



SKSEC/FEB/2010

NORTH EAST ENGLAND COMPETITIVENESS PROGRAMME 2007-13

MEETING OF THE PROGRAMME MONITORING COMMITTEE:

23 FEBRUARY 2010

	Role	Sector
Attendees		
Jonathan Blackie	Chair	Government Office North East
Kevin Rowan	Member	TUC
Cllr Jim Smith	Member	Northumberland
Cllr Neil Foster	Member	Durham
Jo Curry	Member	Voluntary Sector
Adrian Sherwood	Member	One North East (RDPE Link)
Laura Woods (Substitute)	Member	Higher Education
Ieva Zalite	Observer	European Commission
Claire Hoskins	Observer	CLG
Heather Smith	Observer	Northumberland
Catherine Pearson	Observer	Durham
John Lowther	Observer	Tees Valley
Gordon Bell	Observer	Tyne & Wear
Sue Houston	Observer	Government Office North East
Andy Stewart	Observer	BIS
Lesley Calder	Secretariat	One North East
Iain Derrick	Secretariat	One North East
Andrea Dunn	Secretariat	One North East
Kay Goodinson	Secretariat	One North East
Susan Kennedy	Secretariat	One North East
Jackie Law	Secretariat	One North East
Apologies		
Malcolm Page	Member	One North East
Alan Sanderson	Member	Higher Education
John Cuthbert	Member	Private Sector
Cllr Bryan Charlton	Member	Tyne & Wear
Cllr Bob Cook	Member	Tees Valley
Jo Wilkes	Member	Environment/Sustainability

AGENDA ITEM 1. WELCOME AND APOLOGIES

The Chair welcomed members to the seventh meeting of the Programme Monitoring Committee held at One North East, Stella House.

AGENDA ITEM 2. DECLARATION OF INTEREST

Kevin Rowan declared an interest as he has recently been appointed to the Board of the holding company for JEREMIE.

John Lowther declared an interest in the Tees Valley Industrial Programme to be discussed at Any Other Business.

AGENDA ITEM 3. MINUTES FROM PREVIOUS MEETING AND MATTERS ARISING

An amendment to the minutes was requested to show that Gordon Bell (Sunderland City Council) attended PMC 22 October 2009 as the observer for Tyne and Wear.

The Secretariat reported progress against the action points identified within the minutes; the Committee noted that all action points are complete or underway.

AGENDA ITEM 4. JEREMIE/Finance for Business North East

PMC received a presentation from Andrew Mitchell (AM), Chief Executive, North East Finance and Jason Hobbs (JH), Finance Director, North East Finance. (Presentation attached at annex 1). PMC received a guide to the North East Finance for Business programme (attached at annex 2).

PMC was advised that the JEREMIE project is now established as Finance for Business North East.

Following the presentation, PMC members raised a number of questions; these included:

I. How North East Finance for Business (NEFB) had taken cognisance of lessons learned, following the scrutiny of previous funds by the European Court of Auditors?

AM advised that the **systems and processes** adopted by North East Finance for Business had been directly informed by the outcome of audit from previous programmes.

Procurement: In recognition that procurement had been identified as a major issue in previous programmes One NorthEast built on previous lessons learnt to ensure the establishment of robust and transparent procedures governing the appointment of Individual Product Fund Managers. In discussion AM related how the procurement processes managed by One North East had been described by Fund Managers applying as *'the most rigorous undertaken'*.

Reporting, Frequency and Accuracy: North East Finance for Business has invested in the development of a substantive 'real time' reporting system and has dedicated resource in place to manage the process and work closely with fund managers to ensure the timely submission of performance data.

This system will ensure that performance issues and risks can be identified and addressed at an early stage. In addition, a robust de-commitment and re-allocation strategy is in place.

II. Frequency of Reporting to PMC

AM recognised the need for robust systems to ensure Article 13 and Article 16 monitoring requirements were fully met, however, he also confirmed that given the scale, complexity and importance of the project to the Programme, North East Finance for Business fully accepted the requirement for intense scrutiny of activity by PMC and was committed to providing One North East and PMC with the information it required at agreed levels and frequency.

NEFB confirmed its acceptance of the need to work closely with partners in agreeing robust procedures and its willingness to work with the ERDF Secretariat to report to PMC / PEG at appropriate intervals.

Action 1: The ERDF Secretariat to work with North East Finance for Business to develop an appropriate reporting template for use with PEG and PMC.

III. Flexibility to Respond to Changing Economic and National Conditions

AM confirmed that the North East Finance for Business project had been designed to ensure sufficient flexibility to enable resources to be moved across the product range to respond to changing economic conditions. This was recognised as a major advantage of the JEREMIE model.

In the shaping the project North East Finance for Business reported that BSSP had been fully taken into account at both development and appraisal stages. In addition, AM reported that North East Finance for Business had, and would continue, to work closely with BIS to ensure that the initiative aligns with national policy and is able to respond to any new or emerging national initiatives.

IV. Market Demand

PMC queried whether the focus of project activity remained valid given current conditions where business confidence is low and SMEs may be risk averse and unwilling to seek finance.

AM responded to confirm that whereas business finance remains difficult to obtain, the target companies are those with high growth potential and these companies are in fact actively seeking finance with venture capital as the preferred route.

As such, conditions may actually help to stimulate demand for the products provided through the project and North East Finance for Business remains confident that its investments will help support viable businesses to grow and that there exists a significant pipeline of businesses seeking NEFB products.

V. Promotion of the Project

PMC asked for assurance that the project would be appropriately promoted.

North East Finance for Business confirmed that in addition to using recognised promotional channels priority was attached to raising awareness of the products and promoting access. This would be achieved through a pro-active series of events working closely with range of business support intermediaries and Local Authority Economic Development Units

North East Finance for Business also confirmed that fund managers were contractually obliged to ensure ERDF was acknowledged in all information and publicity activity.

VI. Provision of Data at Sub Regional Level

PMC requested that data be made available at sub regional or local authority level. North East Finance for Business confirmed that this would be possible and undertook to provide updates and reports both as part of their day to day

monitoring activity and as part of any agreed reporting framework to PEG / PMC.

Action 2: Secretariat to work with North East Finance for Business to ensure that data is presented in a way that provides an appropriate level of spatial analysis.

The EU Commission representative welcomed the proposed approach to monitoring and re-iterated the importance of the need for regular reporting of performance monitoring data. The Commission advised that this data should be standardised and include a range of quantitative (e.g. deal flow, write offs, conversion, jobs) and qualitative (e.g. type of recipient SME, sector penetration, new products delivered to market, level and quality of jobs created, case studies) information. Reports should also include information relating to management costs and reports regarding the size of predicted legacy.

Action 3: Secretariat to work with North East Finance for Business to agree the contents of reports and ensure the provision of robust and transparent monitoring and performance reports to PEG and PMC at appropriate intervals.

Action 4: Secretariat to provide an update on Finance for Business North East performance at the next PMC meeting 17 June 2010.

AGENDA ITEM 5. PROGRAMME IMPLEMENTATION REPORT

The Secretariat presented a report updating the PMC on progress in Programme performance, progress of key projects, the final outcome of the 2009 n+2 target and progress towards achievement of future n+2 expenditure targets.

Confirmation of 2009 n+2 Achievement

PMC noted the achievement of the 2009 n+2 target and registered its thanks to all those involved in what was a significant achievement of the region.

PMC noted a letter for appreciation from John Denham, Secretary of State for Communities and Local Government addressed to Margaret Fay, Chairman One North East and received on 29th January (Letter attached at annex 3).

Progress to n+2 Expenditure Targets for 2010 and 2011

PMC was informed that due to the successful establishment of the Finance for Business North East fund the n+2 expenditure target for 2010 has been achieved and the Secretariat remains confident that the 2011 target would also be met from existing approvals.

The Secretariat advised that the European Commission and the European Council were considering a proposal to remove the 2009 n+2 target and apportion it equally across the remaining years of the programme. A decision from the European Council is expected in spring 2010. If this is agreed this will add approximately £5m to future targets. The Secretariat considers that this does not constitute a risk to performance and reminded the PMC that 2009 expenditure will contribute cumulatively to any revised targets.

Performance Overview

PMC was advised that c60% of the total programme value was now committed. The Secretariat advised PMC that it would work closely with PEG to consider the implications of future demand on resources taking into account:

- Possibility of continuation funding for those projects coming to the end of the first 3 years of ERDF approval. It was recognised that robust criteria for the approval of continuation funding would be required and would need to be approved by PEG / PMC.
- An indicative allocation of up to £6m in support of Innovative Energy Efficiency projects.
- Potential Programme investment into a JESSICA programme.
- Ongoing implications of de-commitment recycling of ERDF funds.

Innovation Connectors

The Secretariat reported that the Innovation Connectors continue to progress with no substantive issues to note.

Business and Enterprise North East (BENE)

PMC was informed that BENE is exceeding financial and outputs targets.

The Secretariat reported that following appraisal the second tranche of ERDF funding to support BENE from April 2010-March 2012 was approved by the One North East Board in November 2009.

Key High Level Programme Risks

PMC noted the high level programme risk register. Of particular note were ongoing risks attached to clarity of national guidance and availability of match funding.

PMC acknowledged that reductions in public sector budgets continued to represent a significant risk to the Programme going forward.

The representative from Tees Valley recommended that PMC members take all available opportunities to re-iterate to government and shadow government ministers and officials the potential negative impact of reduced budgets on the successful delivery of the Programme.

The Secretariat expressed thanks to the CLG representative for her support and assistance in the finalisation of the national ERDF User Manual Chapters.

AGENDA ITEM 6. OUTPUTS/IMPACTS REVIEW

Following the successful achievement of the region's n+2 target in December 2009, the ERDF Secretariat commissioned EKOS consultants to undertake an initial review of progress against outputs, results and impacts and to highlight any key strategic issues facing partners to emerge from the research.

In presenting the study's key findings to PMC, Iain Jenkins, Director of EKOS reported that the objective of the study was to help inform future Commissioning Documents and investments made by the programme, and ultimately, to help ensure delivery of the Operational Programme. (Presentation attached at annex 4).

The review was tasked to consider the extent to which contracted projects (and / or those projects which were known to be within the project pipeline at the end of 2009) contributed to the achievement of programme level targets in a way that was commensurate with the level of programme funds invested.

In particular, EKOS were asked to consider progress against programme level impact targets i.e. net additional GVA and net additional employment.

Key findings of the research were as follows:

- **Financial performance** was considered strong, however, partners were asked to note the influence of JEREMIE and BENE in terms of the overall performance against targets in Priority 1 and Priority 2. Partners were reminded of the importance of robust monitoring and reporting systems for both the JEREMIE and BENE projects.
- There was a need to maintain a strong focus upon translating financial commitments into actual spend and outputs.
- In considering the impact of the exchange rate adjustments, partners should also review balance of expenditure with a view to ensuring appropriate capital / revenue balance and spread of investments against forecast outputs, results and impacts.
- In relation to **output performance**, whereas progress was found to be satisfactory, a number of issues and trends were highlighted for consideration. These included the need for an enhanced focus upon 'R&D leverage' and 'SMEs assisted' under Priority 1 and 'brownfield land reclaimed', 'areas of business premises developed' and 'jobs safeguarded' under Priority 2.
- In terms of **impacts** the research highlighted a need to strengthen approaches used to collect and evidence progress against targets in order to better assess both project and programme level contributions towards net additional GVA and net additional employment.

In terms of **next steps** the Secretariat advised that the findings of the research would be used to inform the targeting of Commissioning Documents going forward and would provide a helpful basis upon which to move into the proposed Mid-Term Evaluation of the Programme.

In discussion the Chair commented that the presentation clearly illustrated the importance of BENE and JEREMIE to the programme. The Secretariat agreed that progress with BENE should be reported to a similar level of detail as that of the JEREMIE initiative. It was agreed that BENE would be asked to give a presentation on progress to the PMC at its next meeting in June.

Action 5: PMC to receive a presentation from BENE detailing progress to date and performance against programme level targets.

AGENDA ITEM 7. PROGRAMME MODIFICATION

The Secretariat reported on the agreement reached and next steps following negotiations with the European Commission regarding the proposed incorporation of additional outputs into the Programme to better reflect existing investment in support of Enterprise activity in Priority 2, and the use of Article 34 Cross Financing to facilitate ERDF support for ESF type activity focused upon higher level skills support under Priority 1 and Priority 2.

In terms of next steps the Secretariat is required to formally request a modification to the Programme setting out quantified and revised outputs reflecting the points above.

A technical note detailing assumptions and quantified outputs is currently under review by PEG members, and members have asked for the assumptions regarding the potential allocation of resources against higher level skills to be reviewed.

In discussion, Laura Woods (University of Teesside) on behalf of the Higher Education Sector, welcomed the opportunity to revisit the assumptions, in particular with regards to anticipated demand for higher level skills under Priority 2.

The Secretariat agreed to facilitate a revision of the technical note taking into account issues raised by PEG and PMC members. Following agreement of PEG / PMC the Secretariat will formally submit the request for modification to the EU Commission.

Action 6: Secretariat to amend the figures in the table to reflect PMC and PEG comments and sent to PMC for virtual approval.

AGENDA ITEM 8. CROSS FINANCING/ESF TYPE ACTIVITY

As agreed with partners at previous PMCs, the Secretariat reported on progress regarding the negotiations with the European Commission, CLG and DWP concerning the implementation of the Article 34 flexibility that allows for the use of ERDF resources to support ESF type activity within the Programme.

In very constructive discussions regarding the practicalities of applying this flexibility, a number of issues and anomalies have been highlighted and negotiations at EU and national level have focused upon resolving these and clarifying the eligibility and monitoring requirements for projects going forward. For example, whereas the ERDF programme activity would anticipate support for higher level skills in SMEs with up to 250 employees, current ESF national eligibility rules limit higher level skills support to companies with up to 50 employees only.

The EU Commission has confirmed that whereas activity must remain within the scope of the ESF regulation and be consistent with national ESF eligibility rules on expenditure, the primary reference point in terms of activity and beneficiary eligibility will be the ERDF Operational Programme i.e. it would be possible to support SMEs employing up to 250 employees.

Further work is underway to amend the relevant eligibility chapter of the CLG User Manual, as well as the national ESF Operational programme and eligibility rules and to agree reporting frameworks for Article 34 activity via MCIS. However, whereas the main points of policy difference have been resolved, a number of practicalities remain to be addressed to ensure clarity for project applicants.

Action 7: Secretariat to ensure that future Commissioning Documents reflect agreements reached with the EU Commission and include guidance for applicants regarding implementation.

AGENDA ITEM 9. JESSICA

The Secretariat reported on the work of a regional steering group established by PEG on behalf of PMC to look into the feasibility of pursuing a JESSICA (Joint European Support for Sustainable Investment in City Areas) type initiative for the second half of the Programme period.

The JESSICA steering group brings a number of regional regeneration practitioners / experts together with the European Investment Bank (EIB), CLG and EU to explore

the feasibility and relevance of the JESSICA model in the context of the region and more importantly the region's Operational Programme.

The EIB has commissioned Navigant consultants to prepare a feasibility report and recommendations for consideration by regional partners and they will present their interim findings report at a meeting of the steering group scheduled for 11th March. A final report is scheduled for end of March 2010.

PMC requested that the interim report be circulated and asked that Navigant be invited to provide a presentation to PMC at its meeting on 17 June to look at JESSICA in detail.

Action 8:

- The Secretariat to circulate the Navigant interim report following the EIB Steering Group meeting on 11th March.
- A presentation on the findings of the JESSICA study to be presented at next PMC.

AGENDA ITEM 10. REVIEW OF PMC

The Chair presented a report on the first stage of the initial findings following the review of the role, membership and functions of the governance structure established to oversee implementation of the North East Competitiveness Programme 2007-13.

The key findings indicate that the current arrangements are fit for purpose but that the Committee could be strengthened through the range of measures set out in the report to PMC.

PMC was informed that there is currently no member representation for the Equality and Diversity Sector. It was agreed that equality and diversity could be more appropriately integrated into PMC through the identification of an equality and diversity PMC champion. Kevin Rowan, TUC, agreed to take on the role of Equality and Diversity champion given his leading role in the regional Equality and Diversity Partnership and leading on Equality and Diversity for the Regional Employability Framework.

PMC endorsed the recommendations set out in the report.

AGENDA ITEM 11. MID TERM EVALUATION OF PROGRAMME

The Secretariat reported on preparations for a Mid Term Evaluation of the Programme which will be taken forward as an integral part of the Programme Evaluation Plan agreed by PMC in June 2009. The Mid Term Evaluation is scheduled to be completed by end October 2010.

The Evaluation Steering group is meeting on 10th March to agree Terms of Reference for the Mid Term Evaluation which will support both the strategic and operational needs of regional partners by seeking to:

- Assess the continued 'relevance' and 'consistency' of the programme strategy and policy choices represented within the OP to changing socio-economic conditions and policy developments at EU and national level that impact upon the region;

- Establish how 'effectively' the programme is delivering what it set out to deliver, assessing both impact and added value;
- Analyse and make recommendations regarding 'programme performance' to date against both actual and forecast spend targets and performance indicators / targets, by reviewing the financial commitments, outputs, results and impacts achieved by projects which are either completed, approved or known to be within the 'project pipeline'.
- Consider how the programme management and governance arrangements have operated, identifying areas of good practice and developing practical recommendations that may contribute to improving performance over the remaining life of the programme.

The Secretariat will undertake to report regularly to PEG and PMC on the progress and findings of the Mid Term Evaluation.

AGENDA ITEM 12. RDA AS FINAL BENEFICIARY

In accordance with the agreed process set out in the ERDF Delivery Framework PMC received a report detailing projects at selection and approval stage where One North East acts as Final Beneficiary of ERDF investment. Currently these are:

- Flexible Families;
- Manufacturing Advisory Service/North East Productivity Alliance (MAS/NEPA);
- Design Centre for the North Innovation Connector;
- Developing SME Expertise (formerly North East Skills Safe);
- Providing Access to Finance for SMEs;
- Horizons;
- Design Network North (DNN);
- ERDF Technical Assistance Core Application;
- Project Verification Service;
- MAS NE Resource Efficiency;
- Growth Logistics 2;
- The Build Project;
- Angel Facility Refurbishment;
- Blyth Masterplan-Energy Incubation Centre;
- Modern Built Environment;
- Supporting SME Exploitation of Market Opportunities;
- Enterprise 2010-Pre Start Up Support.

It was noted that One North East is currently the final beneficiary of 6.6% of the overall programme value.

AGENDA ITEM 13. COMMUNICATIONS UPDATE

PMC noted the report on Communications.

The Secretariat advised that there is a requirement to undertake an annual publicity activity for the ERDF Programme. Following the success of ERDF Week in 2009 the Secretariat proposed that the annual publicity event for 2010 followed a similar format. This was endorsed by PMC.

AGENDA ITEM 14. ANY OTHER BUSINESS

1. Tees Valley Industrial Programme

The Secretariat advised that in response to the closure of Corus and the potential fragility of the Tees Valley economy a £60m financial package is being developed to accelerate the industrial transformation of Tees Valley.

Many of the activities are consistent with the ERDF Operational Programme including:

- Developing the asset base of the region's process industries, particularly at Wilton, the Innovation Connector;
- Focussed on industrial biotechnology;
- Low carbon;
- Technology transfer;
- Business creation and diversity.

PEG has considered and supported the potential for ERDF to support the delivery of key activities where they are consistent with the Operational Programme.

PMC endorsed the considerations of PEG and mandated the Secretariat to work with PEG to progress ERDF funding in support of the Tees Valley Industrial package.

2. Extension of Existing ERDF Calls for Projects

PMC agreed to an extension of the current calls for ERDF projects in order that urgent projects may be considered and that the programme retains sufficient flexibility to respond to key economic shocks or opportunities.

The current Priority 1 (Innovation) and Priority 2 (Business Growth and Enterprise) Calls will be extended from 5th March 2010 to the launch of revised ERDF Commissioning Documents expected in March 2010.

This extended call period will be confined to projects designed to respond specifically to economic shocks or strategic investment opportunities, for example supporting the Tees Valley Industrial Programme, securing Strategic Investment Fund leverage or bursary/graduate placement programmes particularly linked to innovation connectors and where these are subject to key timing issues (eg academic year cycle).

- 3. Date of next meeting** 17 June 10.00-12.00, followed by lunch 12.00-12.30 at Newcastle Science City (Centre for Life)