the Programme (high, medium or low)**
Priority 1: Promoting Innovation and R&D	1. To stimulate and facilitate increased investment in innovation and R&D, engender a culture change and promote sustainable business practices	• **HIGH**. In this recessionary climate businesses are less likely to invest significantly in R&D activity and so demand for activity under Objective 1 has fallen. • Furthermore, the loss of RDA as a project deliverer and Single Pot as a critical match fund source for this activity now leaves a major gap in achieving this objective.
	2. To provide and support the infrastructure needed to stimulate innovation and R&D whilst ensuring the social, environmental and economic conditions are improved	• **LOW**. Main risk is match funding as a result of end of Single Pot and cuts to university budgets. Reduced alternative funding sources however make ERDF a more attractive option now for universities and thus applications for Obj. 2 activity may increase.
	3. To increase and support the exploitation and commercialisation of knowledge, technologies and processes that underpin the future sustainability and growth of new and existing businesses and target clusters	• **MEDIUM**. During the economic downturn businesses increasingly focus on survival rather than investing in innovation and R&D. As a result business demand for assistance under Objective 3 is reduced. • The loss of RDA as a project deliverer and Single Pot as a critical match fund source also leave a key gap for this objective. • The increased focus on renewable demonstrators should make delivery of this objective more realistic.
Priority 2: Stimulating and Supporting Successful Enterprise	1. To establish integrated business support for innovative and high growth businesses which enables them to grow more quickly	• **HIGH.** Integrated, regional approach will be difficult to sustain given policy changes and significant reductions in public funding for business support, including the loss of Single Pot funds. More substantial involvement of the private sector will be required in providing ERDF funded support solutions for businesses.
	2. To promote a more enterprising and entrepreneurial culture and support the growth of businesses at start-up and early stage and those with growth potential	• **HIGH.** Changed policy and funding landscape has also significantly affected potential to bring forward regional scale projects under this objective. Some risk of duplication and competition amongst smaller scale, localised initiatives.
	3. To promote the development of new and high technology clusters and sectors through investment in infrastructure.	• **MEDIUM.** Loss of Single Pot funding has substantially affected cluster development bodies, and general reduction in availability of public sector funding is a key challenge to securing new investments. • Private sector match opportunities mitigate against the match funding losses to some extent.
	4. To ensure that business growth supported by the Programme takes account of CO2 emissions and adopt environmental best practice	• **LOW.** Rising energy prices and the potential cost savings from the adoption of more energy efficient technologies should provide strong rationale for businesses to seek support in this area. The challenge will be to provide revenue funding to continue these support activities.
Priority 3: Sustainable Communities	1. To improve connectivity to economic opportunities through tackling social, economic and digital exclusion faced by disadvantaged	• **MEDIUM**. Slow/no economic recovery in the LAs with the most deprived areas limits the demand pull-through potential. • Competition for demand-based opportunities through the Work Programme may deflect what potential there is

Table 4-3: Summary of Risks to the Programme as a Result of Changing Socio-Economic and Policy Context

Priority	Objectives	Risk to the Programme (high, medium or low)
	communities	from ERDF-based demand-led employability projects. • Limitations on and competing priorities for LA resources as the main source of match may reduce the potential for project development and the commitment to projects in the pipeline.
	2. To increase economic activity and entrepreneurship within communities	• **MEDIUM**. The push effect of unemployment into new business starts continues to exist, but is seen to be in high displacement, low growth potential sectors. • Work Programme provision for support to self employed may deflect clients from ERDF-based provision.
	3. To create sustainable jobs in the social economy supported by existing and new social enterprises	• **HIGH**. The loss of most forms of funding, combined with public expenditure cuts has undermined the capacity of the sector to sustain employment. • Big Society could create opportunities from outsourcing of public sector services but it will take time to adjust, representing transfers rather than growth and including areas of business ineligible for ERDF support.
	4. To promote active participation in the development of a knowledge driven economy	• **HIGH**. Under-subscribed so far and hard to operationalise to date; expected to remain so due to funding constraints. • Some opportunities and appetite for projects dealing with local approaches to climate change mitigation, utilising loan finance as part of the match.
Priority 4: Economic Infrastructure for a Competitive Economy	1. To support the Sheffield City Region Development Plan by developing the critical business / environmental and cultural infrastructure in the four key urban centres and contribute to the development of an accessible and sustainable knowledge economy	• **MEDIUM**. The recession has had a detrimental impact on the market conditions for bringing forward new commercial developments across South Yorkshire and there has been a challenging development finance environment. • While P4 has invested significantly in public realm and economic infrastructure activities, the effects of the recession have lessened the pace of associated developments.
	2. To ensure that South Yorkshire has the digital infrastructure to support business competitiveness and the growth of the knowledge economy	• **LOW**. While a challenging economic climate, this project has proceeded throughout this period, with a funding package in place and partner support.
Cross Cutting Themes	Equality and Diversity	• **LOW.** Changing economic climate is unlikely to have an impact on the E&D CCT, many of the requirements of this theme are mainstreamed through legislation, so progress unlikely to be hampered.
	Environmental Good Practice	• **MEDIUM.** Continued slow rates of economic growth likely to boost demand from SMEs for projects focused on resource efficiency. In addition, pressures on project budgets could lead to an increased focus on making savings through environmental good practice. • Focus on resource efficiency activities (eg BREAAM floor space) could lessen if match funding availability puts pressure on project budgets.

5. Future Programme Management & Governance

5.1 This chapter sets out a summary of the Programme management and governance arrangements pre-transfer to DCLG and analyses the changes in these arrangements. It assesses the implications of recent changes, paying particular attention to how these arrangements should operate alongside external partners.

5.2 Given the timing of the evaluation, (ie during the period of negotiating new management and governance structures under DCLG), it was agreed that the evaluation should not present a detailed review of management and governance as would typically be expected as part of a mid-term evaluation.

5.3 This chapter therefore comprises:

- A summary of current management and resourcing of the Programme (as at June 2011, ie prior to transfer to DCLG)
- A summary of partner feedback on the project development and delivery processes, highlighting key strengths and weaknesses
- A review of roles and responsibilities for each part of the project development and delivery process, highlighting where gaps may arise as a result of changing arrangements, and how these gaps could be addressed
- An assessment of the impact of changes to Programme management
- Conclusions on future management and governance of the Programme.

Current Programme Management and Resourcing

Table 5-1: Summary of Current Programme Management and Resourcing (June 2011)

Resource	Current Roles
ERDF Executive	The overall Executive includes 45 staff, including: • Head of the Programme and 1 assistant post (vacant) • Rest of Region Implementation team of 9 posts (1 vacant), covering P1 and P2 leads, project devt managers and TA Officer • South Yorkshire Implementation team of 13 posts (5 vacant), covering P3 and P4 leads, project devt managers and the CCT manager • Communications Manager • Programme Management team of 11 posts (2 vacant), covering assurance, monitoring and finance • Finance Directorate team, of 8 posts, covering legal, performance and contracting.
Yorkshire Forward – non-ERDF posts	• Project Development Managers across all departments supporting project development for joint ERDF and Single Pot projects. • Thematic expertise able to advise on the quality of project submissions, particularly in specialist sectors.

Table 5-1: Summary of Current Programme Management and Resourcing (June 2011)	
Resource	**Current Roles**
	• Technical support on state aid, procurement and legal issues. • Wrap-around services, including IT, HR, facilities etc.
PMC/LMC and PMBs	• Members drawn from broad range of partner bodies across the region. • PMC/LMC acts as strategic decision making body for the Programme. High level attendees and in practice most will have relatively limited proactive role. • PMBs review funding applications and oversee Programme progress. Attendees are at a more operational level and potentially could have a more proactive role than they currently do.
Technical Assistance posts	• Up to the end of 2010, TA funded posts had responsibility for promoting the Programme, co-ordinating partners and developing bids to expression of interest stage. From 2011, in light of RDA closure, the role has been extended to provide bid development support throughout the project development process.
Other Partner support	• Several partners have highlighted that staff beyond those funded by TA have also supported promotion of the Programme, dissemination of Programme information, and some level of bid development support.

Impact of Changes to Programme Management

Negligible	Likely to have little material effect
Noteworthy	Will have modest effect
Marginal	Will have an effect and some action should be considered
Significant	Will have noticeable effect on Programme but could be ameliorated with attention
Hazardous	Will have significant effect which is likely to be unaffected by any action.

Table 5-2: Summary of Impacts on Programme Management of Changes in the National Economic Development Landscape		
Changes	**Impact Rating**	**Impact on Programme Management**
RDA Closure – loss of staff	Significant	• Loss of project development managers will lead to less capacity for supporting and improving bids and ongoing contract monitoring. • Loss of expert input from thematic managers may affect quality of bids. • Loss of close-to-hand legal, procurement, state aid support may create delays or weaker advice to the Executive on these issues, although mixed assessment on the quality of the support received in this area from YF.
RDA Closure – loss of co-ordinating body	Significant	• Loss of strategic frameworks for investment eg loss of Regional Economic Strategy and Policy Product Ranges, may affect strategic decision-making. • Loss of strategic body overseeing economic development investments may increase duplication and undermine synergy between projects. • Loss of key body to co-ordinate and broker agreements between partners.
Public Funding Cuts	Significant	• Significant reduction in available eligible match funding for the Programme, particularly with the loss of Single Pot but also with cuts to other partner's budgets. • Smaller pots of funding may make match funding packages more complex to assemble, co-ordinate and manage.
Change of PMC to	Negligible	• Proposed changes of PMC to a Local Management Committee do not look likely to have a substantial impact on the make-up or activity of this group.

Table 5-2: Summary of Impacts on Programme Management of Changes in the National Economic Development Landscape		
Changes	**Impact Rating**	**Impact on Programme Management**
LMC		• Rebranding of the group may be an opportunity for the Programme to redefine the roles of members and increase the responsibilities taken on by partners.
Dawn of LEPs	Negligible	• At this stage, the majority of LEPs lack any significant new capacity, funding or responsibility, and are therefore currently unlikely to materially impact Programme delivery. • The LEP structure in the region may provide a platform for Programme delivery capacity to be provided by partners eg TA-funded staff could operate at LEP level to provide strategic sense-checking of project bids.
Transition to DCLG – loss of Executive Staff	Significant	• The loss of senior Executive staff at the point of transfer to DCLG has left the team with gaps in knowledge and experience, however the quick recruitment to fill critical posts, and the engagement of the North East Programme Manager to jointly cover the Y&H Programme has mitigated this risk to some extent.
Transition to DCLG – shift to new systems	Significant	• The challenge of consolidating the systems and processes of all of the regional ERDF Programmes into a single approach is significant. Currently, there is a high risk that not all the required systems will be in place and operational at the point of transfer. This would create delays in all stages and may cause delays in project delivery (if there are payment delays) as well as delays in new project approval and contracting. • The transfer to full MCIS use is expected to lead to weaker management information provision than the current systems. This is likely to impact upon strategic Programme management.

Project Development Process Strengths and Weaknesses

5.4 The table below sets out a summary of feedback from delivery and strategic partners on key strengths of the project development process focusing on factors that the Executive can use in helping to shape future processes.

Table 5-3: Summary of Key Strengths and Weaknesses of the Project Development Process.	
Key Strengths	**How Future Processes Should Respond**
• Having a single point of contact for project liaison within Yorkshire Forward / the ERDF Executive has been important in maintaining strong communication and enabling each point of contact to build-up familiarity with the nuances of the projects.	• Maintain a single point of contact within the ERDF Executive team for each project and communicate these new contacts to project deliverers.
• Responsive technical support within the ERDF team, around audit and finance requirements has been particularly valuable to project deliverers.	• Continue to provide high quality support in project delivery phase, particularly around technical issues.
• Project development manager capacity to assist applicants has helped to improve the depth and quality of project business plans.	• Seek new ways to provide project development support to applicant bodies, using TA funding.
• Provision of thematic expertise from Yorkshire Forward managers has helped to strengthen project development.	• Seek new ways to enable project applicants to draw on thematic expertise within the region.

Table 5-3: Summary of Key Strengths and Weaknesses of the Project Development Process.	
Key Strengths	**How Future Processes Should Respond**
• Requiring a well structured business plan helps ensure robust projects are developed.	• Retain a robust business plan format for bids into the Programme.
• Proactive support to develop project evaluation plans.	• Continue to provide evaluation guidance to applicants, require an evaluation plan and budget for this, and appoint an evaluation lead within the ERDF Executive to review submitted evaluation plans.
Key Weaknesses	**How Future Processes Should Respond**
• Insufficient time spent by the ERDF Executive on project monitoring, meaning projects have not been able to negotiate adjustments to profiles / activity where they are under-performing.	• The ERDF Executive should more robustly monitor project progress and support projects to amend spend and output profiles and respond to under-performing activities.
• Significant delays in project appraisal, approval and contracting, due to projects receiving conflicting advice from development managers and appraisers.	• Communication to projects needs to give consistent messages from all parts of the Executive especially around eligibility of activities.
• Delayed processing of claims (estimated backlog of c. £10m) has been a major concern to delivery partners, particularly smaller organisations, with greater cash-flow challenges. The backlog also undermines relationships with delivery partners and confidence in Programme management.	• The Executive needs to resolve delays in claim payments and address the claims backlog as soon as possible.
• Significant delays in agreeing contract variations has stalled claim payments and delayed project delivery.	• The Executive needs to resolve delays in contract variations as soon as possible.
• Programme priorities, as set out in the Priority Prospectus, are too broadly cast, leaving partners unclear as the type of projects wanted.	• Better specification of the Programme's investment gaps and types of projects that partners should bring forward.

Changing Responsibilities for Project Development and Delivery

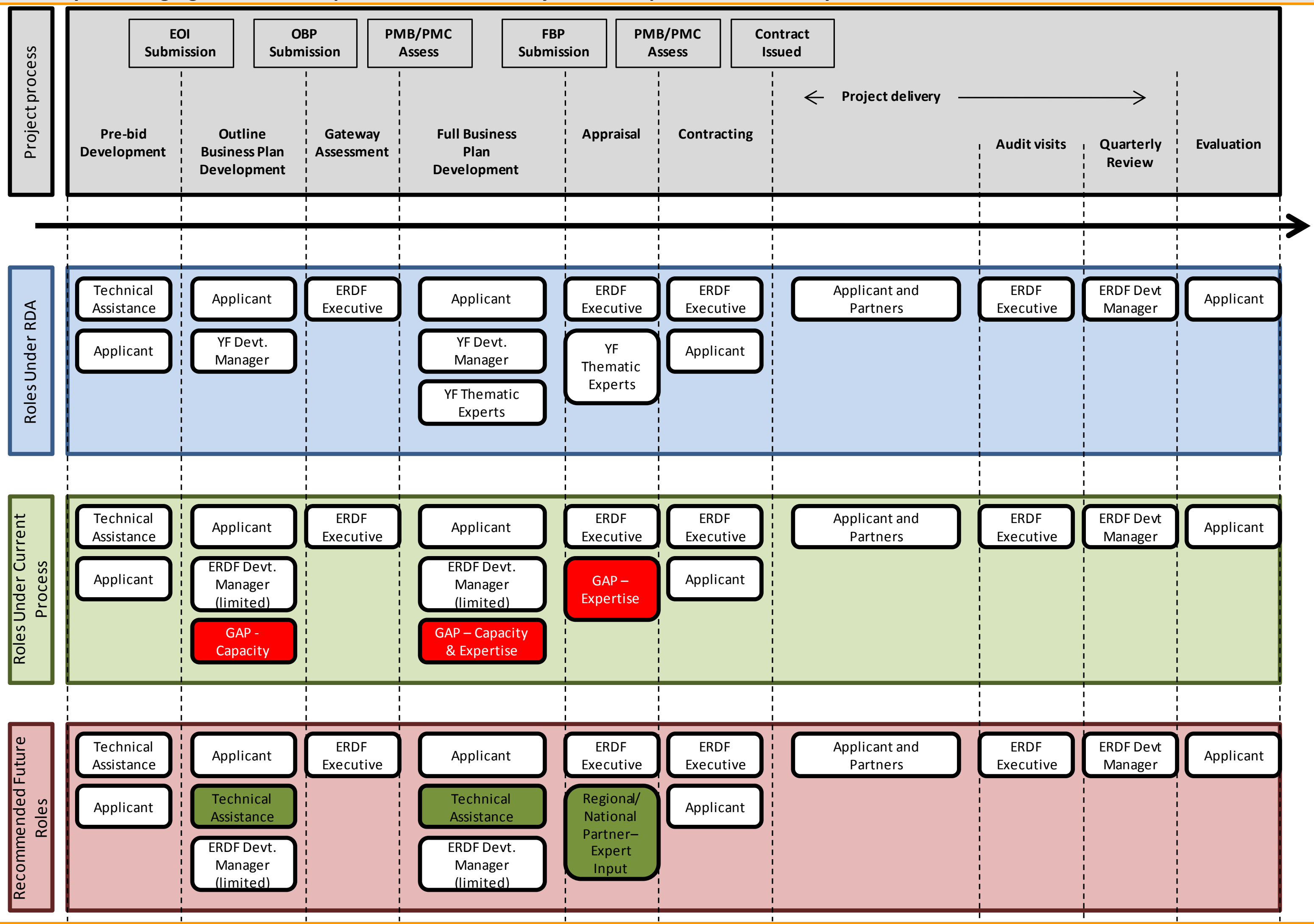
5.5 **Figure 5-1** below sets out a broad overview of key stages in the project development and delivery processes. It highlights roles and responsibilities for delivery at each stage as follows:

1) Roles and responsibilities during delivery under the Regional Development Agency.

2) Roles and responsibilities during the transition from the RDA to DCLG. This second breakdown also highlights in red the key parts of the process where the evaluation work has highlighted gaps in capacity or expertise.

3) Recommended roles and responsibilities under DCLG. This third breakdown also highlights in green the changes that could be made to address capacity and expertise gaps.

Figure 5-1: Summary of Changing Roles and Responsibilities in the Project Development and Delivery Process



5.6 The analysis highlights two key issues and recommended solutions to addressing gaps in capacity and expertise, through the increased use of Technical Assistance, and through better utilising the expertise provided by Programme partners.

Technical Assistance

5.7 To date, only £2.7m out of a total £20.7m allocated to Priority 5 has been contracted for, leaving 87% as headroom. Up to January 2011, use of Technical Assistance by partners was restricted to support up to the point of submitting an expression of interest. In January 2011, this was extended to allow Technical Assistance to be used for project bid development support, however partners have not greatly taken up this opportunity to date.

5.8 Drawing down Technical Assistance for project development capacity creates a problem for partners, as the sum would have to be sufficiently large to justify the investment in the ERDF application process. To make this a realistic option, partners would need to have several projects requiring bid development support, that they were reasonably confident would go forward.

5.9 To successfully enable this, partners would need to broadly agree major investments to be developed, and then draw down Technical Assistance to support these developments to come forward.

Greater Role for Local Partners in Bid Review

5.10 The other key gap highlighted is the loss of thematic expertise provided by Yorkshire Forward (non-ERDF) officers, assisting both in project development, and also in appraisal by the ERDF Executive.

5.11 This role has played an important part in providing an expert review to ensure that submitted projects address a genuine need, are suitably robust, and link well with other regional projects. This detailed thematic expertise is not present in the ERDF Executive, which may lead to less robust projects being approved.

5.12 Given that the Yorkshire Forward expertise is now lost to the Programme, it will be important for wider partners to more proactively pick up this role, reviewing OBPs and FBPs at PMB and PMC/LMC groups, and providing feedback. The Executive should review the roles of these governance groups as part of the shift from PMC to LMC, and consider a more formal review process by key partners, focusing on particular elements of the bid where their expertise may be of greatest value eg assessing the evidence of need, activities to be delivered and complementarity with wider regional interventions.

5.13 The Executive should also explore opportunities to draw on expertise within DCLG, BIS or other Government departments, particularly in reviewing larger investments (eg projects over £10m total value).

Key Conclusions

5.14 Over the last year there have been fundamental changes to the landscape of economic development which will have major impacts on the management and delivery of ERDF Programmes. These changes affect the nature and importance of the relationships between the ERDF Executive and its key partners. In particular:

- **The Programme has lost its dominant partner**: for the first half of the Programme period, Yorkshire Forward has been the dominant strategic partner, contributing around half of all match-funding and providing strategic guidance on investment decisions. From here on, it falls to the remaining major partners to provide leadership and co-ordination and to identify match funding. This will be the large local authorities and universities, and depending on their development curve, the LEPs.

- **The Executive has lost delivery capacity and will lose more**: Yorkshire Forward provided significant resource to support project development and delivery, which has now largely been lost. At the point of transfer to DCLG, several members of the Executive have opted not to make the transfer, and there remains concern that the vacant positions within the Executive will not all be filled.

5.15 These changes will further compound existing Programme management challenges. The Executive has been heavily focused on bringing projects to contract and meeting N+2 targets, and not sufficiently focused on contract monitoring. Too little attention has been paid to ensuring that contracted projects deliver to schedule and meet their result targets. The consequent under-performance on results will clearly have a negative effect on overall Programme impact.

5.16 The ERDF Programme needs to review its approach and respond to these challenges:

- **The major partners need to take responsibility for successful Programme delivery:** proactive leadership from local authorities and universities is now critical to successful Programme delivery. Partners need to take a more proactive role in two key areas:

  - Partners need to work together to plan how the remaining Programme headroom can be used. Partners should identify an agreed set of key projects that can be brought forward to absorb headroom in Priorities 1 and 2, drawing on the available match funding for the region. The Executive should facilitate this, providing an overview of the scale of headroom and investment gaps to be filled in each of these priorities. For P1, universities and TSB representatives are likely to be key partners. For P2, local authorities, some universities and BIS local representatives are likely to be key partners for these discussions.

  - Partners with particular expertise also need to take a more proactive role in assessing bid submissions, to ensure suitably robust projects are being approved. With the publishing of Outline Business Plans, this already happens on a less formal basis, however the Executive should review the roles and responsibilities of members of the PMC/LMC and PMBs and formalise the inputs from expert partners where they can add greatest value eg assessing the evidence of need, activities to be delivered and complementarity with wider regional interventions. The shift from PMC to Local Management Committee may provide an appropriate opportunity to review and revise this, as the membership and roles of the group are reviewed.

- ➢ To support this, the Executive should explore opportunities to draw on expertise within DCLG, BIS or other Government departments, particularly in reviewing larger investments (eg projects over £10m total value).

- **Technical Assistance funding needs to be deployed to fill the capacity gaps that have emerged.** The evaluation has highlighted a key capacity shortage in project and bid development which Technical Assistance funding is now able to help fill. However, without clarity on the bids that they will be able to bring forward, partners are reluctant to find match funding and draw down Technical Assistance for bid development. The following is therefore recommended:

  - ➢ As outlined above, partners should engage in a process of identifying agreed key projects to bring forward to fill remaining headroom in Priorities 1 and 2 (where headroom is greatest). The ERDF Executive should be involved in this process to ensure that the identified projects meet key investment gaps and appear to be eligible for ERDF funding.

  - ➢ Based on the planned set of projects to come forward, partners should seek to draw down TA funding to support project and bid development. Depending on the suite of projects agreed, partners may wish to pool match funding to draw down TA.

  - ➢ National departments / bodies such as TSB, BIS, DECC or others should also consider seeking to draw down TA funding to help in project and bid development.

- **Communication from the Executive to partners needs to be maintained and enhanced:** partners were positive about the publishing of all OBPs for consultation and Priority prospectuses. Maintaining this information flow will be critical to ensure partners can take greater ownership and leadership of the Programme. Further strengthening this commitment to engagement with more regular published information on spend, output and result progress, investment gaps and the strategic decisions taken at LMC, will further support this.

- **The roles and responsibilities of the ERDF team need to be reviewed and rebalanced**: it is currently unclear how the roles and responsibilities of the team will change under DCLG. A detailed review of team roles and responsibilities is critical to ensure gaps in capacity are covered, and current management and governance challenges are addressed. The following must be considered:

  - ➢ External delivery partners need a single point of contact within the Executive

- Project development managers and Priority control managers need to spend more time on post-contract monitoring to ensure successful delivery of contracted outputs and results, and support projects to make adjustments to their delivery where there is current or expected under-performance, shortfalls in investment or changing market conditions.

- Capacity will need to be put in to support regional partners with an action planning process for absorbing remaining headroom in Priorities 1 and 2, as well as for engaging national partners such as TSB to develop relationships and encourage bids to come forward from national bodies.

- The Executive needs to deal with the backlog of claims (around £10m of claims submitted and not yet paid) and contract variations as soon as possible, ensuring projects have certainty on the eligibility of their activities, and are do not face cash-flow difficulties.

- Delays in appraisal and contracting need to be reduced by ensuring there is sufficient capacity in this team. Stronger communication within the ERDF team to ensure consistency of messages on eligibility to project applicants from project development staff, appraisers and audit staff would also help to reduce some of these delays.

- The Executive should nominate a lead person for evaluation within the team, to review and advise on project evaluation plans, ensuring that this does not become a forgotten element of the Programme.

6. Priority 1: Promoting Innovation and R&D

6.1 This chapter provides detailed analysis of progress in delivering the objectives of Priority 1. The chapter comprises:

- An overview of the Priority aims and indicative activities
- Details of progress against spend, output and result targets
- An assessment of the current portfolio of projects contracted under Priority 1
- Analysis of impacts generated by the current portfolio of projects
- Analysis of the gaps in the investment portfolio, and likelihood of being able to fill these gaps in the remainder of the Programme period
- Conclusions on progress in delivering Priority 1.

Priority Overview

6.2 Priority 1 aims to stimulate innovation culture and strengthen innovation in the region by increasing technology transfer from universities, institutes and businesses to the business base to improve products and processes, promoting networking and set the framework for businesses to respond to the challenges and opportunities of the knowledge economy.

6.3 Priority 1 has an allocation of €112.4m, which at current exchange rates is equal to £99.9m. Priority 1 is broken down across three main objective areas, which are set out, with indicative activities in the table below.

Table 6-1: Summary of Priority 1 Objectives, Indicative Allocation and Indicative Activities.

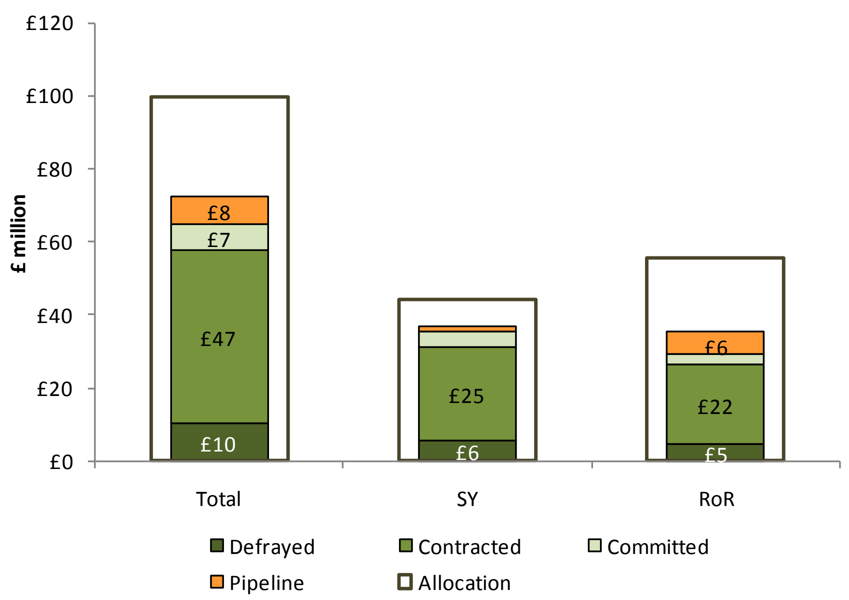
Objective	Proportion of P1 funding allocated	Examples of Indicative Activities
1. To stimulate and facilitate increased investment in innovation and R&D, engender a culture change and promote sustainable business practices	33.3% (£33m)	• Networking • Mentor Network • Supporting organisations that encourage and promote technology led sectors/clusters • Collaborative R&D programmes developing new products & processes to improve business performance
2. To provide and support the infrastructure needed to stimulate innovation and R&D whilst ensuring the social, environmental and economic conditions are improved	33.3% (£33m)	• Provision of facilities to support innovation and improve regional competitiveness of targeted growth sectors and clusters including research facilities, specialist incubators and research space
3. To increase and support the exploitation	33.3% (£33m)	• Support for commercialization of technology in new product/process design

Table 6-1: Summary of Priority 1 Objectives, Indicative Allocation and Indicative Activities.		
Objective	Proportion of P1 funding allocated	Examples of Indicative Activities
and commercialisation of knowledge technologies and processes that underpin the future sustainability and growth of new and existing businesses and target clusters		• Initiatives to address constraints on or opportunities affecting target businesses • Support for businesses to sponsor/purchase R&D activity which will create new products and processes • Knowledge/technology transfer between companies/ businesses/institutions/universities/FE • Support for investments in demonstration, promotion and supply of renewable energies.

Priority 1 Performance

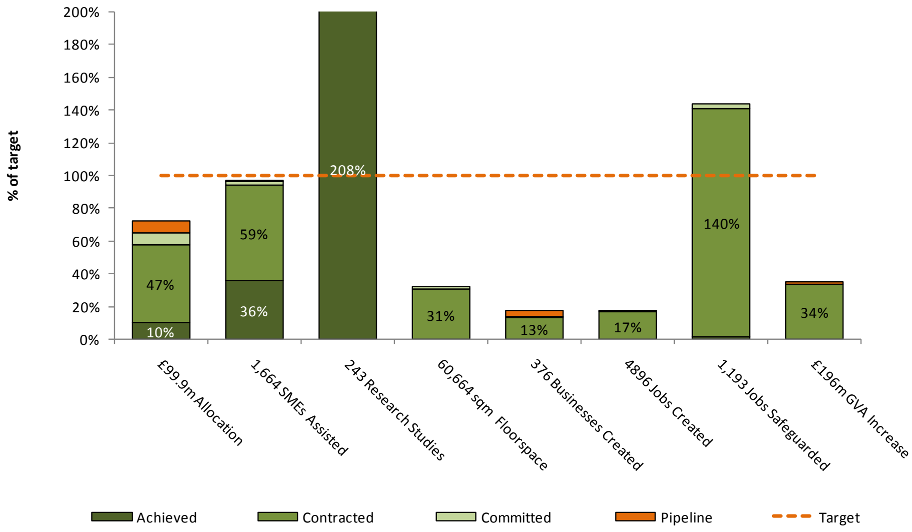
Table 6-2: Priority 1 Activity Summary	
Priority Allocation	£99.9 million
Contracted to date	£57.5 million
No of projects live and contracted	14
No. of projects at full business plan approval stage	3(total value £7.1m)
No. of projects at outline business plan approval stage	3 (total value £7.7m)
Largest ERDF contribution for live projects	University of Sheffield NAMRC/KTC Capital (£15.2m)
Smallest ERDF contribution for live projects	Nanomanufacturing to Accelerate Innovation (£1.1m)
Average ERDF project value for live projects	£4.1 million
Source: Programme monitoring data, June 2011	

Figure 6-1: Priority 1 Overview of Spend in each Geography



Source: Programme monitoring data, June 2011

Figure 6-2: Priority 1 Overview of Spend, Outputs and Results Progress



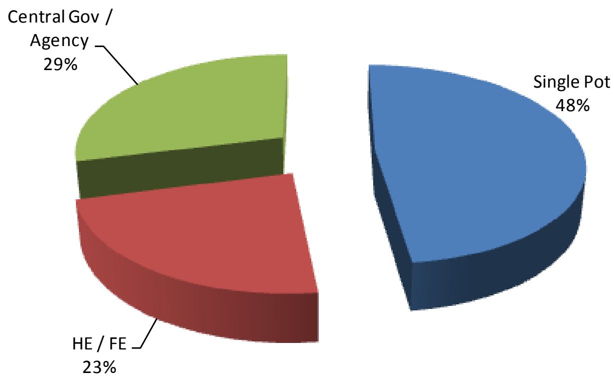
Source: Programme monitoring data, June 2011

Note: Research Studies – in addition to the 208% of target achieved, a further 229% is contracted.

6.4 Performance against the output and result indicators does not vary significantly between South Yorkshire and the Rest of Region areas. The main differences in performance are:

- South Yorkshire has allocated a greater proportion of its Priority 1 allocation, and has £7m headroom spend remaining, compared with £20m in the Rest of Region.
- South Yorkshire has contracted a greater proportion of its Priority 1 floorspace target with 47% contracted, compared with only 18% in the Rest of Region.
- South Yorkshire is performing slightly less well however on businesses created (8% contracted in South Yorkshire compared with 13% in Rest of Region), jobs created (13% contracted in South Yorkshire compared with 18% in Rest of Region), and GVA created (21% contracted in South Yorkshire compared with 41% in Rest of Region).

Figure 6-3: Match Funding for Contracted Projects in Priority 1



Source: Programme monitoring data, June 2011.

Note: Figures based on total match for contracted projects of £52m

Assessment of Priority Axis Investment Portfolio

Exemplary	Achieved to highest standards
Good	Positive assessment with minor issues to consider
Fair	Mixed assessment with significant challenges for Programme to consider
Weak	Significant problems which Programme can address
Hazardous	Substantial challenges presented which will certainly have negative impact on Programme's achievements.

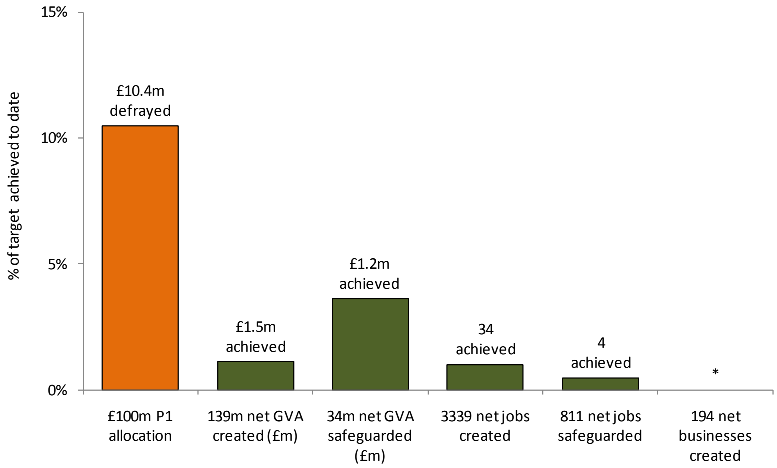
Table 6-3: Summary Assessment of the Performance of P1 Projects Reviewed for Evaluation

Aspect	Review Question	Assessment	Note
Design of Projects	Strength of evidence base and clarity of market failure rationale	**Fair**	• No projects were assessed as weak although there was a mixed picture on the depth of evidence used to demonstrate need. • Descriptions of market failure tend to lack reference to recognised market failure concepts.
	Clarity and robustness of objectives, and fit with the objectives of the Priority axis	**Good**	• Most projects cut across more than one of the Priority axis' objectives, but overall the reviewed projects had clear objectives and demonstrated a strong fit with those of the Priority.
	Extent to which activities complement and add value to other regional interventions	**Good**	• Reviewed projects showed well-developed links with complementary activities built into project design, and much of this work taking place in practice.
Delivery of Projects	Extent to which project activities are meeting their objectives, and being delivered effectively	**Fair**	• Common issue of project delays due to contracting / recruitment / contract amendments. Some projects will also be curtailed by loss of Single Pot or other funding. • Most projects reported that they are delivering broadly to plan however, and that services are being well received by beneficiaries.
	Realism of project targets on spend, outputs and results, given progress to date.	**Weak**	• Most projects expect to under-spend and either have, or will need to undertake contract variations. • Most projects suggest that they expect to hit output targets, particularly around business assists. This appears to be their main focus, rather than results. • Most projects believe they will not hit their results targets, particularly around business and job creation. Appears to be little sense of ownership of result targets by project deliverers.
	Soundness of the basis on which outputs and results are being collected, estimated and	**Fair**	• Several projects highlighted some outstanding questions on measuring specific indicators however none had major concerns which they believe cannot be resolved. • Many of the outputs / results reported are currently

Table 6-3: Summary Assessment of the Performance of P1 Projects Reviewed for Evaluation			
Aspect	**Review Question**	**Assessment**	**Note**
	reported		undergoing verification however, which may highlight further issues. • Also a problem of who will co-ordinate output/result data collection achieved post-project, for Yorkshire Forward led projects.
	Embeddedness of the CCTs in projects and effectiveness of this in delivery	**Fair**	• Few actions that will have significant impact, however CCTs have had some impact on the design and delivery of several projects.
	Significance of SAV impact and extent to which SAV impacts are being delivered in practice	**Fair**	• SAV impacts are important for P1 and are implicit in most projects, particularly in terms of showing leadership in encouraging SME innovation and developing engagement between SMEs and the knowledge base to encourage longer term relationships. • SAV objectives could be more explicitly stated and focused upon in some cases.
	Robustness of project exit/sustainability strategies	**Weak**	• Most projects looking at future options and seeking to develop plans, however this is being hampered by match funding cuts and changes in the organisational landscape. • Some projects are now likely to be discontinued post-funding, while others are more hopeful of finding ways to continue their activity.
	Clarity and robustness of evaluation plans and extent to which these are being delivered	**Weak**	• Despite excellent work to embed robust evaluation exercises into business plans, the projects reviewed see evaluation as a low priority. • Likely that the majority of projects will have a limited or no project evaluation as things stand.
	Extent to which projects display innovation / could be demonstrators for others	**Fair**	• Few reviewed projects demonstrated particular innovation in delivery. • The Textiles Innovation project stands out, of those reviewed as perhaps the greatest success story in leading a regional sector revival, with fairly ground-breaking innovation work. • Yorkshire Innovation Fund is also a clever way of utilising difficult-to-match funding eg TSB / research council grants.
Note: Assessment based on analysis and consultations with six out of the twelve P1 projects contracted at the time of the evaluation. These projects covered 31% of the total contracted value of Priority 1 (the largest P1 projects – NAMRC and Project Mercury were not reviewed as they had only recently been contracted).			

Impact of Priority 1 Investments

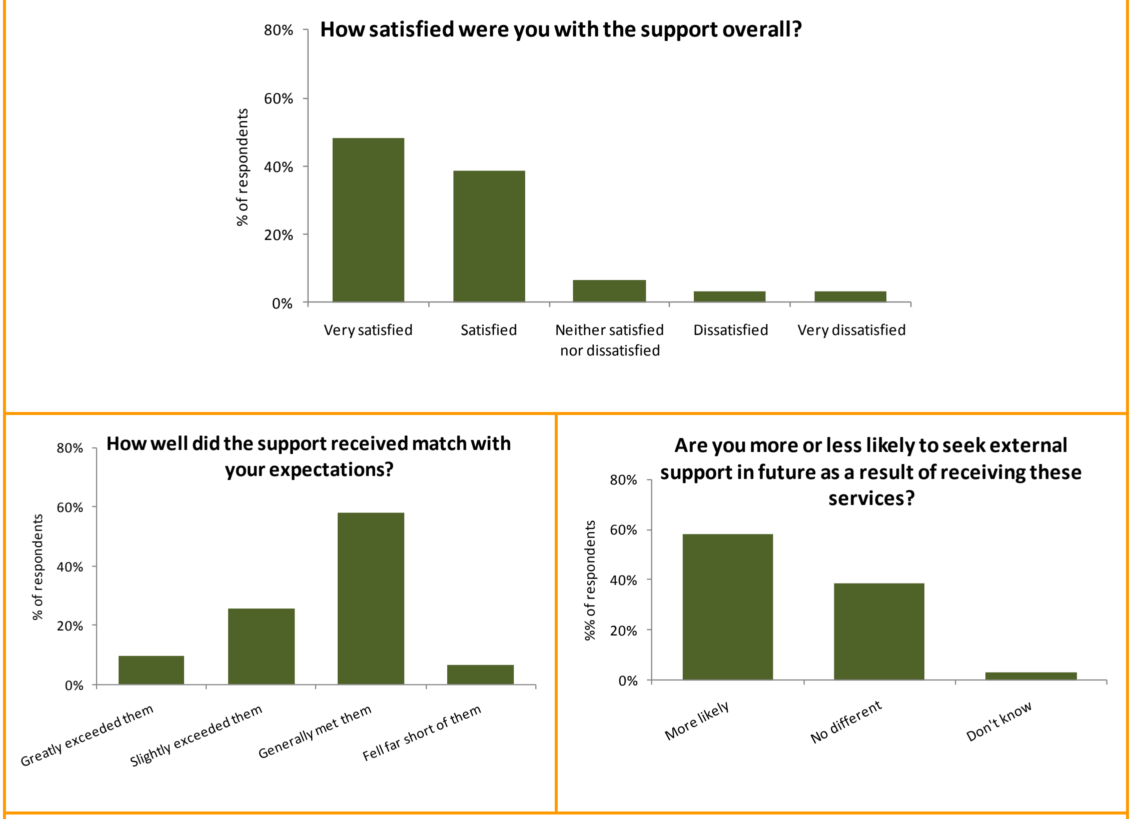
Figure 6-4: Impacts Achieved in Priority 1



Source: Regeneris Consulting Assessment of Programme Impacts.
Note:
* The beneficiary survey sample for Priority 1 comprised 31 respondents across five projects
*The survey sample for P1 does not cover projects focused on business creation so there is insufficient data to estimate the acheived impact of P1 investments on business creation.

Beneficiary Satisfaction Ratings

Figure 6-5: Priority 1 Beneficiary Satisfaction Ratings



Source: Regeneris Consulting Survey of Programme Beneficairies

Priority 1 Investment Gaps and Future Focus [7]

Table 6-4: Priority 1 Investment Gaps and Future Focus

Objective	Investment Gaps against Indicative Activities and Pipeline Potential	Match funding opportunities to address gaps.
1. To stimulate and facilitate increased investment in innovation and R&D, engender a culture change and promote sustainable business practices	• Overall the indicative activities under O1 have the least contracted funding attached to them. • Collaborative R&D is the best supported of O1s indicative activities and there are several projects in the pipeline, in particular YIF and KTPs. • There has been little funding contracted to support business networks and sector/cluster bodies, and there is little in the pipeline.	• Has been heavily reliant on Single Pot for match • May be opportunities emerging from BIS, TSB, universities, LEPs or local authorities to fill gaps left by Business Link and Yorkshire Forward. • Overall, likely to under-spend against the 33% indicative allocation for these activities.
2. To provide and support the infrastructure needed to stimulate innovation and R&D whilst ensuring the social, environmental and economic conditions are improved	• O2 has been the most successful of the P1 objectives for levels of contracted spend. • There has been a lot of investment in research space and equipment, in particular the £15m NAMRC project and the £6m Huddersfield Enterprise and Innovation Centre. • Very little has come forward around specialist incubators and grow on space, either contracted or in the pipeline. Where these are not clearly R&D focused, these project are being directed to Priority 2, O3, thus demand in P1 O2 has been limited to date.	• O2 is likely to have the greatest scope for match, using university and local authority capital programmes. • There is potential to increase indicative allocation to O2 activities from the current 33% of P1 resources.
3. To increase and support the exploitation and commercialisation of knowledge, technologies and processes that underpin the future sustainability and growth of new and existing businesses and target clusters	• O3 has the largest range of indicative activities and there are mixed levels of success in contracting against these. • Support for purchasing R&D (eg Grants for R&D) appears well supported but both grant projects are likely to reduce in size in response to match funding cuts. • There are particular gaps in supporting commercialisation and business to business knowledge transfer. This may reflect that Universities have been the key partners for P1, and this is not their natural territory. • Renewables demonstrators is a key gap. A major Hull Energy Centre project, seeking up to £17m ERDF is in the pipeline. If this secures FBP approval in 2011, then it would be classified as a major project and this ERDF value would come off the 2011 N+2 target.	• Has been heavily reliant on Single Pot for match • Future match for 'Grants for R&D' schemes reliant on TSB and other KT exploitation activity would rely on university match. • Need to review the potential for SME contributions to be used as match • Renewables is likely to rely primarily on private sector match for demonstrators. The Hull Energy Centre is a major opportunity.

[7] Most Priority 1 applicants believe their project covers more than one (and usually all three) of the Priority objectives. The analysis below is therefore based on Regeneris' analysis of how projects break down across the objectives and their indicative activities.

Key Conclusions

Priority 1 has a relatively strong project portfolio however is significantly lagging on contracted and defrayed spend

6.6 To make an equal contribution to the N+2 target, Priority 1 projects should have *defrayed* £42m by the end of 2011. To date, P1 has *contracted* £58m (58% of total P1 allocation) and only *defrayed* £10m (10%), contributing little to the 2011 N+2 target.

6.7 P1 has contracted 95% of its business assist target however, and there is good balance in the project portfolio. There have been some notable successes for Priority 1, including securing a set of major investments in the Nuclear AMRC in Sheffield, and supporting revival of a regional sector through the Textiles Innovation project. Beneficiary feedback also shows 85% were satisfied or very satisfied with assistance received under P1 and only 5% were dissatisfied.

6.8 Priority 1's contribution to the N+2 target could also be significantly improved if the Executive is successful in securing FBP approval for the Hull Energy Centre project, which would classify as a major project (requiring review by the EC), and would therefore mean the c.£17m ERDF for this project would be taken off the 2011 N+2 target.

Priority 1 is unlikely to hit its floorspace target.

6.9 P1 has contracted less than a third of its floorspace target. The Priority has focused its Objective 2 funds more towards new and improved research space and equipment, rather than specialist business incubators and grow-on space, which may have contributed to a higher cost per square metre, thus achieving less of the floorspace target. Investment in incubators have been directed to Priority 2, Objective 3, unless there is a very strong R&D / innovation focus.

Conversion of business assists to results is very poor.

6.10 Despite 57% of P1 spend being contracted and 95% of business assist targets contracted, it has contracted for only 13% of its businesses created, 17% of its jobs created and 34% of its GVA creation targets. Furthermore, most projects feel they will still not achieve their contracted result targets. Several reasons are cited for this:

- *Programme targets may have been too ambitious:* the cost per job created under P1 is low at £20k ERDF per job.
- *Lax target contracting*: projects have not been contracted with sufficiently high result targets and the lag on achieving innovation results has not always been factored in eg allowing results to be reported up to two years after the project ends. Applicants are also reluctant to commit to continued result monitoring after the project closes, and applicants have not been pressed by the Executive to accept this requirement.
- *Weak project monitoring approach*: several projects felt that securing results was beyond their direct control, and there is little evidence of close project monitoring

by the Executive to ensure projects remain on schedule to meet their results targets.

6.11 Poor achievement of result targets is also reflected in impact estimates from the beneficiary survey, showing that while more than 10% of P1 funding has now been defrayed, less than 5% of any of the impact targets has been achieved.

6.12 If things continue, P1 will fall critically short on results and this will have a major effect on the economic impact of the overall Programme. A review of P1 targets, firmer negotiation with new projects to contract higher result targets, and efforts to monitor and support existing projects to improve performance against contracted targets is needed.

Filling investment gaps in P1 will be challenging

6.13 Match funding for P1 has become significantly more challenging since the loss of Single Pot and cuts to other key potential sources. Capital investment from universities, local authorities and major renewable demonstrators may be more readily available than revenue resources. Significant revenue funding is likely to depend on TSB match coming forwards, maximising the use of HEIF and HEFCE funds, and finding a solution which allows SME contributions as match.

Increasing the engagement of local and national partners is increasingly important

6.14 The engagement of universities by the Programme is still limited in the region. Most universities remain cautious about bidding for ERDF, given past experience of funding clawback, as well as the stringent monitoring requirements, unfavourable treatment of overhead costs, and a requirement to achieve result targets which many feel are outside their control as project deliverer. With other funding options available many have avoided ERDF, and some will continue to do so.

6.15 However, universities are facing budget cuts, at the same time as the Programme is losing a lot of its potential match funding, and thus matching up university funds to the ERDF Programme is an increasingly important opportunity on both sides.

6.16 With the loss of thematic expertise in Yorkshire Forward around highly technical R&D and innovation areas, the Executive will now increasingly rely on university partners to review and give feedback on outline and full business plan submissions. The Executive should also explore opportunities to draw on expertise within BIS and TSB in reviewing submitted business plans, particularly for larger investments (eg projects over £10m total value).

There is a need to make strategic decisions on how to take Priority 1 forward

6.17 In light of current progress in Priority 1, the following actions should be taken:

1) **Improve engagement with universities and other key partners, and plan for the use of remaining headroom spend in P1.** The Executive needs to engage the region's universities and other partners to agree a set of projects to be developed to enable remaining P1 headroom to be used. This should be steered based on P1 investment gaps, and partners should bring to the table project ideas and known match funding opportunities. Following this, universities should look to draw down

TA funding to support bid writing capacity to develop these agreed project bids.

The Executive should also seek to engage partner expertise in the assessment of project business plan submissions, both through local university partners and exploring options to draw on BIS / TSB experts in reviewing larger investments.

2) **Ensure sufficient resources go in to accelerating the Hull Energy Centre project to secure Full Business Plan approval in 2011**. This project at early pipeline stage has potential to fill a key gap in the P1 portfolio, as well as make a major contribution to the 2011 N+2 target. The Executive should make every effort to get this project to FBP approval stage in 2011, subject to the project being suitably robust and eligible.

3) **Increase focus on capital spend in P1.** The impact analysis shows that revenue investment in P1 has had greater impacts than other parts of the Programme, however public sector funding cuts means that the current allocation for revenue-based activities are unlikely to be achievable. The indicative Priority allocation in P1 should therefore be adjusted to strike the balance between maximising use of revenue match, while ensuring that the available allocation for P1 is used. Partners should be consulted to help fine-tune this revision, but the following table sets out an initial recommendation.

Table 6-5: Initial Recommendations for Rebalancing Allocations Across Priority Objectives

	Current Allocation	Revised Allocation	Estimate of uncontracted spend to allocate to this objective (£54m)	Explanation
O1	33% (£33m)	15% (£15m)	£7m	Limited investment to date in O1 other than for Collab. R&D. Availability of future match is a key constraint but, if contracted, KTPs and Yorkshire Innovation Fund would use around £6m of remaining headroom.
O2	33% (£33m)	45% (£45m)	£22m	Several major investments made to date. University capital funding will be an important match opportunity going forwards. Universities need to identify opportunities to use this funding, particularly in the Rest of Region area.
O3	33% (£33m)	40% (£40m)	£25m	Mixed success to date in contracting. Going forward, £17m for Hull Energy Centre would largely meet renewable demonstrator element. HEIF / TSB funds should enable match for significant additional revenue activity.

Source: Regeneris Consulting Gap Analysis, April 2011,.

4) **Maximise use of revenue funding for match**. In order to ensure that revenue match funding can be secured, the following sources are likely to be critical:

- **Funding from TSB** eg for KTPs, Grants for R&D. The Executive should explore the potential for the use of TA funding to match fund a post which can work with TSB to develop project bids that match-fund to TSB resources.

- **University funding** through HEIF and HEFCE, as well as other funds that they can draw down.

- **SME contributions** could be a critical revenue funding stream for the Programme, if eligibility issues can be resolved. Other regions have successfully used SME contributions as direct match, and transition to DCLG creates an opportunity to pick up this issue again.

5) **Increase the focus of the Executive on post-contract monitoring and support**. The Executive needs to focus more resource on monitoring and supporting contracted P1 projects to maximise output and result achievement.

7. Priority 2: Stimulating and Supporting Successful Enterprise

7.1 This chapter provides detailed analysis of progress in delivering the objectives of Priority 2. The chapter comprises:

- An overview of the Priority aims and indicative activities
- Details of progress against spend, output and result targets
- An assessment of the current portfolio of projects contracted under Priority 2
- Analysis of impacts generated by the current portfolio of projects
- Analysis of the gaps in the investment portfolio, and likelihood of being able to fill these gaps in the remainder of the Programme period
- Conclusions on progress in delivering Priority 2.

Priority Overview

7.2 Priority 2 aims to promote a greater shift towards knowledge intensive growth clusters and sectors in the region by increasing the number of businesses and occupations in high growth and knowledge industries, by investing in key business sectors to accelerate economic growth and encourage high value added businesses, and by developing a more entrepreneurial culture.

7.3 Priority 2 has an allocation of €264.5m, which at current exchange rates is equal to £235.1m. Priority 2 is broken down across four main objective areas, which are set out, with indicative activities in the table below.

Table 7-1: Summary of Priority 2 Objectives, Indicative Allocation and Indicative Activities

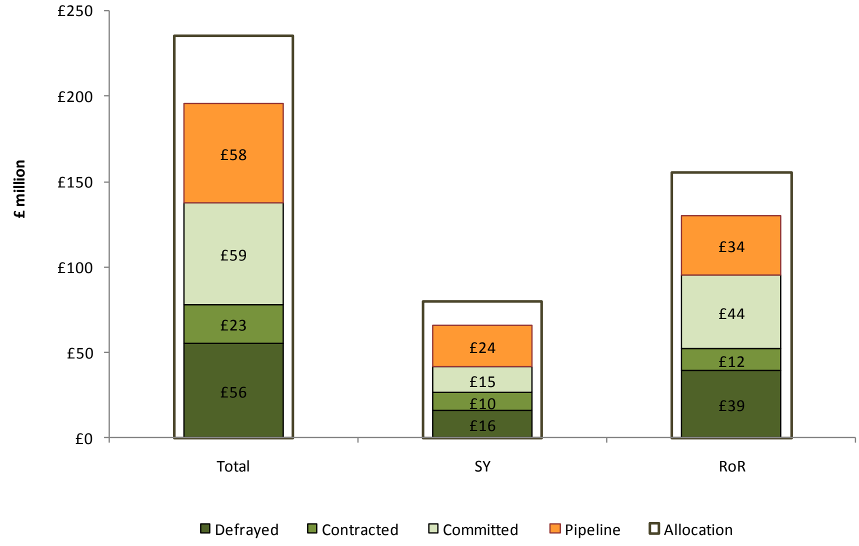
Objective	Proportion of P2 funding allocated	Examples of Indicative Activities
1. To establish integrated business support for innovative and high growth businesses which enables them to grow more quickly	40% (94m)	Support for business support programme focused on improving competitiveness in innovative and high growth companies in clusters and key sectors, including for: • improving business processes • new/existing market development • supply chain initiatives • financial support for business growth • to increase the exploitation of e-business opportunities
2. To promote a more enterprising and entrepreneurial culture and support the growth of businesses at start-up and early stage and	25% (59m)	• Targeted assistance for individual entrepreneurs • Financial support for new starts/early stage • Support for leadership & entrepreneurial programmes • Support for improving links between enterprise and education to create and embed an enterprise culture • Support for growing culturally diverse business sectors • Support for crime reduction initiatives linked to business

Table 7-1: Summary of Priority 2 Objectives, Indicative Allocation and Indicative Activities		
Objective	**Proportion of P2 funding allocated**	**Examples of Indicative Activities**
those with growth potential		investment
3. To promote the development of new and high technology clusters and sectors through investment in infrastructure	25% (59m)	• Support for embedding high level investors in the region to act as catalysts for sustainable growth • Support for specialist business premises where there is a case for market failure (this might include incubation facilities/managed workspace not directly linked to innovation/R&D)
4. To ensure that business growth supported by the Programme takes account of CO2 emissions and adopt environmental best practice	10% (24m)	• Support for installation of micro CHP and other environmental technologies in SMEs • Support for advice and guidance on meeting environmental standards • The creation of innovative carbon neutral developments • Activities addressing the economic risks of environmental degradation and climate change to employment sites, business areas and individual businesses

Priority 2 Performance

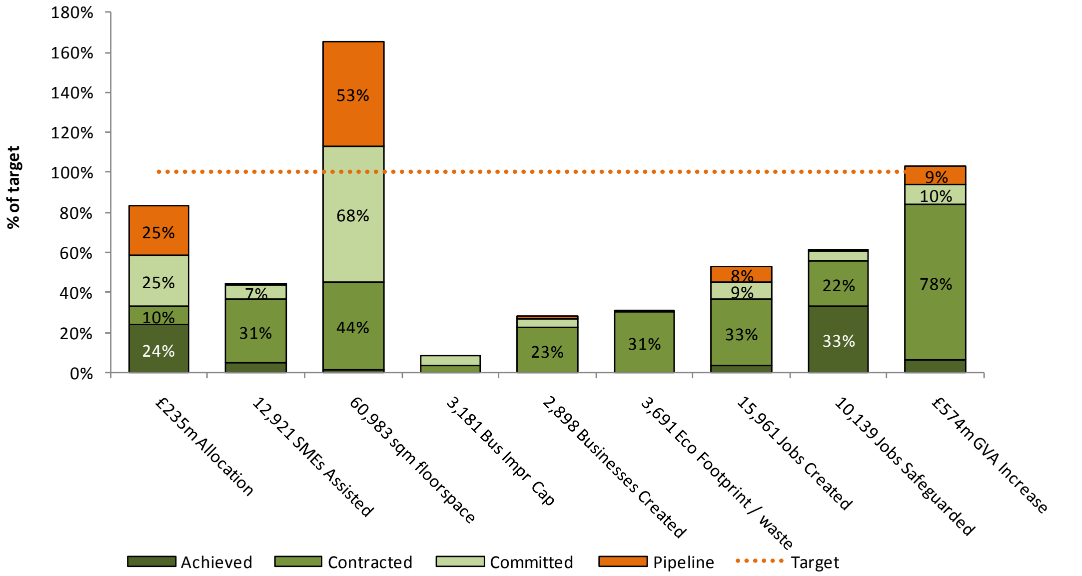
Table 7-2: Priority 2 Activity Summary	
Priority Allocation	£235.1m
Contracted to date (£m)	£78.1
No. of projects live and contracted	15
No. of projects at full business plan approval stage	12
No. of projects at outline business plan approval stage	19
Largest ERDF contribution for live projects (exc. VCLF)	Embedded Bus Space and Tech Transfer (£19.7m)
Smallest ERDF contribution for live projects	Electronics Yorkshire (£0.7m)
Average ERDF project value for live projects	£5.2m
Average ERDF project value for live projects (exc. VCLF)	£3.4m
Source: Programme monitoring data, June 2011	

Figure 7-1: Priority 2 Overview of Spend in each Geography



Source: Programme monitoring data, June 2011

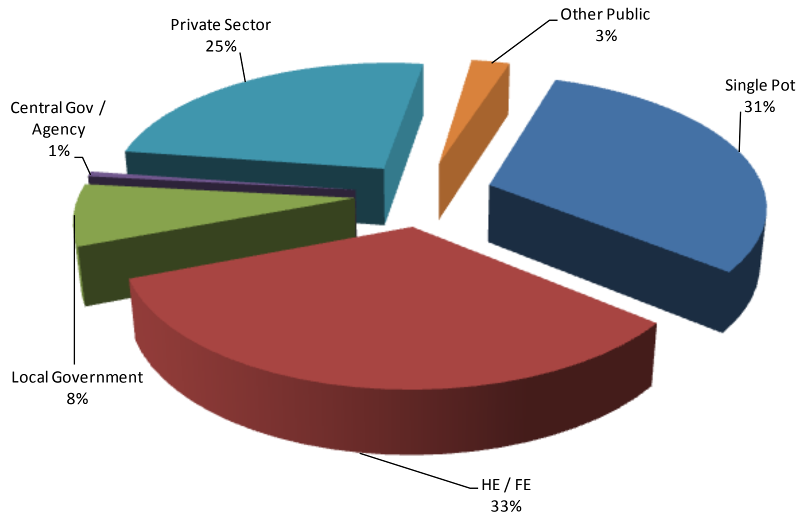
Figure 7-2: Priority 2 Overview of Outputs and Results Progress



Source: Programme monitoring data, June 2011

7.4 There is a broadly similar profile of progress in these output and result indicators across South Yorkshire and the Rest of the Region, although the Rest of Region area has greater headroom spend remaining, with around £26m headroom, compared with £14m in South Yorkshire.

Figure 7-3: Match Funding for Contracted Projects in Priority 2



Source: Programme monitoring data, June 2011.
Note: Figures based on total match for contracted projects of £80m

Assessment of Priority Axis Investment Portfolio

Exemplary	Achieved to highest standards
Good	Positive assessment with minor issues to consider
Fair	Mixed assessment with significant challenges for Programme to consider
Weak	Significant problems which Programme can address
Hazardous	Substantial challenges presented which will certainly have negative impact on Programme's achievements.

Table 7-3: Summary Assessment of the Performance of P2 Projects Reviewed for Evaluation

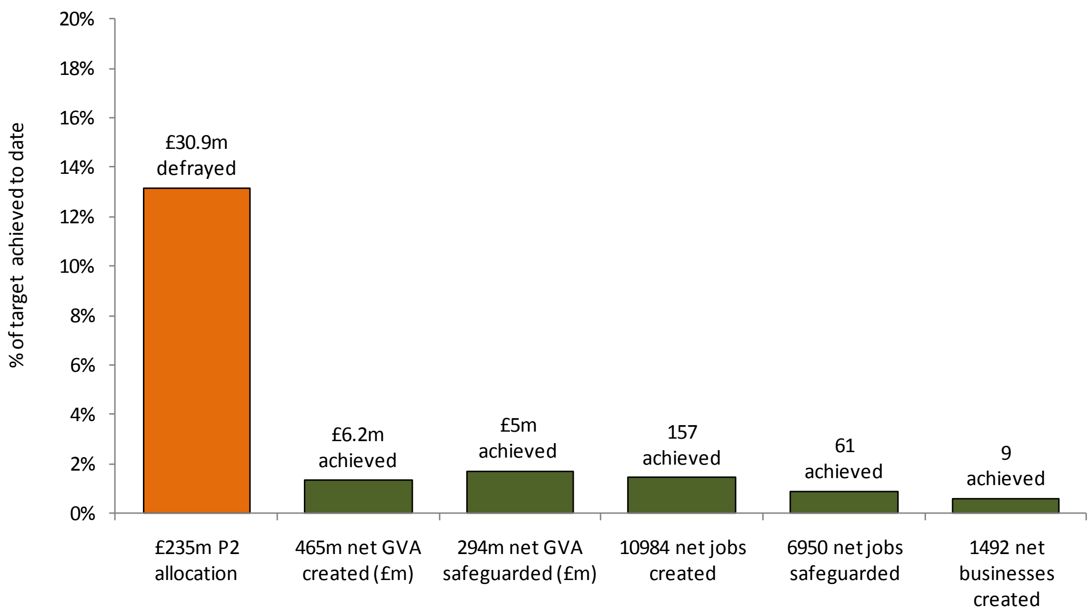
Aspect	Review Question	Assessment	Note
Design of Projects	Strength of evidence base and clarity of market failure rationale	**Good**	• Reviews point to simple market failure arguments that are well evidenced. PPRs and use of logic chains amongst YF project champions has probably helped give consistency. • Evidence bases tend to be strong both at regional level and on part of applicants. There is a good understanding of the role of evidence.
	Clarity and robustness of objectives, and fit with the objectives of the Priority axis	**Fair**	• Some projects have set clear and straightforward objectives, but in other cases, applications refer to several sub-objectives covering activities rather than overarching aims. Objectives are broadly in line with those of P2, but significant change in economic climate has tested the deliverability of objectives.
	Extent to which activities complement and add value to other regional	**Good**	• A strong point generally, although some projects lack specificity about connections to Business Link. SCY projects position themselves as central to commercial innovation in York sub-region and further afield and keenly aware of need to build networks. Resource

Table 7-3: Summary Assessment of the Performance of P2 Projects Reviewed for Evaluation			
Aspect	**Review Question**	**Assessment**	**Note**
	interventions		efficiency project is also strong, in making links and avoiding duplication with other low carbon services.
Delivery of Projects	Extent to which project activities are meeting their objectives, and being delivered effectively	**Good**	• In general, projects are configured to deliver services that have the potential to meet objectives. Particularly effective where objectives are straightforward and clear. • One or two issues where number of objectives is excessive and perhaps stretching to project. • Some difficulties are evident in generating the level of demand necessary for the more intensive business assists.
	Realism of project targets on spend, outputs and results, given progress to date.	**Fair**	• Early projects may have avoided some of the difficulties caused by recession and match funding cuts. • Projects appear aware of the challenges in achieving targets, particularly where delayed starts, difficult economic conditions and match funding challenges put pressure on delivery of activities. Key result targets look ambitious at this stage.
	Soundness of the basis on which outputs and results are being collected, estimated and reported	**Fair**	• Projects should be well set up to do this effectively. Evidence of valuable past experience of ERDF and Single Pot projects plus reasonable clarity about what is required. • Some minor issues flagged in early audits, and projects that have only recently commenced delivery will need to be clear about the eligibility of the activities being reported.
	Embeddedness of the CCTs in projects and effectiveness of this in delivery	**Fair**	• Limited for most of the projects reviewed, although Resource Efficiency project well placed to deliver environmental CCT targets. • Commitments made in applications but monitoring and reporting does not appear to be leading projects to push CCT targets. • Some difficulties in delivering to business bases in localities where under-representation of some groups is particularly acute.
	Significance of SAV impact and extent to which SAV impacts are being delivered in practice	**Good**	• Generally very good. Some projects see SAV benefits as central to their current activity and their future sustainability. Clear awareness of value of putting the project at the centre of a wider network in Yorkshire and Humber.
	Robustness of project exit/sustainability strategies	**Fair**	• Mixed picture. All projects aware of need for robust exit strategy, especially with change in funding climate, but not all are following up with action. • However, some projects more proactive than others in approaching future public and private sector funding sources. • Some expectations that SMEs may pay for currently free services in future, but not clear how realistic this approach will be.

Table 7-3: Summary Assessment of the Performance of P2 Projects Reviewed for Evaluation			
Aspect	**Review Question**	**Assessment**	**Note**
	Clarity and robustness of evaluation plans and extent to which these are being delivered	**Fair**	• Strong Yorkshire Forward approach has made evaluation more systematic. Plans look robust and one project had already carried out a formative, interim evaluation and used the advice from it. • Problem will be securing funding to deliver evaluations in the absence of Single Pot match funding.
	Extent to which projects display innovation / could be demonstrators for others	**Fair**	• Mixed picture. Difficult to say that any one project is particularly innovative. They may be approaching the delivery of the services they offer (or capital projects) more effectively than other locations, but no clear evidence of nationally innovative approaches.
Assessment based on analysis and consultations with five out of the twelve Priority 2 projects contracted at the time of the evaluation. These projects covered 74% of the total contracted value of Priority 2.			

Impact of Priority 2 Investments

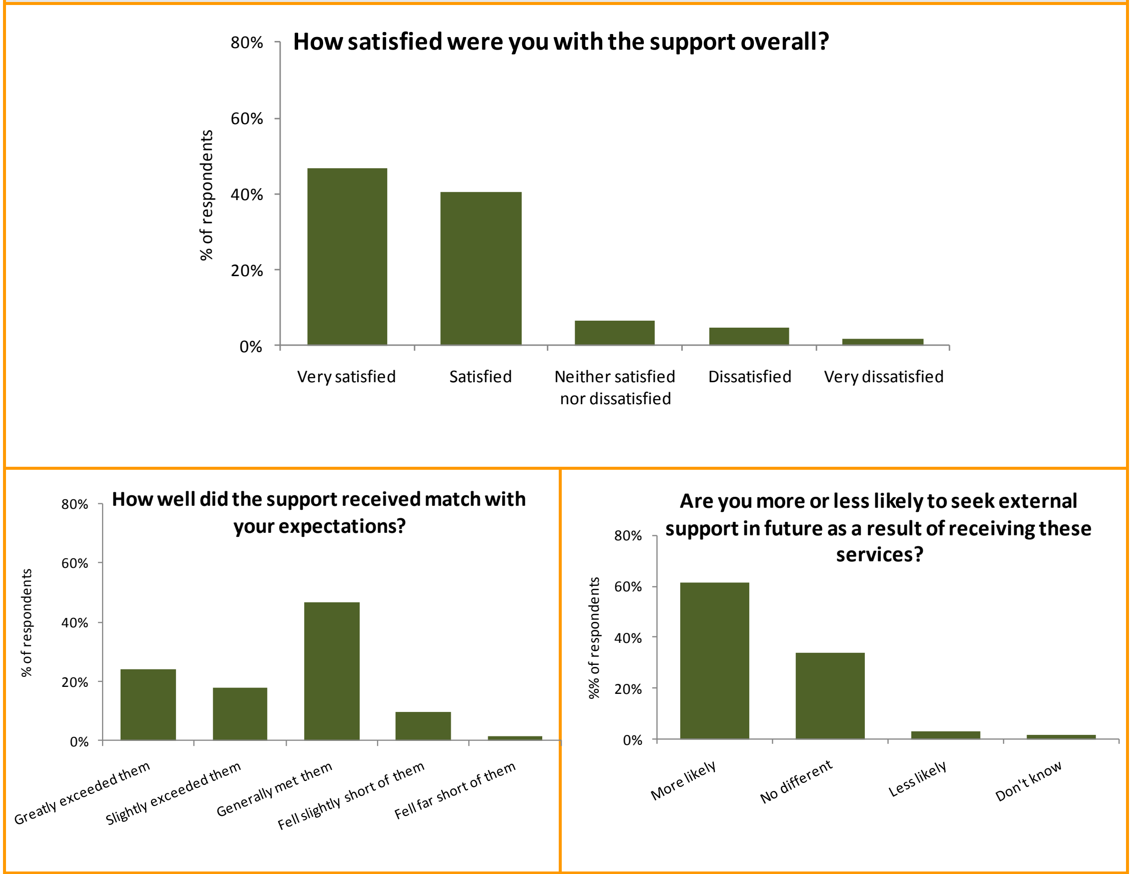
Figure 7-4: Impacts Achieved in Priority 2



Source: Regeneris Consulting Assessment of Programme Impacts.
Notes:
* The beneficiary survey sample for Priority 2 included 62 respondents across four projects
*To avoid skewing the anlaysis, defrayed expenditure by the regional VCLF project includes the total value of investments made to date, rather than the full value of the fund (which technically counts as defrayed expenditure) .

Beneficiary Satisfaction Ratings

Figure 7-5: Priority 2 Beneficiary Satisfaction Ratings



Source: Regeneris Consulting survey of Programme Benefcairies

JESSICA

7.5 The Programme has made progress over the first half of 2011 in preparing the ground for a JESSICA project. This followed the completion of a demand assessment in December 2010 which was perceived to have presented a good case for developing a project, despite challenging policy and funding conditions. The Programme Monitoring Committee approved a recommendation to pursue a JESSICA for Yorkshire and the Humber.

7.6 The proposed scale of the JESSICA project has not yet been finalised and will be dependent on the value of the sites that local authorities will commit to the project as match funding. Dialogue with local authorities about their involvement with JESSICA is understood to be ongoing, with five authorities having so far signalled their full commitment. To date, sites with a value of c. £20 million have been identified, implying a £20 million ERDF contribution and a total project value of around £40 million. This would comfortably exceed the minimum value of a JESSICA project (£15-20 million) below which it is considered to be unviable.

7.7 A final decision about whether to proceed with a JESSICA application and to establish the infrastructure needed to deliver the funds is yet to be made, and is understood to be contingent upon formal approval by the participating Councils. The evaluation has heard evidence of strong commitments from both Finance Yorkshire, which has already developed an outline business plan and would take on responsibility for the holding fund. The European Commission and UK government are also understood to have signalled a willingness to work with the Programme over the next few months to help facilitate the processing of the application, including the appraisal. However, the deadlines for both the submission of an application through the LMC (September 2011) and the establishment of a holding fund are very tight (November) and, given the complexity and scale of the project, there must be a significant risk of missing these deadlines if problems arise during the application and appraisal processes.

7.8 On balance, the case for pursuing JESSICA outweighs the challenges and risks involved in securing ERDF investment and delivering the project. The recent experience of the Programme (particularly Priority 2) has demonstrated reasonably strong demand for capital investment in business premises and related infrastructure. This would be a core investment priority for a JESSICA project. There is also evidence of demand for investment in projects which deal with climate change mitigation and adaptation, and this is understood to be the second key strand of the proposed JESSICA project. Clearly, the need for the Programme to defray substantial ERDF expenditure in the short term to meet N+2 targets is also a key consideration for partners.

7.9 Given the challenging timescale for securing a JESSICA project, the Programme and its partners need to consider the following over the next few weeks and months:

- Ensuring that the administrative costs involved in pursuing the application do not become excessive if there is a strong likelihood of the project not being approved.

- Taking an early decision about the source of ERDF funding for JESSICA from within the Programme (ie all Priority 2, some Priority 1 and majority Priority 2)

- Continue to work with local authority partners to secure commitments to JESSICA. Despite the difficult timescales and the approach of the summer vacation period, expanding the range of local authorities involved with the project would bring advantages of both scale and value in the long run.

- Consider how the capacity of the Programme team to work on the development of the JESSICA project might be bolstered, (eg the use of Technical Assistance funds to employ consultant support) to reduce any risk of delays.

Priority 2 Investment Gaps and Future Focus

Table 7-4: Priority 2 Investment Gaps and Future Focus		
Objective	**Investment Gaps against Indicative Activities and Pipeline potential**	**Match funding opportunities to address gaps.**
1. To establish integrated business support for innovative and high growth businesses which enables them to grow more quickly	• Small number of projects delivering support to key sectors, innovative and growing SMEs (eg. MAS, Science City project). VCLF will provide vital access to finance. • Pipeline dominated by capital projects which identify links to priority sectors and growing businesses, but in many cases product or process innovation does not tend to be a feature of the types of business they aim to support. • Little evidence in pipeline of revenue funded specialist business support projects or support to sector or cluster bodies.	• Funding landscape still unclear and limited opportunities for match. RGF does not appear well suited, although may be more potential for Enterprise Zones to seek ERDF. • SME contributions to cost of support could provide significant source of future match and Programme should give further consideration. • Demand for capital likely to assist in achieving spend target, but job / business creation may be a problem. • LEPs and local authorities seen as key drivers, but their capacity to develop and deliver ERDF projects is unclear in current funding climate.
2. To promote a more enterprising and entrepreneurial culture and support the growth of businesses at start-up and early stage and those with growth potential	• Some large scale projects (eg Incubation and Education, Enterprising Barnsley, SCY) but small number overall. • Projects with university involvement show potential to promote entrepreneurship in higher value and technology intensive sectors. • Lack of region wide start up project stands out.	• Funding environment difficult. Universities have potential to be more integral to this objective and a source of future match but ERDF remains challenging for many. • LEPs and local authorities set to be key players in publicly funded approaches to enterprise culture and start up support. Match funding is a challenge. Private sector (mentors, banks etc.) could play important part.
3. To promote the development of new and high technology clusters and sectors through investment in infrastructure.	• Stronger feature of Priority 2 with major projects coming forward despite recession's impact on commercial property. • SCY project good example of ambitious, large scale development aiming to bring enterprise together with research.	• Pipeline looks strong, with private developers showing strong interest. • Public sector needs to work with projects to ensure buildings attract innovative and growing businesses, and provide wider support package. • Again, universities could be key source of future match.
4. To ensure that business growth supported by the Programme takes account of CO2 emissions and adopt environmental best practice	• The Resource Efficiency initiative is the only ERDF project currently in delivery. • Programme agreed more extensive definition of what could be funded in Prospectus and offered potential for mixed cap-revenue projects. This was intended to stimulate new applications.	• Positive signs (Environmental Technology Park, Plugged in Yorkshire) and flow of potential new projects is understood to be getting stronger with interest in climate change mitigation part of this. • Match funding a challenge but likely increasing private sector interest. • Further focus on environmental technology projects would play to region's strengths and is attracting growing public sector research & private investment.

Key Conclusions

Slow progress in making ERDF investments is compromising the Programme's ability to achieve Priority 2 objectives and affecting progress on N+2 targets

7.10 By June 2011 there were only 15 live projects in P2, including the region's VCLF project. Defrayed expenditure had reached £55.5 million across only 8 projects (24% of P2 allocation) and only £78.1m (33%) has been contracted. P2 is currently falling significantly short of the 42% defrayed expenditure necessary to meet the N+2 target for 2011. A range of factors appear to account for this slow progress, but the lack of major projects bringing together Single Pot and ERDF, the effects of recession on commercial property developments and cuts in Single Pot funding during 2010 have been particularly important.

7.11 One of the key missed opportunities for P2 has been the absence of ERDF projects matched with regional Business Link contracts. As a result the Programme has struggled to secure revenue funded enterprise support initiatives with the scale and reach needed to meet the full range of enterprise development targets for the Programme.

7.12 Contracting the proposed JESSICA scheme would be a short-term solution to the decommitment problem in Priority 2. The recent JESSICA report (produced by Deloitte) suggests that there is strong partner support for this proposal, demonstrable demand for investments through JESSICA, and strong alignment with P2 objectives. If the timescales and regulatory hurdles allow, then we recommend that the Executive take this project forward.

The current pipeline appears reasonably strong, but many of the projects are capital investments in sites and premises

7.13 Priority 2 has a reasonably strong pipeline of committed and uncommitted projects, most of which are for investments in sites and premises. The pipeline is forecast to take the Programme to 165% of its floorspace target. There is a risk that the capital projects in the pipeline dominate P2 and skew investments too heavily towards activity under Objective 3, at the expense of other objectives and activities. Equally, there is a need for pragmatism in the potential for these investments to help the Programme achieve allocation and de-commitment targets.

Contracting for results is broadly in line with spend allocation, however future investments are unlikely to continue this trajectory

7.14 With 33% of P2 contracted, there is a corresponding 36% of the P2 business assist target contracted and 36% of jobs created, 56% of jobs safeguarded and 23% of business created targets contracted. There has been particularly good progress against jobs safeguarded, with 33% of the target actually achieved (the Y&H MAS project has already substantially exceeded its target). The GVA increase result is also very strong, with 84% of its target contracted (the VCLF project, Incubation and Education and Science City York capital developments account for a significant majority of this total).

7.15 The high value capital projects in P2, including those currently in the pipeline should see the floorspace output target comfortably exceeded. But, without supporting revenue funding for business support elements, these projects will not significantly improve the position of P2 on other key indicators. While capital-heavy projects do contribute to job and/or business creation targets, these tend to generate results at a lower rate than revenue projects.

7.16 Based on the project reviews a level of underperformance in achievement of contracted targets across Priority 2 should be anticipated. This is also reflected in weak impact achievements, with over 12% of P2 funding already spent, but less than 2% of any of its impact targets achieved.

7.17 Assuming this performance continues, and there are relatively low levels of contracting for result indicators among pipeline capital projects, achieving P2 result targets for business and job creation could be a significant challenge.

There is a heavy dependence in P2 on a small number of larger projects

7.18 As Priority 2 stands, it is very heavily dependent on a small number of large projects to achieve its enterprise development objectives and meet outputs/results targets. The VCLF scheme and the capital projects account for over 75% of the 15 live projects' total ERDF investment value. Although this is not an untypical position for ERDF Programmes, the Yorkshire and Humber Programme appears more exposed because of the small overall number of counter-balancing live projects.

There is a need to make strategic decisions on how to take Priority 2 forward

7.19 In light of current progress in Priority 2, the following actions should be taken:

1) **Local authorities and other key partners should plan for the use of remaining headroom spend in P2.** The Executive needs to support partners to agree a set of projects to be developed to enable remaining P2 headroom to be used. This should be steered based on P2 investment gaps, and partners should bring to the table project ideas and known match funding opportunities. Following this, local authorities should look to draw down TA funding to support bid writing capacity to develop these agreed project bids.

2) **Ensure sufficient resources go in to delivering a JESSICA scheme for the region in 2011**. There is demonstrable demand for this investment, it aligns well with P2 objectives and it can play a key part in helping the Programme to achieve its 2011 N+2 target.

3) **Increase focus on capital spend in P2.** While revenue spend will deliver greater economic impacts for the region, at least within the timescale of the ERDF Programme, public sector funding cuts means that the current allocation for revenue-based activities are unlikely to be achievable. The indicative Priority allocation in P2 should therefore be adjusted to strike the balance between maximising use of revenue match, but ensuring that the available allocation for P2 is used. Partners should be consulted to help fine-tune this revision, but the following table sets out an initial recommendation.

Table 7-5: Initial Recommendations for Rebalancing Allocations Across Priority Objectives				
	Current Allocation	**Suggested Revised Allocation**	**Estimate of uncontracted spend to allocate to this objective (£157m)**	**Explanation**
O1	40% (£94m)	35% (£82m)	£40m	O1 will struggle with future match funding, however half of the uncontracted funds could be used by pipeline projects, notably £15m for NY Broadband and Yorks Digital Authentication (£5m). Future P2 revenue match likely to rely on SME contributions, and this is more likely to come forward for O1 than O2 schemes.
O2	25% (£59m)	15% (£35m)	£19m	Match funding for enterprise / start-ups will be particularly difficult. There are around £13m of projects in pipeline for O2, most notably the £7.5m Creative Yorkshire Content Fund. If all reach contract, this would only leave around £6m further headroom for O2 projects, under revised allocations, which should be achievable.
O3	25% (£59m)	40% (£94m)	£86m	£72m already in the pipeline for O3, and likelihood that much more could be allocated, as private sector match can be heavily utilised under O3. Increasing allocation too greatly however could limit result and impact target achievement by an overly capital-focused suite of projects.
O4	10% (£24m)	10% (£24m)	£12m	£4m in the pipeline already for O4 and indications that there will be further demand for projects. No extension recommended to O4 however, as much of it is non Lisbon-compliant activity.

4) **Maximise use of revenue funding for match**. In order to ensure that revenue match funding can be secured, the following sources are likely to be critical:

- **Funding from BIS or other key Government Departments**. The Executive should explore the potential for the use of TA funding to match fund a post which can work with BIS or other Government Departments to develop project bids that match-fund to their resources.

- **Local Authority / LEP funding.** Potential sources are likely to become more clear over the remaining Programme period, but it is likely that these bodies will now be the main funding source for any local business support activity in the region.

- **SME contributions** could be a critical revenue funding stream for the Programme, if eligibility issues can be resolved. Other regions have successfully used SME contributions as direct match, and transition to DCLG creates an opportunity to pick up this issue again.

5) **Increase the focus of the Executive on post-contract monitoring and support**. The Executive needs to focus more resource on monitoring and supporting contracted P2 projects to maximise output and result achievement.

8. Priority 3: Sustainable Communities

8.1 This chapter provides detailed analysis of progress in delivering the objectives of Priority 3. The chapter comprises:

- An overview of the Priority aims and indicative activities
- Details of progress against spend, output and result targets
- An assessment of the current portfolio of projects contracted under Priority 3
- Analysis of impacts generated by the current portfolio of projects
- Analysis of the gaps in the investment portfolio, and likelihood of being able to fill these gaps in the remainder of the Programme period
- Conclusions on progress in delivering Priority 3.

Priority Overview

8.2 Priority 3 aims to target resources at the most deprived communities where continued under performance is a threat to the region's economic growth - focussing on tackling social and economic exclusion and improving territorial cohesion, creating enterprise opportunities within disadvantaged neighbourhoods and extending the social economy.

8.3 Priority 3 has an allocation of €116.7m which at current exchange rates is equal to £103.7m. Priority 3 is broken down across four main objective areas, which are set out, with indicative activities in the table below.

Table 8-1: Summary of Priority 3 Objectives, Indicative Allocations and Indicative Activities

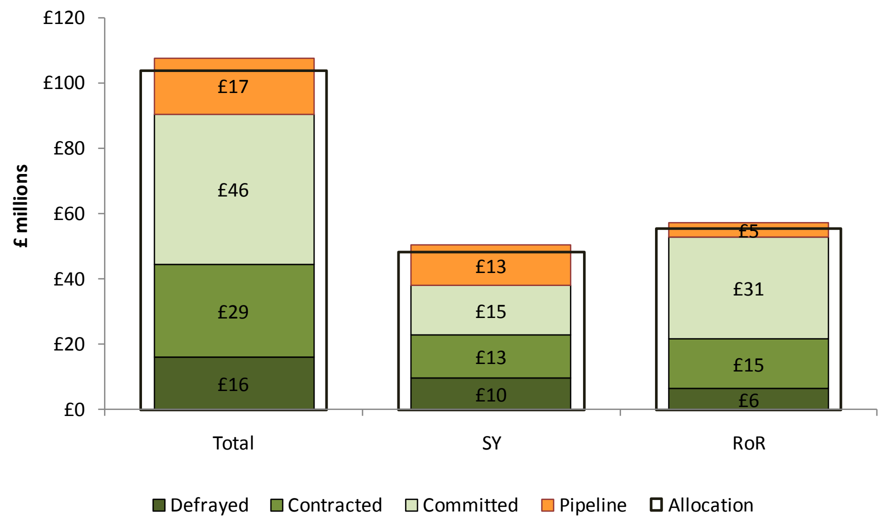
Objective	Proportion of P3 funding allocated	Examples of Indicative Activities
1. To improve connectivity to economic opportunities through tackling social economic and digital exclusion faced by disadvantaged communities	25% (£26m), although 30% of South Yorkshire allocation.	• Capital support to help develop sustainable communities • Promoting clean and sustainable public transport between targeted communities and economic opportunities • Strengthening public transport and access related links between targeted communities and economic opportunities (South Yorkshire only) • Capital support for facilities linked to tackling social and economic exclusion (South Yorkshire only)
2. To increase economic activity and entrepreneurship within communities	25% (£26m), although 45% of South Yorkshire allocation	• Support to foster a dynamic enterprise culture including access to finance • Support for activities that increase economic activity • Encourage and facilitate community enterprise and other small scale business development including the provision of incubator or similar business space

Table 8-1: Summary of Priority 3 Objectives, Indicative Allocations and Indicative Activities		
Objective	**Proportion of P3 funding allocated**	**Examples of Indicative Activities**
3. To create sustainable jobs in the social economy supported by existing and new social enterprises	25% (£26m), although only 15% of South Yorkshire allocation	• Support to strengthen social enterprises including access to finance • Support for innovative solutions/new approaches to energy efficiency in low income housing • Grants for small-scale community renewable energy projects. • Support for the implementation of community-based green strategies
4. To promote active participation in the development of a knowledge driven economy	25% (£26m), although only 10% of South Yorkshire allocation	• Support for development of positive approaches to a changing work environment effective communication skills and ICT usage • Implementation of community ICT strategies • Development of commercial and public service delivery through ICT

Priority 3 Performance

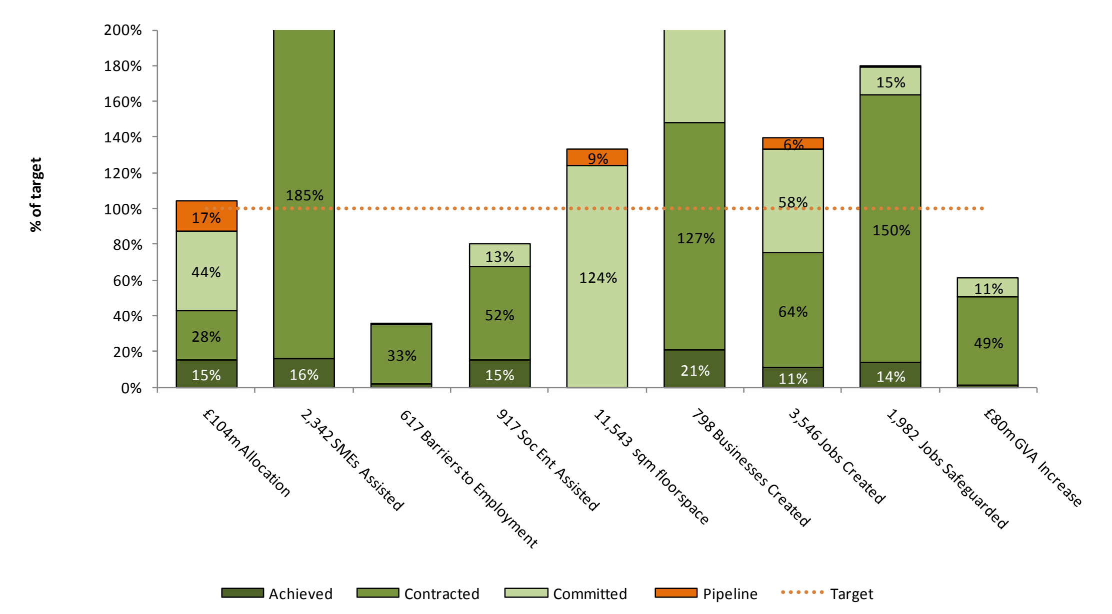
Table 8-2: Priority 3 Activity Summary	
Priority Allocation	£103.7m
Contracted to date	£44.6m
No of projects live and contracted	19
No. of projects at full business plan approval stage	25 (total value £57.0m)
No. of projects at outline business plan approval stage	12 (total value £10.1m)
Largest ERDF contribution for live projects	Sheffield Enhanced LEGI (£4.7m)
Smallest ERDF contribution for live projects	Darnall Managed Workspace (£0.4m)
Average ERDF project value for live projects	£2.3m
Source: Programme monitoring data, June 2011	

Figure 8-1: Priority 3 Overview of Spend in each Geography



Source: Programme monitoring data, June 2011

Figure 8-2: Priority 3 Overview of Outputs and Results Progress



Note:
SMEs Assisted – in addition to the 201% contracted, a further 157% is at committed/pipeline stage
Businesses Created – in addition to the 148% contracted, a further 200% is at committed stage.

8.4 There are several variations in progress against key output and result indicators across the two geographies, in particular:

- South Yorkshire has **higher performance against its target for projects to address barriers to employment**, with 50% of this target contracted

- South Yorkshire has **significantly higher performance against its target for social enterprises assisted**, with 43% achieved already and a further 172% of its target contracted.

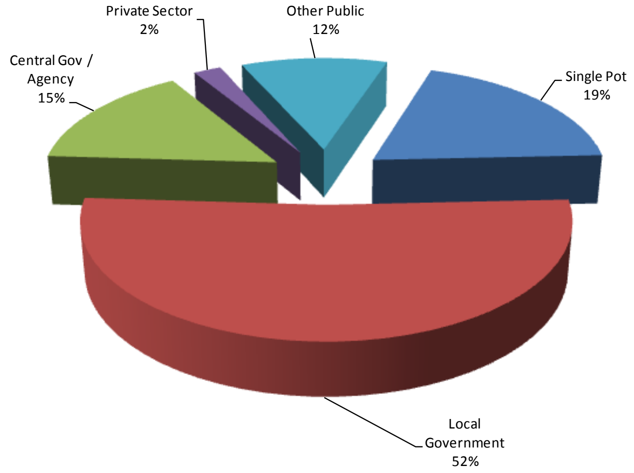
- South Yorkshire is **performing worse against its target for floorspace created**, with none of its target yet contracted, although projects at committed stage would deliver 57% of its target.

- South Yorkshire has **higher performance against its target for jobs created**, with 116% of its target already contracted.

- South Yorkshire has higher performance against its GVA increase target, with 79% of its target already contracted.

8.5 The cumulative picture of projected expenditure and targets appears to have substantially committed the available Priority 3 ERDF. Within this picture, however, there are several projects in the pipeline and at the committed but not contracted stage. These are not all assured to progress to contract, not least because of the lack of confirmed match; the estimate is that about half of the current projects of this status will not materialise as contracted projects. Amongst the already contracted projects, ability to spend has been impeded by the need to scrutinise claims for eligibility. It is likely, therefore, that there is de facto headroom in this Priority which will need continued attention to project development if the allocation is to be fully defrayed.

Figure 8-3: Match Funding for Contracted Projects in Priority 3



Source: Programme monitoring data, June 2011.
Figures based on total match for contracted projects of £41m

Assessment of Priority Axis Investment Portfolio

Exemplary	Achieved to highest standards
Good	Positive assessment with minor issues to consider
Fair	Mixed assessment with significant challenges for Programme to consider
Weak	Significant problems which Programme can address
Hazardous	Substantial challenges presented which will certainly have negative impact on Programme's achievements.

Table 8-3: Summary Assessment of the Performance of P3 Projects Reviewed for Evaluation

Aspect	Review Question	Assessment	Note
Design of Projects	Strength of evidence base and clarity of market failure rationale	Fair	• Appropriate collation of relevant contextual/ baseline statistics • Mixed but improving picture in translating evidence into market failure rationales. • Reasonably convincing narrative on equity failure
	Clarity and robustness of objectives, and fit with the objectives of the Priority axis	Good	• Strong attention to and shaping by OP, but P3 objectives are fuzzy/non-exclusive • Projects tend to address several P3 objectives, usually 1-3 while objective 4 is under-represented
	Extent to which activities complement and add value to other regional interventions	Good	• Limited within OP/other Priorities; stronger within P3 localities and other P3 projects, but far from universally so • Plausible complementarity to other non-OP regional (and local eg LEGI, WNF) interventions

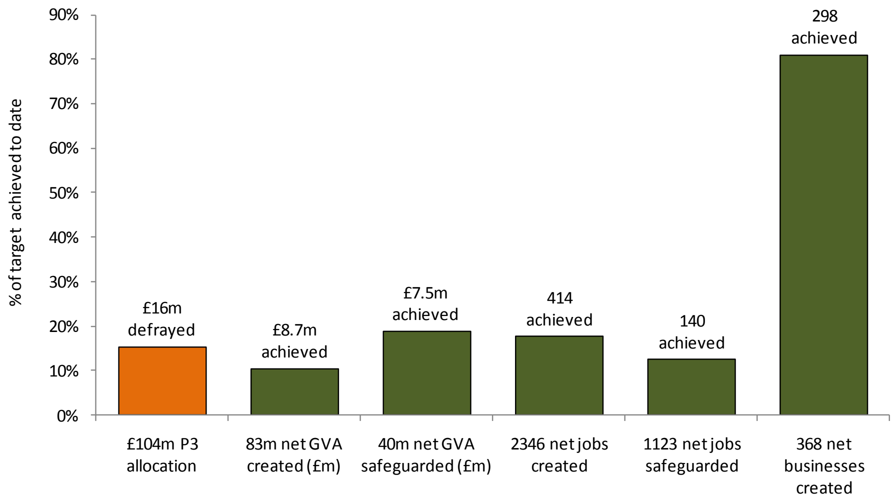
Table 8-3: Summary Assessment of the Performance of P3 Projects Reviewed for Evaluation

Aspect	Review Question	Assessment	Note
Delivery of Projects	Extent to which project activities are meeting their objectives, and being delivered effectively	Fair	• Good in relation to operational activity on the ground, but targets drive performance more so than objectives. • Elapsed time for results to materialise eg business created, job sustained needs recognition in result profiling. • Weak/hazardous in relation to Programme Management in terms of claims and monitoring returns being accepted; commitment to OP/ERDF at risk of being jeopardised (if there was an alternative).
	Realism of project targets on spend, outputs and results, given progress to date.	Fair	• Frequently muddled basis for project targets, usually engineered to reflect expenditure • Actual spend is well above defrayed spend, LAs are bank-rolling (and YF have been helpful) • Jobs created and safeguarded have been harder to accomplish than SMEs assisted and new starts
	Soundness of the basis on which outputs and results are being collected, estimated and reported	Fair	• Contested views about proportionality of the effort to verify results (given the types of businesses involved), especially on jobs and GVA, and rigours of audit/compliance • Projects often work best where providers can team and ladle between several projects and non-OP contracts
	Embeddedness of the CCTs in projects and effectiveness of this in delivery	Fair	• Comes with the territory of this Priority; mostly sincere endeavours and strong reliance on social enterprises • Some conceptual, operational and appraisal issues persist at project development stages
	Significance of SAV impact and extent to which SAV impacts are being delivered in practice	Weak	• Considered by many as just another hurdle • Main manifestation of SAV is synergy with other, mostly non-OP, activities
	Robustness of project exit/sustainability strategies	Fair	• Most envisage coming to an end unless they can engineer an extension and uncover new match sources which are not ring-fenced for higher priority schemes • A minority may mutate into other forms or transition to greater private sector sub-commercial services
	Clarity and robustness of evaluation plans and extent to which these are being delivered	Weak	• Where done or underway, they are usually evaluations of a wider project in which the ERDF dimension is subsumed. • Large minority envisage self-evaluation and reflective review, noting that final evaluations were to be funded with non-match Single Pot
	Extent to which projects display innovation / could be demonstrators for others	Fair	• Mostly conventional/orthodox CED projects, extending scope, scale and life of LEGI/WNF programmes • Objective 4 (knowledge economy) regarded as conceptually weak with few obvious eligible activities

Assessment based on analysis and consultations with nine out of the seventeen Priority 3 projects contracted at the time of the evaluation. These projects covered 73% of the total contracted value of Priority 3.

Impact of Priority 3 Investments

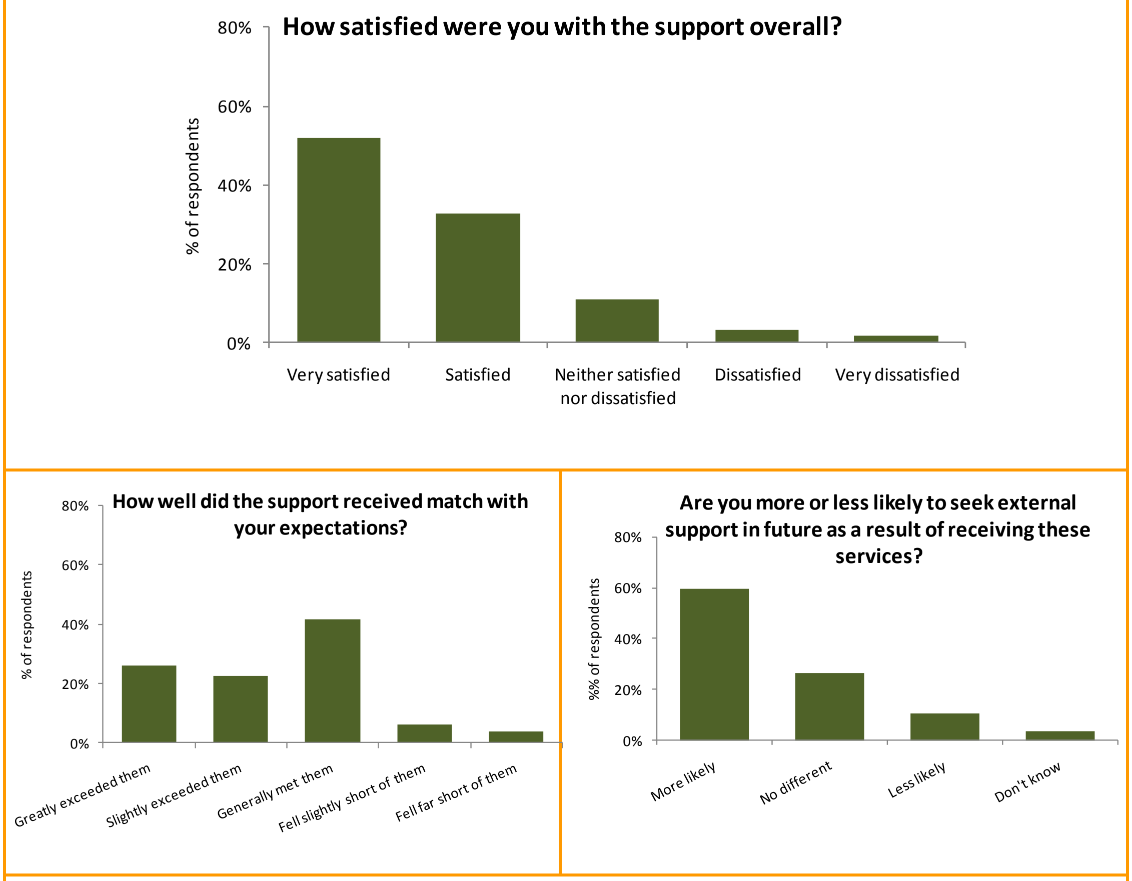
Figure 8-4: Impacts Achieved in Priority 3



Source: Regeneris Consulting Assessment of Programme Impacts.
Note: The beneficiary survey sample for Priority 2 included 258 respondents across four projects

Beneficiary Satisfaction Ratings

Figure 8-5: Priority 3 Beneficiary Satisfaction Ratings



Source: Regeneris Consulting Survey of Programme Beneficairies

Priority 3 Investment Gaps and Future Focus

Table 8-4: Priority 3 Investment Gaps and Future Focus

Objective	Investment Gaps against Indicative Activities and Pipeline potential	Match funding opportunities to address gaps.
1. To improve connectivity to economic opportunities through tackling social, economic and digital exclusion faced by disadvantaged communities	• Generally well covered so far, subject to practical concerns about actual eligibility • Capital call stimulated in-flow of applications, although by no means all will materialise. Conflated with objective 3 at appraisal • Original expectations for Demand-led Employability projects now curtailed	• Local government cuts and loss of Single Pot may impede progress of pipeline proposals • Government interest in Total Place may unlock resources from (straightened) partners • Generally diffuse, fragmented and uncertain
2. To increase economic activity and entrepreneurship within communities	• Reasonably covered where LEGI existed • Attempts in non-LEGI areas to do the same to a lesser degree • Some evidence of competition for funding now undermining previous partnership approaches • Capital call stimulated in-flow of managed workspace project applications	• Beyond residue budgets, little obvious scope from public/third sector resources • Big Society, localism and rebalancing the economy yet to be reconciled with one another
3. To create sustainable jobs in the social economy supported by existing and new social enterprises	• Continued interest from partners with project ideas, mostly like previous CED projects • Structural importance of versions of CDFI projects for loan and equity investments in sustainable, viable ventures • Fewer proposals for energy-related projects-technically and administratively complex to progress	• Very limited transitional scope/few alternatives • With some stretching/ingenuity, TSA and HCA funding streams may be able to align on low income housing • Green Bank proposals may come too late for the OP and may not cater well for community-based initiatives
4. To promote active participation in the development of a knowledge driven economy	• Not an objective capturing much development interest on its own terms	• Mis-alignment with (eg) TSB remit; Digital Participation agenda now enables rather than funds • Too hard for eg HEIs, LAs • Demarcation with ESF to contend with

Key Conclusions

Priority 3 is on course to commit the full allocation of resources, subject to the majority of the projects in the pipeline being contracted.

8.6 Priority 3 has already committed £91m (87% of allocation), of which £45m (43%) has been contracted. This achievement is remarkable because communities' initial reaction to the OP was that it offered little scope for their participation. Y&H has previously been a fore-runner in using Structural Funds in community economic development and has been able to invest large sums. The collective endeavours of Yorkshire Forward, Priority Development Teams, local authorities and Community Anchor Organisations have enabled this progress to date.

There is a good spread of activity across Objectives 1-3, however a gap in delivering against Objective 4.

8.7 The main investment gap so far is in Objective 4 ie participation in the knowledge economy. There is limited appreciation of what this objective is and how it can be operationalised using ERDF. Additional clarity and support is likely to be needed if it is to be delivered. An additional call for projects under this objective was launched and resulted in some applications but whose progress to contract has not been forthcoming. Unlike the measures in previous Programmes, the objectives in P3 are not regarded as part of the project narrative requiring attention. They have little practical significance for project design and given the flexibility in how they can be interpreted, most projects can quite legitimately say that they act on several objectives.

The outlook for achieving outputs and result targets is broadly positive, subject to performance of projects and contracting of committed and pipeline projects.

8.8 With £45m of spend so far invested (43% of allocation), Priority 3 has contracted to deliver 201% of its SMEs assisted target and 75% of its jobs created, 164% of its jobs safeguarded and 148% of its businesses created targets.

8.9 The effects of the recession have increased the emphasis on job safeguarding (at the expense of job creation) and have helped draw people into self employment which has contributed to the businesses created target. The target levels for P3 however are not stretching when set against the resources available. Some targets could be significantly exceeded but this appears to reflect relatively low intensity support which may give rise to less durable results. This is reflected in a lower level of GVA creation target contracted, compared with other result indicators.

8.10 Comparative analysis of projects' targets and resources reveals a wide variation in the treatment by type of outputs and results which projects are contracted to deliver. This is evident in demand-led employability projects which have concentrated on job creation and within LEGI-like projects which are focused on business starts.

8.11 Expectations of ultimate impacts need to be tempered by the nature of the interventions, the circumstances facing beneficiaries and the challenges of verifying results for businesses and jobs created and for GVA, which may lead to claimed results being lower than expected.

However findings from the beneficiary survey suggest that impacts delivered are also performing well with around 15% of P3 funding spent and a similar proportion of most impact targets achieved, as well as net business creation being notably ahead of target.

Blockages in contracting and claims processing are a key risk for Priority 3

8.12 The majority of P3 committed projects are not yet contracted. The Prospectuses issued calling for project submissions encouraged an increase in activity in the region and some of the project submissions may have been premature in terms of the stage of development reached and the prospect of securing match. Capacity and system constraints have led to delays and blockages at the appraisal and contracting stages which increase the risk of failing to translate the pipeline onto deliverable projects.

8.13 The procedures relating to claims, monitoring and contract variations are slow to be processed and are getting to a critical point where participation in the OP is being questioned. Had there been alternative sources of funding, many organisations would have preferred to not engage with ERDF as the risks which accompany it are a significant deterrent. In many cases, delays on claims are forcing partners to bankroll projects at risk, which is creating difficulties for them and damaging relationships among partners. These delays will also impact negatively on N+2 target achievement.

Going forward, a strong position in Priority 3 performance needs to be consolidated

8.14 In light of current progress in Priority 3, the following actions should be taken:

1) **Over-commit projects under Priority 3**. Given the high likelihood that not all committed and pipeline projects will develop through to contract and spend fully, the Programme should seek to over-commit funding in Priority 3 up to at least 110% of the current allocation.

2) **Focus on P3 Investment Gaps**. To ensure that the remaining headroom is appropriately focused to fill investment gaps in Priority 3, future Priority Prospectus' should be more clear on the types of activity required to fill key gaps. This should particularly focus on addressing gaps in projects delivering against Objective 4.

3) **Address Backlogs in Processing Claims and Contract Variations.** This backlog has contributed to worsening relationships with key partners in P3, and has affected achievement against the N+2 defrayment target. Addressing these backlogs and ensuring more timely processing in the future is important.

4) **Increase the focus of the Executive on post-contract monitoring and support**. Over-performance in Priority 3 in contracting result indicators is currently helping to mitigate against the under-performance in Priorities 1 and 2, enabling the Programme to keep largely on-track with the rate of result contracting. The Executive now needs to increase their focus on monitoring and supporting contracted P3 projects to maximise the achievement of these results.

9. Priority 4: Economic Infrastructure

9.1 This chapter provides detailed analysis of progress in delivering the objectives of Priority 4. The chapter comprises:

- An overview of the Priority aims and indicative activities
- Details of progress against spend, output and result targets
- An assessment of the current portfolio of projects contracted under Priority 4
- Analysis of impacts generated by the current portfolio of projects
- Analysis of the gaps in the investment portfolio, and likelihood of being able to fill these gaps in the remainder of the Programme period
- Conclusions on progress in delivering Priority 4.

Priority Overview

9.2 Priority 4 aims to continue investing in South Yorkshire's economic infrastructure to maximise the impact of structural fund investments in the sub region to date and the development of a knowledge economy. Priority 4 will facilitate the key centres in their role of acting as attractive locations for new and re-investment in promoting sustainable urban development.

9.3 Priority 4 has an allocation of €66.8m, which at current exchange rates is equal to £59.3m. Priority 4 is broken down across two main objective areas, which are set out, with indicative activities in the table below.

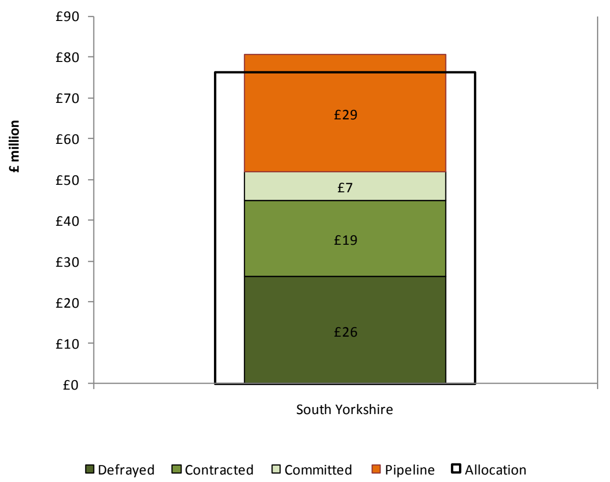
Table 9-1: Summary of Priority 4 Objectives, Indicative Allocations and Indicative Activities

Objective	Proportion of P4 funding allocated	Examples of Indicative Activities
1. To support the Sheffield City Region Development Plan by developing the critical business/environmental and cultural infrastructure in the four key urban centres and contribute to the development of an accessible and sustainable knowledge economy	50% (£30m)	• Support to improve the physical attractiveness of access routes into South Yorkshire to make it a more attractive environment for the knowledge economy. • Support for sustainable urban development projects which directly contribute to the attraction of knowledge intensive businesses • Support for capital public transport initiatives, exc. mobile infrastructure, which enhance the economic competitiveness of key urban centres.
2. To ensure that South Yorkshire has the digital infrastructure to support business competitiveness and the growth of the knowledge economy	50% (£30m)	• Support for creating the right market conditions for the induction of high speed next generation broadband for new and growing businesses.

Priority 4 Performance

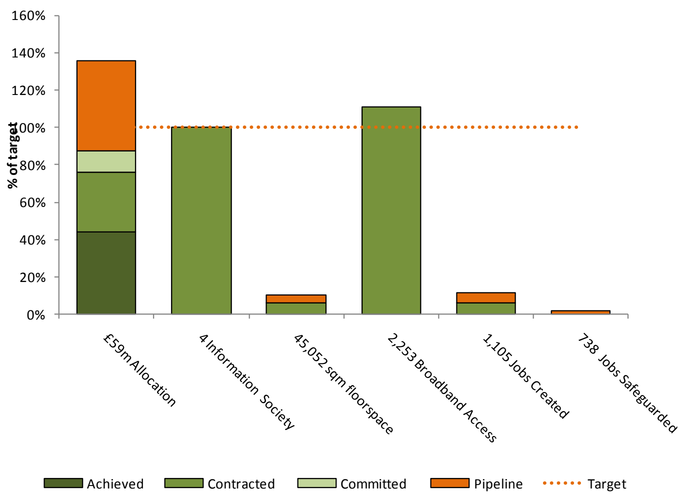
Table 9-2: Priority 4 Activity Summary	
Priority Allocation	£59.3m
Contracted to date	£44.9m
No. of projects live and contracted	6
No. of projects at full business plan approval stage	4 (total value £8.8m)
No. of projects at outline business plan approval stage	8 (total value £28.6m)
Largest ERDF contribution for live projects	Digital Region (£29.8m)
Smallest ERDF contribution for live projects	Eastern Gateway (£1.1m)
Average ERDF project value for live projects	£7.5m
Average ERDF project value for live projects (exc. Digital Region)	£3.0m
Source: Programme monitoring data, June 2011.	

Figure 9-1: Priority 4 Overview of Spend



Source: Programme monitoring data, June 2011.

Figure 9-2: Priority 4 Overview of Outputs and Results Progress

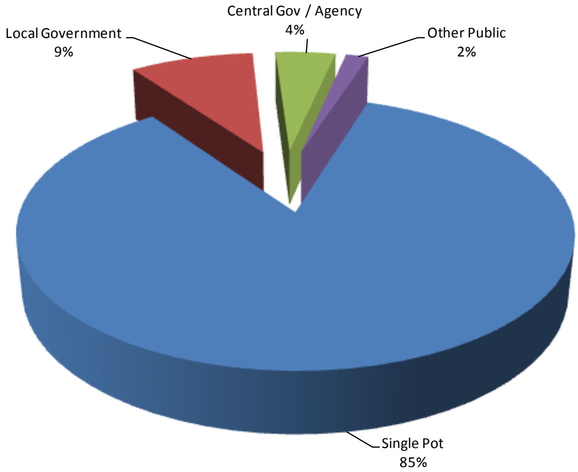


Source: Programme monitoring data, June 2011.

Project Part-Financed by the European Union

European Regional Development Fund

Figure 9-3: Match Funding for Contracted Projects in Priority 4



Source: Programme monitoring data, June 2011.
Figures based on total match for contracted projects of £72m

Assessment of Priority Axis Investment Portfolio

Exemplary	Achieved to highest standards
Good	Positive assessment with minor issues to consider
Fair	Mixed assessment with significant challenges for Programme to consider
Weak	Significant problems which Programme can address
Hazardous	Substantial challenges presented which will certainly have negative impact on Programme's achievements.

Table 9-3: Summary Assessment of the Performance of P4 Projects Reviewed for Evaluation

Aspect	Review Question	Assessment	Note
Design of Projects	Strength of evidence base and clarity of market failure rationale	Good	• The three projects reviewed would either not have happened at all, or would have been lower quality projects, without ERDF support. • The types of activities funded by these projects would not have been funded by the market. • The cases put forward were well articulated, underpinned by independent reports, and aligned with wider regeneration activities in the locality.
	Clarity and robustness of objectives, and fit with the objectives of the Priority axis	Exemplary	• Projects had very clear objectives in their full business case application. • These are well tied in to the objectives of the Priority either through the development of economic infrastructure (mainly interpreted as land and property, service infrastructure) or digital infrastructure.

Table 9-3: Summary Assessment of the Performance of P4 Projects Reviewed for Evaluation			
Aspect	**Review Question**	**Assessment**	**Note**
	Extent to which activities complement and add value to other regional interventions	Good	• Good links demonstrated to the RES and PPR objectives, as well as the Sheffield City Region Development Plan. • Investment in some projects has been crucial in leveraging in other funding – DoT, SYPTE etc
Delivery of Projects	Extent to which project activities are meeting their objectives, and being delivered effectively	Fair	• Mixed performance. Digital Region progressing, but suffered some delays. • Some issues with Article 13 with two of the projects causing delays in claims. • Delays with Network Rail on the Rotherham Station project – although ERDF fully aware and still expect to meet completion dates. • Doncaster CCQ - Single Pot match withdrawal. Some delay but works on-going.
	Realism of project targets on spend, outputs and results, given progress to date.	Weak	• Spend is on track due to major investments in Digital Region, and some sizeable economic infrastructure projects in the four main urban centres. Pipeline looks healthy too. • Very weak performance on contracted outputs and future results (excluding broadband access) to date. • Lack of projects delivering floorspace and jobs. Economic conditions will continue to have an adverse effect.
	Soundness of the basis on which outputs and results are being collected, estimated and reported	Fair	• Fairly straightforward to collect and report on for this Priority given the type of projects and quite limited range of outputs and results • However, audits of Sheffield Cultural Infrastructure projects and Eastern Gateway have delayed claims.
	Embeddedness of the CCTs in projects and effectiveness of this in delivery	Fair	• Given the types of projects, CCTs are well embedded. Some projects didn't have a direct CCT target, but do cover this indirectly. • Several CCTs relate to equality of access – whether that be for broadband, or for accessibility of public spaces (eg DDA compliance). • Environmental CCTs are included relating to projects where buildings are included (BREEAM etc).
	Significance of SAV impact and extent to which SAV impacts are being delivered in practice	Exemplary	• Strong performance for P4 on SAV. • ERDF funding has been used to lever in other agency funding and deliver projects which may have taken many years to come forward in other guises (Rotherham Station, Digital Region etc) • Strong leadership shown by YF and ERDF team, as well as local authority partners.

Table 9-3: Summary Assessment of the Performance of P4 Projects Reviewed for Evaluation			
Aspect	**Review Question**	**Assessment**	**Note**
	Robustness of project exit/sustainability strategies	Good	• Economic infrastructure projects reviewed have quite straightforward exit strategies. • Typically once the ERDF funding has finished, involvement ceases, with a partner taking ownership of the project (eg a local council for maintenance of public spaces etc).
	Clarity and robustness of evaluation plans and extent to which these are being delivered	Weak	• Very weak. Most projects had Yorkshire Forward Single Pot funding set aside for evaluation. This was lost. • Few have plans for evaluation, and will discuss next steps in due course with ERDF team.
	Extent to which projects display innovation / could be demonstrators for others	Fair	• Digital Region was a highly innovative use of ERDF. • Other P4 projects reviewed did not demonstrate innovation. The design of Rotherham Station, with its environmental credentials, is impressive. Very few stations in the UK can compare.
Assessment based on analysis and consultations with three out of the five Priority 4 projects contracted at the time of the evaluation. These projects covered 23% of the total contracted value of Priority 4 (the major project under P4, Digital Region was not formally reviewed as part of the fieldwork, as an interim project evaluation had already taken place, the results of which fed in separately to this evaluation).			

Priority 4 Investment Gaps and Future Focus

Table 9-4: Priority 4 Investment Gaps and Future Focus

Objective	**Investment Gaps against Indicative Activities and Pipeline potential**	**Match funding opportunities to address gaps.**
1. To support the Sheffield City Region Development Plan by developing the critical business / environmental and cultural infrastructure in the four key urban centres and contribute to the development of an accessible and sustainable knowledge economy	• Some significant investment in quality of place and infrastructure projects. • Little investment to date in public transport infrastructure projects (the Rotherham Station project is primarily considered to be a gateway improvement project). • Also, no projects which deliver floorspace to support the development and attraction of knowledge intensive sectors/businesses in South Yorkshire. • Consequently, significant under-performance in jobs created and safeguarded targets in South Yorkshire.	• At the outset of the Programme, this objective was intended to be heavily reliant on Single Pot for match funding. • Drawing on transport funding directly from the Department of Transport, and through the SYPTE local plan will help deliver gateway and/or public transport infrastructure projects. • Local authorities may have to rely on prudential borrowing to bring forward schemes. • Private sector opportunities may exist if floorspace projects are to be retained.
2. To ensure that South Yorkshire has the digital infrastructure to support business competitiveness and the growth of the knowledge economy	• The Digital Region project absorbed £29m of P4 funding (c.50% of all P4). • The scope, scale, and nature of this project will ensure that objective 2 is met. This will be the only digital infrastructure project supported by this Priority. All remaining funding is directed at activities under Objective 1.	• The Digital Region project secured extensive match funding support from Yorkshire Forward's Single Pot and local authorities in South Yorkshire. • The Digital Region project has absorbed all of the funding for this objective.

Key Conclusions

Good levels of contracted expenditure and strong pipeline of projects

9.4 Priority 4 has contracted £44.9m to date (76%), most notably the £30m Digital Region investment. Of this, £26.2m has already been defrayed. There is a further £7m of committed projects and £29m of pipeline projects, which would in total take P4 to 136% of its allocation. P4 was originally anticipated to support 23 projects but in practice it has supported fewer, larger projects across its two objectives.

9.5 The Executive has placed a strategic pause on new projects coming forward under Priority 4, while the current pipeline of projects is processed.

9.6 Despite strong progress in Priority 4 however, it would not be feasible to vire additional funding into this Priority due to the need for 75% of Programme spend to be Lisbon-compliant. Following the changes to the Programme in October 2010, the Programme is now expected to approximately hit that 75% target, but not to exceed it. As P4 Objective 1, (which is where additional funding could be utilised) is all non-compliant activity, there is no scope for virement in.

Digital Region was a bold use of Priority 4 funding

9.7 Digital Region provides next generation access broadband to the whole of South Yorkshire and is fairly ground-breaking in its scale and scope. At a total cost to the ERDF Programme of £29.8m this project received approximately half of the total P4 allocation.

9.8 While Digital Region has faced challenges and has not yet reported any outputs, the outlook for the projects to secure outputs and results over the remaining period of the Programme remains positive. It demonstrates clear strategic fit with the Priority's digital infrastructure objective and has significant local authority and RDA support. It is expected to be one of the significant legacy projects of the Programme.

There is a significant gap in projects delivering floorspace and related job creation and safeguarding

9.9 To date Priority 4 has only contracted 6% of its floorspace target, 6% of its job creation target and none of its job safeguarding target. The floorspace target of 45,000 sqm was always going to be particularly challenging given that 50% of the overall P4 allocation went to Digital Region and the competing need to also invest in gateways and public transport infrastructure with the remaining budget.

9.10 Projects supporting office space development activity under Objective 1 have not come forward for a number of reasons:

- the economic downturn has led to low market demand, poor values, and limited availability of development finance
- problems using private sector match funding for much of the Programme period, and delays in resolving issues around eligibility of developer profit

- routing of workspace related projects to Priority 2, Objective 3.

9.11 Based on the current portfolio of P4 projects and its pipeline, and the limited remaining headroom, it is highly unlikely that the P4 targets will be met. In mitigation, if the large number of capital bids currently sitting in the P2 Objective 3 pipeline are all contracted, there would be a significant over-performance in P2's floorspace target, which would more than compensate for under-performance in P4.

Limited progress on projects to support transport infrastructure

9.12 There has been a strong emphasis on public realm/quality of place, road and service infrastructure, and gateway locations (eg Rotherham Railway Station). This activity has played an important complementary role in supporting wider regeneration and economic development objectives across the urban centres of South Yorkshire (ie helping to change perceptions, creating the conditions for growth and attracting private sector investment).

9.13 There has been less progress with public transport initiatives. The Rapid Bus Routes (North and South) and South Yorkshire Smart Routes (three projects between Sheffield and Rotherham currently at the OBP stage) would fill the existing gap. Taken together these three projects account for over £25m which significantly exceeds the £14m uncommitted spend in P4. Some prioritisation will therefore be needed.

A strong position in Priority 4 needs to be consolidated

9.14 In light of current progress in Priority 4, the following actions should be taken:

- Given the low level of floorspace-generating projects in P4, and the strong pipeline of projects covering other P4 indicative activities, it should be accepted that this target is unlikely to be met. Given the level of spend to date in P2, new floorspace-generating projects should be directed to Priority 2, Objective 3.

- During the current strategic pause in new project submissions under P4, the Executive should continue to process the current backlog of P4 submissions. Subject to suitability of the project pipeline, it should then close the Priority to new applications. If none of the pipeline of projects falls away, there may be a need to prioritise projects, in which case, public transport infrastructure projects should be prioritised in order to fill the investment gap against OP indicative actions and P4 objectives.

- Given the likelihood that not all committed and pipeline projects will flow through to contract and spend fully, the Programme should aim to over-commit funding in Priority 4. It is recommended that over-commitment up to at least 110% of funding allocation would be appropriate.

10. Cross Cutting Themes

10.1 In this chapter we present our assessment of progress against the two Cross Cutting Themes (CCTs) of Environmental Good Practice and Equality and Diversity. Although this chapter is dedicated to CCTs, our assessment of progress has been integrated into all evaluation tasks. Project reviews, research tools, consultations and quantitative analysis have been configured in a way which directly addresses both CCTs. This chapter provides an assessment of:

- The approach the Programme has taken to delivering CCTs
- Extent to which each CCT has been integrated into Programme strategy (vertical integration) and project design (horizontal integration).
- Progress made against key targets for CCT activity
- Success in embedding CCTs into projects design and delivery
- The value added by CCT activities

10.2 The evaluation additionally sought to provide conclusions on the progress made in delivering the CCTs to date and recommendations for the future focus of this activity.

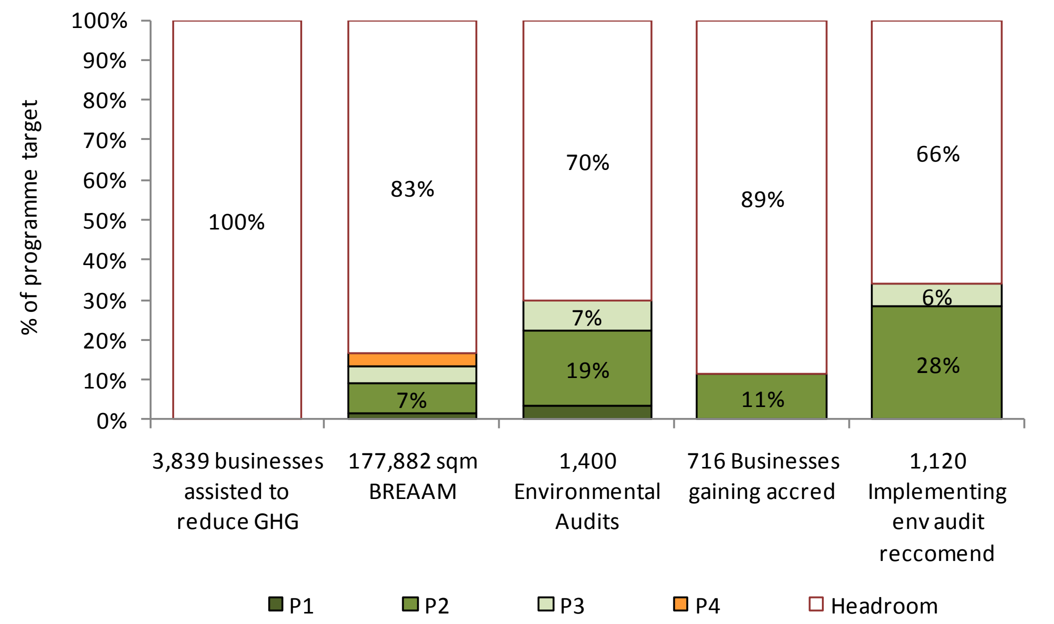
CCT Overview

10.3 The Cross-Cutting Themes seek to ensure that sustainable development and equality underpin and inform all activity financed through the Programme. The two CCTs are:

- **Environmental Good Practice:** focused on breaking the link between economic growth and environmental degradation and securing opportunities within the low carbon agenda.
- **Equality and Diversity:** focused on promoting a democratic, socially inclusive, healthy, safe and just society with respect to cultural diversity that creates equal opportunities and combats discrimination of all forms.

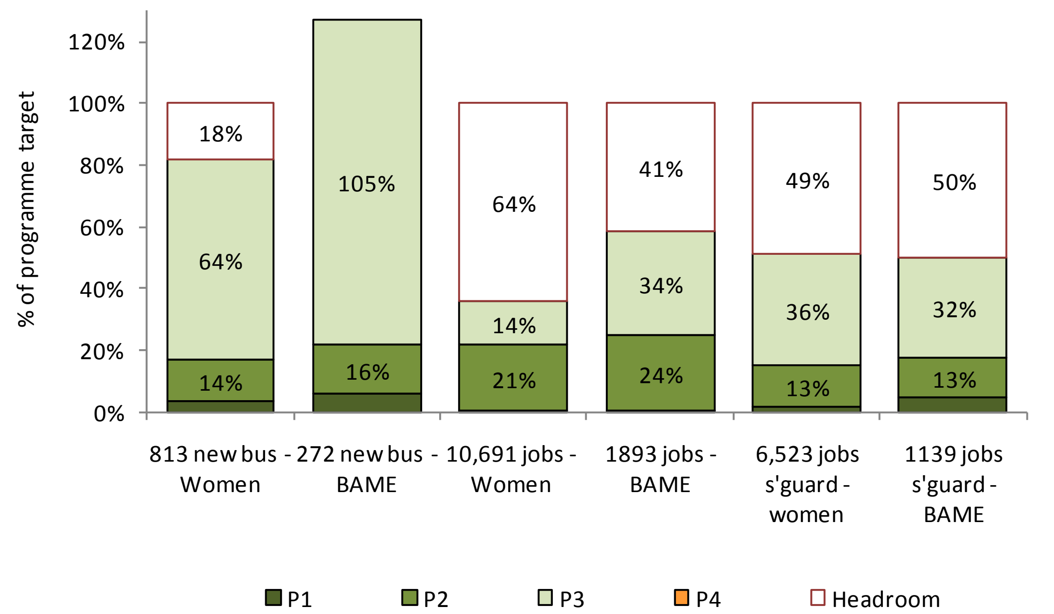
10.4 Rather than addressing them in isolation, the Programme has sought to integrate CCTs across all activities by a) ensuring they are reflected in the type of projects commissioned and b) influencing the design of all projects to ensure that they create as much impact as possible on the CCTs and that project design and operations actively contribute to the achievement of the goals.

Figure 10-1: Progress in Contracting Against Environmental Sustainability CCT Targets



Source: Programme monitoring data, April 2011.

Figure 10-2: Progress in Contracting Against Equality and Diversity CCT Targets



Source: Programme monitoring data, April 2011.

Assessment of CCT Embeddedness in Project Design and Delivery - Priority Overview

Exemplary	Achieved to highest standards
Good	Positive assessment with minor issues to consider
Fair	Mixed assessment with significant challenges for Programme to consider
Weak	Significant problems which Programme can address
Hazardous	Substantial challenges presented which will certainly have negative impact on Programme's achievements.

Table 10-1: Assessment of Embeddedness and Delivery of Equality and Diversity CCTs

	Priority 1	Priority 2	Priority 3	Priority 4
Overall Assessment	• Limited by weak coverage of targets. Only c 55% of projects with business or jobs created / safeguarded targets required to monitor E&D outcomes • Standard E&D requirements are already well integrated into delivery orgs.	• Strong coverage of targets for E&D outcomes is likely to result in proactive approaches to meeting targets. • Some evidence of adjusted activities to address E&D priorities.	• Strongest fit with E&D. • Majority of projects delivering E&D outcomes • But, limited evidence of adjustments to project activities to address E&D priorities. • Largely collecting data / information on core project activities.	• Capital intensive nature of investments mean there are limited hooks for activity on this CCT • Some evidence of added value / enhancement to project design. • But impacts /influence in P4 projects not captured by CCT indicators.
Embeddedness of CCT in project design	• Limited hooks for E&D – project largely meeting minimum requirement. • Larger orgs (HEIs in particular) demonstrate a wide recognition of importance of E&D and have strong existing approaches.	• Significant integration of monitoring targets for jobs and businesses created. • Some evidence of proactive approaches to service design / marketing	• Strongest fit with E&D. • Majority of projects delivering E&D outcomes via core project activities.	• Evidence of consultation in design of capital projects with local groups, ensuring accessibility etc. • Targeting of job creation opportunities from projects on local communities
Delivery and measurement of CCT in practice	• Projects monitoring E&D targets where they have been set, but only 6 projects expected to deliver on E&D indicators.	• Large proportion of relevant spend in this Priority covered by E&D targets. • Targets widely viewed as challenging, particularly in sectors or locations where key groups are underrepresented.	• Concerns that local or sector specific context not fully reflected in targets set for projects. • Project level targets for BAME viewed as unrealistic in some cases, which suggests PMs have not used baseline information to inform project targets in all cases	• No projects in Priority have E&D targets, although relevance / applicability of indicators to this Priority is limited

Table 10-2: Assessment of Embeddedness and Delivery of Environmental Sustainability CCTs

	Priority 1	Priority 2	Priority 3	Priority 4
Overall Assessment	• Majority of impacts captured amongst projects with explicit low carbon focus in core activities. • Although integration of low carbon targets to 3 other projects in Priority suggests some influence on project activities	• Some evidence of formalised targets for support towards low carbon sector, in addition to commitment to deliver environmental audits. • But, undermined by limited linkages between projects eg stronger lines of referral into Resource Efficiency project.	• Limited evidence of impact on project design or activities. • Monitoring of outputs is limited to a minority of projects. • Questions about whether the focus on BREEAM is sufficient? Should the Programme be pushing for more than this?	• A number of projects that align well to CCT, but added value of CCT activity is unclear. • No evidence of influence on project design or delivery, but this is related to the mainstreaming of many environmental requirements (eg site waste management legislation)
Embeddedness of CCT in project design	• Specific focus on promoting sustainable practices through P1 • One project (Bradford Sustainability Centre) delivering majority of CCT activity. • Some evidence of targeting support towards environmental sector (targets in Grants for R&D, Innovation Hubs).	• A number of projects where core activities make direct contributions eg Resource Efficiency, bio demonstrator within SC York • Environmental technology SMEs viewed as a strong and growing market; explicit focus on this sector (and associated CCT targets) in three projects.	• Primarily focused on delivering new/ upgraded floor space to VG BREEAM standard. • Some commitment in local enterprise projects to target support towards environmental businesses, deliver environmental audits and create jobs in the environmental sector	• Evidence of some projects achieving over and above VG BREAAM, but influence of CCT activity has been limited (although BREAAM was not appropriate for all P4 investments in any case) • Investments in public transport infrastructure making considerable contribution
Delivery and measurement of CCT in practice	• Priority set to contribute significantly overall, but majority of indicator targets concentrated in a single project.	• Progress on this CCT not routinely recorded and monitored across the Priority. Eg MAS has a lot to contribute (through its focus on productivity in manufacturing) but is not targeted to deliver. • Reflects difficulties in encouraging applicants to agree to stretching targets	• Less than a third of projects recording environmental sustainability indicators.	• Likely to under report performance on indicators. Projects primarily focused on infrastructure, which are not well captured by indicators. • Only Sheffield Cultural Infrastructure to deliver any measurable impacts.

Assessment of the extent to which CCTs have been embedded in project design and delivery is based on evidence from the projects reviews undertaken as part of the evaluation.

Key Conclusions

The Executive has taken a positive and proactive approach to embedding CCTs in project design

10.5 Implementation has actively integrated CCTs across all Programme activities. Project Development Managers have played a critical role here by explaining the principles behind the CCTs to applicants and looking for ways to help embed the themes into project design. They have been supported to do this through the use of performance measures and tools developed by the Programme.

10.6 There is a consensus that the strength of the approach and extent to which CCTs are embedded in project design has improved as the Programme has progressed. Nevertheless, maintaining the commitment to embedding CCTs in project design remains a core challenge and there is an on-going need for the CCT Manager to champion CCTs and proactively engage with project developers to ensure they maintain the good progress made so far. This issue is likely to become more critical as project development capacity reduces.

There is more that could be done to better embed CCTs

10.7 Although the tools, training and assistance provided to support CCT activity are widely regarded as insightful and appropriate (particularly the more recently developed material), there is a strong consensus that the CCTs have not always been fully embedded in practice and in most cases remain a secondary consideration in project design.

10.8 CCT activity has focused primarily on seeking to influence project design and integrate CCT deliverables into project plans. As a result, around half of contracted projects are targeted to deliver on CCT output measures, which is a notable achievement. Given the significant headroom, particularly in the environmental sustainability CCT indicators there is clearly more that could be done.

10.9 The limited coverage of CCT targets reflects some difficulties in securing commitment from applicants to deliver CCT indicators. In some cases, applicants have been unwilling to commit to contractual CCT targets (in part because of the additional administrative requirements this would bring but also due to a perceived additional risk of claw-back if contracted CCT targets proved unachievable). Where this has been an issue, CCT activity has secured commitment to monitoring and measuring progress, rather than imposing contractual targets.

The environmental sustainability CCT has added greater value than the equality and diversity CCT

10.10 A critical test of the effectiveness of CCTs is the extent to which their presence in the Programme has changed and added value to the design of projects and the activities they deliver. In many cases this is somewhat limited because bidding partners often already have high standards in their approach to equality and environmental sustainability issues.

10.11 There are more examples of value being added to the environmental sustainability CCT than the equality theme. This is partly down to additional hooks in the Programme for this activity ie the move towards a low carbon economy is identified as a priority in the OP and Environmental Technologies is a priority cluster for the region. There are therefore clear opportunities to support projects with a specific environmental focus which can the easily contribute to this CCT. The update of the Operational Programme in October 2010 further enhanced the emphasis on low carbon activity, particularly in Priorities 1 and 2.

10.12 The mainstreaming of much of the focus of the equality and diversity CCT in law has meant there is less scope to demonstrate significant added value from this CCT.

Need to consolidate existing performance on CCTs

10.13 Given reasonable performance so far, the Executive should retain a focus on CCTs, seek to further increase delivery of CCT indicators and identify opportunities within projects for adding value. The following actions are recommended:

1) **Continue to champion CCT integration** through a CCT manager, and provide support to project developers and deliverers to ensure CCTs continue to be embedded in project design. Advice and guidance on the integration of CCTs should be provided as early as possible in the design process in order to avoid CCTs being viewed as an add-on activity.

2) **Share good practice examples** from already-contracted projects on how different types of project can respond to CCTs, and where altering the design of a project can add genuine value towards achieving CCT objectives.

3) **Improve contract monitoring** of projects to ensure that progress against CCT aims is being delivered as planned and that CCT indicator targets are being met.

4) **Improve utilisation of the Resource Efficiency project**, by encouraging cross referrals from other ERDF-funded projects.

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