

Programmes Review of European Regional Development Fund in the South West - Competitiveness and Employment Programme

Final Report to the PMC Evaluation Sub-
Group

November 2010

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Approved by:	Gareth Jones	Date:	November 2010
	Director		

Executive Summary

Recommendations

1. The recommendations from the review of the Competitiveness programme are detailed below.

Programme strategy
1. The rationale and objectives of the strategy were valid at the time they were developed and continue to be valid. We do not recommend significant changes despite the upheaval in the economic and political context. The strategy of the programme should remain focused on tackling structural weaknesses in the regional economy, improving rates of innovation, research and development and enterprise, and tackling intra-regional disparity.
2. That the PMC considers revising the strategy for Priority Axis 3 to enable investment in urban enterprise activities outside of Bristol, Plymouth and Torbay if the economic situation deteriorates further, and to provide greater flexibility to respond to match-funding opportunities. We continue to support the majority of resources being targeted on Bristol, Plymouth and Torbay and that this should be subject to regular performance assessment.
3. That the PMC considers strengthening the programme wide strategy for reducing intra-regional disparity through considering new investments in rural enterprise development in the Western Peninsula under Priority Axes 1 and 2. This should be funded by the virement of all or part of the unallocated budget under PA3. The rural enterprise activity should focus on structural weaknesses in the rural economy and barriers faced by rural businesses to enterprise development and innovation. The programme should build on the work of the RDPE programme and forge closer links between the programmes. Investing in the infrastructure for the knowledge economy could be one priority for investment.
4. That the PMC protect Priority Axes 1 and 2 and investments in the low carbon economy if the programme faces a fall in available resources as a result of cuts in match-funding.
5. That the PMC considers changes to the performance framework. We recommend that the target for the number of SMEs launching new products or processes is reduced as it was not achievable at the time it was set. We also recommend that the PMC consider amending the performance framework to include: <ul style="list-style-type: none"> • new businesses started - priorities 1 and 2 • proportion of new businesses started by under-represented groups – priorities 1, 2 • Equality and Diversity CCT targets across all priorities • reduction (relative) in carbon dioxide emissions.
6. That the PMC re-confirm in the review of the Operational Programme the ultimate objectives of the programme in relation to supporting the transition to the low carbon economy.
7. That the PMC amend the financial tables in the Operational Programme to include private sector match-funding.
Performance
8. That the programme undertakes a review by October 2010 of the risks to project and programme delivery of changes in match-funding availability. This should assess all contracted, endorsed and commissioned projects and assess the risk to each of changes in match-funding.
9. The PMC should consider a refresh of the Strategic Investment Frameworks by December 2010 following the Spending Review and in light of confirmation of match-funding in Bristol. This should consider whether capital projects will help improve the implementation of the Strategic Investment Frameworks. The PMC should also consider adjusting the ERDF intervention rates for the SIFs to around 60%.
Management and administration
10. That the PMC undertake a review of its membership to ensure adequate representation of the business community – to ensure the programme continues to be demand led – and local government – to improve extend the programme's links to the local and sub-regional level. Given the Coalition Government's emphasis on private sector growth as a key component of recovery from recession, the engagement of the private sector as a key stakeholder and partner in the management and delivery of the programme becomes increasingly important in the latter part of the programme.

11. That the PMC consider the roll-out of SWRDA's zero carbon methodology in the appraisal process. The PMC should consider the resource implications of applying the methodology and how the difference the programme makes can be measured without burdening project delivery partners.
12. That the PMC undertake a review to speed up the commissioning process. Where match funding is available from the RDA, a more streamlined approach is required and there may be the potential to get outside organisations (e.g. local authorities) to provide more support with project development which would also help address the RDA capacity issue.
13. That the programme management team should review the relationship between commissioning and appraisal to ensure that it is as time and cost effective and efficient for applicants and commissioning and appraisal staff.
<p>14. That the PMC adopt the recommendations made in Chapter 6 to improve monitoring and the collation of performance management data:</p> <ul style="list-style-type: none"> • Technical Assistance – <ul style="list-style-type: none"> ➢ Output targets should be set and monitored annually, to include: establishing monitoring databases; evaluation reports; publication/ dissemination of information and guidance; meetings; and publicity and communications events (the latter are already identified within the AIRs) ➢ Result targets are set where appropriate against the output targets. These should be changes in behaviour, capacity and performance as a result of the activity that delivers the outputs ➢ TA spend is monitored and reported against the strands of TA activity in the OP e.g. developmental, management information, evaluation, partnership and communication (with defined sub categories as appropriate) • Western Peninsula - <u>All</u> output and result achievements are monitored separately for the Western Peninsula area and the rest of the C&E area • Equalities and Diversity CCT - the programme <u>must</u> monitor and report achievements annually against the equalities and diversity targets in the OPs (including the target for 50% of PMC and sub-committee members to be women). Additionally, the long list of programme equalities indicators should be reviewed to provide a shorter list of core, SMART indicators which all projects are monitored against, to enable consistent monitoring of performance across the programme • Environmental CCT - the long list of environmental performance indicators in the monitoring strategy should be reviewed to provide a shorter list of core, SMART indicators which all projects are monitored against, to enable consistent monitoring of performance across the programmes. • Spatial activity: It must be possible to report output and result achievements for the spatial priority areas in both programmes. As well as for the Western Peninsula area in the Competitiveness programme, this should be for each SIF area
15. That the PMC adopt the recommendations made in Chapter 6 to improve monitoring and the collation of performance management data to aid value for money assessments. The details of the recommendations are provided in the chapter.
16. That the PMC consider how the programme can more effectively communicate its objectives and work. Articulating the Programmes' role and their ability to deliver will become increasingly important in a more challenging funding environment. The programme needs to be able to demonstrate to a wide range of stakeholders from the public and private sectors the difference it is making and how it can support local and sub-regional priorities.
17. In the face of match funding cuts the PMCs need to take a strong leadership role in identifying and lobbying potential new (and continuing) funding partners and ensuring they have a good understanding of the value added by the programmes in order to secure future resources. This will need to include evidencing the impact and outcomes of the ERDF programmes in supporting local and sub-regional policy objectives
18. The ERDF programmes should continue to explore opportunities for closer joint working between ERDF and ESF and ERDF and RDPE in strategy and in funding projects where this is appropriate.

Introduction and scope

2. The South West Competitiveness and Employment (C&E) Programme area, which incorporates the whole South West *excluding* Cornwall and the Isles of Scilly, has an ERDF allocation of €124.7 million. This is to be matched equally by funding from the UK (which can be from the public, private or voluntary sectors) to give a total value of €249.3 million. The strategy for the C&E programme was produced under the guidance provided by the

South West Cohesion Group, made up of senior stakeholders covering key public sector agencies and the voluntary sector.

3. The programme objective is: *‘to increase the prosperity of the region through supporting enterprises and individuals to develop ideas and plans which contribute to increased productivity and competitiveness.’*
4. To achieve this, the programme has four operational objectives:
 - to increase the productivity of the region’s business base, through the promotion and support of innovation, research and development and the application of knowledge
 - to reduce intra regional disparities through stimulating enterprise and accelerating business growth in those parts of the region lagging behind
 - to increase employment and enterprise in the region’s most disadvantaged communities
 - to protect and enhance the region’s environmental assets and work towards developing a low carbon economy.
5. The strategy is built on four Priority Axis (PA) and two Cross Cutting Themes (CCT).

Table 1: Priority Axes and Cross-Cutting Themes

Priority Axis 1 (PA1)	Knowledge and Innovation. The aim is to improve the region’s overall performance with regard to innovation and close the intra-regional gap in innovation performance, bringing the rest of the region closer to the high performing Gloucestershire, Wiltshire and North Somerset area.
Priority Axis 2 (PA2)	Enterprise and Growth. The aim is to increase the contribution that high value added businesses make to the economy and reduce intra-regional disparities. This priority has a key role to play in addressing the low earnings, low skilled nature of the economy.
Priority Axis 3 (PA3)	Priority Axis 3 - Urban Enterprise. The aim of this Priority is to find new approaches to addressing the problems in the region’s most deprived neighbourhoods through enterprise creation. This priority has a key role to play in testing new ideas to stimulate enterprise amongst people from all backgrounds in the region’s most deprived neighbourhoods. Resources will be focused on activities to benefit the deprived neighbourhoods of Bristol, Plymouth and Torbay.
Priority Axis 4 (PA4)	Priority Axis 4 - Technical Assistance. Technical assistance (i.e. partnership working, developmental work, publicity, monitoring and evaluation) will be used to support the development of all investments.
Equality and Diversity CCT	The Equalities and Diversity CCT seeks to ensure that all members of the eligible programme area are able to benefit and access the support proposed under the programme and do not face discrimination or barriers to their participation.
Environmental Sustainability CCT	The C&E strategy recognises the potential to build on regional strengths in the Environmental Goods and Services (EGS) sector and benefit economically from the transition to a low carbon economy.

Source: SQW Consulting

6. SQW Consulting in association with QA Research was commissioned to undertake a review of the ERDF C&E and Convergence programmes in the South West. This Executive Summary summarises the findings of the review of the C&E programme. All references to programme refer to the ERDF C&E programme unless otherwise stated.
7. The purpose of the review is summarised in the table below.

Table 2: Purpose of the review

Assess the success to date of the South West Convergence and Competitiveness European Regional Development Fund Programmes in delivering outputs, results and impacts (by axis) and assess whether the ERDF Programmes are on course to reach the targets set for outputs, results and impacts.
Review the progress made on the cross cutting themes.
Assess whether the rationale and focus of the Programmes continues to be relevant to EU cohesion policy.
Assess whether any changed economic factors or recent EU, UK Government policy developments or regional and local strategies suggest a change in the programme strategy.
Identify which factor(s) (environmental, system or other), have or are likely to impede achievement of target outputs, results and impacts.
Assess how effective and efficient the governance and management arrangements have been and if they remain the most effective to ensure delivery of objectives.
Assess risks to delivery of objectives and review options for improvement in performance or mitigation.
Make recommendations regarding administrative systems, project selection, development and delivery to ensure the most effective delivery of OP targets.
Make recommendations regarding monitoring and evaluation systems and content to enable the ERDF Programmes Strategic Evaluation in 2015 to be fit for purpose.

Source: South West Convergence and Competitiveness 2010 Programme Review: Consultancy Brief, SWRDA, March 2010

8. The 2010 review was commissioned by the PMC so that it could receive a report on progress of the programme to date, and consider whether any changes were necessary to further improve the impact of the programme during its second half. This review is not a formal mid-term evaluation; such evaluations are not a requirement of the 2007-2013 ERDF Programmes. However, it provides the PMC with a useful working document for the remainder of the programme period and could inform any ex-ante evaluation that the Managing Authority carries out. The PMC will consider this report alongside a paper setting out its response to the recommendations, which will include any agreed actions or changes.

Programme strategy

9. The Programme and its objectives have been designed to respond to a number of policies and strategies at the European level and at the national level. The development of the programme also took account of the rising priority being given to tackling climate change and the reform and simplification of public-sector support for business.
10. The strategy of the programme rests around interventions in innovation and knowledge, enterprise and growth and urban enterprise. It was developed to tackle two structural weaknesses in the C&E programme area economy – relatively low levels of productivity and closing the intra-regional disparity in economic performance between the north and east of the region and the west and south. The Western Peninsula area¹ is a predominantly rural area which is highlighted as needing intervention, to provide more and better quality employment and business opportunities. Consequently, the programme has targets for 35% and 45% of the results under PA1 and PA2 respectively to be in the Western Peninsula area.

¹ Devon, Plymouth, Torbay, West Dorset, Weymouth and Portland, Taunton Deane and West Somerset

11. Stakeholders consulted for this review agreed that the rationale for the programme at the time it was developed was valid and evidenced, and there was a good understanding of the objectives of the programme. Some stakeholders have questioned the objective to reduce intra-regional disparity, preferring the approach of targeting resources in the stronger performing parts of the region where returns on investment may be better. Our own view is that the objective to reduce intra-regional disparity is well made in the Operational Programme² (OP) but that the strategy of how the programme intends to achieve it lacks clarity. There is limited discussion in the OP of how the delivery of PA1 and PA2 may need to be different, to reflect the acknowledged differences in economic conditions in the Western Peninsula (the only reference in the OP is to use Further Education outreach facilities to deliver services). This is despite the OP identifying that the Western Peninsula targets for PA1 and PA2 are very challenging, given that the area had not fully committed ERDF resources under the previous programme and contained just 30% of the region's businesses and only 15-20% of the region's research intensive businesses at the time the OP was prepared. Nor does the OP identify the proportion of resources that will be needed to achieve the intra-regional disparity objective, and the potential implications for other parts of the C&E area.
12. Other areas in the OP that lack clarity are the definition of the high-growth and high-value businesses and sectors that the programme intends to target (although project selection criteria has been prepared to guide this); a lack of detail on how the programme intends to deliver the strategy in rural areas (which links to the Western Peninsula point above); and the strengths in the EGS sector that the programme intends to build on. These issues are important because there is evidence that the lack of clarity may impact negatively on the delivery of the programme, which we consider below. The weaknesses in the OP are not in the evidence to justify focus in these areas, but in the clarity of approach.

Continuing relevance of the programme strategy

13. The wider context has changed significantly since the programme was launched – from a period of economic growth to a sharp recession and uncertain economic outlook, severe public spending cuts and institutional changes that may affect the delivery and management of the programme. Going forward, the programme is likely to face a fall in available match-funding from the public sector. Few areas of the programme's strategy will be unaffected, with the national business support programme potentially vulnerable.
14. The majority of the stakeholders consulted did not want to see a major change to the programme's strategy in light of changes in the socio-economic and political context. Most stakeholders felt that the 'mission' of the programme continues to be valid, and the onset of the recession was felt to strengthen not lessen the case for the programme's current interventions. Stakeholders warned against the strategy being blown of course responding to the cyclical impacts of the recession, although this view was not unanimous amongst the stakeholders consulted.
15. Our view is that the core focus of the programme continues to be valid and the right strategy for the programme. For example, the update to the baseline conditions has revealed that

² The strategic document that sets out the strategy of the ERDF C&E programme

many of the differences observed in the OP between the stronger performing north and east and the weaker Western Peninsula area remain, which suggests the continuing need for the programme to tackle the structural causes of the intra-regional disparity. However, we do recommend some changes to the OP to introduce greater flexibility in the programme's strategy given the uncertainty in the wider context and also to respond to programme performance, which is explored below.

Programme performance

16. As of May 2010 twenty seven projects have been contracted to deliver activity under the C&E programme, and the majority of projects are expected to complete between 2011 and 2014. The table below presents the ERDF allocation by PA and the total and proportion of ERDF funding that has been contracted, endorsed, commissioned and spent, as of May 2010.

Table 3: ERDF Headline Financial Data to May 2010, total

	Allocation, £	Total Contracted £	Total Endorsed £	Total Commissioned £	Total contracted, endorsed & commissioned, £	Total Spend £	Spend as % of allocation
PRIORITY AXIS 1	40,198,500	19,171,066	18,990,211	4,450,267	42,611,544	1,001,272	2%
PRIORITY AXIS 2	40,198,500	25,568,666	4,000,000	9,535,000	39,103,666	6,642,008	17%
PRIORITY AXIS 3	26,799,000	3,180,090	15,680,638	2,139,272	21,000,045	1,014,351	4%
PRIORITY AXIS 4: TA	4,161,068	3,137,737	0	0	3,137,737	510,606	12%
TOTAL	111,357,068	51,057,559	39,220,849	15,574,539	105,852,947	9,168,237	8%

Source: SWRDA Performance Theatre Data and SWRDA Finance Targets Summary Sheet with SQW Consulting analysis.

17. In headline terms to May 2010:
- £51.1m or 46% of the programme allocation (budget) had been contracted
 - just over £9 million had been spent by projects, 8% of the programme budget
 - £39.2m or 35% of the programme budget had been endorsed
 - £15.6m or 14% of the programme budget had been commissioned.
18. Once contracted and endorsed project expenditure is subtracted, this leaves £21.1m of the programme allocation remaining (19%). This of course assumes that the contracted and endorsed expenditure is spent in full and there must be some doubts about this, given the tightening of public finances. With commissioned expenditure also considered, this leaves just 5% of the programme allocation available.
19. To May 2010, ERDF has contributed 49% of total programme spend, with £9.43m of match-funding also spent. This is slightly below the planned programme intervention rate of 50%. The programme is currently heavily reliant on SWRDA for match-funding for contracted

projects, since the agency is due to contribute 41% of project costs. Data in early June 2010 suggests the programme is well on the way to meeting its Lisbon compliance target.

20. Key achievements of contracted projects to March 2010 as reported in programme performance management data have included: 616 businesses received support to improve their performance, of which nearly 25 have been in the priority environmental sector; 81 gross jobs have been created; £16m of gross GVA achieved; and seven SMEs have launched new or improved products. Our analysis has found that 30% of the businesses were based in the Western Peninsula, below the targets set for the programme³.
21. Performance by PA is discussed in the following paragraphs.
22. Priority Axis 1 has been slower to deliver than was originally anticipated, but the past two months has seen a significant increase in the amount of ERDF resources contracted, with investments in the National Composites Centre, two specialist business technology centres (LIMA and CALM), and the first tranche of innovation regional networks (iNETs). If contracted and endorsed projects deliver to plan, the Axis is on course to meet many of its performance targets, including number of businesses assisted to improve their performance, gross jobs and gross research jobs safeguarded, number of additional firms involved in business clusters/ networks and gross increase in GVA. But programme performance management data suggests that the following key targets are at risk of not being achieved: new jobs created/ safeguarded, gross GVA safeguarded and number of SMEs launching new or improved products. The programme should seek to ensure that gaps in targets are targeted when procuring new projects, particularly new employment opportunities and SMEs developing new products and processes.
23. Priority Axis 2 has had the strongest delivery performance to date of the priorities, as a number of projects were contracted relatively quickly. Achievements to March 2010 can be attributed to four projects: the South West MAS, Deeper Broader IDB, Internationalisation and Envision Phase Three. Around one-quarter of the Priority Axis budget is currently available for new investment, although this falls to just 3% if the commissioned projects are also included. It is important that the programme continues to retain some flexibility in delivery in line with the programme's objectives. We would therefore suggest that the focus should be on supporting the delivery of contracted projects, rather than commissioning new activity, aside from the domestic energy efficiency project.
24. Priority Axis 3 is a weakness area of the programme. Expenditure to May 2010 was £1m of ERDF, although this is largely from the Micro Credit Loans Fund project, where funds have been drawn down ahead of delivery, and no outputs or results have been achieved. It is too early to say whether the priority will be successful in delivering new approaches to addressing deprivation through enterprise creation. Slow progress in delivery relates to delays in developing investment proposals, and the availability of match-funding. The strategy of the priority remains valid, although very challenging to deliver. The PMC should undertake a review of each SIF to identify what can be achieved with lower levels of match-funding and consider a higher ERDF intervention for each SIF (of around 60%). The review of the Bristol

³ . The programme has targets for 35% and 45% of the results under PA1 and PA2 respectively to be in the Western Peninsula.

SIF should consider the findings of the scoping study planned on a JESSICA fund, which may offer a potential source of match-funding.

25. CCTs are becoming embedded, with Environment more so than Equality & Diversity. Specifically with regard to environment, the programme has invested in projects to:
 - improve the resource efficiency of business
 - build the research and innovation base in the EGS sector
 - support the adoption of environmental technologies through innovation and enterprise support
 - build the capacity of the EGS sector e.g. through networking and innovation networks.
26. The programme is also actively exploring opportunities for investment in domestic energy efficiency and micro-generation, with the potential for £4m of ERDF investment.
27. The assessment of the implementation of environmental sustainability has raised a number of issues for the PMCs to consider. Of most importance is gaining agreement on whether the programme is seeking absolute or relative environmental improvements. Our own view is that the programmes are best placed to achieve relative improvements. The programme has a set of output and result indicators relating to the low carbon agenda and the environmental CCT. Forecasts for some outputs and results are not in proportion to contracted expenditure. This raises issues about the ability of the programmes to meet their environmental related output and result targets and any adverse impacts on the wider environmental objectives of the programme.
28. There is evidence that a lot of activity has been undertaken to embed the Equality and Diversity CCT in the programme with a competent team in place and an expert, dedicated advisory group championing the need to build equality and diversity into the programme. The CCT is regarded to be better embedded than under the previous ERDF Objective 2 programme, but still ultimately it is an 'add-on' to the project appraisal and monitoring process, having much less weight than the environment CCT and to some degree considered an unnecessary burden for applicants/beneficiaries.
29. The main risks to the programme achieving its aspirations are:
 - delivery of PA3
 - the challenges of achieving the intra-regional disparity targets
 - cuts to public finances – which threatens the availability of match-funding and the human resources in the public sector to support programme delivery
 - institutional uncertainty including the future status of SWRDA and the implications this may have for match-funding and management arrangements
 - uncertain support in central government for Cohesion Policy

- the impacts of the recession on business capacity to absorb ERDF support and on business formation, innovation and investment levels.
30. It appears likely that the total programme value will fall, given the cuts to UK public finances and that the ERDF intervention rate is fixed at 50%. We have already recommended that the programme does not veer significantly from its core strategy. However, given the changing institutional and public finances context, under-performance in PA3 and potential challenges to achieving the programme's objective to reduce intra-regional disparity, we do recommend changes to the programme's strategy - to introduce greater flexibility to respond to the changing circumstances and opportunities (for example match-funding opportunities); and to re-emphasise the focus on the Western Peninsula.
31. Consequently we recommend that the PMC considers the following revisions to the OP:
- Although the evidence does not suggest a strong case at this stage to extend PA3 to new urban areas suffering from the cyclical effects of the recession, the PMC should consider revising the OP to provide the programme with the flexibility to do this in the future if there is further deterioration in economic conditions in the north and east of the region and continuing under-performance in the existing SIF areas. We believe there is sufficient time to extend the PA to new urban areas if there is a strong case, but to avoid delays, the PMC may wish to do this on a project basis rather than through the development of full SIFs.
 - Consider the virement of all or part of the unallocated budget under PA3 to PA1 and PA2 to new investment in rural enterprise activity. This will improve the coherence of the programme strategy for rural areas in the Western Peninsula. We believe there is sufficient time within the programme period to introduce a rural enterprise strategy but once the objectives and activities of the strand are agreed, the PMC may wish to consider open calls for applications if there are concerns about delays to delivery. It will be important that the rural enterprise activity supports and aligns with the Rural Development Programme (RDPE) for England.
32. We recommend that the PMC undertakes an urgent review of the implications on all projects from cuts in match-funding. If the value of the programme falls, we recommend that resources are protected for the implementation of PA1, PA2 and the low carbon economy.

Impact and value for money

33. The main impact of the programme to date has been the benefits that have been secured by businesses that have received business assistance under priorities 1 and 2. A survey of businesses that have benefitted from ERDF business support activity up to March 2010 suggests GVA impacts to March 2010 of £0.72m in the Western Peninsula and £1.55m in the rest of the Competitiveness area, assuming zero persistence to the benefits. The majority of benefits are expected to come in the future from future business assistance, with an estimate of £454.9m of net discounted GVA for the Competitiveness area as a whole from post-March 2010 business assists, also assuming zero persistence to the benefits. The pre and post-March 2010 GVA benefits easily exceed the net additional GVA target of £192.5m in the OP for PA1 and PA2 combined. Other GVA benefits may also come forward from activity under

priorities one and two, and importantly from activity under PA3, although we have been unable to quantify the impacts as there has been limited delivery to March 2010.

34. The survey results suggest that the GVA benefits of business support activity that the programme will deliver in the future could be significant and more than the programme's net additional GVA targets, if the programme meets its output and result targets. The findings from the assessment of the business survey are very encouraging with high estimated economic benefits.
35. It is not possible to assess the wider impacts of the programme given the relatively modest achievements of outputs and results. However, to aid future assessments, the review has considered the reasonableness of the performance targets at the time they were developed. This has found that the targets are achievable based on unit spend comparisons. A number of the targets are stretching including the result targets for the Western Peninsula but they reflect the ambitions of the programme and its objectives.
36. To help the partnership to consider other potential impacts, we have undertaken a sense test of the impact targets in the performance framework. This suggests that the programme can achieve its impact targets and perhaps surpass them. This will depend on the future availability of match-funding and delivery of the priorities progressing as planned.
37. The value for money of the programme has been assessed through the *Three E's* of economy, efficiency, and effectiveness. *Economy* refers to ensuring that activities are delivered at minimum cost. Although we can not assess economy quantitatively, there is qualitative evidence that the programme should be achieving value:
 - the programme follows procurement rules in making investment decisions
 - the programme has implemented a rigorous project appraisal process, which requests applicants to identify the value for money of proposals in the business plans
 - all projects are scrutinised by the commissioning teams, Commissioning Delivery Group, Endorsement Advisory Group and programme management team.
38. *Efficiency* refers to whether the benefits or outcomes exceeded the intervention costs. The business survey results suggest that the full benefits expected from business support activity delivered to date will far exceed the costs, suggesting that the business support activity is efficient.
39. *Effectiveness* is concerned with the assessment of the extent to which the programme's objectives have been met in terms of targets, milestones and expectations. It is difficult to assess effectiveness as the programme is still in its first phase of delivery so it is too early to see the full impacts of the activity. The programme has an exciting portfolio of innovation, R&D, EGS and technology projects starting to deliver on the ground. The findings of the business survey from business support activity are particularly encouraging in respect of reducing intra-regional disparity as it suggests more benefit per net business assist in the Western Peninsula area than in the rest of the C&E area. However, we have also identified the need to strengthen the programme-wide strategy for tackling intra-regional disparity through new rural enterprise activity in the Western Peninsula. The programme has not made

good progress with its objective to increase enterprise and employment in the region's most disadvantaged communities and clarification is required on the ultimate objectives of the programme in supporting the transition to a low carbon economy

Management and administration arrangements

40. We have assessed the effectiveness of the management and administration arrangements. The programme processes appear to be compliant with EU Regulations (although only a headline review has been undertaken). Processes are similar within the ERDF C&E and Convergence programmes although some elements are tailored to the specific requirements of each programme. The management and administration structures in place are appropriate for both programmes.
41. The C&E PMC is regarded to be operating reasonably well but not as effectively as it could. In particular, stakeholders' reported that the PMC needs to be a more challenging strategy body. A need for better business and local authority engagement in the PMC has been identified through increasing representation of these sectors and more pro-active communication.
42. Concerns were expressed by some consultees that the overall management and administration structure is overly administrative and bureaucratic. Our view is that the structure is reasonable for a programme of this scale.
43. Projects are commissioned rather than assessed via an open-bidding process. We consider this an appropriate approach, but stakeholders expressed concerns about the length of time the process takes. After further investigation we identified that delays largely occurred at the project development stage. The application process is considered to be lengthy and cumbersome where the RDA Single Programme is a source of match funding. This suggests the need for increased capacity in SWRDA and the programme management team at the project development/ appraisal/ approval stage. The concern is that capacity may fall given the planned abolition of the RDA and institutional changes. Once contracted, the project management and monitoring processes are considered to be well managed. However, we are aware that more attention needs to be devoted to the project monitoring and management processes to ensure that any delays in spend and activity are addressed earlier. The programme management team is developing an approach to address this which will be rolled out.
44. CCTs are progressing reasonably well in the management and administrative processes with environmental sustainability more embedded than equality & diversity.

Risk assessment

45. The C&E programme has an ambitious strategy of reversing market failure to raise productivity and reduce the current dependence on low value added sectors in parts of the programme area. This has inherent risks which have been increased through changes in the socio-economic circumstances associated with the recession and the current and future introduction of unprecedented public sector funding cuts and institutional changes. The table below provides a risk assessment for the programme going forward.

Table 4: Risk assessment of the delivery of the Competitiveness programme

Risk	Probability	Impact	Mitigating action	Action recommended	Red/Amber/Green assessment
Securing sufficient match funding for projects to proceed	HIGH	HIGH	Undertake review of match-funding risks to all projects Identify and actively pursue future match-funding opportunities e.g. land holdings, maximise private sector & other sources of public sector (e.g. LAs)	Undertake review of match-funding risks Consider establishing sub-group to consider match-funding risks	
Changes to national and regional funding and delivery organisations e.g. Business Link, RFA, DfT programme	HIGH	HIGH	Ongoing partnership discussions to determine minimising impact on Programme delivery	Ensure key stakeholders involved in discussions ensuring most positive outcomes with feedback to & support from the partnership	
Change in intermediary management of the Programme with abolition of RDA by March 2012	HIGH	MEDIUM	Ongoing partnership discussions to determine minimising impact on Programme delivery	Continue discussions, ensure long lead in time & smooth transition to ensure minimal impact on project development, delivery & management	
Economic downturn drives ESF to focus on support for those outside the labour market rather than support for high skills	MEDIUM	HIGH	Ensure close links between ERDF and ESF programmes	Continued close working with ESF via PMC & other channels to promote need for high skills support to support Programme objectives	
SWRDA Capacity appears to prove a constraint on delivery in terms of increasing time periods for appraisal and contracting BOTH PROGRAMMES	MEDIUM	HIGH		Implement recommendations from this review and maximise dovetailing and streamlining of processes wherever possible	

Source: SQW Consulting

Strategic added value and partnership working

46. The purpose of both PMCs is to provide strategic leadership and linkage across the ERDF and ESF programmes. As discussed above, there is support for the PMC being a more challenging strategic body although the review has identified praise for the independent chairing of the PMCs by the Government Office and the work of the PMC sub groups “behind the scenes” (Endorsement Advisory Group and Commissioning Delivery Group and the CCT Advisory Groups).
47. There is limited evidence that the PMC has exerted significant influence in maximising partners’ investment to support the objectives of the programme, other than strong alignment between the programme and SWRDA’s investment decisions. Exerting real influence on partners’ spending commitments will become more important given the expected challenge to finding match funding in the future.
48. There is potential for better communication of the strategic leadership, role and value added of the PMC to the wider stakeholder community. The PMC will need to provide significant strategic leadership in the future in addressing the likely need for match funding. Effective communication to, and lobbying of potential match funders will be essential to ensure that they understand the impact and outcomes of the ERDF programme in supporting local and sub-regional policy objectives.
49. Networking is an important aspect of the management of the programme and the activity that it is delivering. There is scope to improve networking opportunities for the wider programme stakeholders, particularly for delivery partners. Given the Coalition Government’s emphasis on private sector growth as a key component of recovery from recession, the engagement of the private sector as a key stakeholder and partner in the management and delivery of the programme is now increasingly important.
50. There are structures in place for collaboration between the Competitiveness and Convergence programmes; and there are shared processes and ways of working. There are some projects which are funded by both programmes; but there are stakeholder comments about limited cross-programme working – but perhaps there is limited scope for this other than in the Western Peninsula area.
51. A joint mapping study has been carried out which identifies linkages between the ERDF and ESF programmes and with RDPE. Stakeholders suggest that alignment between ERDF and ESF has improved over the course of the programme, which was strengthened by the refresh to the ESF framework. The PMC has been effective at promoting joint working between ERDF and ESF at the strategic level, but this is not often translated to the project level. Scope for closer working has been hampered by the mis-match in the timing of the commissioning approach of ERDF and the competitive bidding approach of ESF.

1: Introduction

Introduction

- 1.1 This chapter sets out an introduction to this commission and the final report. SQW in association with QA Research was commissioned to undertake a review of both the European Regional Development Fund (ERDF) Convergence and ERDF Competitiveness and Employment (C&E) programmes. This Final Report presents the findings of the review of the C&E programme and a separate report has been prepared for the ERDF Convergence programme. Some chapters and sections are the same in both reports. All references to 'programme' in this report refer to the ERDF C&E report unless otherwise indicated.
- 1.2 The Convergence and C&E programmes are the responsibility of the respective Programme Monitoring Committees (PMCs). The PMCs have established an evaluation sub-group to lead on all evaluation activity, and they have been responsible for steering the process of this review.
- 1.3 The South West is unique amongst the English regions in managing two ERDF funds for the 2007-13 programme period: Convergence funding for Cornwall and the Isles of Scilly and C&E funding covering the rest of the South West region. The programmes are now three years into their life-cycle.

Purpose of the review

- 1.4 The purpose of the review was set out in the project specification and repeated in the figure below⁴. The 2010 review was commissioned by the PMC so that it could receive a report on progress of the programme to date, and consider whether any changes were necessary to further improve the impact of the programme during its second half. This review is not a formal mid-term evaluation; such evaluations are not a requirement of the 2007-2013 ERDF Programmes. However, it provides the PMC with a useful working document for the remainder of the programme period and could inform any ex-ante evaluation that the Managing Authority carries out. The PMC will consider this report alongside a paper setting out its response to the recommendations, which will include any agreed actions or changes.
- 1.5 The review has considered the focus, spend, activities, management and delivery of the ERDF programmes over the period to March 2010, and makes recommendations that may be required to improve the working of the programmes. The review has also considered the impacts of business support activities and considered prospects for the programmes to deliver other economic impacts as far as the evidence allows. The review has included an assessment of the Strategic Added Value (SAV) of the PMCs, identified examples of good practice and considered evidence of the value for money of the programmes.

⁴ South West Convergence and Competitiveness 2010 Programme Review: Consultancy Brief., SWRDA, March 2010

Table 1-1: Purpose of the review

Assess the success to date of the South West Convergence and Competitiveness European Regional Development Fund Programmes in delivering outputs, results and impacts (by axis) and assess whether the ERDF Programmes are on course to reach the targets set for outputs, results and impacts.
Review the progress made on the cross cutting themes.
Assess whether the rationale and focus of the Programmes continues to be relevant to EU cohesion policy.
Assess whether any changed economic factors or recent EU, UK Government policy developments or regional and local strategies suggest a change in the programme strategy.
Identify which factor(s) (environmental, system or other), have or are likely to impede achievement of target outputs, results and impacts.
Assess how effective and efficient the governance and management arrangements have been and if they remain the most effective to ensure delivery of objectives.
Assess risks to delivery of objectives and review options for improvement in performance or mitigation.
Make recommendations regarding administrative systems, project selection, development and delivery to ensure the most effective delivery of OP targets.
Make recommendations regarding monitoring and evaluation systems and content to enable the ERDF Programmes Strategic Evaluation in 2015 to be fit for purpose.

Source: South West Convergence and Competitiveness 2010 Programme Review: Consultancy Brief, SWRDA, March 2010

Scope and approach to the review

1.6 It is important to note the following points on the scope of the review which have been agreed with the evaluation sub-group:

- The review does not challenge the overall programme mission and strategy. However, it considers the rationale for the programmes in the light of changing circumstances insofar as this may have implications for the programmes' operational priorities and practices. Particularly relevant are the significant changes in political and macro-economic conditions that have occurred since the programme was approved and the consequent tightening of public finances.
- The review is focused on the programme level and does not carry out detailed project reviews other than the seven case studies which are part of the approach.
- The review does not draw on non South West European programmes as benchmarks or for assessing the relative Value for Money of the ERDF programmes in the South West, because of the different contexts in which they operate.

1.7 The methodology for undertaking this review was set out in the agreed Project Initiation Document (PID). Annex A summarises the main phases of work and key tasks.

Report Structure

1.8 The structure of the rest of this report is set out in the following paragraphs, which include a summary of the content of each of the chapters.

- 1.9 Chapter 2 sets out an assessment of the **programme strategy**. This chapter is specific to the C&E programme. This critiques the rationale, objectives and strategy of the programme and presents a programme level logic model.
- 1.10 Chapter 3 provides an assessment of **changes in conditions** since the programme was launched. This chapter is common to both the C&E and Convergence reports. The chapter provides an assessment of macro-economic conditions and an update to baseline conditions. It also considers changes in the UK and European policy context including anticipated changes to public finances.
- 1.11 Chapter 4 presents an assessment of the **programme's performance**. This chapter is specific to the C&E programme. It presents a review of programme finances and gross outputs and results to March 2010. Performance by Priority Axis is assessed along with the implementation of Cross-Cutting Themes (CCTs). The chapter then considers the implications for the future delivery of the programme.
- 1.12 Chapter 5 assesses evidence of the **impact and value-for-money** of the programme and Priority Axes. This chapter is specific to the C&E programme. This includes an assessment of the reasonableness of the performance targets at the time they were set and in light of changing conditions. It then presents an assessment of the impact of business support activities supported by the programme and considers prospects for achieving the economic impacts in the programme performance framework.
- 1.13 Chapter 6 is an assessment of the **effectiveness of management and administration arrangements**. This chapter is common to both the C&E and Convergence reports. This begins with an overview of the management arrangements, and makes an assessment of the effectiveness of the strategic management arrangements.
- 1.14 Chapter 7 assesses **Strategic Added Value (SAV) and partnership working**. This chapter is common to both the C&E and Convergence reports. This includes an assessment of SAV against the three categories of strategic leadership, networking and influence/leverage. Partnership working across the C&E and Convergence programmes, and between the ERDF and ESF programmes are also considered.
- 1.15 Chapter 8 sets out the **recommendations** from the review. This chapter is specific to the C&E programme. Recommendations are made in respect of programme strategy, programme performance, management and administration arrangements and partnership working.
- 1.16 The CCTs are considered throughout the report. The main sections relating to the CCTs are:
- Chapter 2 presents the programme's objectives for the CCTs
 - Chapter 4 considers the performance of the CCTs in respect of spend, output and result achievements and delivery through programme supported projects
 - Chapter 6 provides an assessment of the processes and mechanisms established to support the management and administration of the CCTs.
- 1.17 The supporting annexes to the report include the detail used to undertake this review:

- Annex A summarises the methodology
- Annex B presents the research tools
- Annex C shows the stakeholders consulted as part of the review
- Annex D sets out a review of European policy developments
- Annex E sets out a review of policy developments in the UK up until May 2010 (developments since May 2010 are in the main body of the report)
- Annex F sets out an update of the baseline conditions
- Annex G sets out the findings of the project case studies
- Annex H presents the findings of analysis undertaken of the reasonableness of the programme's output, result and impact targets, at the time they were set.

2: Assessment of Programme Strategy

Introduction

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

Development of programme strategy

- 2.2 The strategy of the C&E Programme is contained in the Operational Programme for 2007-13 (OP)⁵. The OP was produced under the guidance of the South West Cohesion Group, made up of senior stakeholders covering key public sector agencies and the voluntary sector, and supported by a number of task and finish groups. The OP was the result of two years work and took on board the views of partners, including during the official consultation process on the draft OP in early 2007. The OP was submitted to the European Commission in March 2007 and the programme adopted by the Commission on 10 December 2007.
- 2.3 The C&E programme was officially launched at the first annual communication event in February 2008. The South West Cohesion Group became the shadow Programme Monitoring Committee (PMC) in December 2007, the strategic body that oversees the implementation of the programme. In 2007, a decision was taken for the PMC to take on a dual role of PMC for both the ERDF and ESF C&E programmes. The commissioning approach for developing investment proposals was also adopted.
- 2.4 The inaugural meeting of the PMC took place in February 2008. The sub-committees of the PMC were soon established – the Commissioning Delivery Board (CDB), the Endorsement Advisory Group (EAG) and the Advisory Groups for the Cross-Cutting Themes (CCTs), which support both ERDF programmes in the South West. A number of programme documents were agreed by the PMC in 2008 and work started on developing processes to embed the CCTs in programme delivery. Developmental work also began on investment proposals, including the Strategic Investment Frameworks (SIFs) in Bristol, Plymouth and Torbay. Two projects were contracted, and a small amount of ERDF funds spent in 2008.
- 2.5 The following year saw around £4 million of ERDF spend and a further nine projects contracted. The second annual communication event took place in March 2009. There was also an expansion in the commissioning and contracting activity with a number of investment projects approved for ERDF support. Projects also began to achieve outputs and results.

Rationale for programme strategy

- 2.6 This section sets out the rationale for the C&E strategy as described in the OP. A thorough analysis of the policy context and socio-economic evidence base informed the development of

⁵ South West Competitiveness and Employment Programme, Operational Programme 2007-13, .

the OP and its rationale. This section does not repeat the detail of the analysis in the OP, but identifies the key issues of most significance in respect of the policy drivers and the socio-economic challenges that the programme was designed to address.

Policy drivers

- 2.7 The Programme and its objectives have been designed to respond to a number of policies and strategies. At the European level, these include the objectives for Cohesion Policy, the Lisbon Agenda to make Europe the world's most dynamic and competitive knowledge-based economy, the sustainable development Gothenburg Agenda, and the European Commission's Community Strategic Guidelines.
- 2.8 At the national level, the strategy was designed to align with the UK's priorities for Structural Funds Programmes between 2007-13, as described in the National Strategic Reference Framework:
- promoting innovation and knowledge transfer
 - stimulating enterprise and supporting successful business
 - building sustainable communities
 - ensuring sustainable development, production and consumption.
- 2.9 At a national level, the development of the programme also took account of the rising priority being given to tackling climate change and the reform and simplification of public-sector support to business. Moreover, the programme was designed to contribute towards regional and sub-regional strategies, such as the South West Regional Economic Strategy (RES); the emerging spatial strategy in the draft Regional Spatial Strategy (RSS)⁶, and the 2006 South West Cohesion Framework. The responsibility given to SWRDA to manage the ERDF programme was seen as an opportunity to strengthen alignment with the RES and ensure strategic fit with domestic funds, in particular the RDA Single Programme budget.
- 2.10 The OP made the case that the C&E strategy was well aligned with these policies and strategies, particularly responding to drivers to raise innovation and enterprise, support the knowledge economy and respond to the challenges and opportunities of climate change.
- 2.11 The programme was also intended to build on the previous Objective 2 programme for the South West. Key findings of the mid-term evaluation undertaken of the Objective 2 programme are provided in the box below.

The Objective 2 Programme for the South West, 2000-2006

The precursor to the C&E programme, the Objective 2 Programme focused on four areas of the South West – Bristol, Plymouth, North West Devon and West Somerset, South Devon and Torbay. The aim of the programme was to create, "A prosperous area, with a quality of life that matches the best regions in Europe."

⁶ Now likely to be abolished by the Coalition Government

Particular emphasis in the strategy was placed on:

- increasing incomes
- increasing opportunities available to people, business and communities
- widen access to employment opportunities
- help create and support sustainable communities.

To this end, a total planned spend of £262.7 million was structured around a framework of three key priorities:

- 1) **Neighbourhood Renewal** (total planned expenditure of £32.625m, including £11.442m ERDF)
- 2) **SME Development, Technology and Innovation** (£132,603m, including £46,173m ERDF)
- 3) **A Better Future for Traditional Economies** (£96,507m, including £33,014m ERDF)

In addition, there were three cross-cutting themes focusing on Equal Opportunities, the Information Society, and the Environment.

The Mid-Term Evaluation of the Objective Programme

Conducted by ECOTEC Research and Consulting Limited in 2003, it recorded the following key conclusions and recommendations:

- the structure, priorities, and measures for Objective 2 appeared to remain 'broadly valid'
- the cross-cutting themes could be better worked in to the procuring of new projects, and in the refinement of application and appraisal processes
- the overall perception was that the Objective 2 Programme was performing considerably less well against its targets as compared to the Objective 1 programme
- committed expenditure levels against the whole programme period stood at 41.5 per cent, and was particularly low within the Transitional Areas (Plymouth, Torbay, West Somerset and Mid Devon).
- net additional jobs equated to 296FTE (8.9 per cent of set target) and new additional new value added was £29m (70.7 per cent of the set target)
- the PMC was regarded as being a poor strategic decision making body decision whilst the time to process bids and the lack of secretarial support was also criticised
- it was felt that SWRDA could play a stronger role in aligning the updated Regional Economic Strategy (RES) with a revised Objective 2 strategy.

Socio-economic conditions

- 2.12 The programme was designed to address two key socio-economic challenges – raising productivity and closing intra-regional disparity.
- 2.13 The OP sets out that although economic output growth (as measured by Gross Value Added (GVA)) in the South West had outperformed all regions of the UK apart from the East of England and employment had grown steadily, GVA levels per head have consistently been below the UK average. There were also major intra-regional disparities in GVA performance across the region, between the more strongly performing north and east of the region and the poorly performing west. For example, GVA per head in 2003 ranged from over £24,000 in Swindon to just £10,000 in Torbay in the west.
- 2.14 The OP states that the low levels of productivity are largely the result of the industrial structure in some parts of the region, with an over reliance on lower value added sectors such as tourism, agriculture and food and drink. The more productive sectors where the region competes strongly on a national and in some cases international basis, such as advanced engineering, Information Communications Technology (ICT) and biotechnology, are concentrated in the north and east of the region. The OP identifies the opportunity for the region to build on its enterprise culture and raise productivity by investing in innovation, particularly in sectors with high-growth potential. The economic opportunities from the transition to a low carbon economy are also supported, with the South West identified as having a strong base of environmental technology businesses and competitive advantage in the marine sector.
- 2.15 Intra-regional disparity is a major theme of the OP. The Western Peninsula area, consisting of Devon, Plymouth, Torbay, West Dorset, Weymouth and Portland, Taunton Deane and West Somerset are predominantly rural areas which are highlighted as needing intervention, to provide more and better quality employment and business opportunities. The economy of the western part of the region is characterised by the relatively large proportion of part-time and low-paid employment and micro-businesses.
- 2.16 Further reinforcing the intra-regional disparity, the OP shows that most of the region's innovative activity is concentrated in the north east of the region in Gloucestershire, Wiltshire and North Somerset and within a small number of sectors. At the time the strategy was prepared, the South West also was performing poorly in exporting goods and services to overseas markets, with exporting levels per employee amongst the lowest in the UK and in a narrow sector base.
- 2.17 The OP outlines that the region's working age population is relatively well qualified, however, the existing skills base is not fully utilised by the region's businesses. Skills gaps were identified as being concentrated in manual and elementary occupations and felt most acutely by smaller companies.
- 2.18 Disparity was also evident in economic performance and opportunities within some towns and cities in the region. The most deprived communities were concentrated in parts of Bristol and Plymouth and to a lesser extent Torbay. These communities faced deep seated and persistent social challenges despite a period of economic growth.

- 2.19 A summary of the socio-economic strengths, weaknesses, opportunities and threats identified in the OP is repeated in the figure below.

Figure 2-1: Programme Strengths, Weaknesses, Opportunities and Threats

<p>Strengths</p> <p>Good enterprise culture and business start up rate</p> <p>Strong presence of some growth sectors – including ICT, creative industries and biotechnology</p> <p>Higher than average business investment in R&D and large number of high technology patent applications (from small number of sectors)</p> <p>Relatively good qualifications of young people and a well qualified workforce</p> <p>Environmental goods and services base distributed across the region</p> <p>Quality of the natural environment which attracts residents and investment</p> <p>Connectivity of the north east of the region to London and South East based markets</p> <p>Awareness of the environment as an economic driver</p>	<p>Weaknesses</p> <p>Low productivity levels generated by the region's business base and underrepresentation of knowledge intensive growth sectors</p> <p>Low levels of exporting and concentration in small number of sectors and companies</p> <p>Peripherality of the west of the C&E Area and structural bias towards low value added and seasonal economic activity, coupled with other rural isolation elsewhere in the region</p> <p>Concentrated areas of deprivation (notably Bristol, Torbay and Plymouth) and economic and social exclusion</p> <p>Basic skills issues in terms of numeracy and ICT</p> <p>A large number of very small businesses</p> <p>Concentration of R&D in a small number of large businesses in aerospace and defence and communication technologies</p>
<p>Opportunities</p> <p>The potential for SMEs in certain sectors to take advantage of growing national and international markets</p> <p>Demand for environmental technologies and renewable energies – further promoted through the Stern Report</p> <p>Higher Education Institutes and opportunities for knowledge transfer</p> <p>Opportunities arising from digital applications, more widespread broadband and ICT adoption and applications resulting in new business opportunities</p> <p>Export potential and further trade opportunities in markets of Asia, Oceania and Eastern Europe, generated through increasing globalisation</p> <p>Addressing the challenge of delivering a low carbon economy</p>	<p>Threats</p> <p>Potential for diverging patterns of employment growth in the west of the region, notably Torbay, Plymouth and parts of rural Devon</p> <p>Growing international competition for jobs in manufacturing and service industries leading to outsourcing and offshoring</p> <p>Structural adjustment in more remote rural areas</p> <p>Increasing energy prices and uncertainty of supply</p> <p>Increasing energy prices and uncertainty of supply</p> <p>Climate change resulting in adverse weather, flooding and sea level rise</p> <p>Carbon emissions and the potential impact of legislation on businesses</p>

Source: SQW Consulting analysis of Operational Programme

Programme strategic and operational objectives

- 2.20 The objectives of the programme were developed to respond to the key challenges and opportunities in the socio-economic evidence base and policy context. The strategic objective of the programme is:

'To increase the prosperity of the region through supporting enterprises and individuals to develop ideas and plans which contribute to increased productivity and competitiveness'.

- 2.21 To achieve this, the programme has four operational objectives:

- increasing the productivity of the region's business base, through the promotion and support of innovation, research and development and the application of knowledge

- reduce intra regional disparities through stimulating enterprise and accelerating business growth in those parts of the region lagging behind
- to increase employment and enterprise in the region's most disadvantaged communities
- protect and enhance the region's environmental assets and work towards developing a low carbon economy.

Programme Financial Allocations

2.22 The table below presents the financial allocations of the programme by intervention theme (Priority Axis (PA)). Details on the PAs are provided in the next section.

Table 2-1: Programme Financial Allocations			
	ERDF (€)	UK (€)	Total (€)
Priority Axis 1 - Knowledge and Innovation	45,000,000	45,000,000	90,000,000
Priority Axis 2 – Enterprise & Growth	45,000,000	45,000,000	90,000,000
Priority Axis 3 – Urban Enterprise	30,000,000	30,000,000	60,000,000
Priority Axis 4 – Technical Assistance	4,658,086	4,658,086	9,316,172
TOTAL	124,658,086	124,658,086	249,316,172

Source: SQW Consulting analysis of Operational Programme

2.23 The programme has been allocated €124.7 million of ERDF funding which will be matched equally by resources from the UK, meaning the C&E programme has an ERDF intervention rate of 50%⁷. The match funding can include private sector funding but the majority of the match-funding is expected to come from the public sector. The financial resources can be spent until 31 December 2015, with all resources to be contracted with projects by 31 December 2013.

Priority Axes and Cross-Cutting Themes

2.24 To meet the strategic and operational objectives, the C&E strategy consists of four PA and two Cross-Cutting Themes (CCTs). The following section provides an overview of each PA and the CCTs. Key features of the PA are provided in table 2.3 at the end of the section.

Priority Axis 1: Knowledge and Innovation

2.25 The aim of Priority Axis 1 (PA1) is to improve the region's overall performance with regard to innovation and close the intra-regional gap in innovation performance, bringing the rest of the region closer to the high performing Gloucestershire, Wiltshire and North Somerset area. This priority is seen as having a key role in maximising the economic contribution from the region's Higher Education Institutions (HEI) and Further Education (FE) Colleges.

⁷ The Operational Programme states that the equal UK match-funding will be by Priority Axis

- 2.26 PA1 has been allocated total funds of €90m (50% ERDF). The strategic objectives of the priority are to:
- improve the sales and productivity of companies through **increasing the rate of innovation** and the economic benefits from the pull through and exploitation of knowledge (research and development and other intellectual assets) including product and process improvements
 - increase the number of **high value added, innovative new start businesses**.
- 2.27 The OP included four types of activity under PA1: business support to companies and investors for product and process improvements; strengthening links between FECs, HEIs and business; support for technology led initiatives between HEIs and business; and exploiting innovation opportunities in environmental technologies and renewable energy. It is anticipated that some businesses that receive support under this priority will go onto receive further more mainstream support under PA2.
- 2.28 Activities under this PA are expected to assist some 4,000 businesses to improve their performance, support the creation of 210 new enterprises and generate other outputs, leading to impacts of 2,330 net additional jobs, £92m of net additional value added and £128m of safeguarded value added. A minimum of 35% of all of the results are required to benefit the western peninsula area⁸.

Priority Axis 2: Enterprise and Growth (total funds €90m)

- 2.29 The aim of the Enterprise and Growth priority (PA2) is to increase the contribution that high value added businesses make to the South West economy and reduce intra-regional disparities. The priority has been designed to help to address the low earnings, low skilled nature of the economy.
- 2.30 PA2 has been allocated total funds of €90m (50% ERDF). The strategic objectives are to:
- increase the proportion of businesses and employment in **high value added business** activities
 - increase the **quality of new starts** through supporting high growth / value added new starts
 - increase the sales and productivity of businesses through the provision of **high quality business support** in key areas including internationalisation and investment support.
- 2.31 Four types of activity are envisaged under this priority: targeted business support to enable high-growth businesses to start and grow; business support to increase exporting; investments to raise the environmental performance of businesses; and services to improve the performance and competitiveness of environmental goods and services businesses. The OP states that the programme will not support generic new start and business support, but will

⁸ This target, and the target under PA2, applies to all result sub-targets under Priority Axes 1 and 2 including sectoral activities in areas such as environmental technologies, renewable energy, marine, manufacturing, and creative.

focus on high growth businesses, companies in high value added sectors, and those requiring a highly skilled workforce.

- 2.32 Activities under PA2 are expected to assist over 5,800 businesses to improve their performance, support the creation of 490 new enterprises and generate other outputs, leading to impacts of 2,543 net additional jobs, £100.5m of net additional value added and £167.2m of safeguarded value added. A minimum of 45% of all of the results are expected to be delivered in the western peninsula area.

Priority Axis 3: Urban Enterprise

- 2.33 PA3 is seeking to implement new approaches to addressing the problems in the region's most deprived neighbourhoods through enterprise creation. Three areas – Plymouth and Torbay in the western peninsula and Bristol in the north east – are eligible for support.
- 2.34 Urban Enterprise has been allocated programme funds of €60m (50% ERDF). The strategic objective of PA3 is:
- to increase the level of **enterprise / social enterprise** in the region's most deprived neighbourhoods.
- 2.35 The OP includes five types of urban enterprise activity: provision of small-scale infrastructure facilities; support to encourage under-represented groups to set-up new enterprises/ social enterprises; access to finance; targeted business support in the community; and enterprise opportunities from environmental improvements. It is anticipated that as new businesses are supported within deprived areas, they will gain enough confidence to access mainstream support and PA2 services.
- 2.36 Urban Enterprise activities are expected to support the creation and survival of 400 new enterprises and other outputs, leading to impacts of 809 net additional jobs, £16.2m of net additional value added and £29.6m of safeguarded value added.

Priority Axis 4: Technical Assistance

- 2.37 The Technical Assistance (TA) priority will support the **effective management and administration of the programme**.
- 2.38 TA has been allocated programme funding of €9.3m (50% ERDF). The OP does not include a strategic objective for PA4 or performance targets.
- 2.39 The funding can be accessed by national, regional, and local authorities, bodies or individuals, including economic and social partners, who are preparing or involved in the implementation of the programme. The OP identifies that TA resources can be used for five types of activity: programme development and capacity building; provision of management information; evaluation; partnership working; and communications.

Equality and Diversity Cross-Cutting Theme

- 2.40 To achieve the full economic growth targets of the region, all members of society need to be able to contribute their full economic potential. The Equalities and Diversity CCT seeks to

ensure that all members of the eligible programme area are able to benefit and access the support proposed under the programme and do not face discrimination or barriers to their participation.

- 2.41 The Equality and Diversity CCT has not been allocated specific funding but is intended to be embedded throughout the programme. The objectives of the CCT are to:
- increase the number of people from under-represented groups owning their own business
 - increase the take-up of training and employment by under-represented groups
 - increase the number of people in under-represented groups accessing training and employment in higher skilled occupations and sectors where they are currently underrepresented
 - ensure that business support is inclusive and responsive to the needs of all communities and groups
 - increase the participation of people from under-represented groups in the management and implementation structures of the programme.
- 2.42 In the context of the programme, under-represented groups are defined as people from a black and minority ethnic (BAME) background, people with a disability, residents of disadvantaged communities, and women owned businesses.
- 2.43 The OP includes a number of proposals to support the implementation of the Equality and Diversity CCT through the PAs and in the management of the programme. They include ensuring that projects target under-represented groups and explicitly take account of the barriers these groups face.

Environment Cross-Cutting Theme

- 2.44 The high quality of the natural environment is a key strength of the South West and an important driver to economic growth. The C&E strategy recognises the potential to build on regional strengths in the Environmental Goods and Services (EGS) sector and benefit economically from the transition to a low carbon economy.
- 2.45 Consequently, the OP includes the ambition for the programme to be a pilot for a low carbon approach to regional development and to invest in the drivers of a low carbon economy. The programme also wishes to show that economic growth can be secured within environmental limits to bring prosperity to the region.
- 2.46 The environment CCT is integrated throughout the programme (horizontal integration). The strategic objectives of the CCT are:
- to maintain and enhance the region's high quality environments and cultural activity, and access to them

- to ensure the region's natural resources are used in a much more sustainable way by using land wisely, minimising waste and increasing recycling, using renewables, and promoting sustainable construction and good design
- to fully understand and recognise the significance and make much better use of the social and economic benefits of the region's high quality environment and cultural distinctiveness.

2.47 The OP states that the programme will make a major commitment to reducing carbon emissions and ensuring that programme investment directly supports projects that demonstrate best practice in reducing energy and resource use and that help to deliver the culture change necessary to deliver long term regional carbon reductions and a low carbon economy. The OP also includes the intention to invest in three drivers of a low carbon economy: increasing carbon literacy, especially within businesses; overcoming market failures; and accelerating technological change.

2.48 Although the environment CCT has not been allocated specific funding, there is a notional allocation of funds to strands of activity within each PA that have an environmental focus (e.g. to raise environmental performance of business and invest in the EGS sector). These funds are intended to contribute to the horizontal and vertical integration of the CCT in the programme.

Table 2-2: Priority Axes summary

	Priority Axis 1: Knowledge and innovation	Priority Axis 2: Enterprise and Growth	Priority Axis 3: Urban Enterprise	Priority Axis 4: Technical Assistance
Aim	To improve the region's overall performance with regard to innovation and close the intra-regional gap in innovation performance	To increase the contribution that high value added businesses make to the economy and reduce intra-regional disparities	To find new approaches to addressing problems found in the region's most deprived neighbourhoods through enterprise creation	Deploy TA resources to support effective management and administration of programme
Financial Inputs (millions)	ERDF: €45 / National: €45 Total: €90	ERDF: €45 / National: €45 Total: €90	ERDF: €30 / National: €30 Total: €60	ERDF: €4.65 / National: €4.65 Total: €9.3
Output targets (including)	3,990 businesses assisted to improve performance (incl. various subsets of business types)	5,810 businesses assisted to improve performance (incl. various subsets of business types)	900 individuals assisted in starting business 1,200 businesses assisted 2,000 sq metres of new or upgraded floor space - non specialist/ specialist 700 people assisted to get a job 100 SMEs assisted to improve their environmental performance	n/a
Results targets (including)	3,200 new jobs created (incl. 700 in environmental sectors) 1,400 additional firms involved in business networks 140 patents granted and other IPRs and other IPR devices 4,500 SMEs with new or improved products £126.4m gross increase in GVA £15.9m safeguarded GVA	4,300 new jobs created (incl. 750 in environmental sectors) 2,000 jobs safeguarded 1,200 additional firms involved in business networks £169.9m gross increase in GVA £248.9m safeguarded GVA	600 businesses started 1,500 new jobs created 1,000 jobs safeguarded £30m gross increase in GVA £50m safeguarded GVA	n/a
Impact targets	£128m net additional safeguarded GVA £92m net additional GVA 2,330 net additional employment	£167.2m net additional safeguarded GVA £100.5m net additional GVA 2,543 net additional employment	£29.6m net additional safeguarded GVA £16.2m net additional GVA 809 net additional employment	n/a

Source: SQW Consulting analysis of programme documents

Output, Result and Impact Targets

Priority Axes

- 2.49 The performance framework for the programme consists of outputs, results and impacts. Outputs are the gross direct result of activity supported by the programme. Results are the gross outcomes of the activity supported by the programme. Impacts are the net difference the programme will make, over and above what would have happened without the programme.
- 2.50 The full programme targets are shown in Chapter 4. They include:
- 11,000 businesses assisted to improve their performance (of which 700 will be environmental technologies and renewable energy businesses)
 - 900 individuals in the urban enterprise areas to be assisted to start a business and 700 to get a job
 - 9,000 gross jobs created and a further 4,000 safeguarded
 - net impacts of 5,682 additional jobs, £208.7m of additional economic output (value added) and £324.8m of additional economic output safeguarded.
- 2.51 The OP does not include performance indicators for PA4 Technical Assistance, although some programme measures have been developed subsequent to the OP.
- 2.52 The OP states that outputs and results can be reported beyond 2013, for example, eligible jobs created are those created within five years of the initial investment. Beyond this, we have been unable to ascertain the eligible period for claiming each output, result and impact indicator.

Equality and Diversity Cross Cutting Theme

- 2.53 The Equality and Diversity CCT has three performance indicators in the OP, two targets relating to an output indicator under PA3 and one relating to the management and administration of the programme. They are:
- number of persons assisted in starting a business (PA3 output indicator) –
 - 20% of all persons assisted to be from a BAME background, people with a disability or residents of disadvantaged communities
 - 40% of all persons assisted to be women
 - 50% of PMC and sub committee members to be women.
- 2.54 The programme has developed separate indicators to help monitor the implementation of the CCT.

Environment Cross Cutting Theme

- 2.55 The main programme performance framework includes the following output and result for the environment CCT:
- O03 - Number of environmental technologies and renewable energy enterprises assisted (subset of businesses assisted)
 - O06 - Number of SMEs advised or assisted to improve their environmental performance (subset of businesses assisted)
 - O13 - Number of SMEs assisted to improve their environmental performance
 - R10 - Gross jobs created in environmental sectors.
- 2.56 The programme has developed other indicative performance measures for the environment CCT.

Links between the Competitiveness and Convergence Programmes

- 2.57 The C&E strategy was developed in close co-operation with partners responsible for developing the ERDF Convergence programme. The delineation between the programmes in geographical terms is an administrative construct and the OP recognises the close links that exist between the west of Devon and east Cornwall and south east Cornwall and Plymouth.
- 2.58 The OP provides some but not extensive details on how the ERDF programmes in the South West will align and work alongside each other. At a strategic level, there was a commitment to partnership working and the two programmes were expected to support similar activity, including renewable energy and environmental technologies, innovation and enterprise. To build links, the OP states that it will be important that businesses in Cornwall and the Isles of Scilly and the west of the C&E area are part of regional networks and local collaborative activities.

Coordination with other European Funds

European Social Fund (ESF)

- 2.59 Alongside the ERDF resources for the C&E programme area, there is €144.1 million of European Social Fund (ESF) funding to invest in learning and skills. The ESF framework for the C&E area has recently been refreshed.
- 2.60 The OP states that activities funded via ESF will include management and leadership training for companies with less than 50 employees, training to address skills shortages, and upskilling of the workforce. This ESF funded activity is intended to complement the C&E strategy. The OP states that many of the growth plans to be supported via ERDF will include a skills dimension, and ERDF and ESF will work together to accelerate the implementation of business plans for beneficiaries of the C&E resources.

- 2.61 The OP also sets out that there will be close links between targeted support under ESF Priority 1, aimed at disadvantaged groups, and C&E PA3. ESF resources were to be targeted on individuals distant from the labour market, seeking to make them more employment ready and improve their basic skills, and ERDF supporting individuals closer to the labour market with support to start-up or grow a business.

Rural Development Programme for England

- 2.62 The South West region also benefits from funding from the Rural Development Programme for England (RDPE). Its aim is to support the creation of genuinely sustainable farming, forestry and food sectors, whilst also bringing wider benefits for the economy, the environment and rural communities. The programme has four priorities for rural development:
- Priority 1 - Improving competitiveness of the agriculture and forestry sectors
 - Priority 2 – Improving the environment and the countryside
 - Priority 3 – Improving the quality of life in rural areas and encouraging diversification of economic activity
 - Priority 4 – Community-led development.
- 2.63 SWRDA manages priorities 1, 3 and 4, with funding of £156.8m available between 2007-13 (equal to 20% of the region's RDPE funding).
- 2.64 The OP states that partners will ensure the programmes are complementary, although few details are provided, other than ensuring coherence in day to day management. The South West RDPE Regional Implementation Plan⁹, the equivalent of the ERDF OP, provides some detail on the demarcation between the programmes, stating the C&E programme will not provide support on specialist and technical subjects specific to agriculture, food and drink linked to primary food and drink producers, forestry and the fisheries sector, as these areas are the focus for RDPE and other European funds (European Fisheries Fund and the European Agricultural Fund for Rural Development).

Critique of programme strategy at the time it was prepared

- 2.65 The overall rationale and objectives of the C&E programme is well made in the OP in strategic terms. The socio-economic evidence base shows that to raise the economic performance of the South West region as a mid-ranking region there is a need to:
- tackle structural deficits in the industrial structure to develop higher value added jobs in sectors where there are long term growth prospects
 - increase the productivity (economic output) of the business base as a means of maintaining employment levels and increasing wages through investing in

⁹ SWRDA and partners, May 2008, Rural Development Programme for England, South West Regional Implementation Plan, 2007-13

innovation, research and development (R&D), technology and the knowledge economy, where the region has competitive advantages

- accelerate the structural adjustment process in the west and south of the area to tackle intra-regional disparities and support economic growth in rural areas
- promote enterprise and a culture of enterprise across the programme area and particularly in the most deprived urban areas as a means of generating wealth and economic prosperity
- support all members of society to contribute their full economic potential
- protect and enhance the environmental assets of the region
- secure economic growth within a lower carbon economy.

2.66 The strategy of the programme rests around intervention in innovation and knowledge, enterprise and growth and urban enterprise, and doing a few things well rather than spreading the programme resources widely. The C&E programme is largely a revenue based business and enterprise programme. Only a small amount of resources are devoted to other activities under PA3, with capital resources for small-scale infrastructure projects and support for individuals in the deprived communities to access employment opportunities. The programme does not include skills development, labour market initiatives and place-based regeneration activities. As such, it is different to the previous ERDF Objective 2 programme, which invested in enterprise and innovation but also in more traditional regeneration activities and community development activities.

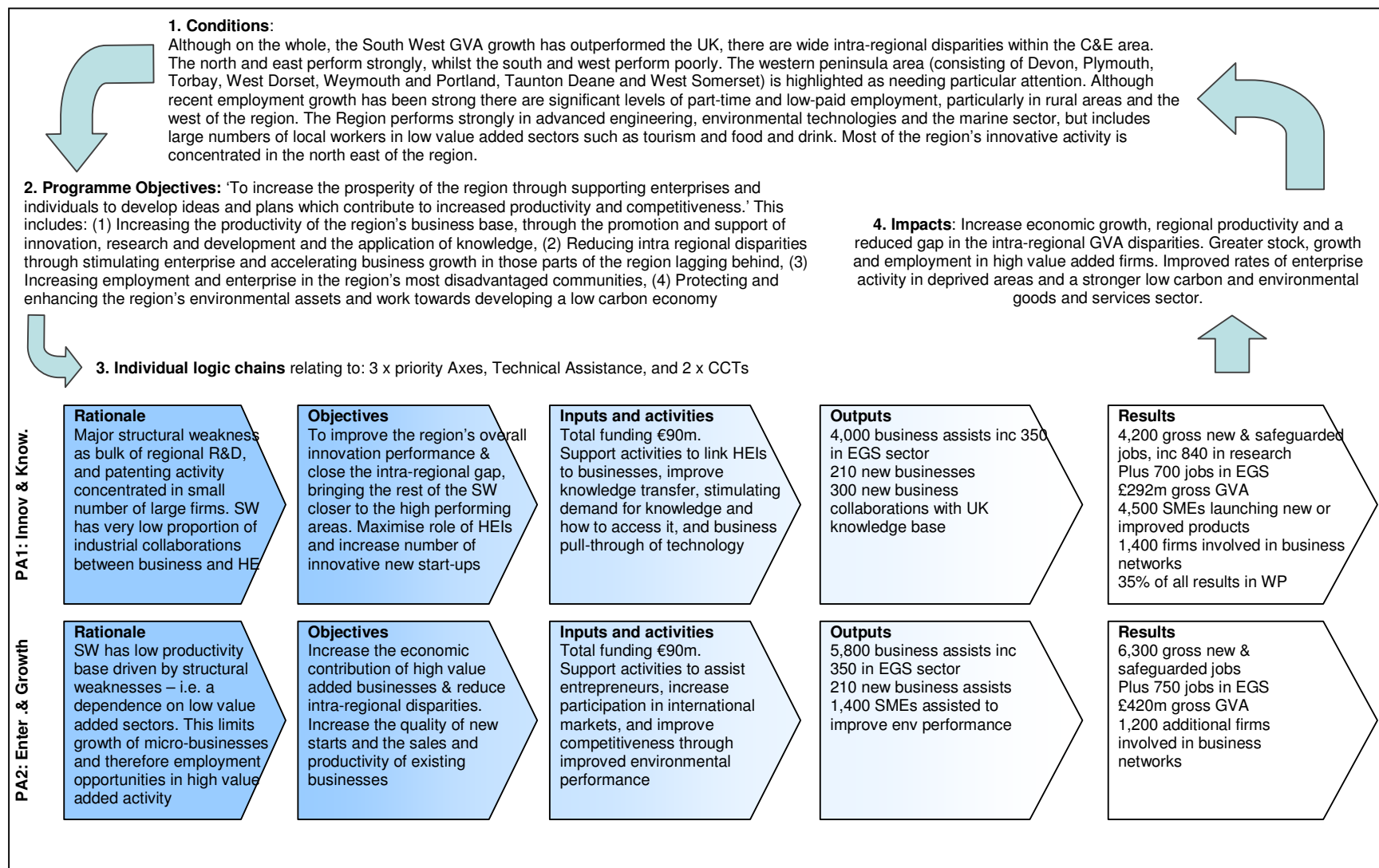
2.67 Public sector intervention in economic development like the C&E programme must always be justified to address market failures. A market failure is where the allocation of goods and services by the market is not efficient from the perspective of society as a whole. The OP does not explicitly identify the market failures that justify the C&E intervention, but at the level of the South West, they can be summarised as:

- the need to encourage and stimulate investment in innovation, R&D, technologies (including environmental technologies), exporting and collaborative networks to generate positive outcomes for the region that individual businesses would not otherwise generate. In economic theory, these benefits are called positive spillovers
- to minimise the negative impacts on society from climate change and carbon dioxide emissions including through improving the environmental performance of businesses (so-called negative externalities)
- to overcome coordination failures in the private sector to collaborate as they often lack the effective mechanisms to develop working relationships (so-called coordination failures)
- to overcome information failures in the private sector and for individuals about the risks of starting a new business and investing in enterprise, innovation, R&D and exporting (so-called information failures)

- to protect and enhance the environment to ensure there is an optimum supply for society. Without public sector intervention, the private sector is likely to under-invest in the environment as it is a public good
- to support a more equitable society through investing in the most deprived communities and poorer performing local economies and supporting the participation of all members of society in the economy.

2.68 The strategy of the programme can be summarised in a logic model framework. Logic models describe the theory, assumptions and evidence underlying the rationale for a programme. The logic model for the C&E programme, as described in the OP, is shown overleaf. The facets of the logic model framework are:

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



PA3: Urban Enterprise	Rationale Clear link between deprivation and low levels of enterprise. Individuals in deprived areas face a range of barriers to entrepreneurial activity, e.g. lack of finance/ support/ advice/ experience/ skills/ training	Objectives To find new approaches to addressing the problems in the region's most deprived neighbourhoods through enterprise activity and enterprise creation	Inputs and activities Total funding €60m. Activities focus on access to business support. Including refurb/ create community enterprise facilities, mentoring new starts, coaching, management training, micro finance	Outputs 1,200 business assists 900 individuals assisted in starting business 700 people assisted to get a job 2,000 sqm of new or upgraded floor space 80 new social enterprises 100 SMEs assisted to improve environmental performance	Results 2,500 gross new & safeguarded jobs £80m gross GVA 600 new businesses
Technical Assistance	Rationale Partnership working, development work, publicity, monitoring and evaluation are critical. Partners have high expectations as to the quality of ERDF investments	Objectives To support the development of ERDF investments	Inputs and activities Total funding €9.3m. Activities include capacity building, partnerships, communications, monitoring and evaluation	Outputs No formal outputs specified in the Operational Programme. Outputs should include monitoring databases, evaluation reports, information and guidance, and meetings	Results No formal outcomes specified in the Operational Programme. Outcomes should include greater knowledge, awareness and understanding about the programme and its performance, stronger partnership working with collaborative organisations
CCT - Environment	Rationale Continuing economic growth must be secured within the environmental limits of the region. This requires decoupling economic growth from carbon emissions.	Objectives To maintain and enhance the SW's high quality environments & ensure the SW's natural resources are used in a sustainable way. Reduce carbon emissions through supporting carbon literacy, and technological change	Inputs and activities Activities to raise business awareness of environmental issues and regulation, drive R&D in low-carbon techs, and support the development of low carbon goods and service sector	Outputs Environmental related outputs in perf framework - Environmental businesses assisted, SMEs advised to improve environmental performance	Results Gross jobs created in environmental sectors
CCT - Equalities	Rationale For the SW growth targets to be achieved, all members of society need to be able to contribute to their full potential	Objectives To support individuals from under-represented groups to own their own business, take-up employment, and participate in management and implementation structures of the programme	Inputs and activities Ensure support to a wide range of companies – not just male dominated, ensure marketing is inclusive, target activities at women and under-represented groups, and ensure facilities are fully accessible.	Outputs 20% of persons assisted from under-represented groups, 40% of all start-up assists are women, 50% of Programme Committee and sub-committee members to be women	Results No formal outcomes specified in the Operational Programme. Outcomes should include new businesses by women and under-represented groups

- 2.69 The strategy of the programme is logical at a strategic level. That is not to say that there are not potential gaps in the logic framework, which informs the following recommendations:
- PA1 and PA2 – that a result target is introduced for ‘Number of businesses started’
 - PA1 – that a result target is considered for ‘increase in R&D investment as a result of programme’ (this is not an indicator available within the basket of ERDF indicators used by the programme)¹⁰. This is important to evidence the increased R&D capacity that greater investment will provide
 - PA2 – that a result target is considered for ‘increase in value of exporting as a result of the programme’, again to demonstrate the outcomes of the programme (this is also not an ERDF indicator)
 - Equalities and Diversity CCT – the current output indicator only relates to PA3 and similar targets should be introduced for PA1 and PA2
 - Programme – no impact target for reduction in Green House Gas Emissions (GHG) (not part of indicator set).
- 2.70 We explored stakeholders’ views on the rationale for the programme at the time it was developed. There was general agreement that the rationale was valid and evidenced. We found that generally there was also a good understanding of the objectives of the programme. The objectives were less clear to stakeholders not involved in the development of the strategy or as closely involved on a day to day basis, but this appears to be an issue about more effectively communicating the objectives of the programme.
- 2.71 One area which was questioned by a small number of stakeholders was the objective to reduce intra-regional disparity. Some stakeholders thought it would be better for the programme to target resources in the stronger performing parts of the region, where returns on investment may be better. For others, there were doubts about the deliverability of the objective, whether the programme could realistically reduce intra-regional disparity.
- 2.72 Our own observation is that although the case for tackling intra-regional disparity is well made in the OP, the strategy of how this will be done is much less clear. There is limited discussion in the OP of how the delivery of PA1 and PA2 may need to be different, to reflect the acknowledged differences in economic conditions in the Western Peninsula (the only reference in the OP is to use FE outreach facilities to deliver services). This is despite the OP identifying that the Western Peninsula targets for PA1 and PA2 are very challenging, given that the area had not fully committed ERDF resources under the previous programme and contained just 30% of the region’s businesses and only 15-20% of the region’s research intensive businesses at the time the OP was prepared. Nor does the OP identify the proportion of resources that will be needed to achieve the intra-regional disparity objective, and the potential implications for other parts of the C&E area.

¹⁰ OffPAT, Technical Note of Combined Indicators for RDA Single Budget and ERDF Programme 2007-13, Version 3, June 2009

- 2.73 As evaluators, we would also point to weaknesses in the clarity in the OP on:
- The definition of the high-growth and high-value businesses and sectors that the programme intends to support. This was highlighted by stakeholders and whilst it is intended that the programme is sector blind there needs to be a clearer understanding of what this means for guiding investment decisions and project delivery. Although some business support projects have developed criteria for eligibility for assistance, this is not consistent across the programme.
 - How the programme intends to support economic growth in rural areas, which are identified as a spatial priority but with limited discussion on how this will be achieved in practice. This is linked to the Western Peninsula discussion above, as the majority of the Western Peninsula area is rural.
 - The ultimate strengths in the EGS sector that the programme intends to build on.
- 2.74 These issues are important because there is evidence that they may impact negatively on the delivery of the programme (as is explored in chapter 4). The weaknesses in the OP are not in the evidence to justify focus in these areas, but in the clarity of approach.
- 2.75 Overall, the rationale of the programme appears to be valid at the time it was developed. We return to the issue of intra-regional disparity later in the report.

Key messages

Table 2-3: Key messages

The €250 million C&E programme operates across the whole of the South West region apart from Cornwall and the Isles of Scilly. The programme was officially launched in February 2008.

The strategic objective of the programme is to increase the prosperity of the region through supporting enterprises and individuals to develop ideas and plans which contribute to increased productivity and competitiveness.

The programme was designed to address two key socio-economic challenges – raising productivity and closing the intra-regional disparity in economic performance between the stronger performing north and east of the region and the weaker performing Western Peninsula area. The programme was also designed to respond to a number of policy drivers, including the Lisbon Agenda.

The strategy of the programme rests around intervention in innovation and knowledge, enterprise and growth and urban enterprise. The C&E programme is largely a revenue based business and enterprise programme.

The rationale of the programme at the time it was developed was valid and evidenced. The objective to reduce intra-regional disparity is particularly challenging and should have been supported by further detail on how the programme intends to deliver this in practice.

Source: SQW Consulting

3: Changes in contextual conditions

Introduction

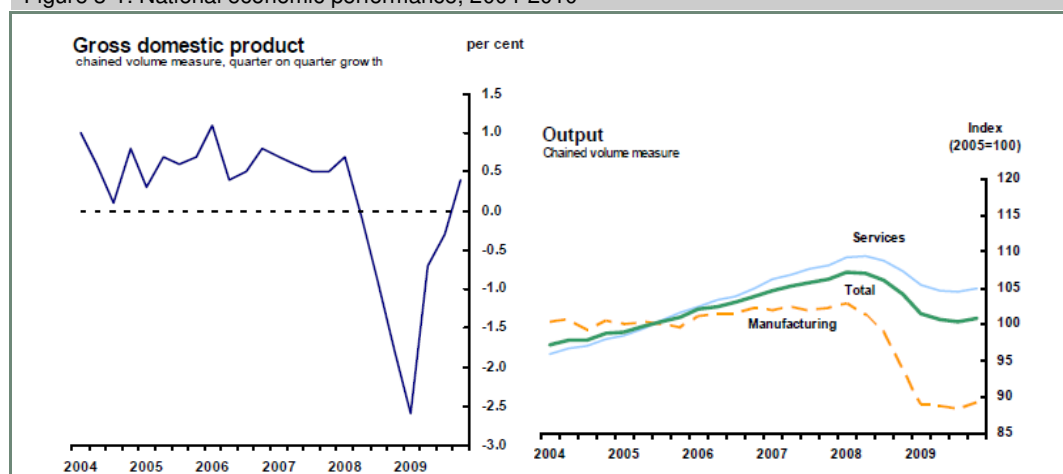
- 3.1 This chapter provides an assessment of the implications for the programme strategy of changes in macro-economic and baseline conditions and in the policy context at a European and United Kingdom (UK) level.

Socio-economic conditions

Macro-economic conditions

- 3.2 The recent UK recession, which started in mid 2008, has had profound impacts on the business climate and consumer confidence. The UK officially entered recession in the last three months of 2008, as GDP fell by 1.5% following a 0.6% drop in the previous quarter (thus two consecutive quarters of negative growth).¹¹ The figure below shows the changes in national economic conditions, as set out in the Office of National Statistics Q4 2009 Statistical Bulletin.

Figure 3-1: National economic performance, 2004-2010



Source: ONS, 2009, Statistical Bulletin: Quarterly national accounts – 4th quarter 2009

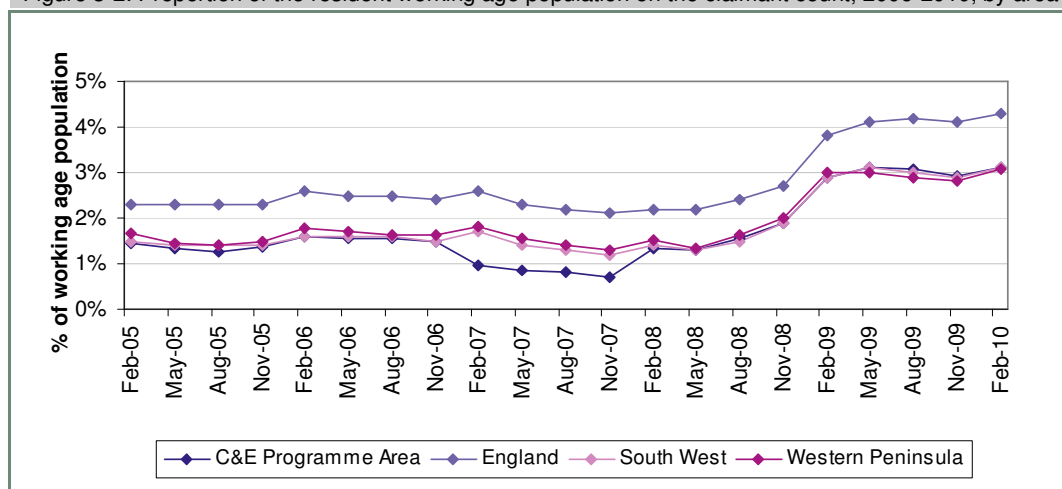
- 3.3 The figure shows a sharp fall in GDP until the first quarter of 2010 and a significant shrinking in output, particularly in the manufacturing sector but in all areas of the economy.
- 3.4 SWRDA's *Regional Economic Profile: Recession Profile*¹² set out that the region's output and employment expectations started to drop at the same time as the UK as a whole and the effects of the recession have spread from the northern arc of the region throughout the peninsula including Cornwall and the Isles of Scilly.

¹¹ BBC, 2009, *UK in recession as economy slides*, <http://news.bbc.co.uk/1/hi/business/7846266.stm>

¹² SWRDA, 2009, *Regional Economic Profile: Recession Special*

- 3.5 One of the major impacts of the recession has been an increase in unemployment. The figure below shows the proportion of the working age population claiming Job Seekers Allowance (JSA) between February 2005 and February 2010 by area.

Figure 3-2: Proportion of the resident working age population on the claimant count, 2006-2010, by area

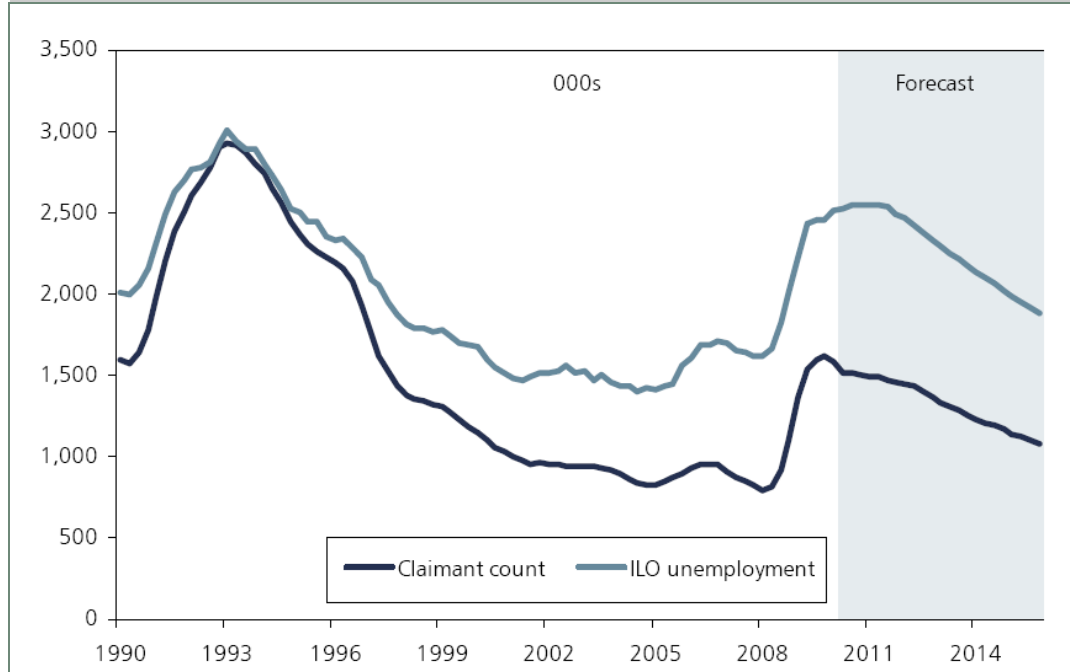


Notes: Rates for 2009 onwards are calculated using the mid-2008 resident working age population.

Source: Claimant Count. Accessed via Nomis

- 3.6 The figure shows that unemployment in the South West region, C&E programme area and Western Peninsula area remained fairly constant until mid-2008, before increasing from November 2008. The rate of unemployment in each area then levelled off between May 2009 and November 2009, before rising to around 3% in February 2010 as the recession spread to the real economy.
- 3.7 Since February 2008, the unemployment rate has been very similar in each of the geographies of the South West. However, there remains a great deal of variation in the level of unemployment today within areas of the region. In February 2010, the worst hit areas were Torbay (5% of working age residents claiming JSA) and Plymouth (4.2%) in the Western Peninsula, and Swindon (4.6%), Gloucester (4.5%) and Bournemouth (4.2%) in the non-Western Peninsula area.
- 3.8 The Office of Budget Responsibility (OBR), which was formed in May 2010 to make an independent assessment of the public finances and the economy for each Budget and Pre-Budget Report, has recently released forecasts on its expectation for unemployment in the next few years.

Figure 3-3: Office of Budget Responsibility forecasts of total unemployment

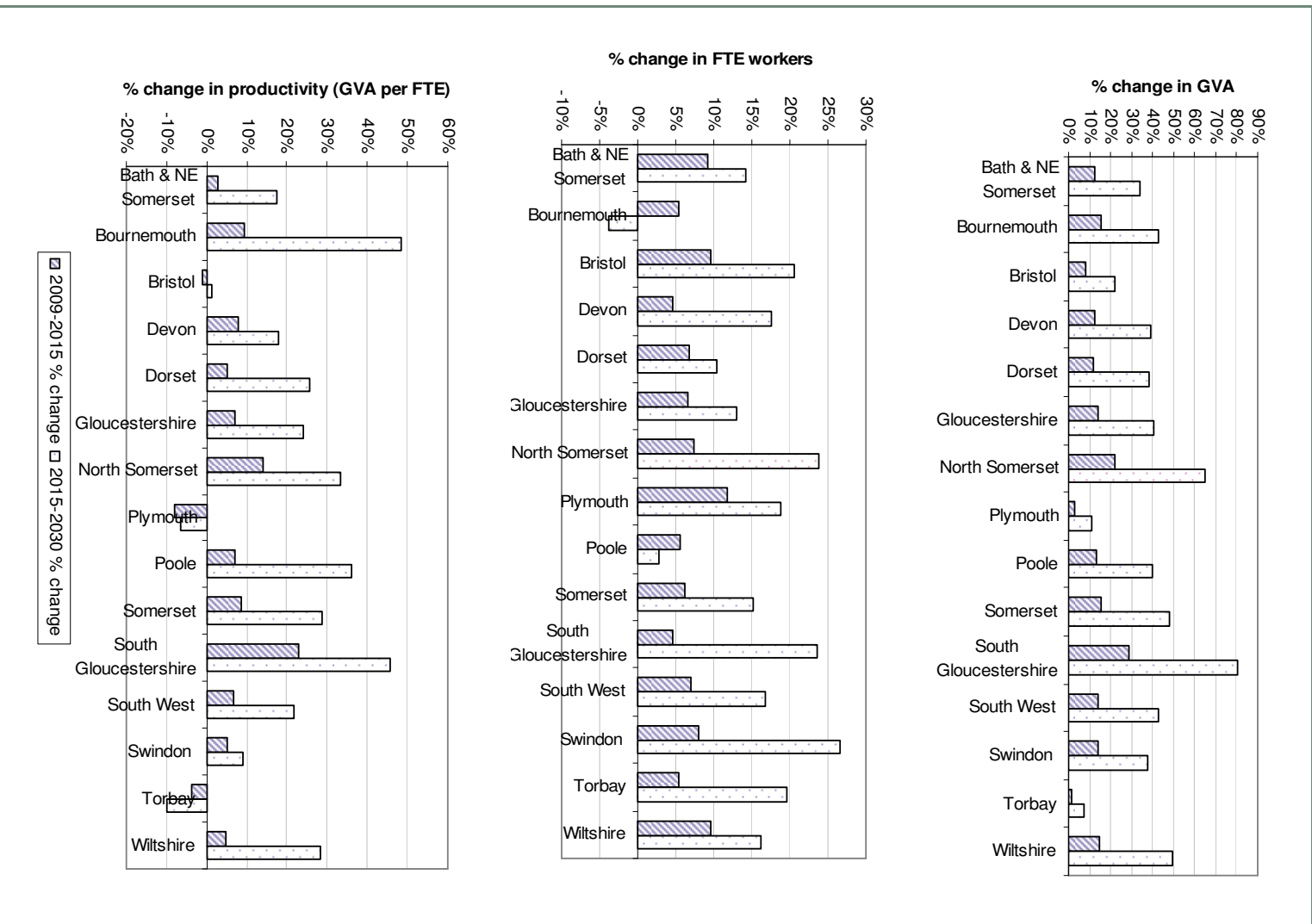


Source: Office of Budget Responsibility, June 2010, *Budget 2010: The economy and public finances – supplementary material*, p12

- 3.9 The figure shows the total number of unemployed falling slowly from 2010, with around 500,000 fewer JSA claimants by 2015. In the next five years, the OBR forecasts that total employment will rise from 28.89m at the end of 2010/11 to 30.23m at the end of 2015/16, an increase of 1.34m. However, within this public sector employment is forecast to fall from 5.53m at the end of 2010/11, to 4.92m at the end of 2015/16, a shrinking of 610,000 workers or 11%. This is potentially significant for the region and especially for the western area and other parts of the region which have a relatively high proportion of public sector employment¹³.
- 3.10 Economic output and employment in the South West is not expected to improve significantly until 'well into 2010'. However, the pace of the recovery is expected to vary across the region, as the spring 2010 regional forecasts for employment and GVA below shows.

¹³ Office of Budget Responsibility, employment forecasts, 30 June 2010

Figure 3-4: Forecasts of percentage change in FTE workers, GVA and productivity, 2009-2030, by area



Notes: Projections from Spring 2010 Source: Experian

3.11 Key points of interest from the figure include:

- FTE workers in Bournemouth is expected to fall by 4% between 2015 and 2030, perhaps as a result of an ageing population and a contraction in back-office service employment
- Swindon, North Somerset, South Gloucestershire and Bristol are expected to see increases of FTE workers of 27%, 24%, 24% and 21% respectively in the same period
- productivity is forecast to fall between 2009-15 and 2015-30 in Plymouth and Torbay, despite increases in FTE workers, and remain stagnant in Bristol. All three areas are priorities for the programme
- productivity is forecast to increase fastest in the north-east counties of the region, including by more than 15% in North Somerset and South Gloucestershire over the next 5 years.

3.12 In light of the policy decisions taken at the June 2010 Budget, which we explore later in this section, the OBR predicts that UK will recover from the negative growth in GDP of 5% in 2009/10, with growth of 1.2% in 2010/11, 2.3% in 2011/12, 2.8% in 2012/13 and 2.9% in 2013/14¹⁴. The growth is expected to be driven by the private economy, although business investment is not expected to return to pre-recession patterns until 2013 and output per worker is expected to increase slowly. The OBR does see opportunity in the export market, particularly the emerging Asia market, due to the higher profits available from the past depreciation of sterling. However, overall, the OBR forecasts difficult economic conditions ahead.

Update to baseline conditions

- 3.13 Alongside the analysis of changes in macro-economic conditions and the impacts of the recession, an assessment has been undertaken of changes in baseline conditions in the C&E programme area since 2005, the base year for much of the socio-economic analysis in the OP. A full review of the baseline conditions update is provided at Annex F.
- 3.14 The baseline conditions review has considered changes in key socio-economic and environmental indicators, including by sub-areas within the C&E programme where data is available, such as the Western Peninsula area. Unfortunately it is not possible to see the full implications of the recession in the baseline conditions update, as data are mostly only available up to 2008 or before.
- 3.15 Key findings of the review are considered in the table below.

¹⁴ Office of Budget Responsibility, June 2010, Budget 2010: The economy and public finances – supplementary material.

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

Indicator (source)	Baseline conditions update
Economic activity (Annual Population Survey)	Economic activity for SW region, C&E area and Western Peninsula has remained consistently above England average, 2005-08, and C&E area has remained above Western Peninsula with no change in pattern. Forest of Dean, Bristol, West Somerset and Plymouth had lowest activity rates in 2008, and had some of the lowest activity rates in 2005.
FTE workers – employees and self-employed (Econ-I)	All bar two upper tier authorities in the C&E area had positive change in FTE workers 2005-08. Poole, Wiltshire, Dorset had highest percent increases, Torbay also had +4% growth. But there was negative growth in Bournemouth (-4%) and Bath & North East Somerset (B&NES) (-6%).
FTE workers by sector (Econ-I)	Public admin, education & health and distribution, hotels & restaurants remain largest sectors regionally, employing 49% of FTEs in 2008. 2005-08, growth of around 7% in banking, finance & insurance but employment in other services stagnated. Over same period, sharp falls in employment in manufacturing (-4%) and construction (-9%).
FTE workers in RES priority sectors (Econ-I)	Largest priority sectors in C&E area in 2008 remained food & drink and leisure & tourism, but these sectors grew slowly 2005-08. Strongest growth 2005-08 in environmental sector (+20%), driven by employment gains in Wiltshire, Dorset and B&NES (all +45% increase). Positive growth also in creative sector (+6%) and marine sector (+5%) but advanced engineering declined.
Occupational structure (Annual Population Survey)	Across SW, growth in percent of workers employed in higher skilled occupational groups 2005-08 and negative growth in lower skilled occupational groups. Highest proportion of workers employed in higher skilled occupations in north east of C&E region, continuing previous trends, and remain particularly low in Plymouth and Torbay.
Median earnings (Annual Survey of Hours and Earnings)	In 2009, median earnings of upper tier authorities in C&E area remained below the English average, aside from South Gloucestershire. Torbay, Devon, Somerset and Dorset remain below SW average. Bournemouth saw 40% increase in median earnings, 2005-09.
Productivity - GVA per FTE worker (Econ-I)	Gap grew in GVA per worker between stronger performing north and east of C&E area and weaker performing west over 2005-08. Upper tier authorities within WP area experienced lower percentage increase in GVA per FTE worker 2005-08.
Business units (including self-employed) (Econ-I)	Across region, number of units in banking & finance increased by 15% 2005-08, with growth also of +30% in public admin, education and health units. Higher value added sectors continue to be more prevalent in north and east of region.
Employment in knowledge-based industries (Annual Business Inquiry)	Continuation of past trends, with higher proportion of employment in knowledge-based industries in 2008 in north and east of region. However, most upper tier authorities in C&E area experienced negative growth in employment in knowledge-based industries, including a fall of -10% in Bournemouth.
Innovation – patent applications (Eurostat)	Data are only available for 2005 and 2006 and by sub-regions of the C&E area. This showed a fall in all patent applications and high-tech applications per million of inhabitants.
Innovation – R&D expenditure (Eurostat)	R&D expenditure as a proportion of GDP fell in the South West marginally between 2005 and 2007. Expenditure remains higher in Gloucestershire, Wiltshire and Bristol/ Bath than in other sub-regions of the C&E area.

Indicator (source)	Baseline conditions update
Skills (Annual Population Survey)	Working age population in C&E area is becoming higher skilled, with increase in residents with NVQ4+ qualification over 2005-08. Gap in proportion of working age population with NVQ4+ closed slightly between C&E area and Western Peninsula.
Carbon emissions per capita (Department of Energy and Climate Change)	Upper tier authorities with lowest carbon dioxide emissions per capita in 2007 experienced higher rates of reduction in carbon dioxide emissions per capita over 2005-07. Strongest performance in Torbay, Bristol, Bournemouth and Bath and North East Somerset.
Unemployment by group (Nomis)	Across most areas of the region, women do not appear to have been considerably worse (or less badly hit) by the recession than men. Residents aged 18-24 appear to have been worse hit by the recession than the general working age population (and over 50s subgroup). The number of 18-24 year olds on the claimant count in the C&E area increased by 153% between May 2005 and February 2010.
Claiming all out of work benefits (Department for Work and Pensions)	Sharp increase in number of working age residents claiming all out of work benefits, increasing by 100% across region. Upper tier authorities in the north and east of the region particularly hit. Gloucestershire and Bristol contained most number of claimants in November 2009.

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

Policy developments

- 3.16 This section presents key findings from a review undertaken of changes in the policy and political context since the programme was launched in 2007. The review has focused on three areas:
- key announcements of the new coalition government since it was formed in May 2010
 - a focused review of key developments in the UK policy landscape up until May 2010. This part of the review has considered policies of the former labour government, including strategic responses to the recession and the national reform of business support
 - developments at a European level, including changes in Cohesion Policy in response to the recession and the post-Lisbon Agenda.
- 3.17 The full review of changes at a European level is provided in Annex D and of changes in the UK policy landscape up until May 2010 in Annex E. However, of more significance are recent announcements of the new coalition government.

UK policy developments since May 2010

- 3.18 The coalition government was formed in mid May 2010. A key objective of the government is to cancel out the national debt over the course of the next five years. Key announcements were made in the emergency budget of 22 June 2010 which signalled significant cuts in public spending and provides the framework for government spending in the medium term. Key headlines of the budget are summarised below.

Table 3-2: Key headlines of June 2010 Budget and subsequent announcements

Theme	Detail
Economic outlook	GDP forecast to grow by 1.2 per cent in 2010 and 2.3 per cent in 2011, rising to 2.7 to 2.9 per cent in the later years of plan period to 2015/16.
Public sector spending	A total consolidation in government finances of £128 billion per year by 2015/16, of which £99 billion per year comes from public sector spending cuts.
Enterprise	<p>A reduction in the main rate of corporation tax from 28 per cent to 24 per cent over four years.</p> <p>Reduction in the small profits rate (formerly small companies rate) to 20 per cent.</p> <p>Reversal in employer National Insurance Contributions (NIC) increase.</p> <p>Launch of a new three-year scheme that will exempt new businesses from up to £5,000 of employer NIC for each of the first ten employees. South West will be eligible for the new scheme.</p> <p>Expansion of the Enterprise Finance Guarantee (EFG), which supports lending to viable small businesses.</p> <p>Creation of new Enterprise Capital Fund, to provide an extra £37.5 million in equity finance.</p> <p>Green Paper on barriers to the supply of business finance.</p>
Low carbon economy	<p>Proposal to create a Green Investment Bank to help the UK meet the low-carbon investment challenge, to be reviewed as part of Spending Review.</p> <p>Launch of a Green Deal for households to help individuals invest in home energy efficiency improvements.</p> <p>Review of Carbon Price Levy.</p>
Regional government	<p>Options to be explored for possible abolition of Regional Development Agencies, with the government supporting the creation of Local Enterprise Partnerships in their place.</p> <p>Establishment of a £1bn Regional Growth Fund in England 2011/12 and 2012/13.</p>

*Source: SQW Consulting analysis of Budget and government policy announcements, including:
<http://nds.coi.gov.uk/content/Detail.aspx?ReleaseID=414110&NewsAreaID=2>*

- 3.19 The Budget included an additional £32 billion a year of public sector spending cuts by 2014-15, on top of the cuts previously announced by the former Labour government. The government has protected health and international development from the cuts, with other government departments and their agencies facing a cut in budget of 25% in real terms over four years.
- 3.20 SWRDA has been the largest match-funder of the ERDF programmes in the South West and is responsible under delegated authority for the management and administration of the programmes. The government has announced that SWRDA and the other RDAs will be abolished over 2011/12 and 2012/13. In place of the existing arrangement of RDAs, the government has recommended Local Enterprise Partnerships (LEPs) based around cities and natural economic areas, led by local authorities but with significant private sector engagement. The LEPs will help coordinate investment in transport, housing, skills, regeneration and other areas of economic development. SWRDA could become a LEP if supported by local authorities and business, although the expectation is that LEPs will be sub-regional in focus. Some of the current functions of the RDA are expected to be returned to central government departments, including oversight of innovation and enterprise.

- 3.21 It seems reasonable to assume that there will be an enhanced role for local authorities in economic development. The government has stated its intention to devolve budgets from Whitehall and the regional level to local government. The implications for the C&E programme are unclear but this could lead to an increase in the number of match-funding organisations. It also remains to be seen whether local government will regard the ERDF programme as having a close alignment with local priorities and how this may affect programme delivery.
- 3.22 The Budget contains opportunities for the C&E programme as well. They include the £1bn Regional Growth Fund from 2011/12, which is intended to support projects that can demonstrate private sector funding leverage and the delivery of jobs and growth; new and expanded financial schemes to support businesses to grow; and the proposal to form a Green Investment Bank to tackle the low carbon investment needs of the UK, with a proposed focus in its initial phase on proven energy efficiency projects¹⁵. It is also worth noting that the public sector spending cuts are expected to largely fall on current expenditure. There may be opportunities to secure capital match-funding, which the programme should be alive to.

UK policy developments to May 2010

- 3.23 The table below summarises key policy drivers in UK policy up until May 2010.

Table 3-3: Summary of UK policy developments to May 2010 and programme implications

	Policy driver	Implication for programme
Programme-wide	<p>Expansion of vocational element in education, including through Apprenticeship system.</p> <p>Support for higher skills, to support growth of knowledge economy, raise productivity and competitiveness.</p>	<p>The programme is not seeking to directly support training and skills development.</p> <p>Reinforces requirement for the programme to work closely alongside ESF and other labour market initiatives.</p>
PA1 – Innovation and Knowledge	<p>Knowledge intensive and technology based sectors supported in strategies, including:</p> <ul style="list-style-type: none"> • science and technology • low carbon technologies • advanced manufacturing • life sciences and pharmaceuticals. <p>Innovation through product, process, technology and organisational developments strongly supported in strategies.</p> <p>Technology and knowledge transfer between higher education and business supported and stronger partnership working between universities and businesses.</p> <p>Policy driver to implement digital revolution to raise competitiveness, including tackling geographical disparities.</p>	<p>Good alignment between objectives of programme and policy drivers for innovation and knowledge.</p> <p>Implicitly there is a good alignment between the sector priorities nationally and the high-growth and high value added businesses that the programme aims to support.</p> <p>However, question as to whether the programme should have a more explicit sector strategy, in identifying sectors it wishes to prioritise.</p>

¹⁵ Green Investment Bank Commission, June 2010, Unlocking investment to deliver Britain's low carbon future.

	Policy driver	Implication for programme
PA2 – Enterprise and Growth	<p>Public sector funded business support reformed into 32 products (as of June 2010) under Solutions for Business banner.</p> <p>Business Link to act as portal for information, advice and guidance.</p>	<p>Business support review was underway at time of preparing OP and the programme acknowledged the need to align with the Solutions for Business product range.</p> <p>National reforms require close working between programme and Business Link network.</p> <p>Important that the programme adds value to business support available through Solutions to Business, through enhancing and extending offer and focusing on higher end products e.g. internalisation and exporting.</p>
PA3 – Urban Enterprise	<p>Support for developing a culture of enterprise, which is relevant to PA3 as well as other priorities.</p> <p>National policy drivers to support enterprise through raising skills, providing access to finance and business support. Relevant to PA3 and other priorities.</p> <p>No specific policy drivers in urban enterprise to support deprived and disadvantaged communities.</p>	<p>No major implication for programme strategy, other than reinforcing need to support development of a culture of enterprise in deprived areas.</p>
Environment CCT/ low carbon	<p>New carbon dioxide emission targets set for 18% reduction on 2008 levels by 2020.</p> <p>Target set for 15% of primary energy to come from renewable sources.</p> <p>Fund established for R&D of low carbon technologies.</p> <p>Transition to low carbon economy strongly supported, to help tackle climate change and to generate economic growth and wealth.</p> <p>Low carbon industrial future supported, including need for business to achieve greater energy and resource efficiency and investing in low carbon infrastructure.</p>	<p>Strong alignment with objectives and activities of programme, with opportunities for the programme to be a pace setter in supporting the transition to a low carbon economy.</p> <p>Strengthens environmental dimension to the programme strategy.</p> <p>May make the case for further investment in low carbon technologies and renewable energy.</p> <p>No major change in programme strategy required.</p>

Source: SQW Consulting analysis of UK policy developments to May 2010. See Annex E

European policy developments

- 3.24 The Structural Funds for 2007-13 were designed to be more flexible to local and regional needs than the previous programme period. The EU strategic direction for Cohesion Policy is summarised in the Community strategic guidelines on economic, social and territorial cohesion, 2007-2013¹⁶. The guidelines emphasise a number of key principles for programmes, including the Lisbon agenda and pursuing the objective of sustainable development and synergy between its economic, social and environmental dimensions.
- 3.25 The most significant development in environmental policy at a European level has been the agreement in law of the EU climate and energy package. The package has a series of climate and energy targets to be met by 2020 (known as the 20-20-20 targets), including a reduction in EU greenhouse gas (GHG) emissions of at least 20% below 1990 levels, 20% of EU energy consumption to come from renewable resources and a 20% reduction in primary energy use compared with projected levels, to be achieved by improving energy efficiency¹⁷. The targets

¹⁶ http://ec.europa.eu/regional_policy/sources/docoffic/2007/osc/index_en.htm

¹⁷ http://ec.europa.eu/environment/climat/climate_action.htm

on renewable energy and energy efficiency should provide a renewed emphasis on these areas in the Structural Funds programmes, something reinforced by the changes to Cohesion Policy rules that allow 4% of programme budgets to be invested in energy efficiency and renewable energies in the residential sector, which the South West ERDF programmes are actively exploring.

- 3.26 At an economic level, the European Commission responded to the recession through implementing the European Economic Recovery Plan (EERP). The plan included the flexibility for Structural Fund programmes to be revised to take account of changing circumstances, including revising targets where there is evidence to do so. The EERP was implemented in part through the expansion in the lending activity of the European Investment Bank (EIB). There is an expectation that the EIB will become more integrated in Cohesion Policy in the future as the expansion in Europe may require more support to be available to some member states through financial instruments than grant aid. Currently access to EIB funds is available through two financial instruments - JEREMIE (based on access to finance for SMEs) and JESSICA (for sustainable urban development)¹⁸. The scope of JESSICA was significantly enlarged as part of the EERP to allow expenditure on energy efficiency and renewable energy in the domestic residential sector.
- 3.27 The future of regional policy and Cohesion Policy is currently being considered by the European Commission¹⁹, alongside a review of the EU budget. As part of this, work has started on the successor to the Lisbon Agenda, so-called Europe 2020. At the heart of the proposed new strategy are five “headline targets”, including that 3% of the EU's GDP should be invested in R&D and the “20/20/20” climate/energy targets should be met. Recent proposals have also explicitly noted that, “economic, social and territorial cohesion will remain at the heart of the Europe 2020...”²⁰. The targets are currently being debated, but the expectation is that there will be a renewed emphasis on cohesion and climate change. To underpin the targets, a number of flagship initiatives have been proposed, which emphasise innovation, education, resource efficiency, low carbon industrial strategy, skills and job mobility and tackling poverty.
- 3.28 The Europe 2020 agenda will have more influence on the next round of European Union supported regional development programmes (i.e. post-2013). However, assuming that the South West region continues to be eligible for support post-2013, it will be beneficial if the programme aligns with the new Europe 2020 agenda to support the case for any succession strategy. This is not an immediate priority for the PMC but should be considered at an appropriate opportunity in the future, perhaps in 12-18 months.

Continuing relevance of programme strategy

- 3.29 The previous sections have explored key changes in the political and economic context since the programme was launched. This wider context has changed significantly since the programme was launched – from a period of economic growth to a sharp recession and

¹⁸ For further details of the main funding mechanisms please see:

http://ec.europa.eu/regional_policy/funds/2007/jjj/index_en.htm

¹⁹ http://ec.europa.eu/regional_policy/policy/future/barca_en.htm

²⁰ http://ec.europa.eu/eu2020/index_en.htm

uncertain economic outlook, severe public spending cuts and potential institutional changes that may affect the delivery and management of the programme.

- 3.30 The economic outlook remains uncertain and potentially volatile. Unemployment is forecast to fall, but business growth is expected to be slow in the immediate period. There is evidence in the review of the cyclical impact of the recession on parts of the C&E area. Economic conditions have worsened in some of the traditionally stronger parts of the region in the north and east. This has affected places such as Swindon, Gloucestershire, Bristol and Wiltshire. Bournemouth has also seen negative patterns for some socio-economic indicators, and it is the only upper tier authority where employment is forecast to decline in the long-term. However, there needs to be caution in interpreting the data, as the full impacts of the recession are yet to be seen, as 2008 is the latest year for much of the data. Data for 2009 may see further evidence of the spread of the recession to the peninsula areas.
- 3.31 The programme is likely to face a fall in available UK public-sector match-funding of at least 25% over the next four years. Government departmental expenditure limits will not be decided until the Spending Review in October 2010. That is likely to hasten a further round of policy decisions on how the public spending cuts will be met. Already there have been cuts announced on higher education spending, labour market initiatives, SWRDA's Single Programme budget for 2010/11 and local government settlements. Few areas of the programme's strategy will be unaffected, with the national business support programme potentially vulnerable. The budget also announced changes to the regional tier of government, with SWRDA's long-term future in some doubt which is likely to be changes to the management of the C&E programme.
- 3.32 At one level, the review of policy developments at a European level and in the UK up until May 2010 showed a strong alignment between the programme's rationale and strategy and emerging policy priorities. Climate change has risen up the policy agenda since 2007, supporting the aspirations of the programme. The programme should also consider the suitability of financial instruments at a European and UK level to support the strategy, as Bristol is already considering for its SIF strategy.
- 3.33 The majority – but not all - of the stakeholders we consulted did not want to see a major change to the programme's strategy in light of changes in the socio-economic and political context. Most stakeholders felt that the 'mission' of the programme continues to be valid. The onset of the recession was felt to strengthen not lessen the case for the programme's current interventions. Stakeholders warned against the strategy being blown of course by short-term responses. The view is the programme should continue to focus on the *structural* weaknesses in the economy that warranted the intervention in the first place.
- 3.34 A key objective of the programme is to close the intra-regional disparity in economic performance. The update to the baseline conditions has revealed that many of the differences observed in the OP between the stronger performing north and east and the weaker Western Peninsula area remain. There have been improvements for parts of the Western Peninsula in some socio-economic indicators, but the key differences in enterprise, innovation, productivity and other factors are still strongly evident. This suggests the continuing need for the programme to tackle the structural causes of the intra-regional disparity.

- 3.35 The programme does need to be flexible and nimble to respond to the changing circumstances and the uncertain future. We consider this in the next section, which considers the performance of the programme to date.

Key messages

Table 3-4: Key messages

This wider context has changed significantly since the programme was launched – from a period of economic growth to a sharp recession and uncertain economic outlook, severe public spending cuts and potential institutional changes that may affect the delivery and management of the programme.

The full impacts of the recession have not fed through to official data. The evidence suggests that the immediate economic outlook may be volatile. There is evidence of the cyclical impact of the recession on traditionally stronger parts of the C&E area.

The programme is likely to face a fall in available UK public-sector match-funding of at least 25% over the next four years although the full details of cuts are not expected until after the October 2010 Spending Review. Few areas of the programme's strategy will be unaffected.

The government has announced its intention to abolish RDAs. This is a major risk to the programme as SWRDA is the majority match-funder and responsible for overseeing the day-to-day delivery of the programme.

Despite the changes, the strategy of the programme continues to remain valid as it is seeking to correct structural weaknesses in the economy. The case for tackling intra-regional disparity remains. Arguably the recent changes strengthen the rationale for the programme.

However, the programme needs to be flexible to respond to the changing circumstances and new opportunities as they arise, which may require adjustments to the programme strategy. This is considered following the review of programme performance.

Source: SQW Consulting

4: Assessment of Programme Performance

Introduction

- 4.1 This chapter assesses the performance of the programme to mid 2010, to identify how successfully it is being delivered. The chapter begins with a review of financial, output and result performance at the programme level, before providing an assessment of performance of each PA. It then discusses the implementation of the CCTs and an overall assessment.
- 4.2 The analysis of finances, outputs and results at a programme and PA level is based on a review undertaken by SQW of programme performance management data. The first analysis of the programme management data to quarter 1 of 2010 was undertaken in early April 2010, and updated in May 2010 to take account of developments in the project commissioning and contracting process. We have not updated finances or output and result achievements for the second quarter of 2010, as the data is not available within the timeframe of this review. The analysis of the performance management data has had to draw on multiple sources of data. Going forward, it is vitally important that the performance management data is captured in one place and that it is an accurate picture at the time.

Profile of projects

- 4.3 As of May 2010:
- twenty seven projects have been contracted to deliver activity under the C&E programme
 - the majority of projects are expected to complete between 2011 and 2014
 - the average (mean) cost of the contracted projects is just under £1.9m, which is relatively high and in line with the programme's strategy to do a few things well
 - the largest projects in value are the ERDF £9m National Composites Centre project under PA1 and the ERDF £5m Improving Your Resource Efficiency project under PA2
 - twelve of the contracted projects had spent ERDF funds to May 2010
 - excluding the frameworks²¹, four projects had been endorsed and a further 18 projects commissioned.

²¹ The programme has seven frameworks, with a total indicative value of £45.85m ERDF which represents over 41% of the ERDF programme budget. The frameworks are: PA1 - Business Technology Centres £10,000,000, Incubation Environments £2,400,000, INet £7,700,000 and Knowledge Exchange in FE £750,014; PA2 - Grants for Business Investment £4,000,000; PA3 - Torbay SIF £5,000,000, Plymouth SIF £7,000,000 and Bristol SIF £9,000,000.

- 4.4 There has been a significant increase in the number and value of contracted projects in the past 2-3 months, with nine projects contracted to the end of 2009²² compared with 27 as of May 2010.

Programme finances

- 4.5 The C&E programme has an ERDF allocation of €124,658,086, which is equivalent to £111,357,068 using the exchange rate of 0.8933 (as at April 2010).
- 4.6 The tables below show the ERDF allocation by PA and the total and proportion of ERDF funding that has been contracted, endorsed, commissioned and spent, as of May 2010. The tables allocate the framework budgets to endorsed, minus any expenditure that has been contracted, endorsed or commissioned to individual projects under each framework.

Table 4-1: ERDF Headline Financial Data to May 2010, total

	Allocation, £	Total Contracted £	Total Endorsed £	Total Commissioned £	Total contracted, endorsed & commissioned, £	Total Spend £	Spend as % of allocation
PRIORITY AXIS 1	40,198,500	19,171,066	18,990,211	4,450,267	42,611,544	1,001,272	2%
PRIORITY AXIS 2	40,198,500	25,568,666	4,000,000	9,535,000	39,103,666	6,642,008	17%
PRIORITY AXIS 3	26,799,000	3,180,090	15,680,638	2,139,272	21,000,045	1,014,351	4%
PRIORITY AXIS 4: TA	4,161,068	3,137,737	0	0	3,137,737	510,606	12%
TOTAL	111,357,068	51,057,559	39,220,849	15,574,539	105,852,947	9,168,237	8%

Source: SWRDA Performance Theatre Data and SWRDA Finance Targets Summary Sheet with SQW Consulting analysis.

Table 4-2: ERDF Headline Financial Data to May 2010, %

	Allocation, £	Contracted as % of allocation	Endorsed as % of allocation	Contracted & endorsed as % of allocation	Commissioned as % of allocation	Contracted, endorsed & commissioned as % of allocation
PRIORITY AXIS 1	40,198,500	48%	47%	95%	11%	106%
PRIORITY AXIS 2	40,198,500	64%	10%	74%	24%	97%
PRIORITY AXIS 3	26,799,000	12%	59%	70%	8%	78%
PRIORITY AXIS 4: TA	4,161,068	75%	0%	75%	0%	75%
TOTAL	111,357,068	46%	35%	81%	14%	95%

Source: SWRDA Performance Theatre Data and SWRDA Finance Targets Summary Sheet with SQW Consulting analysis.

²² Number of contracted projects in 2009 according to the 2009 Annual Implementation Report

Contracted, endorsed, commissioned and spend

- 4.7 In headline terms to May 2010:
- £51.1m or 46% of the programme allocation (budget) had been contacted
 - just over £9 million had been spent by projects, 8% of the programme budget
 - £39.2m or 35% of the programme budget had been endorsed
 - £15.6m or 14% of the programme budget had been commissioned.
- 4.8 The profile of finances shows that the PAs are still in their early stages of delivery, although projects will have spent ERDF resources in quarter 2 of 2010 (April-June) which is not captured in the tables.
- 4.9 The programme achieved its 2009 N+2 target with some funds banked for 2010. Since the programme achieved this target the European Commission has cancelled the 2007 commitment target (for 2009) and spread the target across the remaining years of the programme. We understand that there is some concern about the ability of the programme to meet its N+2 target for 2011, which could be impacted on by the cuts in public finances.

Match funding by source

- 4.10 To May 2010, ERDF has contributed 49% of total programme spend, with £9.43m of match-funding also spent. This is slightly below the planned programme intervention rate of 50%. Over £50m of match-funding has been contracted to projects within the same period.
- 4.11 The majority of the ERDF programme (ERDF funding and UK funding) is revenue expenditure, although there is £25m of planned capital expenditure from ERDF resources and SWRDA match-funding, largely for the National Composite Centre under PA1.
- 4.12 The programme is currently heavily reliant on SWRDA for match-funding for contracted projects, since the agency is due to contribute 41% of total project costs (ERDF and UK). Other public and other private funding is a relatively small proportion of contracted project costs (10% and 2% respectively). Other public sector funders are due to contribute 31% of the costs of endorsed projects (largely for HPA Porton Down under PA1, which is under review) and this figure does not include the remaining public sector funding available for the SIFs under PA3.

Lisbon Agenda compliance

- 4.13 The programme expects in excess of 90% of programme expenditure to be Lisbon Agenda compliant²³. We have not undertaken a review of each project, but data provided by the programme management team in early June 2010 suggests the programme is well on the way to meeting this target.

²³ It is a regulatory requirement that the Competitiveness OP should ensure that at least 75% of competitiveness spending is focused on the Lisbon agenda. It is expected that 100% of Priority 1, at least 90% of Priority 2 and at least 80% of Priority 3 will be Lisbon Compliant.

Table 4-3: Lisbon Agenda Compliant Expenditure

Status	No. of Projects	No. of Lisbon Compliant	% Lisbon Compliant
Endorsed	5	5	100%
Contracted	27	24	89%
Commissioned	19	19	100%
Pre Commissioned	9	9	100%
Frameworks	6	6	100%
Total Projects	66	63	95%

Source: SQW Consulting

- 4.14 With the current and likely future challenges for delivery and the varied Lisbon requirements across the axes, it will be important that PMC closely monitors the achievement of Lisbon compliance across the programme.

Headroom

- 4.15 The table below shows the available ERDF budget ('headroom') by PA and for the programme overall, against the current PA allocations.

Table 4-4: Headroom by Priority Axis to May 2010, £

	Allocated Total £	Headroom					
		Allocation minus contracted expenditure, £	As % of allocati on	Allocation minus contracted + endorsed expenditure £	As % of alloc- ation	Allocation minus contracted, endorsed & commissioned expenditure, £	As % of allocation
PRIORITY AXIS 1	40,198,500	21,027,434	52%	2,037,223	5%	-2,413,044	-6%
PRIORITY AXIS 2	40,198,500	14,629,834	36%	10,629,834	26%	1,094,834	3%
PRIORITY AXIS 3	26,799,000	23,618,910	88%	7,388,272	28%	5,799,000	22%
PRIORITY AXIS 4: TA	4,161,068	1,023,331	25%	1,023,331	25%	1,023,331	25%
TOTAL, £	111,357,068	60,299,509	54%	21,078,660	19%	5,504,121	5%

Source: SWRDA Performance Theatre Data and SWRDA Finance Targets Summary Sheet with SQW Consulting analysis.

- 4.16 The table shows that of the programme allocation, once contracted expenditure has been subtracted, this leaves just over £60m of ERDF funds remaining. Once contracted and endorsed expenditure is subtracted, this leaves £21.1m of the programme allocation remaining (19%). This of course assumes that the contracted and endorsed expenditure is spent in full and there must be some doubts about this, given the tightening of public finances discussed in chapter 2. With commissioned expenditure also considered, this leaves just 5% of the programme allocation available.

Programme gross outputs and results

4.17 The table below presents gross output and result achievements to March 2010 for the programme as a whole derived from SWRDA monitoring data.

Table 4-5: Programme Outputs and Results Target v Actual

Indicator	Target	Achieved	% Achieved
Outputs			
O01 - Number of businesses assisted to improve their performance	11,000	616	6%
O02 - Number of new businesses assisted (Subset of businesses assisted)	210	11	5%
O03 - Number of environmental technologies and renewable energy enterprises assisted (subset of businesses assisted)	700	15	2%
O04 - Number of firms involved in collaborative research & development projects (subset of businesses assisted)	210	2	1%
O05 - Number of new enterprises assisted (subset of businesses assisted)	490	23	5%
O06 - Number of SMEs advised or assisted to improve their environmental performance (subset of businesses assisted)	1,400	0	0%
O07 - Number of businesses within the region engaged in new collaboration with UK knowledge base (subset of businesses assisted)	300	0	0%
O08 - Number of individuals assisted in starting business	900	0	0%
O09 - Number of social enterprises assisted	80	0	0%
O10 - Square metres of new or upgraded floor space - non specialist	1,000	0	0%
O11 - Square metres of new or upgraded floor space – specialist	1,000	0	0%
O12 - Number of people assisted to get a job	700	0	0%
O13 - Number of SMEs assisted to improve their environmental performance	100	0	0%
Results			
R01 - Gross new jobs created	9,000	81	1%
R02 - Gross jobs safeguarded	4,000	0	0%
R03 - Gross research jobs created (subset of jobs created)	640	0	0%
R04 - Gross Research jobs safeguarded (subset of jobs safeguarded)	200	0	0%
R05 - Number of additional firms involved in business/cluster networks	2,600	11	0%
R06 - Number of patents, other IPRs and other IPR devices used (e.g. trademarks copyrights)	140	0	0%
R07 - Number of SMEs launching new or improved products	4,500	7	0%
R08 - Gross increase in GVA, £m	326.30	16	5%
R09 - Gross safeguarded GVA, £m	464.80	0	0%

Indicator	Target	Achieved	% Achieved
R10 - Gross jobs created in environmental sectors	1,450	0	0%
R11 - Number of businesses started	600	0	0%
R12 - Number of businesses still trading one year after commencing trading (subset of businesses started)	550	0	0%
R13 - Number of businesses still trading three years after commencing trading (subset of businesses started)	400	0	0%

Source: SWRDA Monitoring Data and SQW Consulting analysis

4.18 Key achievements to March 2010 have included:

- six hundred and sixteen businesses have received support to improve their performance, of which nearly 25 have been in the priority environmental sector
- eighty one gross jobs have been created
- £16m of gross GVA has been generated by the programme
- seven SMEs have launched new or improved products.

4.19 The table shows that the programme still has a long way to go to achieve its targets. There are eight output indicators and eleven result indicators that are yet to show any achievements against targets at the programme level. A number of the targets relate to a specific PA, which is explored elsewhere in this chapter.

Western Peninsula achievements

4.20 The programme has targets for 35% and 45% of the results under PA1 and PA2 respectively to be in the Western Peninsula. The programme performance management data does not disaggregate achievements by this geography so we are unable to assess achievements.

4.21 We have, however, been able to estimate the proportion of businesses that have been assisted to improve their performance that fall within the Western Peninsula area (this is an output indicator). This is based on analysis of postcode data of the population of businesses provided to SQW for the business survey (see Impact chapter). This found that 30% of the businesses assisted were based in the Western Peninsula. The majority of the businesses had received support from projects under PA2, so this suggests that the programme may struggle to meet its Western Peninsula result target if business assists is used as a proxy. However, as explored in the impact chapter, the economic benefits estimated to be generated per net business assist in the Western Peninsula area is significantly higher than for business assistance in other parts of the C&E area. We return to the Western Peninsula targets in chapter 5.

Performance by Priority Axis

4.22 This section provides an assessment of delivery of each Priority Axis.

Priority Axis 1 – Innovation and Knowledge

Introduction

4.23 The aim of PA1 is to improve the region's overall performance with regard to innovation and close the intra-regional gap in innovation. The OP envisaged four strands of activity under PA1:

- supporting ideas, innovation and knowledge – through company and individual (inventor) led product and process improvements
- improving FE/ HE interaction with SMEs – strengthening business links to FE/ HE expertise
- business/ HE technology initiatives – technology led initiatives based on proven business demand and expertise in HEIs
- environmental goods and services – exploitation of opportunities where the South West has comparative advantage, especially in environmental technologies and renewable energy.

Financial expenditure

4.24 The table below shows ERDF spend under PA1.

Table 4-6: Priority Axis 1 ERDF spend by strand

	ERDF Allocation € (low)	ERDF Allocation € (high)	Range in OP	Amount Contracted, £	Spend, £
Supporting ideas and innovation	11,250,000	20,250,000	25-45%	10,833,000	510,795
Improving FE/HE Interactions with SMEs	11,250,000	18,000,000	25-40%	1,821,048	134,626
Business/HE technology initiatives	9,000,000	13,500,000	20-30%	6,517,018	355,851
Environmental goods and services	4,500,000	11,250,000	10-25%	0	0
Total				19,171,066	1,001,272

Source: SWRDA Monitoring Data and SQW Consulting analysis

4.25 To May 2010 PA1 had contracted £19.17m, 48% of the budget, with a further 47% of the budget endorsed and 11% commissioned (the priority is over-allocated). Expenditure under PA1 has been relatively slow, of just over £1m to May 2010.

4.26 This table – and similar tables for PA2 and PA3 – shows expenditure by strand of activity, based on the allocation of each ERDF project to one of the strands of activity as per the

performance monitoring data. This is indicative only, as some contracted projects are delivering against more than one strand of activity.

Output and result achievements

- 4.27 The table overleaf shows the output and result achievements of projects under PA1 to March 2010 and presents the profile of outputs and results by projects contracted, endorsed and commissioned.
- 4.28 A small number of outputs and results have been achieved to Match 2010, with 88 business assists and four jobs created (with no GVA benefit in the performance data).

Table 4-7: Priority Axis 1 – Outputs and Results

Targets for Projects Commissioned	PA Target	Achieved	% target achieved	Contracted	% of target contracted	Endorsed	Total contracted & endorsed with 20% optimism bias	% of target contracted & endorsed with 20% optimism bias	Commissioned	Remaining target not contracted/endorsed/commissioned
Businesses Assisted to Improve their Performance	3,990	88	2%	1,486	37%	3,896	4,306	108%	520	-1,912
New Businesses Assisted	210	11	5%	148	70%	371	415	198%	62	-371
Environmental Technologies and Renewable Energy Enterprises Assisted	350	5	1%	186	53%	564	600	171%	199	-599
Firms Involved in Collaborative Research and Development Projects	210	2	1%	166	79%	392	446	213%	150	-498
Businesses Engaged In New Collaboration With The Knowledge Base	300	0	0%	170	57%	147	254	85%	90	-107
Gross New Jobs Created	3,200	4	0%	610	19%	1,279	1,511	47%	475	836
Gross Jobs Safeguarded	1,000	0	0%	478	48%	73	441	44%	600	-151
Gross Research Jobs Created	640	0	0%	201	31%	141	274	43%	200	98
Gross Research Jobs Safeguarded	200	0	0%	82	41%	99	145	72%	300	-281
Number Of Additional Firms Involved In Business Clusters/Networks	1,400	11	1%	643	46%	1,539	1,746	125%	65	-847
Number of Patents, other IPRs and Other IPR devices.	140	0	0%	96	69%	93	151	108%	100	-149
Number of SMEs Launching New or Improved Products	4,500	7	0%	635	14%	911	1,237	27%	180	2,774

*Programmes Review of European Regional Development Fund in the South West - Competitiveness and Employment Programme
Final Report to the PMC Evaluation Sub-Group*

Targets for Projects Commissioned	PA Target	Achieved	% target achieved	Contracted	% of target contracted	Endorsed	Total contracted & endorsed with 20% optimism bias	% of target contracted & endorsed with 20% optimism bias	Commissioned	Remaining target not contracted/endorsed/commissioned
Gross Increase in GVA, £	126,400,000	0	0%	81,163,770	64%	137,012,510	174,541,024	138%	4,400,000	-96,176,280
Gross Safeguarded GVA, £	165,900,000	0	0%	51,134,000	31%	83,144,680	107,422,944	65%	7,800,000	23,821,320
Jobs Created in Environmental Sectors	700	0	0%	258	37%	225	386	55%	108	109

Source: SWRDA Monitoring Data and SQW Consulting Analysis

Assessment of delivery to date

- 4.29 Priority Axis 1 is perhaps the most ambitious priority of the programme, given the objectives to raise innovation across the C&E programme area and the target for 35% of the results to be in the Western Peninsula area. The priority is seeking to assist businesses to improve their performance, leading to new knowledge and research based collaborations, R&D projects and the launching of new products, processes and services. This is expected to generate additional employment and GVA, including jobs in research and in the environmental sector. The table below presents brief summaries of some of the projects supported.

Table 4-8: Examples of projects supported under Priority Axis 1

<p>Knowledge Escalator South West – which is seeking to improve the capability and capacity of the region's HEIs to engage with business.</p> <p>PRIMaRE Development and Knowledge Exchange – the Peninsula Research Institute for Marine Renewable Energy (PRIMaRE) is a virtual institute collaboration between the universities of Plymouth and Exeter, with the vision to become a centre of excellence in marine renewable energy across the region.</p> <p>Designing Demand – this project aims to increase innovation and design in small businesses across the region. The project is supported by both ERDF programmes in the South West.</p> <p>South West Innovation Accelerator – this project responds to the need identified in the OP to build the capacity of FECs to promote the exchange of knowledge and ideas with business. The project is expected to fund five pilots, testing different approaches to business engagement.</p> <p>South West Composites Gateway – this project is led by Bristol College and is aiming to facilitate specialist technology innovation in the application of composite materials in aerospace, marine, automotive and renewable energy engineering industries. The ERDF project is building the capacity of FE/ HE institutions to deliver composite based solutions to businesses and building the capacity of businesses to adopt and apply new technologies and approaches.</p> <p>Knowledge Exchange at Genesis – this facility is based at the Somerset College of Art and Technology and is supporting the transfer of knowledge and ideas on sustainable building techniques.</p>

Source: SQW Consulting

Notes: South West Innovation Accelerator, South West Composites Gateway and Knowledge Exchange at Genesis are all part of the Further Education Knowledge Exchange programme

- 4.30 Priority Axis 1 has been slower to deliver than was originally anticipated. Stakeholders reported that it has taken some time to develop and approve full investment propositions, with the innovation team at SWRDA providing good support in this process. To date, the programme has supported a mixture of demand and supply side projects, which align well with the objectives of the priority and the strands of activity in the OP. The programme has had some success in linking local innovation and research centres into the wider regional economy, for example Knowledge Exchange at Genesis and South West Composites Gateway. With only £1m of ERDF resources spent, it is unsurprising that output and result achievements to date have been modest (from the Knowledge Escalator South West and Designing Demand projects).
- 4.31 Priority Axis 1 includes an experimental policy intervention to use Further Education Colleges (FECs) for knowledge exchange. This is a new venture for the programme, as there are few examples nationally of using FECs for this type of activity and as such it is untested. The FECs have a particularly important role to play in promoting knowledge exchange in the Western Peninsula area given that most universities in the region are based in the east and north. The programme has established a framework to guide this activity, with pilot projects established such as South West Innovation Accelerator to test the success of the intervention.

Depending on the success of the projects, this is an example where the programme could influence national policy.

- 4.32 The past two months has seen a significant increase in the amount of ERDF resources contracted, with investments in the £9m ERDF National Composites Centre, which will be a national and international research centre, and two specialist business technology centres (LIMA and CALM). The first tranche of innovation regional networks (iNET) has also been contracted, using the Solutions for Business Networking for Innovation product, in the fields of ICT/ micro-electronics, creative industries and information, diagnostic and brokerage, and other iNETs have been commissioned. This represents an exciting portfolio of projects that are or will shortly start delivering services under PA1, targeted on higher value added businesses and activities.
- 4.33 In financial terms, there is limited headroom available under PA1, with 95% of the budget reserved for contracted and endorsed projects. If the contracted projects deliver to plan, they will generate a good proportion of the output and result targets for the priority, roughly in line with the proportion of the budget contracted. Table 4.7 also shows the forecast outputs and results for endorsed projects, which is considerable across most indicators. We have applied a 20% optimism bias to the output and result forecasts of the contracted and endorsed projects, reflecting the tendency for outputs and results to be over-estimated when developing project proposals. This is a judgement for analysis purposes only and not a finding of this review. After this adjustment, the table indicates that the programme is on course to meet many of the targets, aside from targets for new jobs created/ safeguarded (including research jobs and in the environmental sector), gross GVA safeguarded and number of SMEs launching new or improved products (which is particularly low at 27% of target). The programme should seek to ensure that gaps in targets are targeted in procuring new projects, particularly new employment opportunities and SMEs developing new products and processes.
- 4.34 Priority Axis 1 is entering an important delivery period. With the slow progress to date, it is important to the success of the overall programme that the contracted projects progress quickly and start to deliver outputs and results. There is some nervousness amongst stakeholders about the ambitions of the priority, particularly the intra-regional disparity objective. We are unable to report on progress in the Western Peninsula area, but the programme has supported capacity building in FECs as a means of improving the uptake of businesses in the western area.

Priority Axis 2 – Enterprise and Growth

Introduction

- 4.35 The aim of PA2 is to increase the contribution that high value added businesses make to the economy and reduce intra-regional disparities. The OP envisaged four strands of activity under PA2:

- high growth new starts and accelerating business growth – targeted business support to businesses and individuals in the knowledge economy, key sectors, clusters and niches
- internationalisation – services to increase exporting through increasing the capacity of businesses to export and addressing barriers to international trade
- environmental performance in business – support to improve the environmental performance of businesses
- environmental goods and services – support to improve the performance and competitiveness of EGS businesses by stimulating demand for markets and through business support.

Financial expenditure

4.36 The table below shows ERDF spend under PA2.

Table 4-9: Priority Axis 2 ERDF spend by strand

PRIORITY AXIS 2	ERDF Allocation € (low)	ERDF Allocation € (high)	Range in OP	Amount Contracted £	Spend £
High growth and new starts, and accelerating business growth	13,500,000	22,500,000	30-50%	15,598,911	4,352,689
Internationalisation	9,000,000	11,250,000	20-25%	4,666,555	1,990,725
Environmental performance in business	4,500,000	6,750,000	10-15%	5,303,200	298,594
Environmental goods and services	4,500,000	11,250,000	10-25%	0	
PRIORITY AXIS 2				25,568,666	6,642,008

Source: SWRDA Monitoring Data and SQW Consulting analysis

4.37 To May 2010, PA2 had contracted with projects to the value of £25.57m ERDF, 64% of the budget, with a further 10% of the budget endorsed and 24% commissioned. ERDF expenditure under PA2 is the highest of the three priorities, at just over £6.5m to May 2010.

Outputs and results

4.38 The table overleaf shows the output and result achievements of projects under PA2 to March 2010 as reported in programme monitoring data. The table presents the profile of outputs and results by projects contracted, endorsed and commissioned.

4.39 Few outputs and results have been achieved to March 2010, with 528 business assists and 77 jobs created. £15.77 million of *gross* GVA has also been reported in programme monitoring data. These achievements can be attributed to four projects: the South West MAS, Deeper Broader IDB, Internationalisation and Envision Phase Three.

Table 4-10: Priority Axis 2 – Outputs and Results

	Total Axis Targets	Achieved	% target achieved	Contracted	% of target contracted	Endorsed	Total contracted & endorsed with 20% optimism bias	% of target contracted & endorsed with 20% optimism bias	Commissioned	Remaining target not contracted/endorsed/commissioned
Businesses Assisted to Improve Their Performance	5,810	528	9%	6,320	109%	30	5,080	87%	414	-954
New Enterprises Assisted	490	23	5%	310	63%	5	252	51%	10	165
Environmental Technologies and Renewable Energy Enterprises Assisted	350	0	0%	189	54%	5	155	44%	7	149
SME's Advised or Assisted to Improve Their Environmental Performance	1,400	0	0%	1,592	114%	10	1,282	92%	0	-202
Gross New Jobs Created	4,300	77	2%	1,414	33%	200	1,291	30%	85	2,601
Gross Jobs Safeguarded	2,000	0	0%	1,172	59%	430	1,282	64%	40	358
Number of Additional Firms Involved in Business Cluster/Networks	1,200	0	0%	175	15%	0	140	12%	0	1,025
Gross Increase in GVA, £	169,900,000	15,772,375	9%	148,205,000	87%	17,000,000	132,164,000	78%	12,360,000	-7,665,000
Gross Safeguarded GVA, £	248,900,000	0	0%	85,900,000	35%	25,000,000	88,720,000	36%	4,920,000	133,080,000
Gross Jobs Created in Environmental Sectors	750	0	0%	239	32%	50	231	31%	14	447

Source: SWRDA Monitoring Data and SQW Consulting Analysis

Assessment of delivery to date

- 4.40 Under PA2, the programme is offering a range of business support services to existing and new businesses in the C&E area. The programme is seeking to assist businesses to improve their performance, including through business collaboration, leading to employment and GVA. Seven hundred and fifty of the 4,300 new job creation target is expected to be in the environmental sector. The table below summarises some of the projects supported by the programme.

Table 4-11: Examples of projects supported under Priority Axis 2

<p>Finance for Business – the programme responded to the recession by providing small loans to businesses and debt support, targeted on high-growth businesses. The project is a Solutions for Business product, with a second phase currently under consideration.</p> <p>Internationalisation – this project utilises Solutions to Business products with the aim of increasing exporting through providing intensive support to target companies, network activity, innovation services and stimulating knowledge of international market opportunities. A second phase of the project has recently been commissioned.</p> <p>South West Manufacturing Advisory Service (MAS) – ERDF has supported the regional MAS service, which provides advice and assistance to manufacturing businesses to improve their competitiveness and performance.</p> <p>Envision, Phase 3 – both ERDF programmes in the South West supported the third phase of the Envision project, which provided environmental advice to businesses.</p> <p>Improving Your Resource Efficiency – the programme is supporting the delivery of this Solutions for Business product, which provides in-depth diagnostic environmental business support.</p>
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Source: SQW Consulting

- 4.41 PA2 has had the strongest delivery performance to date of the priorities. A number of projects were contracted relatively quickly. A large number of the projects supported or in the pipeline are Solutions for Business products. The national portfolio has provided a platform for the programme to deliver and the review suggests that the programme has a close alignment with the Solutions for Business portfolio. The ERDF programme has enabled additional services to be available to businesses in the C&E area, targeted on the programme's objectives e.g. high-growth businesses. The review has found no evidence – within the scope of the work - that the ERDF funded business support activity is crowding out or duplicating other public sector funded business support activity or that businesses in the programme area have not been able to take up (absorb) the business support assistance available. Going forward, it will be important that ERDF does not 'crowd out' other business support services in the C&E area and that the projects are genuinely additional.
- 4.42 This is a demand-led priority that includes efforts to stimulate exporting opportunities and the EGS sector. Stakeholders pointed to project successes such as Finance for Business, which was available relatively quickly, and the MAS project, which is providing much needed support to the manufacturing sector hard hit by the recession. Two projects – Coaching for High Growth, and Starting a High Growth Business – have recently been contracted, which have a strong alignment with the objectives of the programme and priority. The programme is considering a second phase to the internationalisation project, which could build the programme's capacity to respond to exporting opportunities identified by the OBR in the June 2010 Budget. The programme is actively exploring opportunities for £4m of ERDF investment in domestic energy efficiency measures. The programme is seeking to use the resources to both reduce carbon impacts and stimulate market opportunities in the renewable energy sector, through technology based measures.

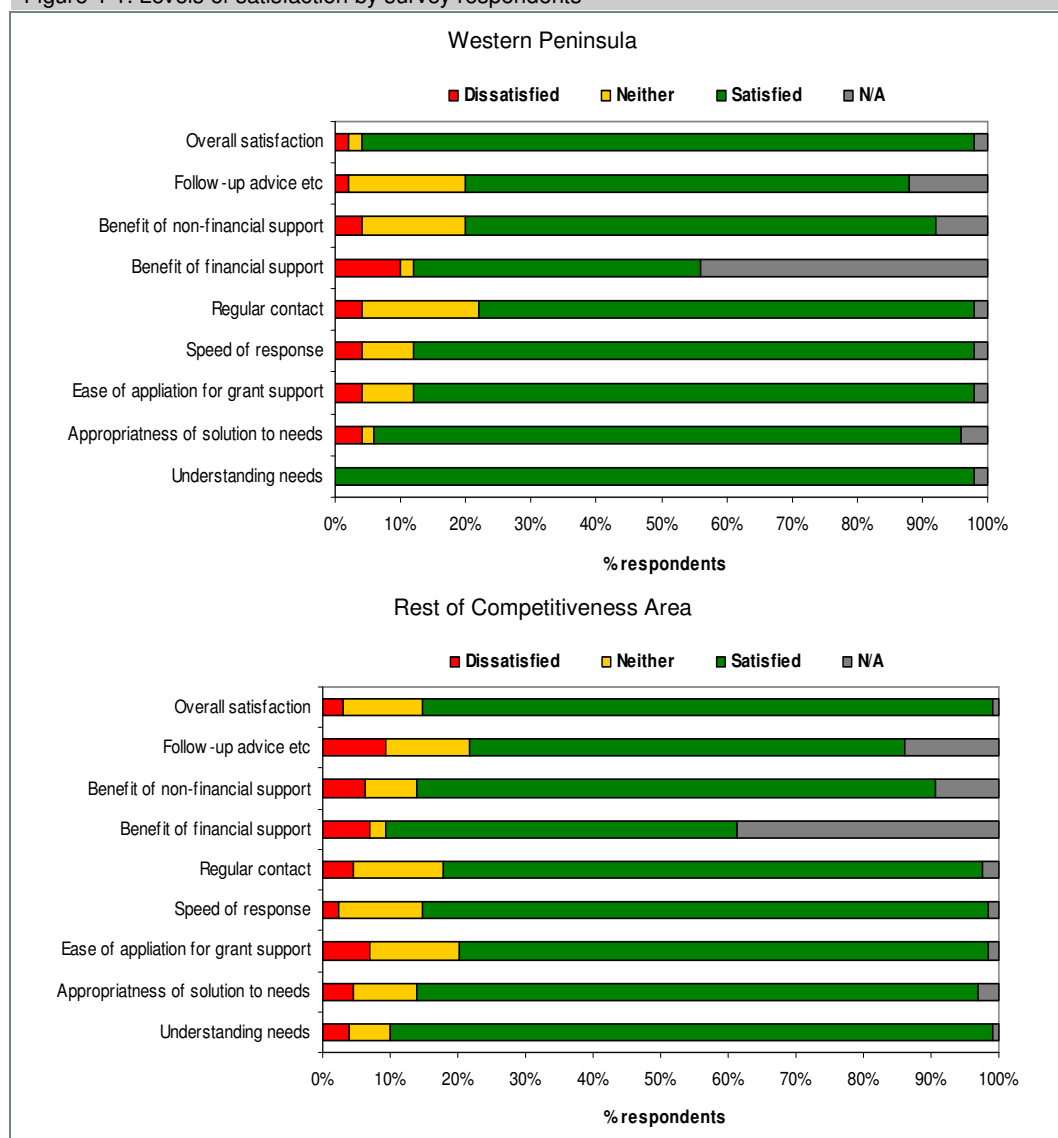
- 4.43 Outputs and result achievements to March 2010 are relatively modest against the priority targets, but have included over 525 businesses assisted to improve their performance, nearly 80 new jobs created and £16m of gross increase in GVA. We are not able to report on progress against the target for 45% of results to in the Western Peninsula area as the target has not been monitored.
- 4.44 Around one-quarter of the Priority Axis budget is currently available for new investment, although this falls to just 3% if the commissioned projects are also included. It is important that the programme continues to retain some flexibility in delivery in line with the programme's objectives. We would therefore suggest that the focus should be on supporting the delivery of contracted projects, rather than commissioning new activity, aside from the domestic energy efficiency project.
- 4.45 Table 4.10 presents the analysis of outputs and results by the profile of projects. Contracted projects are forecast to achieve a reasonable proportion of the targets, although this is below the proportion of contracted expenditure (64%) for a number of the indicators. Again we have applied an optimism bias of 20% to the contracted and endorsed output and result forecasts, to gauge the impact of under performance. This suggests potential gaps against some of the targets - new jobs (including in environmental sectors, both around 30% of target) and number of additional firms involved in business cluster/networks (12% of target).
- 4.46 This does not account for the 26% of headroom in the budget, which will generate additional outputs and results. The analysis does not suggest a major cause for concern but the programme should closely monitor achievements against contracted targets to identify any possible areas of under performance. The domestic energy efficiency project, which is allocated as commissioned in the table, should help to generate environmental related outputs and results.
- 4.47 The focus for PA2 in the immediate period should be on supporting the delivery of contracted projects and on achieving outputs and results. The domestic energy efficiency project is a key opportunity to pursue given the broader objectives of the programme. As part of the commissioning process, the programme should consider the financial viability of investing a significant proportion of these resources in the Western Peninsula.

Lessons from the business survey

- 4.48 This section discusses qualitative findings of the business survey undertaken as part of this review. The business survey has also informed the impact assessment in chapter 5. Ninety percent of the business respondents to the survey had been assisted by the ERDF funded Deeper Broader IDB Service and Internationalisation projects under PA2, so the qualitative findings have been presented in this section. The remaining 10% of the business respondents had been assisted by the ERDF funded Knowledge Escalator and Designing Demand projects under PA1.
- 4.49 The table below suggests very high levels of satisfaction with the business support services provided by the programme by the respondents to the business survey, particularly businesses in the Western Peninsula area. There were also particularly good responses concerning

questions regarding understanding needs, the appropriateness of solutions to needs and overall satisfaction.

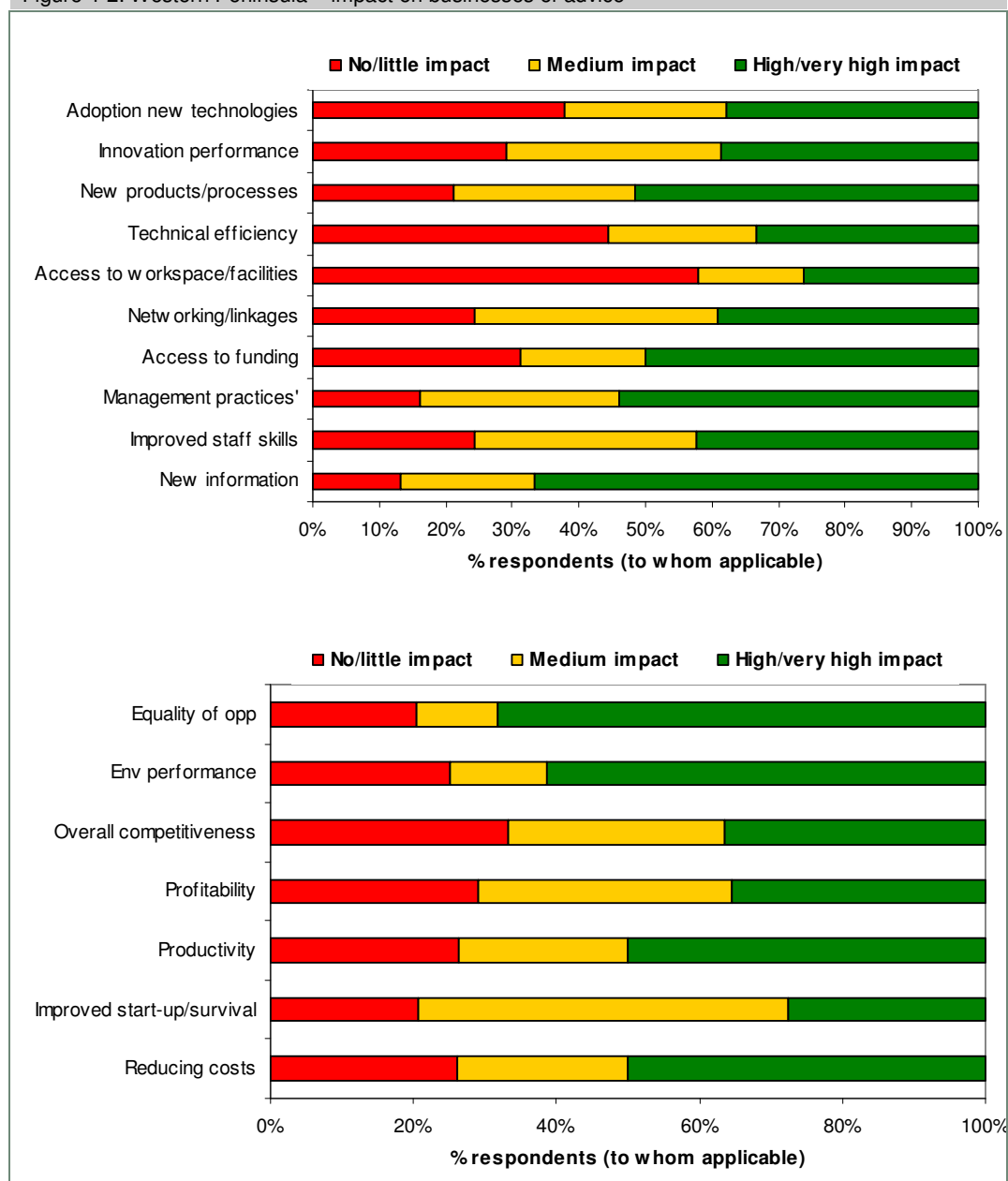
Figure 4-1: Levels of satisfaction by survey respondents



Source: SQW Consulting (derived from Qa survey)

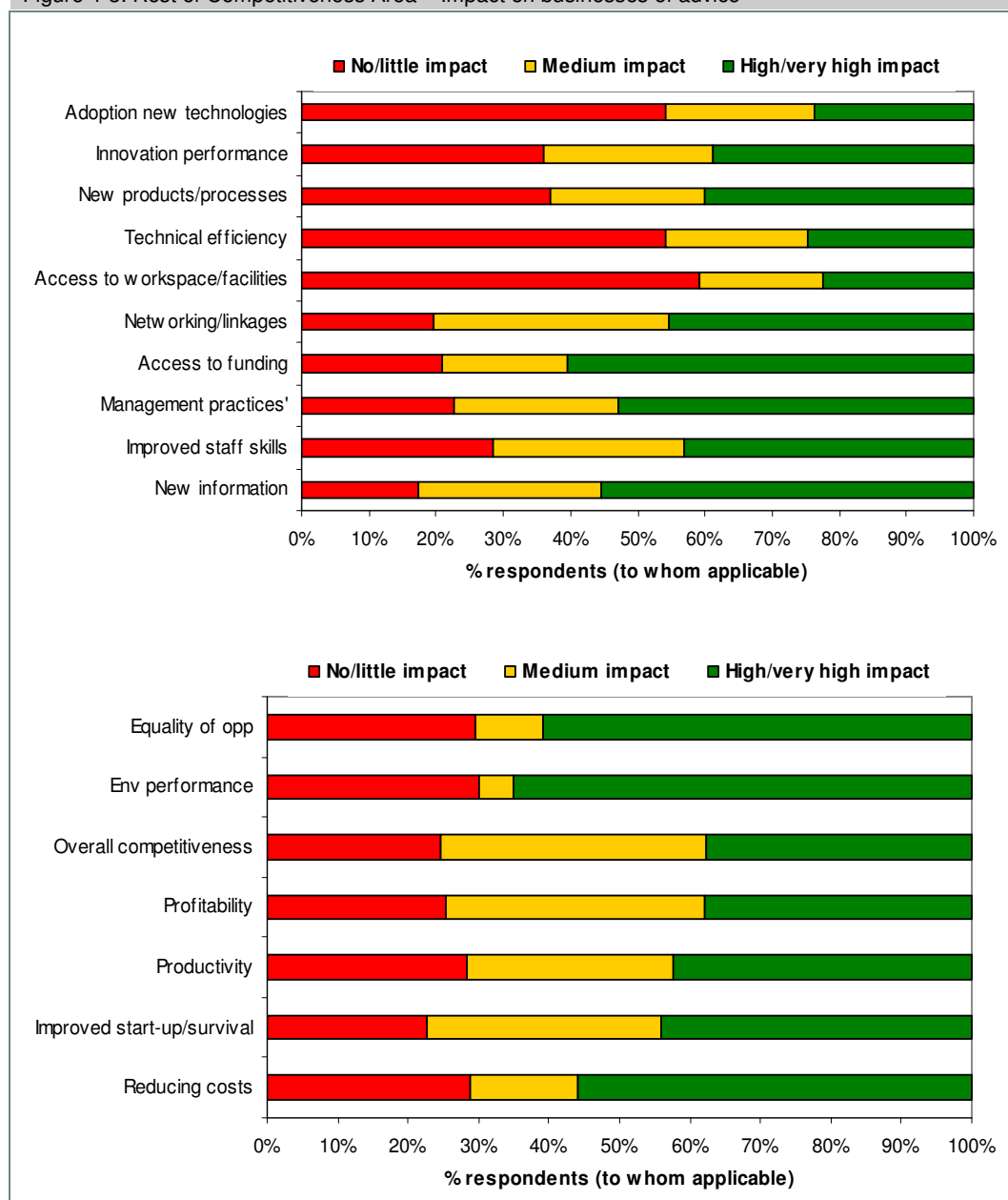
- 4.50 The following charts show by area the impacts on business performance from different types of support that the respondents to the survey received. For each relevant type of support, the respondents to the survey were asked if there had been little/ no impact, medium impact or high/ very high impact. The charts sum the results across all respondents to the survey.
- 4.51 The charts suggest that the highest impact on business performance across both areas has been from advice on access to finance, information and environmental advice.

Figure 4-2: Western Peninsula – impact on businesses of advice



Source: SQW Consulting (derived from Qa survey)

Figure 4-3: Rest of Competitiveness Area – Impact on businesses of advice



Source: SQW Consulting (derived from Qa survey)

- 4.52 These results are positive in terms of beneficiaries experience of receiving support from the ERDF programme.

Priority Axis 3 – Urban Enterprise

Introduction

- 4.53 The aim of PA3 is to find new approaches to addressing problems found in the region's most deprived neighbourhoods through enterprise creation. The OP stated that this Priority Axis will have a key role to play in testing new ideas to stimulate enterprise amongst people living in deprived neighbourhoods.

4.54 The OP envisaged five strands of activity under PA3:

- small scale infrastructure facilities – investment in new or upgraded enterprise and multi-use facilities, linked to enterprise/ innovation hubs elsewhere
- promoting and encouraging the creation of new enterprise/ social enterprises within under-represented groups – support to individuals to set-up or grow enterprises and social enterprises
- access to finance – provision of micro finance initiatives such as small scale loans and community finance initiatives where there is a market failure
- access to targeted business support in the community – improved access to business support services through intermediary organisations
- enterprise opportunities from environmental improvements – support to develop commercial opportunities from environmental opportunities such as energy efficiency, waste minimisation and renewable energy.

Financial expenditure

4.55 The table below shows ERDF spend under PA3.

Table 4-12: Priority Axis 3 ERDF spend by strand

PRIORITY AXIS 3	ERDF Allocation € (low)	ERDF Allocation € (high)	Range in OP	Amount Contracted to March £	Spend £
Small scale infrastructure and facilities	3,000,000	7,500,000	10-25%	1,049,000	0
Promoting and encouraging new enterprises / social enterprises	6,000,000	10,500,000	20-35%	958,446	14,351
Access to finance	3,000,000	6,000,000	10-20%	1,000,000	1,000,000
Targeted business support services in the community	6,000,000	10,500,000	20-35%	172,644	0
Enterprise opportunities from environmental improvements	3,000,000	6,000,000	10-20%	0	0
PRIORITY AXIS TOTAL				3,180,090	1,014,351

Source: SWRDA Monitoring Data and SQW Consulting analysis

4.56 To May 2010, the programme had contracted with projects to the value of ERDF £3.18m, 12% of the allocation, with a further 61% of the budget endorsed and 6% commissioned. The table above shows a relatively small amount of expenditure to May 2010 of £1 million.

Outputs and results

4.57 The table overleaf shows the output and result achievements of projects under PA3 to March 2010 and presents the profile of outputs and results by projects contracted, endorsed and commissioned. There had been no output or result achievements to March 2010.

Table 4-13: Priority Axis 3 – Outputs and Results

	Total Axis Targets	Achieved	% target achieved	Contracted	% of target contracted	Endorsed	Total contracted & endorsed with 20% optimism bias	% of target contracted & endorsed with 20% optimism bias	Commissioned	Remaining target not contracted/endorsed/commissioned
Number of individuals assisted in starting business	900	0	0%	1,025	114%	196	977	109%	0	-321
Number of businesses assisted to improve their performance	1,200	0	0%	433	36%	0	346	29%	0	767
Number of Social Enterprises assisted	80	0	0%	0	0%	102	82	102%	0	-22
Square Metres of new or upgraded floor space - Non specialist	1,000	0	0%	1,116	112%	0	893	89%	0	-116
Square Metres of new or upgraded floor space - Specialist	1,000	0	0%	0	0%	0	0	0%	0	1,000
Number of people assisted to get a job	700	0	0%	455	65%	0	364	52%	0	245
Number of SME's assisted to improve their environmental performance	100	0	0%	0	0%	0	0	0%	0	100
Number of businesses started	600	0	0%	237	40%	62	239	40%	0	301
Number of businesses still trading one year after commencing trading	550	0	0%	117	21%	50	134	24%	0	383
Number of businesses still trading three years after commencing trading	400	0	0%	102	26%	16	94	24%	0	282
Gross new jobs created	1,500	0	0%	292	19%	48	272	18%	0	1,160
Gross jobs safeguarded	1,000	0	0%	224	22%	0	179	18%	0	776
Gross increase in GVA	30,000,000	0	0%	6,760,000	23%	1,590,000	6,680,000	22%	0	21,650,000
Gross safeguarded GVA	50,000,000	0	0%	2,640,000	5%	0	2,112,000	4%	0	47,360,000

Source: SWRDA Monitoring Data and SQW Consulting Analysis

Assessment of delivery to date

- 4.58 Priority Axis 3 is an ambitious programme of enterprise activities for very deprived communities in Bristol, Plymouth and Torbay. The programme is seeking to provide assistance to new and existing businesses and social enterprises and to support individuals to start a business and access employment. This is expected to generate new businesses, employment and GVA. The programme is largely demand driven, although there are also supply side activities, through improving premises in which enterprise can flourish and be supported and capacity building of intermediary enterprise organisations. The table below summarises projects supported under PA3.

Table 4-14: Examples of projects supported under Priority Axis 3

<p>Micro Credit Loans Fund – a Solutions for Business product that provides businesses with early stage finance in the form of loans. A separate fund has been created for each SIF area.</p> <p>Cockington Court – this project falls under the Torbay SIF. ERDF has invested to provide workspace facilities for new businesses and social enterprises, which forms part of a new arts and cultural hub. Match funding was secured from the SeaSpace Communities Local Government programme and Torbay council.</p> <p>Plymouth Urban Enterprise Delivery Capacity – the programme has part-funded an Urban Enterprise Manager for the SIF area with match-funding from Plymouth City Council. Despite the project being contracted in late 2008, no funds had been drawn down by May 2010.</p> <p>Intensive Start Up Support (ISUS) – this project will provide intensive support to under-represented groups who are actively exploring setting up a business. The project has been contracted in Plymouth and similar support for Bristol and Torbay has been commissioned.</p> <p>Plymouth Enterprise Coaching – this project will offer coaching support to businesses in Plymouth. A similar project has been commissioned for Bristol and Torbay.</p>
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Source: SQW Consulting

- 4.59 To date, five projects have been contracted, including ISUS in Plymouth, which is seen as a flagship project. Progress has been strongest in Plymouth, where businesses will be able to access four of the five contracted projects. The fifth project is Cockington Court in Torbay. It was reported that this project would not have gone ahead without the ERDF funding. No projects have started delivery in Bristol, although one project (Social Enterprise Link) has been endorsed.
- 4.60 The urban enterprise priority is the weakest area of the programme. Expenditure to May 2010 was £1m of ERDF, although this is largely from the Micro Credit Loans Fund project, where funds have been drawn down ahead of delivery (reflecting the project focus). No outputs or results have been achieved. It is far too early to say whether the priority will be successful in delivering new approaches to addressing deprivation through enterprise creation.
- 4.61 There is acknowledgement amongst stakeholders that PA3 is ambitious in its objectives and has associated risks. The enterprise challenges facing the eligible communities of Bristol, Plymouth and Torbay are significant – persistent and deep seated deprivation, residents facing multiple barriers to entrepreneurial activity and high rates of worklessness. There is general agreement amongst stakeholders that there is not a clear case to remove any of the three areas. Each of the three SIF areas sees the ERDF resources as a huge opportunity to create employment and wealth in communities they have prioritised in policy for many years.

4.62 The slow progress in delivery relates to a number of factors, the main ones being:

- Some stakeholders referred to delays in developing investment proposals. This concern was raised by the programme management team, who have been concerned by the pace of activity in the local areas, and by some of the local partners, who criticised the programme's project commissioning and approval process. Some stakeholders referred to unresolved delivery issues.
- The availability of match-funding is already impacting on PA3. The framework agreements for each SIF have an indicative ERDF allocation of £9m for Bristol, £7m for Plymouth and £5m for Torbay. SWRDA has agreed to provide 25% of the UK match-funding, subject to the approval of projects, with the remaining 25% provided by the local authorities, from their own resources or other funds. Each of the local authorities has struggled to identify match-funding to support the delivery of projects. Our understanding of the latest position on match-funding is:
 - Plymouth City Council has around £0.2m of match-funding remaining from the Working Neighbourhoods Transition fund and has secured around £0.75m of additional resources to support urban enterprise from the Local Area Agreement (LAA) reward grant
 - Torbay council has allocated £0.2m of match-funding over the next three years
 - Bristol City Council is exploring the feasibility of setting up a JESSICA urban development fund to draw down the ERDF resources. Scoping work is underway, which will take around 6 months. The city council has presented its initial proposals to the PMC.

4.63 The consultation programme revealed unresolved delivery issues with PA3:

- all three SIF areas raised questions about the deliverability of some strands of activity. Although the priority is not targeted on high-value businesses as is the case with PA1 and PA2, two local authorities referred to the 'high-growth' focus of the priority and the difficulties in delivering this given the characteristics of existing businesses. The local authorities also questioned the extent of enterprise opportunities from environmental improvements although improving resource efficiency of business is seen as an important issue.
- one local authority said that the commissioning approach is leading to the programme purchasing narrowly defined Solutions for Business products that are not sufficiently holistic in approach and that synergetic benefits to beneficiaries in the local areas will be lost.
- two of the SIF areas expressed concern about the lack of flexibility within the priority to devise interventions that best meet local needs. In part this reflects an expectation amongst the SIF local authorities that there would be greater local autonomy in determining investment decisions. PA3 is not a delegated fund, as projects continue to be procured centrally by the programme management team.

- 4.64 Earlier we showed that there is some but not a significant amount of budget available in PA3. In reality, the available headroom is far higher, as few projects have been contracted under the SIFs. The budget minus the value of projects contracted or endorsed leaves headroom of around £21m, including the £5.8m of resources under PA3 that has not been earmarked for the current three SIF areas. The programme management team estimate that including what may come forward through the SIFs leaves in the order of £10-12m.
- 4.65 There are a number of key issues for PA3:
- how confident can the programme be in the capacity of the three areas to deliver their SIFs in full?
 - are any changes needed to the strategy?
 - are the three current SIF areas the right ones, and should the priority be extended to new areas?
 - where should the unallocated £5.8m of resources be allocated, given the progress to date, objectives of the programme and changing economic conditions?
- 4.66 In our view, the strategy of the priority remains valid, although very challenging to deliver. It is concerning that there does not appear to be a shared understanding of the objectives of the priority and doubts persist about the deliverability of parts of the strategy in the local areas. We do share local concerns that the commissioning approach has delayed delivery (see management and administration chapter on processes) and may lead to silo activities. In this regard, the programme has been somewhat hampered by the requirement for business support activity to be closely aligned with the Solutions to Business products, although in practice, the evidence suggests the need for closer links to be developed between projects in each SIF area. The partnership established in Plymouth to promote links between ERDF, ESF and other economic development activity is a model that the programme could adopt in each SIF area (see Plymouth case study in Annex G for further details).
- 4.67 The immediate priority for PA3 must be to support the delivery of the three existing SIFs. Match-funding remains a major risk to delivery. The uncertainty surrounding the future of SWRDA introduces a risk that up to 25% of the resources earmarked for the SIFs may not be available. We recommend that the PMC undertake a review of each SIF to identify what can be achieved with lower levels of match-funding and consider a higher ERDF intervention rate for each SIF (of around 60%). In Torbay and Plymouth, if the match-funding commitments of the councils continue to be available, this should allow the delivery of a large part of the SIFs. There continue to be doubts about the deliverability of the SIF in Bristol, with the feasibility study into setting up a JESSICA fund not expected to be completed for 6 months. It is not possible to predict the outcome of the JESSICA feasibility study, but a final decision on the scope and focus of the SIF in Bristol must be taken by December 2010. The changes that will be made to the intermediary management of the programme presents an opportunity to consider the management arrangements for each SIF. Our view is that the programme's interests may be best served by continuing close central management of the priority given the risks to the overall success of the programme from further delays.

- 4.68 Under Article 34(2) Regulation 1083/2006, the C&E programme has the flexibility to directly fund ESF types of expenditure, of up to 10% of the value of the PA budget. To date, the programme has not taken up this flexibility. The focus of the work of the PMC and others has been on forging closer links between the C&E ERDF and ESF programmes. Stakeholders regard these links to be working reasonably well, and stronger under PA3 than PA1 and PA2. We support this strategy, and would stress how important it will be for close ESF-ERDF links to be made in the SIF areas, given the huge challenges of enterprise development and promoting a culture of enterprise in deprived communities.
- 4.69 The review has revealed limited involvement of the third sector in the delivery of programme activity (the third sector is represented on the PMC). There are some 25,000 – 30,000 third sector groups in the region and together their turnover is more than that in agriculture with employment similarly higher. Priority Axis 3 is potentially the area where the third sector could contribute most, indeed promoting the creation of social enterprises and using intermediary organisations to deliver activity are strands of activity within this priority. The PMC should consider the extent to which the third sector could have a stronger role in delivering PA3 activity, drawing on the networks and expertise of the third sector representatives on programme management groups.
- 4.70 Some programme stakeholders we consulted suggested that the priority could be extended to new areas. Either for:
- urban enterprise activities – Swindon, Gloucester, Trowbridge, Chippenham, Bideford, Poole and Bournemouth were suggested
 - rural enterprise activities – either region-wide or to focus on the western peninsula area, with west and north Devon suggested.
- 4.71 The evidence does not suggest a strong case at this stage to extend the SIF to new urban areas, suffering from the cyclical effects of the recession. However, the PMC may wish to consider revising the OP to provide the programme with the flexibility to do this in the future. This would allow the programme to respond to:
- any further deterioration in economic conditions given the uncertain economic outlook
 - under-delivery in the existing SIF areas
 - cuts in match-funding, which is likely to require the programme to secure match-funding from a larger pool of sources (given the planned abolition of SWRDA).
- 4.72 We believe there is sufficient time available to potentially extend PA3 to new urban areas, but the PMC may wish to do this on a *project* basis rather than requiring each area to develop a formal SIF given the time it took to adopt the SIFs in Bristol, Plymouth and Torbay.

Priority Axis 4 – Technical Assistance

- 4.73 The TA budget supports the management and administration of the programme. A detailed review of the effectiveness of management and administration arrangements is provided in chapter 6. This section considers the spend and achievements of the TA priority.
- 4.74 The TA budget is for the following activities:
- developmental – to support programme development and capacity building
 - management information – provision of management and monitoring information to ensure effective programme management and activities to embed CCTs
 - evaluation – for analysis, monitoring and evaluation of performance
 - partnership – for collaboration and joint working to support delivery
 - communications – to publicise and communicate programme.
- 4.75 TA has an ERDF intervention rate of 50% and is matched predominantly by SWRDA.

Financial expenditure

- 4.76 The table below shows ERDF spend under PA4 by project. The programme has contracted three projects to the value of £3.14m, 75% of the TA budget, with no further projects currently endorsed or commissioned. Together, the contracted projects are supporting all of the TA activities identified above. Unfortunately we are unable to present the financial data by type of activity as projects have not been allocated on this basis in programme performance monitoring data.

Table 4-15: Technical Assistance Contracted and Spend

	Contracted, £	Spend, £
EU Competitiveness Technical Assistance	2,511,485	400,757
Set Up Costs - EU Competitiveness	138,252	109,849
TA Evaluation Programme	488,000	0
TOTAL	3,137,737	510,606

Source: SWRDA Monitoring Data and SQW Consulting analysis

Outputs and results

- 4.77 There are no outputs or results for the TA priority within the programme performance framework. However, the 2009 Annual Implementation Report (AIR) details progress against four activity outputs, which is shown in the table below.

Table 4-16: Technical Assistance outputs

Output	Expected (2008-2013)	Delivered in 2009-2010	Targets
No. of Programme Information Events i.e. Publicity Workshops and major information events including Launch	14	2	Target 2-3 per annum. Target met
No. of delegates attending each Major Programme Information Event	100	100	Target met
% of completed feedback forms that rate events as "useful" or above	75%	76%	Target met
No. of press articles associated with the Programme	30	4	Target 6 per annum – target not met due to shift in focus for this period of the Programme

Source: 2009 Annual Implementation Report

- 4.78 According to the AIR, the TA priority met three of the four output targets. They included two major programme information events.

Performance of Cross-Cutting Themes

Environment Cross-Cutting Theme and Low Carbon

Introduction

- 4.79 This section assesses the implementation of the environmental CCT in the delivery of activity for both the C&E and Convergence programmes in the South West.
- 4.80 Both programmes are seeking to support environmental sustainability through horizontal and vertical integration. Horizontal integration relates to embedding the principles of environmental sustainability throughout the work of both programmes. The extent to which this is happening is considered in the Management and Administration chapter.
- 4.81 This section is concerned with vertical integration – the implementation of the CCT through the delivery of activities within each programme and progress against the low carbon objectives that the programmes have.
- 4.82 Both programmes have objectives to invest in the drivers of a low carbon economy and manage growth in a sustainable manner. Environmental sustainability activity focuses around the three key areas:
- ensuring the environmental intensity of all investments are appropriately managed, through mitigating negative impacts and exploiting positive impacts (this issue is considered also in the Management and Administration chapter)
 - ensuring that the programmes continue to explore opportunities to invest in activities that deliver *actual* rather than *relative* environmental improvements
 - ensuring that the programmes continue to support the development of environmental goods and services businesses and technologies.

Financial expenditure

- 4.83 The environmental CCT does not have a specific budget allocation, although resources are reserved to support the embedding of the CCT through the TA budgets and both programmes have indicative allocations for environmental activities under most of the remaining priority axes – to support innovation and knowledge (PA1 in both programmes), building enterprise through business support (PA2) and for environmental activities in the SIF areas (PA3 in C&E and PA4 in Convergence). Together, this represents a considerable amount of potential funding to support the low carbon objectives and the environment CCT.
- 4.84 Progress in contracting expenditure under the environmental strands of activity has been mixed. Good progress has been made under PA1 in Convergence but current allocations are low under PA2. For C&E, it is not possible to undertake analysis by strand, as projects have not been allocated against the environmental strands of activity under Priority Axes 1, 2 and 3.

Outputs and results

- 4.85 The OPs for both programmes include the following output and result indicators relating to the low carbon agenda and the environmental CCT.

Table 4-17: Indicators and targets for environmental sustainability

Competitiveness	Convergence
Number of environmental technologies and renewable energy enterprises assisted (subset of businesses assisted)	No of environment & services sector businesses assisted (including environmental technologies)
n/a	No of buildings to a minimum BREEAM 'excellent' standard or equivalent
Square metres of new or <u>upgraded</u> floor space - non specialist Square metres of new or <u>upgraded</u> floor space – specialist	No of buildings refurbished/ improved/ adapted for productive use
n/a	Previously developed land prepared/developed
n/a	No of businesses and buildings with embedded renewable energy and energy produced
n/a	Redundant buildings developed for new economic use
Number of SMEs advised or assisted to improve their environmental performance (subset of businesses assisted)	Businesses assisted to improve their environmental performance, including savings made
Gross jobs created in environmental sectors	Gross jobs created in environmental sectors

Source: SQW Consulting (derived from Competitiveness and Convergence OPs)

- 4.86 Achievements against these indicators to March 2010 have been relatively low in both programmes, as with other output and result indicators for both programmes. Of perhaps greater concern are the forecasts for some outputs and results related to revenue based activity as they are not in proportion to contracted expenditure, particularly in the Convergence programme. Forecasts for the physical/ place based related environmental indicators in the Convergence programme (e.g. buildings and land) are stronger.

4.87 This means that both programmes are not buying sufficient numbers of some of the environmental outputs and results in the projects they are contracting. For example:

- the forecast of the number of EGS businesses/ enterprises assisted is low under PA1 and PA2 of the Convergence programme (it is reasonable under PA1 and PA2 of the C&E programme)
- the forecast of the number of businesses advised to improve environmental performance is low under PA2 of the Convergence programme (although contracted forecasts under PA2 of the C&E programme is good)
- the forecast of the number of SMEs assisted to improve environmental performance is low under PA3 of the C&E programme (although limited resources have been contracted for this PA)
- the result target for the number of jobs created in environmental sectors is low under PA2 of the Convergence programme and under PA1 and PA2 of the C&E programme.

4.88 This raises issues about the ability of the programmes to meet their environmental related output and result targets and any adverse impacts on the wider environmental objectives of both programmes.

Assessment of delivery to date

4.89 Both programmes have invested in projects that support the environmental objectives. Investment examples (randomly selected) are provided in the table below.

Table 4-18: Examples of projects to support environmental sustainability

Wave Hub in the Convergence programme
The Environment and Sustainability Institute in the Convergence programme
Improve Your Resource Efficiency – a project in both ERDF programmes
PRIMaRE – supported by both ERDF programmes
Envision Phase 3 – both programmes
iNET – Competitiveness programme

Source: SQW Consulting

4.90 The ERDF programmes have invested in projects to:

- improve the environmental performance of buildings
- improve the resource efficiency of businesses
- build the research and innovation base in the EGS sector across the region
- support the adoption of environmental technologies through innovation and enterprise support
- build the capacity of the EGS sector across the region e.g. through networking and innovation networks.

- 4.91 Both programmes are also actively exploring opportunities for investment in domestic energy efficiency and micro-generation, with the potential to spend £18.5m of ERDF under the Convergence programme and £4m under the C&E programme.
- 4.92 ERDF in the South West has made positive strides to support the low carbon agenda. However, our review has identified tensions amongst stakeholders in the ultimate objectives of both programmes relating to environmental sustainability. At the core of the tension is whether the programmes are seeking to make *absolute* environmental improvements or *relative* environmental improvements. The key metric is change in Green House Gas (GHG) Emissions.
- 4.93 Amongst the stakeholders we interviewed, there are champions of environmental sustainability that believe the programmes should be delivering an absolute change in environmental improvements. For these stakeholders, the activities of the programmes to improve relative performance, for example through improving the environmental resource efficiency of business, do not go far enough. They support the programmes taking investment decisions to deliver absolute savings (e.g. prioritising reusing existing buildings instead of developing new facilities). One stakeholder described the tension as economic versus environmental success. Other stakeholders interpret the objectives of the programmes as seeking to deliver a net reduction in GHG emissions, recognising that some projects will have a negative impact and some projects will have a positive impact.
- 4.94 The environmental AIRs for both programmes report that there have been challenges in embedding a high regard to environmental sustainability within some of the more revenue focused investments such as business support activity, and in identifying the environmental impacts of investments within discrete geographical areas. Some stakeholders reported concerns that the environmental aspirations of the ERDF programmes are being diluted at the delivery level, from the point of view of the programmes supporting activity that may have adverse environmental impacts.
- 4.95 The Environmental Advisory Group also reports that there have been difficulties in capturing environmental indicators and impacts at an investment level. Consequently, a new monitoring strategy was implemented in late 2009, containing a set of environmental performance indicators for both programmes, including the environmental related outputs and results from the main performance frameworks (the indicators discussed above). The strategy recommends monitoring at an investment level where appropriate and exploring the potential to use SWRDA's new zero carbon methodology. Currently, only the environmental related outputs and results within the main performance framework are monitored at a programme level, not the full list of performance indicators in the monitoring strategy. It is a concern that the monitoring strategy has not been fully adopted. More stringent monitoring conditions need to be introduced (that is relating claim payment to meeting conditions and providing adequate information in progress reports) as without these, the lack of monitoring data relating to environmental sustainability will not be resolved.
- 4.96 The zero-carbon methodology has been launched by SWRDA to assess the impact of all investments supported by the Agency with a total financial value, including RDA investment, of more than £1million, unless the project is significantly carbon generating or saving. The

assessment will be undertaken at appraisal and at the end of each project/ programme. Ultimately, SWRDA's aim is to have a net zero carbon annual investment portfolio by 2013. The Environmental Advisory Group has piloted the methodology on C&E and Convergence projects and estimated the carbon impacts of each. The key issue for the ERDF programmes is that the methodology focuses on relative emission savings, not absolute/ total emission reduction.

- 4.97 In relation to existing environmental output and result targets, a number of stakeholders said the targets are too high given the base of EGS businesses in the Convergence area and in the Western Peninsula in the C&E area. We consider any changes to environmental targets in the next chapter.
- 4.98 The assessment of the implementation of environmental sustainability has raised a number of issues for the PMCs to consider. Of most importance is gaining agreement on whether the programmes are seeking absolute or relative environmental improvements. There are potential tensions between the goals of both programmes to support economic development as well as environmental sustainability (in other words, does one have primacy, or can both be achieved at the same time (so-called de-coupling)). Our own view is that the programmes are best placed to achieve relative environmental improvements and can support environmental sustainability as part of economic development. The programme could utilise the zero-carbon methodology for investments above £1m at the appraisal stage. We are concerned about the resources that will be needed to do this and the resources required to measure carbon impacts at the end of the projects/ investments. The environmental programme indicators should be reviewed to ensure that each indicator is SMART – Specific, Measurable, Aligned, Realistic and Time-bound.

Equality and Diversity Cross Cutting Theme

Introduction

- 4.99 This section assesses effectiveness of the implementation of the equality and diversity CCT in the delivery of activity for both the C&E and Convergence programmes in the South West.
- 4.100 The OPs for both programmes recognise the importance of structural funds being delivered within the principles of non-discrimination and equal opportunities ensuring the projects take account of the needs of local communities and are accessible to all. The Equality and Diversity Cross Cutting Theme (CCT) should be embedded at every level of the Programme – in its governance arrangements in terms of representation on the PMC and sub-groups, through communications about Programme opportunities and the commissioning and project management process and in terms of supported project content and delivery. However, there are also some projects directly focused at providing greater economic opportunities for engaging under-represented groups.

Financial expenditure

- 4.101 As with the environmental CCT, the Equality and Diversity CCT does not have a specific budget allocation, although resources are reserved to support the embedding of the CCT

through the TA budgets including specific requirements for Communications as detailed further in Chapter 6.

- 4.102 There are no specific Priority Axes or strands within the Programme that directly address equality and diversity although there are particular projects such as Intensive Start Up Support (within Convergence) and projects within the spatially focused SIFs in both programmes that aim to achieve regeneration and will provide people in deprived communities with a greater opportunity to access employment. Similarly broader priorities associated with addressing peripherality in the Convergence Programme such as improvements to Newquay Airport, Next Generation Broadband and the Penzance-Isles of Scilly Route Link will improve access to opportunities for all. However, it is not possible to attribute a financial value to the elements of these projects which focus on achieving equality and diversity outcomes.

Outputs and results

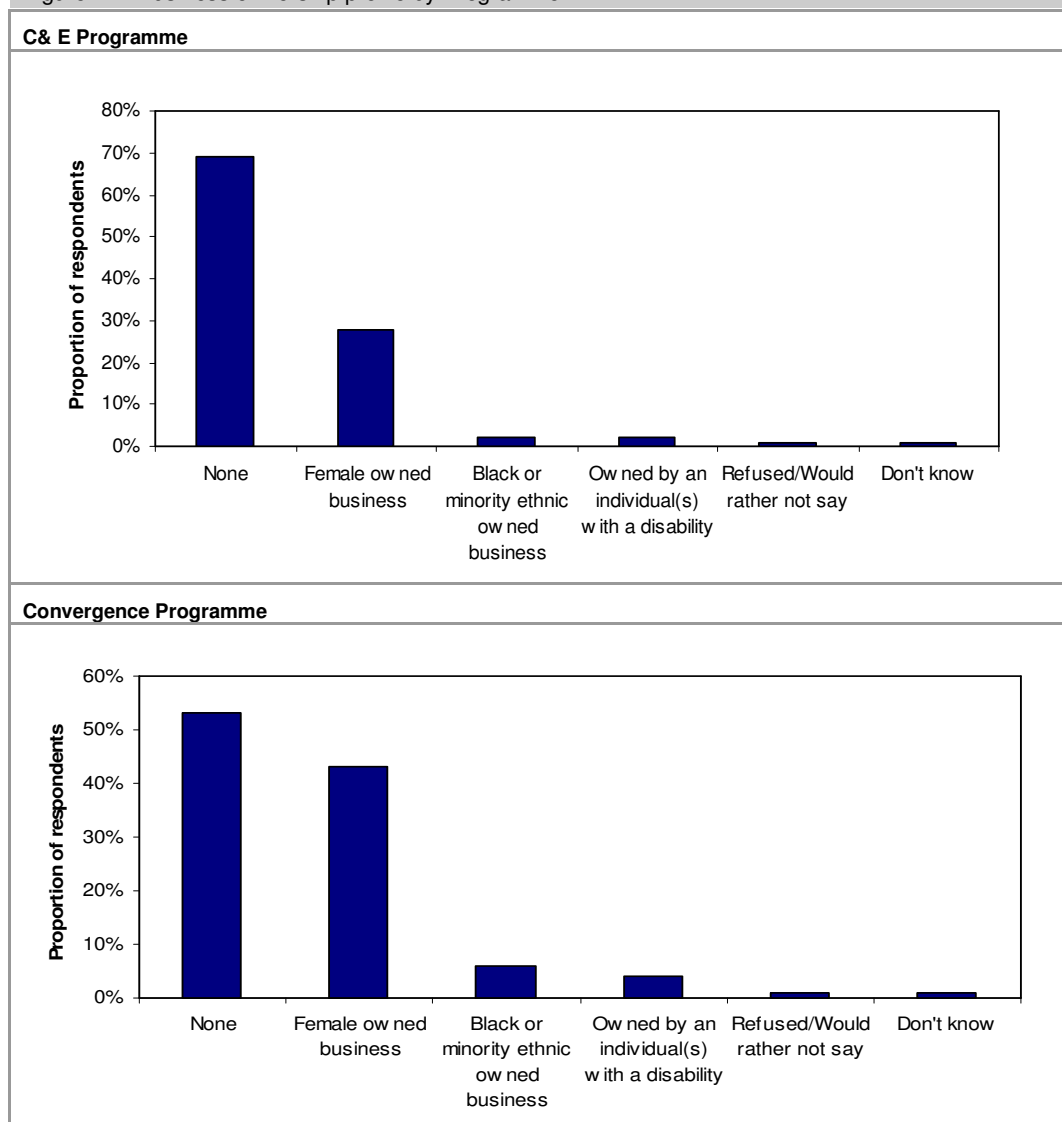
- 4.103 Both of the Programmes' OPs include limited targets for the CCT which are shown below in Table 4-19.

Table 4-19: Indicators and targets for equality and diversity			
Competitiveness		Convergence	
No of persons from under-represented groups (people from a BME background or with a disability & residents of disadvantaged communities) assisted in starting a business	20% of all persons assisted	No of persons from under represented groups (people from a BME background & those with a disability) assisted in starting a business	10% of all persons assisted
No of women assisted in starting a business	40% of all persons assisted	No of women assisted in starting a business	40% of all persons assisted
Proportion of PMC & sub-committee members who are women	50%	Proportion of PMC & sub-committee members who are women	50% of all Committee members

Source: SQW Consulting (derived from Competitiveness and Convergence OPs)

- 4.104 The Equality and Diversity CCT advisor has placed considerable importance on engaging with Business Link to ensure that business support products are delivered in a way that proactively embraces equality (through marketing, outreach, event delivery, communications and data collection) in order to move towards achieving the above targets. A number of the business support products are actively developing outreach programmes, including events targeting specific groups of people which should impact preferably on the resulting beneficiary profile.
- 4.105 Respondents to the business survey undertaken as part of this review were asked if the owner of the business responding was from any of the under-represented groups that the programmes aim to support. The results for both ERDF programmes are presented below.

Figure 4-4: Business ownership profile by Programme



Source: SQW Consulting (derived from Qa survey)

Notes: There were 177 business respondents to the Competitiveness survey. 65% of respondents had received support from the ERDF funded Deeper Broader IDB Service and 25% from the Internationalisation project, both under PA2. The remaining respondents had received support from Knowledge Exchange and Designing Demand under PA1.

- 4.106 This reveals that from the sample of respondents over 40% of the businesses within the Convergence area were owned by women with around 4% BME owners and 3% owned by people with a disability. For the C&E Programme, results were less positive showing less than 30% of respondents were from female owned businesses and around 2% of owners were either from BME backgrounds or had a disability. Although the business survey related primarily to PA2 activity – where there are no formal equality targets – the survey results suggest further work is needed to embed the programme’s equalities targets in project delivery.
- 4.107 The 2009 AIRs reported that both ERDF programmes are currently not meeting the target for 50% of the members of the PMC and sub-committees to be women. The AIRs state that following a survey of all groups, a report was presented to the PMCs highlighting the gender

balance following which all organisations represented within the governance structure have been asked to review their nominees. However, we understand that there has been little change in the gender profile of either PMC or any of the sub-groups as a result of the exercise. PMC representation is a Programme target and further work should be undertaken to balance representation as a matter of priority.

- 4.108 Equality requirements are built into the commissioning and appraisal process with requirements for all projects to undertake Equality Impact Assessments (EIAs), and the use of a Social Sustainability Toolkit as part of the appraisal process. Properly implemented, the Toolkit should result in accessible buildings constructed to a higher accessibility specification than basic Disability Discrimination Act and Building Regulations Part M legislative standards.
- 4.109 The monitoring group also agreed a set of equality indicators in 2009 against which individual funded projects should report (projects were not expected to report against all of the indicators, only the most relevant to their activity). However, whilst this information is required as part of quarterly claims along with information on other output indicators, it is not scrutinised by the monitoring teams or included alongside other information on outputs, results and impacts in the programme's performance management system (Performance Theatre). Therefore there is no evidence of the degree to which these indicators have been met. An equality monitoring strategy is due to be developed this year which will address embedding data and monitoring requirements for the CCT within both Programmes' monitoring regimes.
- 4.110 More positively, the charts earlier in this chapter on the qualitative findings of the business survey showed around 70% of the respondents in the Western Peninsula part of the C&E programme area reported that the equality of opportunity support they had received from ERDF projects had a high or very high impact on their business performance. In the non-Western Peninsula area, around 60% of the respondents reported high or very impact on business performance from the equality of opportunity advice.

Overall assessment of performance

- 4.111 There is evidence that a lot of activity has been undertaken to embed the Equality and Diversity CCT in both programmes with a competent team in place and an expert, dedicated advisory group championing the need to build equality and diversity into the programmes. However, stakeholders (from both programmes) considered that the CCT was better embedded than in previous ERDF programmes, but still ultimately represented an 'add-on' to the project appraisal and monitoring process, having much less weight than the environment CCT and to some degree considered an unnecessary burden for applicants/beneficiaries.
- 4.112 In the C&E programme, the delays to the delivery of PA3 have impacted on the achievement of the equalities targets, as the priority includes equalities focused projects such as ISUS in Plymouth. Further projects under consideration for PA3 such as Torbay and Bristol ISUS and Enterprise Coaching should, if approved, make a positive contribution to promoting equalities and diversity.

- 4.113 The lack of clear evidence and reporting on success/or otherwise to date with regard to the equalities CCT needs to be addressed. The lengthy list of indicators which has been developed for use by beneficiaries (but not collated within programme monitoring data) does appear to place an onerous burden on projects. We are aware that projects select the most appropriate indicators from the long list, but this will then lead to difficulties in consistent tracking of performance against indicators across the programme. We consider that the full list should be reviewed to provide a shorter list of core indicators which all projects are monitored against, although there is likely to be some 'optional' indicators that will be more relevant to say capital, rather than revenue projects for example.
- 4.114 The CCT appears to be much better embedded at the commissioning and appraisal stages than it is within the overall monitoring process which means that projects have to meet certain standards to obtain funding, but there is then no evidence as to whether standards are met within delivery. The proposed Equality Monitoring Strategy and proposed increased rigour for monitoring should go some way towards developing and regularly updating a robust evidence base.
- 4.115 In conclusion, there is insufficient evidence to state whether the Programmes are meeting their equality and diversity requirements.

Overall assessment of performance

- 4.116 This section has assessed the performance of the programme to mid 2010. ERDF expenditure to March 2010 was £9m, just over 8% of the ERDF budget. The programme met its N+2 2007 commitment target (for 2009) although there may be real challenges to meeting the 2010 target given the cuts to public spending and institutional uncertainty. The programme is behind schedule on the achievement of outputs and results. The programme has successfully contracted a good proportion of the ERDF budget (46%) and a further 35% is endorsed to projects awaiting appraisal/ approval. There is headroom in the budget of at least £21m. This is largely under PA2 and 3, with the real headroom higher given the slow progress in delivering PA3.
- 4.117 The focus for the whole programme in the immediate period should be to support project delivery to meet the N+2 targets and to ensure output and result achievements improve. The key findings by axis are:
- PA1 was slow to start but there is now an exciting portfolio of projects approved and starting delivery. The emphasis in the immediate period should be to support the delivery of this priority, especially in the Western Peninsula area.
 - PA2 has performed well, with strong links to the Solutions to Business service which may now be vulnerable to public sector funding cuts. Businesses that have received support from ERDF projects have reported high levels of satisfaction. The proportion of assists in the Western Peninsula in the business survey is 30%
 - The delivery of PA3 has been slow and is the major weakness in the programme. Doubts persist about the deliverability of the priority in all three areas. Match-funding has been a major constraint to date.

- Technical Assistance resources have been drawn down and delivery is progressing satisfactorily. Chapter 6 provides an assessment of the effectiveness of management and administration arrangements.
- 4.118 The programme has made some progress in championing and supporting the transition to a low carbon economy. The environment CCT has been embedded in the programme, with further details provided in Chapter 6. However, there remain tensions amongst stakeholders about the ultimate objectives of the programme in respect of environmental improvements; namely whether the programme is seeking to achieve absolute or relative improvements. The opportunity to revise the OP provides an opportunity for a clearer elaboration of the aspirations of the programme in respect of supporting the drivers of a low carbon economy and how this will be delivered in practice through projects.
- 4.119 Progress has also been made in embedding the Equality and Diversity CCT particularly in the commissioning of projects. Evidencing progress is weakened by the lack of programme monitoring of equality indicators, a challenge also for the environment CCT and for monitoring results in the Western Peninsula. The Equality and Diversity CCT is a lower priority for stakeholders than environmental sustainability.
- 4.120 The review has found no real evidence – within the scope of the work – of economic spillovers (benefits or costs that are not reflected in transaction prices) between the ERDF Competitiveness and ERDF Convergence programmes.
- 4.121 Stakeholders identified the following main risks to the programme achieving its aspirations:
- delivery of PA3
 - the challenges of achieving the intra-regional disparity targets
 - cuts to public finances – which threatens the availability of match-funding and the human resources in the public sector to support programme delivery
 - institutional uncertainty including the future status of SWRDA and the implications this may have for match-funding and management arrangements
 - uncertain support in central government for Cohesion Policy
 - the impacts of the recession on business capacity to absorb ERDF support and on business formation, innovation and investment levels.
- 4.122 It appears likely that the total programme value will fall, given the cuts to UK public finances and that the ERDF intervention rate is fixed at 50%. We have already recommended that the programme does not veer significantly from its core strategy. However, given the changing institutional and public finances context, under-performance in PA3 and potential challenges to achieving the programme's objective to reduce intra-regional disparity, we do recommend changes to the programme's strategy - to introduce greater flexibility to respond to the changing circumstances and opportunities and re-emphasise the focus on the Western Peninsula.
- 4.123 Consequently we recommend that the PMC considers the following revisions to the OP:

- revise the strategy for PA3 to enable investment in other urban enterprise areas
- consider the virement of all or part of the unallocated budget under PA3 to PA1 and PA2 to strengthen the programme's approach to rural delivery and the Western Peninsula
- identify further opportunities for capital investment within the current strategy, perhaps under PA3
- amend the financial tables to include private sector match-funding.

4.124 As discussed in chapter 2, the C&E programme-wide strategy for delivering in rural areas is not clear. Given the programme's objectives for the largely rural Western Peninsula area, which we support, there may be a case to strengthen the programme's approach to rural enterprise in the Western Peninsula, to address structural weaknesses in the economy and support its transition to higher-value added activities. Consequently, we recommend that the PMC give consideration to strengthening the approach to rural enterprise under PA1 and PA2, funded from a virement of all or some of the unallocated budget of PA3. Our view is based on the premise that the challenges facing the Western Peninsula may require tailored solutions, specifically targeted on rural enterprise issues in the Western Peninsula.

4.125 There was mixed feedback on this recommendation at the draft final report stage. From a SWRDA perspective, there is concern about the fit of this with the agency's 'mainstreaming' approach to rural delivery, which is based primarily on ensuring that all of its activity is appropriately applicable in rural as well as urban areas. This approach is detailed in a paper entitled *The South West RDA's Rural Policy and "Offer"* to SWRDA's Board on 7 December 2009. The paper sets out that SWRDA's approach – which has been in place since 2007 – was driven by the mainstreaming of rural issues in national policy. Mainstreaming is defined in the paper as the use of the same policy and delivery mechanisms for both rural and urban areas without recourse to distinct rural policy or programmes. Other stakeholder raised concerns about the potential for overlap with the SWRDA managed part of the South West RDPE programme, the capacity of rural areas to develop projects for ERDF support and the time it may take to develop a rural enterprise part of the C&E programme.

4.126 We maintain that the C&E needs to strengthen its approach to rural delivery. The absence of any monitoring data on delivery to date in the Western Peninsula does not help in reviewing whether the current strategy is working. Although project contracts for PA1 and PA2 include the Western Peninsula result targets and therefore a requirement for activity in the Western Peninsula area, we believe that the programme needs to do more. The links between the ERDF and RDPE programmes are not as developed as they are between ERDF and ESF. There is potential for the programmes to overlap, which must be avoided. We understand that a mid-term review is planned of the RDPE programme, which should provide an opportunity for the ERDF PMC to influence the future activity. Currently there is no reference to the Western Peninsula priority in the RDPE's Regional Implementation Plan (the equivalent of the OP). The rural paper to SWRDA's Board stated that the mainstreaming approach has not been without criticism from stakeholders (regionally and nationally) and there is limited evidence to prove one way or another whether it is working.

- 4.127 The rural paper identifies a number of gaps in the scope of the RDPE against regional economic objectives:
- engaging with market and coastal towns and harnessing their spill-over effects to surrounding rural areas
 - the provision of rural workspace
 - infrastructure to support the growth of the knowledge economy in rural areas
 - locally-tailored business support for micro-businesses in non land-based sector businesses.
- 4.128 This provides a good starting point for the ERDF programme to consider strengthening its approach to the Western Peninsula and warrants further investigation, through consultation with the RDPE programme and local partners. Strengthening the infrastructure for the knowledge economy would fit well with the ERDF programme. Building on the RDPE programme would also help to overcome concerns about whether there is sufficient time to develop a rural enterprise strand of activity.
- 4.129 We recommend that the PMC undertakes an urgent review of the implications on all projects from cuts in match-funding. If the value of the programme falls, we recommend that resources are protected for the implementation of PA1, PA2 and the low carbon economy, providing support is available in the private sector if Business Link is abolished.

Table 4-20: Key messages

ERDF expenditure to March 2010 was £9m, just over 8% of the ERDF budget. Although the programme has successfully contracted a good proportion of the ERDF budget (46%) it is behind schedule on the achievement of outputs and results.

PA1 was slow to start but there is now an exciting portfolio of projects approved and starting delivery. PA2 has performed well, with strong links to the Solutions to Business service and businesses that have received support from ERDF projects reporting high levels of satisfaction. The delivery of PA3 has been slow and is the major weakness in the programme. Doubts persist about the deliverability of the priority in all three areas.

Tensions remain in the ultimate aspirations of the programme in supporting a low carbon economy and whether it will deliver absolute or relative environmental improvements.

The focus for the whole programme in the immediate period should be to support project delivery to meet the N+2 targets and to ensure output and result achievements improve.

The programme needs to be flexible to respond to the changing circumstances and opportunities. The PMC should consider revisions to the OP within the current strategy to ensure it resilient for the future, particularly in the face of public sector funding cuts. This should include strengthening the programme wide approach to rural enterprise development.

The headroom in the budget is at least £21m. This is largely under PA2 and 3, with the real headroom higher given the slow progress in delivering PA3. If the programme value falls due to the availability of match-funding, we recommend PA1, PA2 and the low carbon economy is protected.

Source: SQW Consulting

5: Evidence of Impact and Value for Money

Introduction

- 5.1 The purpose of this chapter is fourfold:
- to test the reasonableness of the targets in the OP for outputs, results and impacts at the time they were set
 - to estimate the achieved and future potential economic impacts of the business assistance provided by projects under PA1 and PA2 to March 2010
 - to estimate potential future economic impacts of the lifetime business assists targets under PA1 and PA2
 - to consider the value for money (VfM) of the programme.
- 5.2 Chapter 4 provided an assessment of the performance of the programme to March 2010. This showed that output and result achievements – which in turn lead to impacts – have been modest to March 2010. Given the early stage of the two programmes there are few measurable impacts that can be properly assessed robustly through primary research. The strongest area of performance has been the number of businesses assisted to improve their performance, with the majority of these achieved through activities in PA2.
- 5.3 Consequently, the focus of the assessment of impacts has been on the GVA outcomes generated or expected by businesses that the programme has assisted under PA1 and PA2 to March 2010 (business assist outputs). This has been conducted through a primary survey of business beneficiaries of projects in PA1 and PA2. This part of the impact assessment has considered the impacts achieved to date and that the programme may generate from business assistance in PA1 and PA2 in the future, based on the findings of the survey. Further details on the survey are provided later in the report.
- 5.4 The assessment of the potential future economic impacts of the programme from other areas of intervention are reliant upon making assumptions from the current evidence. Therefore, to be able to more soundly comment on the likely impact of the programme, we have undertaken an additional line of investigation. Using the programme's performance framework we have assessed the output and result targets that lead to the impact, and considered the relationship between these targets. This relationship is summarised in the logic chain diagram in Chapter 2. The key question in this part of the assessment has been whether the targets made sense at the time they were set and if not, whether they should be changed. No information has been provided to SQW on the process and method by which the targets were originally set, so it is not possible to comment on this.
- 5.5 To begin the first part of the analysis we have rigorously examined the performance framework to better understand the anticipated outputs, results and impacts. This has included a spend per unit (of outputs, results and impacts) analysis to assess the extent to

which the programme spend appears sufficient to meet the programme targets. Furthermore, we have compared these to similar spend per unit benchmarks derived from external sources. Suitable benchmarks have been derived from the 2009 National Report on the Impact of RDA spending²⁴ and previous work undertaken by SQW for Advantage West Midlands²⁵ (AWM), which reviewed national and regional evaluation evidence on unit costs by intervention category to compile performance benchmarks (the work for AWM looked at evaluation evidence across a number of regions, not just the West Midlands). This assessment is based on unit cost comparison for the *whole* budget (ERDF and matched funding) of each Priority Axis. Although this is likely to overstate the actual spend per unit (as spend within each axis will be spread across several outputs and activities), this allows direct comparison with the external sources. Where appropriate, we have also referred to the Cambridge Economic Associates (CEA) research for BIS on additionality benchmarks²⁶.

- 5.6 We have also assessed the performance framework with regards to the assumptions within the targets – for example, whether the target for *new* businesses assisted is a reasonable proportion of the overall businesses assisted target. Moreover, we have sought to compare the targets against evidence from secondary data to ensure that the targets also appear reasonable from this perspective. For example, does the target for the number of environmental businesses assisted look reasonable given the overall population of environmental businesses in the programme area.
- 5.7 The final step in this part of the assessment is to bring both the survey evidence and the assessment of the performance framework together to assess the links between the outputs, results and impacts in the OP and to consider how well these links hold up to the current evidence. For example, does the current level of GVA impacts per net business assist (found through analysing the survey of businesses) correspond with the GVA impacts per business assist stated in the performance framework.
- 5.8 The assessment of the reasonableness of the targets built on the analysis of the same in the ex-ante evaluation of the OP. The SQW analysis is more in-depth and extensive than undertaken in the ex-ante evaluation and has been able to draw on benchmarks and research not available at the time of the ex-ante evaluation.

Assessment of the reasonableness of the targets

- 5.9 This section considers the reasonableness of the output, results and impact targets in the programme's performance framework (as set out in the OP).

Programme level targets

- 5.10 The full programme targets are shown in Chapter 3. They include:
- 11,000 businesses assisted to improve their performance (of which 700 will be environmental technologies and renewable energy businesses)

²⁴ BIS (then BERR) (2009), Impact of RDA spending: National report.

²⁵ AWM (2009), Performance Benchmarks, prepared by SQW.

²⁶ Cambridge Economic Associates (October 2009), Research to improve the assessment of additionality, for BIS

- 900 individuals in the urban enterprise areas to be assisted to start a business and 700 to get a job
 - 9,000 gross jobs created and a further 4,000 safeguarded
 - net impacts of 5,682 additional jobs, £208.7m of additional economic output (value added) and £324.8m of additional economic output safeguarded.
- 5.11 The breakdown of these targets at the Priority Axis level is shown in the table below (this excludes the TA priority as there are no targets in the performance framework).

Assessment of targets

- 5.12 Annex H presents the detail of the assessment of the reasonableness of the output, results and impact targets based, where possible, on comparison with an appropriate benchmark. The unit cost comparison for the programme is based on the Sterling value of the budget allocations in the OP for the programme and by PA (ERDF and UK match funding combined). The paragraphs below summarise the findings of the analysis.

Table 5-1: Summary of targets

	Priority Axis 1: Knowledge and innovation	Priority Axis 2: Enterprise and Growth	Priority Axis 3: Urban Enterprise
Output targets (including)	3,990 businesses assisted to improve performance (incl. various subsets of business types)	5,810 businesses assisted to improve performance (incl. various subsets of business types)	900 individuals assisted in starting business 1,200 businesses assisted 2,000 sq metres of new or upgraded floor space - non specialist/ specialist 700 people assisted to get a job 100 SMEs assisted to improve their environmental performance
Results targets (including)	3,200 new jobs created (incl. 700 in environmental sectors) 1,400 additional firms involved in business networks 140 patents granted and other IPRs and other IPR devices 4,500 SMEs with new or improved products £126.4m gross increase in GVA £15.9m safeguarded GVA	4,300 new jobs created (incl. 750 in environmental sectors) 2,000 jobs safeguarded 1,200 additional firms involved in business networks £169.9m gross increase in GVA £248.9m safeguarded GVA	600 businesses started 1,500 new jobs created 1,000 jobs safeguarded £30m gross increase in GVA £50m safeguarded GVA
Impact targets	£128m net additional safeguarded GVA £92m net additional GVA 2,330 net additional employment	£167.2m net additional safeguarded GVA £100.5m net additional GVA 2,543 net additional employment	£29.6m net additional safeguarded GVA £16.2m net additional GVA 809 net additional employment

Source: SQW analysis of programme documents

Findings for output targets

- 5.13 Where benchmark data are available to inform a judgement on the reasonableness of the targets set out above, we have done this. Due to the unique nature of many of the outputs, it has not been possible to identify a suitable benchmark against which to judge the target. This is commentary on the size of the targets rather than their value-for-money.
- 5.14 The assessment suggests most of the targets are reasonable and we do not comment on these here. Other key findings are:
- the target for the number of EGS businesses assisted is challenging (at 16% of the EGS business population), but supports the aspiration of growing this sector
 - the target for advising or assisting SMEs to improve their environmental performance appears high at 24% of the total target for businesses assisted in PA2, but again this is an aspirational target that supports wider programme objectives
 - the targets for square metres of new or upgraded floorspace appears high against the benchmarks but this is a small proportion of activity under PA3.
- 5.15 On the basis of the above assessment, we would not suggest that any of the output targets discussed are revised, based on the assessment of their reasonableness at the time they were set.

Findings for result targets

- 5.16 In common with the assessment of the output targets, it has not been possible to carry out an assessment of all of the results targets. For those targets for which reasonable benchmark data were available, we have undertaken some assessment.
- 5.17 Again, most of the result targets look reasonable, at the time they were set. The key findings are:
- we recommend that the target for the number of SMEs launching new products or processes is reduced given that the original target is unachievable.
 - the PA1 targets for research jobs created/ safeguarded are challenging (at 20%) but this is a stretching target reflecting the focus of the priority.
 - the result targets for gross jobs created in the EGS sector equates to a 6% increase in employment in EGS in the C&E areal but this is relatively high as it equates to nearly 20% of total jobs created in PA1 and PA2. However, again this is a stretching target reflecting the ambitions of the programme.
 - the results target for the total number of businesses started under PA3 appears challenging given the spend per unit per business start, which is lower than benchmarks, and the target to translate 900 individuals assisted into 600 businesses started. This is a particularly stretching target.

Findings for impact targets

5.18 Key findings are:

- the impact target for net additional employment generated equates to a 0.3% increase in employment in the C&E area which is achievable. Unit spend per net additional job is reasonable when compared to benchmarks. The gross to net ratio of 63% is higher than that derived from the business survey.
- the impact targets for net additional / safeguarded GVA appears reasonable if not low compared to benchmarks. However, assumed gross to net ratios in the targets are high.

Revised set of targets

5.19 In light of the analysis above, the table below presents our recommendation for a revised performance framework for the programme. This suggests only one change to the current framework – a reduction in the number of SMEs launching new products or processes which is over-ambitious given the number of business assists.

5.20 For illustrative purposes, the table below also presents a scenario of the revised set of targets assuming a 25% cut in the total programme value (ERDF and UK). This scenario has been presented with the expectation of a reduction in the availability of UK public match funding (which has provided the lions share of match funding to date). Given that we understand the programme's ERDF intervention rate is fixed at 50%, a reduction in the availability of UK match funding (all sources) will reduce the *total* programme value. The scenario assumes a fall in UK public sector funding of 25%. Consequently each target has been reduced by 25% (made up of a 25% fall in UK match funding (25% reduction of 50% of funding, or 12.5%) and a corresponding 25% fall in ERDF funding (25% reduction of 50% of funding, or 12.5%), giving a total fall of 25%). Clearly the relationship between expenditure and outputs/ results/ impacts will not be linear across the programme e.g. for some outputs, a 25% reduction in resources may lead to a disproportionate fall in the number of outputs.

5.21 We have been advised by the European Commission that the targets should not be revised based on performance to date (or anticipated programme performance in the future). However, clearly the achievement of the targets may be challenging given the macro-economic and political changes outlined in Chapter 3. We do not have any firm evidence from the review on the impact of the recession on the deliverability of the targets, other than evidence that the programme is behind where it expected to be in terms of output and result achievements. Although the economic climate may impact in the short-term, there is still a number of years left to achieve the outputs and results, given that they can be achieved beyond 2013 (in the case of jobs, up to 4 years after the investment). The time left to deliver may also help overcome concerns expressed by some stakeholders of the lag between expenditure and the achievement of outcomes. This is especially the case for innovation and R&D expenditure.

5.22 A number of stakeholders we consulted stated that the result targets for the Western Peninsula are unrealistic and are set too high. The programme has not monitored results for the Western

Peninsula so we are unable to comment on achievements or the proportion in contracted targets. Our business survey suggests around one third of business assists have been in the area, which is below the target of 45% for PA2 (the majority of the business assists to date have been in PA2). The targets for the Western Peninsula are certainly stretching, particularly for PA1, but we do not have evidence to suggest they were incorrectly set.

- 5.23 We have also received comments that the current output targets for the Equality and Diversity CCT (under PA3) are too high. In chapter 2 we recommended that Equality and Diversity targets are introduced for PA1 and PA2 (we suggest as proportion of business assists). To date, no outputs have been achieved under PA3 relating to the Equality and Diversity output target. Again, we do not have firm evidence to suggest that they have been set too high.

Table 5-2: Revised Targets

	Priority Axis 1			Priority Axis 2			Priority Axis 3			Competitiveness total		
	Original	Revised	25% cut ²⁷	Original	Revised	25% cut	Original	Revised	25% cut	Original	Revised	25% cut
Outputs												
O01 - Number of businesses assisted to improve their performance	3,990	3,990	2,993	5,810	5,810	4,358	1,200	1,200	900	11,000	11,000	8,250
O02 - Number of new businesses assisted (Subset of businesses assisted)	210	210	158							210	210	158
O03 - Number of environmental technologies and renewable energy enterprises assisted (subset of businesses assisted)	350	350	263	350	350	263				700	700	525
O04 - Number of firms involved in collaborative research & development projects (subset of businesses assisted)	210	210	158							210	210	158
O05 - Number of new enterprises assisted (subset of businesses assisted)				490	490	368				490	490	368
O06 - Number of SMEs advised or assisted to improve their environmental performance (subset of businesses assisted)				1,400	1,400	1,050				1,400	1,400	1,050
O07 - Number of businesses within the region engaged in new collaboration with UK knowledge base (subset of businesses assisted)				300	300	225				300	300	225
O08 - Number of individuals assisted in starting business							900	900	675	900	900	675
O09 - Number of social enterprises assisted							80	80	60	80	80	60

²⁷ The 25% cut per indicator is for illustrative purposes only

	Priority Axis 1			Priority Axis 2			Priority Axis 3			Competitiveness total		
	Original	Revised	25% cut ²⁷	Original	Revised	25% cut	Original	Revised	25% cut	Original	Revised	25% cut
O10 - Square metres of new or upgraded floor space - non specialist							1,000	1,000	750	1,000	1,000	750
O11 - Square metres of new or upgraded floor space - specialist							1,000	1,000	750	1,000	1,000	750
O12 - Number of people assisted to get a job							700	700	525	700	700	525
O13 - Number of SMEs assisted to improve their environmental performance							100	100	75	100	100	75
Results												
R01 - Gross new jobs created	3,200	3,200	2,400	4,300	4,300	3,225	1,500	1,500	1125	9,000	9,000	6,750
R02 - Gross jobs safeguarded	1,000	1,000	750	2,000	2,000	1,500	1,000	1,000	750	4,000	4,000	3,000
<i>R03 - Gross research jobs created (subset of jobs created)</i>	<i>640</i>	<i>640</i>	<i>480</i>							640	640	480
<i>R04 - Gross Research jobs safeguarded (subset of jobs safeguarded)</i>	<i>200</i>	<i>200</i>	<i>150</i>							200	200	150
R05 - Number of additional firms involved in business/cluster networks	1,400	1,400	1,050	1,200	1,200	900				2,600	2,600	1,950
R06 - Number of patents, other IPRs and other IPR devices used (e.g. trademarks copyrights)	140	140	105							140	140	105
R07 - Number of SMEs launching new or improved products	4,500	2,250	1,688							4,500	2,250	1,688
R08 - Gross increase in GVA, £m	126.40	126	95	169.90	170	127	30.00	30	22.5	326.30	326	245

	Priority Axis 1			Priority Axis 2			Priority Axis 3			Competitiveness total		
	Original	Revised	25% cut ²⁷	Original	Revised	25% cut	Original	Revised	25% cut	Original	Revised	25% cut
R09 - Gross safeguarded GVA, £m	165.90	166	124	248.90	249	187	50.00	50	37.5	464.80	465	349
R10 - Gross jobs created in environmental sectors	700	700	525	750	750	563				1,450	1,450	1,088
R11 - Number of businesses started							600	600	450	600	600	450
<i>R12 - Number of businesses still trading one year after commencing trading (subset of businesses started)</i>							550	550	412.5	550	550	413
<i>R13 - Number of businesses still trading three years after commencing trading (subset of businesses started)</i>							400	400	300	400	400	300
Impacts												
Net additional employment	2,330	2,330	1,748	2,543	2,543	1,907	809	809	607	5,682	5,682	4,262
Net additional GVA, £m	92.0	92.0	69.0	100.5	100.5	75.4	16.2	16.2	12.2	208.7	208.7	156.5
Net additional safeguarded GVA, £m	128.0	128.0	96.0	167.2	167.2	125.4	29.6	29.6	22.2	324.8	324.8	243.6

Source: SQW

Impact findings from survey of businesses

- 5.24 This section discusses the results of the business survey introduced earlier. The survey has been used to estimate the economic impact of business assistance under PA1 and PA2 to March 2010 and to estimate future economic impacts of business assistance under PA1 and PA2 post-March 2010.

Introduction to survey

- 5.25 Primary research was undertaken through surveying businesses that had directly benefitted from project activities (number of business assists) under PA1 and PA2. Contact details were sought from all businesses that had received business assistance, however, contact details were not available for the SW MAS project and the Envision project was excluded as it has been separately evaluated. Consequently, the economic impact of business assistance through these two projects has been treated separately in the impact assessment, as described later in this section.
- 5.26 There were 177 respondents to the survey, drawn from four projects from PA1 and PA2. Businesses were surveyed randomly in the survey. The majority of the respondents related to the Deeper Broader IDB Service project. The number of respondents by project is shown in the table below.

Table 5-3: Breakdown of Competitiveness beneficiary contacts and interviewees

Project	Priority Axis	Number of contacts provided	Number of completed interviews	Proportion surveyed
Knowledge Escalator	P.A.1	43	12	28%
Designing Demand	P.A.1	18	5	28%
Deeper Broader IDB Service	P.A.2	405	115	28%
Internationalisation	P.A.2	122	45	37%
Total Competitiveness business survey	-	588	177	30%

Source: SQW

- 5.27 It should be noted that the majority of the respondents to the survey were from activities supported under PA2. The sample size was too small to allow assessment of the sample results by PA. Although this could have consequences for the interpretation of the survey information and for grossing-up the survey results (see section below), we are confident that the nature of business assistance under PA1 and PA2 is similar enough to apply the survey findings across both priorities. However, as the nature of business assistance in PA3 is significantly different to that in PA1 and PA2, we are not confident that the results of our survey are representative of (and therefore applicable to) PA3.
- 5.28 The analysis of the economic impacts of the business assistance under PA1 and PA2 has estimated the net GVA outcomes of the assistance. This has been calculated from reported increases in turnover, converted to GVA, and cost savings, converted to GVA. The economic

impact assessment has not considered net job outcomes of the business assistance, as there is a danger that this will double-count turnover benefits.

- 5.29 The analysis of the survey has been undertaken for two geographical areas – the Western Peninsula area (consisting of Devon, Plymouth, Torbay, West Dorset, Weymouth and Portland, Taunton Deane and West Somerset) and the rest of the Competitiveness area. The programme’s monitoring data does not identify business assist outputs in the Western Peninsula area and elsewhere in the Competitiveness area. However, we have estimated this through analysing the geographic location of the 588 beneficiary contact details we were provided with. We were able to use this analysis to identify the number of businesses in the sample in the Western Peninsula area and the rest of the Competitiveness area.
- 5.30 The table below outlines the survey response rates and associated confidence intervals. The confidence intervals of +/-11.9% for the Western Peninsula area and +/-7.2% for the rest of the Competitiveness area have been derived using the number of businesses eligible for inclusion in the survey (i.e. only those from projects listed in Table 5-3²⁸) and the number of survey respondents. The confidence intervals suggest we can have more confidence in the results for the rest of the Competitiveness area than the Western Peninsula area, although both confidence intervals are within the bounds of what is reasonable for impact assessment.

Table 5-4: Confidence intervals for survey work

Area	Population	Responses	% of population surveyed	Confidence interval
Western Peninsula	175	49	28%	+/- 11.9
Rest of Competitiveness area	413	128	31%	+/- 7.2%

Source: SQW

Step 1: estimating additionality

- 5.31 Table 5-5 sets out the approach to assessing additionality in the business survey, a key step in estimating the economic impact of the programme.
- 5.32 In order to assess the economic impact of the PA1 and PA2 business assists, it is necessary to estimate the additionality of the benefits generated from the business assistance – in other words, what was truly additional to what would have happened anyway in the absence of the programme. The survey provided two pieces of information in order to make this calculation:
- The first is the change in business performance since receiving the assistance. This was self-reported by the respondents to the survey.
 - The second is the extent to which businesses assessed that the support and intervention provided by the projects contributed to this change in performance. This information was gathered from the survey with a series of questions relating to factors relating to additionality (deadweight, displacement, substitution, leakage and

²⁸ This is the total number of contacts we were supplied with. This figure includes some post-March 2010 assists but excludes beneficiaries from the Envision project (which had already been evaluated) and the SW MAS project (which provided alternative GVA impact data). These two projects were not part of the surveying work.

multipliers). The responses of the businesses in the survey enables additionality to be estimated.

5.33 Table 5-5 sets out the step by step approach to assessing additionality through the survey.

Table 5-5: Addressing of different components of the additionality logic chain			
Component	Business support survey	Survey results – Western Peninsula (number of responses)	Survey results – rest of Comp (number of responses)
Deadweight equals...	<p>Proportion of beneficiaries indicating would have achieved benefits in full without the project</p> <p>+ proportion of beneficiaries indicating they would have achieved some benefits but on a smaller scale multiplied by the proportion of the benefit that would have been gained anyway (midpoints of ranges used: 1-25%, 26-75%, 76-99% for partial additionality)</p> <p>+ proportion of beneficiaries indicating that they would have achieved benefits later multiplied by 0.5 (0.5 used as a proxy for partial additionality)</p> <p>+ proportion of beneficiaries indicating that they would have achieved benefits in a different way multiplied by 0.5 (0.5 used as a proxy for partial additionality)</p> <p>= Total</p>	<p>(10%)</p> <p>(2%)</p> <p>(8%)</p> <p>(3%)</p> <p>23%</p> <p>(n = 48)</p>	<p>(15%)</p> <p>(3%)</p> <p>(12%)</p> <p>(2%)</p> <p>31%</p> <p>(n = 120)</p>
Leakage equals...	This is the average proportion of benefits that have been generated outside of the area	<p>26%*</p> <p>(n = 6)</p>	<p>32%</p> <p>(n = 20)</p>
Displacement equals...	This is the average proportion of business that would go to others within the local area/region if the benefiting business were to cease trading tomorrow (midpoints of ranges used: 1-25%, 26-75%, 76-99% for partial additionality)	<p>30%</p> <p>(n = 50)</p>	<p>27%</p> <p>(n = 129)</p>
Substitution equals...	Proportion of beneficiaries indicating that they were unable to undertake other business development activities because of the project multiplied by the average proportion of benefits that the alternative activities would have generated (in comparison to those generated by the project) (midpoints of ranges used: 1-25%, 26-50%, 51-75%, 76-99% for partial additionality)	<p>2%</p> <p>(n = 50)</p>	<p>5%</p> <p>(n = 129)</p>
Multiplier effects equals...	The proportion of the businesses' purchases by value that are made within the area. (midpoints of ranges used: 1-25%, 26-75%, 76-99% for partial additionality)	<p>55%</p> <p>(n = 50)</p>	<p>37%</p> <p>(n = 129)</p>

Source: SQW

* Note: The leakage coefficient of 26% was generated through just 6 responses to the survey. This number of responses is insufficient to form robust estimates. Therefore, when calculating the overall additionality ratio below we have used the leakage figure calculated using the complete set of Competitiveness respondents.

5.34 The additionality can be calculated by bringing all the elements together to yield an overall estimate of the proportion of assisted businesses likely to have generated outputs and outcomes from the business assistance that would otherwise not have been produced. Our analysis estimates this proportion to be 57% for the Western Peninsula businesses and 44%

for the businesses in the rest of the Competitiveness area - expressed as a net to gross ratio of 0.57 and 0.44 (Table 5-6).

Table 5-6: Additionality factors for survey results and overall ratio

Component	Western Peninsula	Rest of Competitiveness
Non Deadweight , i.e. proportion of benefits that would not have happened without assistance	0.77	0.69
Non Leakage , i.e. proportion of benefits staying in the region	0.69 ²⁹	0.68
Non Displacement , i.e. proportion of benefits not causing adverse effects on other businesses	0.70	0.73
Non Substitution , i.e. proportion of benefits not causing diversion of resources to take advantage of assistance	0.98	0.95
Multiplier effect , i.e. knock-on effects through supply and income linkages	1.55	1.37
Overall ratio , i.e. multiplication of the components above	0.57	0.44

Source: SQW

5.35 The table indicates that for business support activities under PA1 and PA2, just over half of the outputs and outcomes in the Western Peninsula are additional, and just under half are additional in the rest of the Competitiveness area. The following observations are pertinent to the factors in the additionality calculation:

- The survey revealed relatively high levels of displacement, particularly in the Western Peninsula (30%), where three quarters of the surveyed firms reported that if they were to cease trading, at least part of their sales would be taken by competitors within the area. The CEA (2009) sub-regional benchmark for displacement is 21.5% for enterprise/ business support activities.
- The estimates for leakage from the survey appear high compared to the CEA sub-regional benchmark of 16%.
- Substitution is relatively low in the survey results
- Multiplier effects, particularly in the Western Peninsula area, appear to be high compared to the CEA benchmark of 1.25.

Step 2: Grossing up

5.36 The additionality ratios calculated above allows us to consider the performance benefits experienced by the assisted businesses that otherwise would not have been achieved. So far, the analysis and estimates have been calculated based purely on the 177 firms that responded to the business survey. The next step in the impact analysis is to agree the process for grossing up to the larger population of businesses that have received assistance to March 2010.

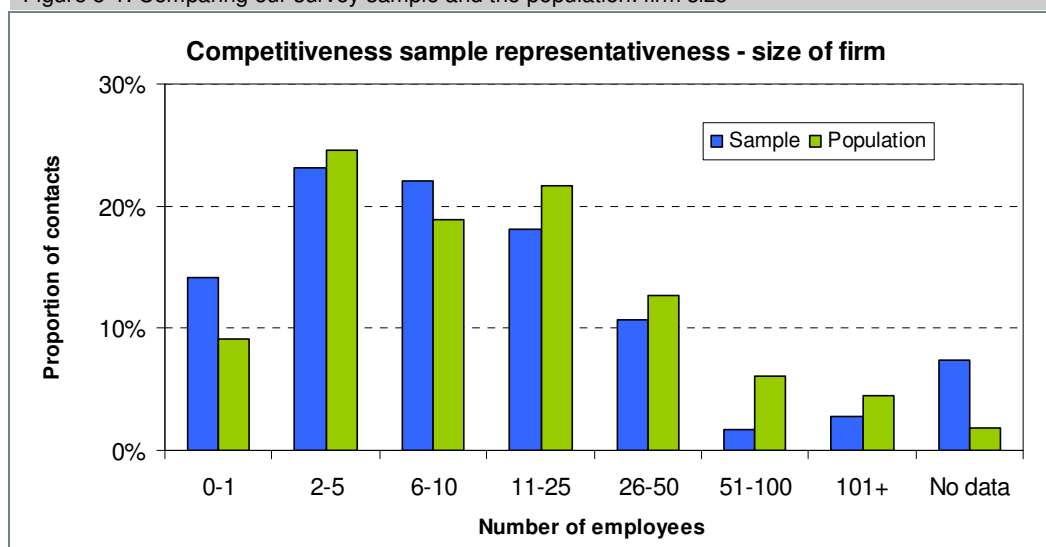
²⁹ As the Western Peninsula response rate for the corresponding survey question was too low to enable robust calculation, we have used the whole Competitiveness area estimate of 31% for leakage.

- 5.37 As reported in Chapter 4, total business assists to March 2010 was 616. However, this figure includes business assists provided by SWMAS (149) and Envision (145), which are not in the population of business assists for the impact assessment. Consequently, the impact assessment grosses up to 322 gross business assists (616 minus 149 minus 145).
- 5.38 We did not gross up to the 588 business assist contacts in table 5.6 (which excludes SW MAS and Envision) because this figure included businesses that had received assistance post-March 2010. At the time of the analysis, the post-March 2010 assists were not formally recorded in the SWRDA monitoring systems and therefore not fully verified in the management information supplied to SQW.

Sample representativeness

- 5.39 When grossing up it is important to assess how representative the sample of surveyed businesses is of the overall population of businesses assisted by the projects. A representative sample improves our confidence in making accurate assumptions when grossing up from the survey results to the wider population.
- 5.40 It has been possible to obtain information regarding firm size (number of employees) for both our survey sample and the overall population of 588 business assists. Figure 5-1 below shows that, in terms of the size of each firm, our survey sample closely matched the overall population of contacts. The only difference of note is that the sample contains slightly more small businesses (0-1 employees) and slightly fewer larger businesses (51-100 employees). However, the extent of this difference is not enough for us to lose confidence in the representative nature of our survey sample.

Figure 5-1: Comparing our survey sample and the population: firm size



Source: SQW

Step 3: Converting gross to net

Business assists

- 5.41 Having calculated the additionality ratios and confirmed the number of gross business assist outputs to March 2010 (excluding SW MAS and Envision outputs) we can combine these pieces of information to estimate the total number of net business assists.
- 5.42 This is shown in Table 5-7 below. The table shows the gross and net business assists for the Western Peninsula area and rest of the Competitiveness area. This was derived from post code analysis of the business contact details we were provided with. This suggested that 30% of the business assists were in the Western Peninsula area and 70% in the rest of the Competitiveness area. This ratio has been applied to the 322 business assists for the grossing up.

Table 5-7: Business assists to March 2010 (excluding Envision and SW MAS)

	Western Peninsula business assists (30% of total assists)		Rest of Competitiveness area business assists (70% of total assists)	
	Gross	Net	Gross	Net
2010	29	17	66	29
2009	68	39	159	70
2008	0	0	0	0
Total	97	55	225	99

Source: SQW

Step 4: Results and impacts to March 2010

Average benefits per net business assist

- 5.43 Using the results from the business survey, it is possible to estimate the average benefits achieved by each net business assist.

Table 5-8: Average benefits per net business assist by area

For Western Peninsula firms:	For firms in the rest of the Competitiveness area:
<ul style="list-style-type: none"> To March 2010, the average firm had experienced the Competitiveness support 0.8 years ago; noted an increase in turnover of £30,760 per annum; and noted cost savings of £3,000 per annum. Overall, the average firm expected the benefits to last for 7 years; expected an increase in turnover of £290,200 per annum; and expected cost savings of £29,400 per annum. 	<ul style="list-style-type: none"> To March 2010, the average firm had experienced the Competitiveness support 0.8 years ago; noted an increase in turnover of £34,400 per annum; and noted cost savings of £4,100 per annum. Overall, the average firm expected the benefits to last for 7 years; expected an increase in turnover of £312,700 per annum; and expected cost savings of £6,800 per annum.

Source: SQW

- 5.44 For both areas, the 7 years of persistence is an interesting finding from the survey³⁰. Although this at first seems significantly greater than the 3 years benchmark for enterprise/business support activities in the *BIS RDA National Impact Report*, it is similar to the 6 years used in the *SQW Interim Evaluation of the South West Business Link Service* and is below the average persistence of 8 years in the evaluation of the Envision project³¹.
- 5.45 We have applied the seven years of persistence to the survey results, and for comparison purposes, calculated impacts using three and zero years persistence (zero persistence means benefits generated by an intervention in twelve months or one year). The three years persistence allows comparison with evaluations of business support interventions that have used the three year benchmark. Zero persistence has been used to enable comparison of the survey results against targets in the OP, as SWRDA reported at the draft final report stage that the OP targets do not include persistence. It should be noted that under the seven years persistence scenario, it is assumed that all types of business will receive benefits for this length of time. This may be less appropriate to new businesses that the ERDF programme has or will support, given the failure rates of new businesses in the first couple of years. However, new businesses represent a relatively small proportion of the ERDF programme's total business assists.
- 5.46 The tables below present the value of benefits achieved to date (March 2010), expected in the future from the assistance already received (because of the persistence of benefits), and the total.

Table 5-9: Total (undiscounted) benefits for each net business assist in the Western Peninsula

Benefits	Benefits achieved to March 2010					Benefits expected over future years					Total
	Benefit per annum	x	Time period	=	Value of benefits	Benefit per annum	x	Time period	=	Value of benefits	Overall Benefit
Turnover	£30,760	x	0.8	=	£24,000	£290,200	x	6.2	=	£1.935m	£1.959m
Costs	£3,000	x	0.8	=	£2,400	£29,400	x	6.2	=	£196,000	£198,300
Total	-	-	-	-	£26,300	-	-	-	-	£2.131m	£2.157m

Source: SQW

Note: 2010 prices

³⁰ In considering the overall impact of the ERDF programme it is important to consider the extent to which the benefits generated persist over time. Benefits will persist where the intervention has built the capacity of the individual or organisation to sustain or continue to achieve further benefits beyond the immediate period of the intervention. In the case of the impact assessment of P1 and P2 business support activities, we are concerned with the persistence of turnover changes and cost savings.

³¹ Eko Gen, June 2010, An Economic, Environmental and Strategic Impact Evaluation of Envision

Table 5-10: Total (undiscounted) benefits for each net business assist in the rest of the Competitiveness area

Benefits	Benefits achieved to March 2010					Benefits expected over future years					Total
	Benefit per annum	x	Time period	=	Value of benefits	Benefit per annum	x	Time period	=	Value of benefits	Overall Benefit
Turnover	£34,400	x	0.8	=	£27,100	£312,700	x	6.2	=	£1,858m	£1,885m
Costs	£4,100	x	0.8	=	£3,300	£6,800	x	6.2	=	£40,600	£43,900
Total	-	-	-	-	£30,400	-	-	-	-	£1.899m	£1,929m

Source: SQW

Note: 2010 prices

5.47 This shows that:

- each net business assist in the Western Peninsula area is estimated to have generated £1.96m of (non-discounted) turnover benefits and £0.198m of (non-discounted) cost saving benefits (with seven years persistence)
- each net business assist in the rest of the Competitiveness area is estimated to have generated £1.89m of (non-discounted) turnover benefits and £0.044m of (non-discounted) cost saving benefits (with seven years persistence).

5.48 The turnover benefits per net assist are similar in both areas although the cost savings in the Western Peninsula are reported to be greater than for businesses in the rest of the Competitiveness area. Given that the respondents in both areas were drawn from the same projects (and the proportion of respondents per project were also very similar), the differences in cost savings per net business assist may reflect differences in the business base in each area, although this is not substantiated with any firm evidence.

Employment benefits

5.49 We have estimated the GVA benefits of the business support activity under PA1 and PA2 using changes in turnover and cost savings, rather than alternative routes to GVA, such as wages from jobs created or safeguarded. Turnover changes and cost savings were selected as they were felt to be closely aligned with the objectives of the programme. The survey also asked respondents to estimate the number of jobs *safeguarded and created* to date and expected in the future from the assistance already received. The results are presented in the table below, showing the total number of full and part-time jobs reported by the respondents to the survey (by area) and the equivalent average number of full and part-time jobs per net business assist (by area).

Table 5-11: Employment benefits by area

	To May 2010			Expected total (including to date)		
	Full-time	Part-time	FTE total	Full-time	Part-time	FTE total
Western Peninsula - total	42	85	85	484	208	588
Rest of Comp - total	105	53	132	720	116	778

	To May 2010			Expected total (including to date)		
Comp area as a whole - total	147	138	216	1,204	324	1,366
Western Peninsula – average per net business assist	1	2	2	12.5	5.5	15
Rest of Comp - average per net business assist	1	0.5	1	7	1	7.5
Comp area as a whole – average per net business assist	1	1	1.5	8	2	9

Notes: Figures rounded to nearest half decimal point. FTE total assumes two part-time jobs is equal to a full-time job

Source: SQW

- 5.50 For the Competitiveness area as a whole, the respondents to the survey estimated 216 Full Time Equivalent (FTE) jobs created and/ or safeguarded to May 2010, and estimated 1,366 FTE jobs would be created and/ or safeguarded in total, including the jobs created/ safeguarded to May 2010. This is all from the business assistance they had received to May 2010. This works out as an average per net business assist of 1.5 FTE jobs to May 2010 and 9 FTE jobs in total. The table reveals that more jobs are expected to be generated in the rest of the Competitiveness area than in the Western Peninsula area, although the average per net business assist is higher in the Western Peninsula than in the rest of the Competitiveness area.

Total benefits for net business assists

- 5.51 Returning to the benefits that the survey work has focused on – turnover and cost reductions – the next step in the impact assessment is to estimate the total amount of benefits generated by the 322 net business assists to March 2010. The assumptions used to model these outcomes are set out below.

Table 5-12: Assumptions used to model outcomes

Outcomes	Assumptions
Turnover and related GVA	<p><u>Western Peninsula</u></p> <ul style="list-style-type: none"> in the Western Peninsula, benefits start straight away for 58% of those deriving benefits, after one year for 40% and after two years for 2% (source from the business survey) turnover benefits for the first 2 years are £30,800 per annum, for the next three years £391,800 per annum and for the next two years £361,100 per annum (based on evidence derived from the business survey). <p><u>Rest of the Competitiveness Area</u></p> <ul style="list-style-type: none"> in the rest of the Competitiveness Area, benefits start straight away for 61% of those deriving benefits, after one year for 33% and after two years for 6% (source from the business survey) turnover benefits for the first 2 years are £34,400 per annum, for the next three years £377,100 per annum and for the next two years £342,600 per annum (based on evidence derived from the business survey).
Cost savings and related GVA	<p><u>Western Peninsula</u></p> <ul style="list-style-type: none"> benefits start straight away for 58% of those deriving benefits, after one year for 40% and after two years for 2% (source from the business survey) cost savings benefits for the first 2 years are £3,000 per annum, for the next three years £39,700 per annum and for the next two years £36,700 per annum (based on evidence derived from the business survey). <p><u>Rest of the Competitiveness Area</u></p>

Outcomes	Assumptions
	<ul style="list-style-type: none"> benefits start straight away for 61% of those deriving benefits, after one year for 33% and after two years for 6% (source from the business survey) cost savings benefits for the first 2 years are £4,200 per annum, for the next three years £8,800 per annum and for the next two years £4,600 per annum (based on evidence derived from the business survey).

Source: SQW

5.52 The overall benefits are set out in the table below. The table includes the total GVA benefits from the increases in turnover and cost savings. GVA is estimated as 33% of turnover benefits³² and equivalent to cost savings benefits – as, other things remaining equal, cost savings will add equivalently to a firm's profit and so to GVA (based on income-approach of assessing GVA, i.e. wages plus profits). The GVA estimates are also discounted in the last column. This column is particularly important given the significant level of benefits which are expected to occur over future years. The discount rate is used to convert all costs and benefits to 'present values'. In doing so we have applied the HMT Green Book guidance of a 3.5% discount rate.

Table 5-13: Overall outcomes and impacts (excluding SW MAS and Envision and using 7 year persistence benefits)

Outcome	Benefits to March 2010	Cumulative benefits expected over future years (undiscounted)	Cumulative total benefits (realised and expected, undiscounted)	Cumulative total discounted GVA benefits of net outputs to March 2010
Western Peninsula				
Turnover benefits	£2,137,406	£105,317,275	£107,454,681	-
Cost benefits	£210,085	£10,667,994	£10,878,079	-
GVA assoc. with turnover	£705,344	£34,754,701	£35,460,045	£31,258,707
GVA assoc. with reduced costs	£210,085	£10,667,994	£10,878,079	£9,587,700
Total GVA (from survey)	£915,429	£45,422,695	£46,338,124	£40,846,407
Rest of the Competitiveness area				
Outcome	Benefits to March 2010	Cumulative benefits expected over future years (undiscounted)	Cumulative total benefits (realised and expected, undiscounted)	Cumulative total discounted GVA benefits of net outputs to March 2010
Turnover benefits	£4,369,638	£183,502,278	£187,871,917	-
Cost benefits	£530,688	£3,839,342	£4,370,030	-
GVA assoc. with turnover	£1,441,981	£60,555,752	£61,997,732	£54,694,337
GVA assoc. with reduced costs	£530,688	£3,839,342	£4,370,030	£3,959,014
Total GVA (from survey)	£1,972,669	£64,395,094	£66,367,762	£58,653,351

Source: SQW

Note: 2010 prices

³² This assumption is taken from ONS south West Regional Accounts (latest data is 2007)

- 5.53 The key findings are that, with the exception of the Envision and SW MAS projects, the business assistance under PA1 and PA2 has generated:
- £0.9m of GVA impacts to date in the Western Peninsula area, with £45.4m still to come. The total present value of net GVA impact is £40.8m. The net GVA impact per business assist is estimated at £0.729m (£40.8m divided by 56 net assists)
 - £2.0m of GVA impacts to date outside of the Western Peninsula area, with £64.4m still to come. The total present value of net GVA impact is £58.7m. The net GVA impact per business assist is estimated at £0.592m (£58.7m divided by 99 net assists).
- 5.54 In addition to the impacts noted in the table above, the Envision and SW MAS projects have also produced benefits through Competitiveness business assistance:
- figures taken from the Envision Evaluation³³ suggest a total net GVA contribution (cumulative plus persistence) of £4,244,500
 - SW MAS GVA figures have been provided by the project from their monitoring system. These are self-reported by the project and have not been verified in the review. Our assessment (see footnote) suggests that MAS has contributed approximately £23,244,900 in total net GVA benefits³⁴.
- 5.55 Bringing the survey results (seven years persistence) and SWMAS and Envision benefits together, we estimate that the present value of the total net GVA benefits of the business assistance funded by the programme to March 2010 as £127m.

Comparative persistence scenarios

- 5.56 As set out in the introduction to the chapter, the methodology by which the targets in the OP were developed has not been made available. However, in the period between draft final and final reporting, SWRDA advised SQW that the targets in the OP do not include persistence. Given this, and the relatively high persistence of seven years reported in the survey, we have estimated the overall GVA impacts to March 2010 when applying a three year and zero persistence level to our survey results. The results are provided in the table below.

³³ Undertaken by Eko Gen (2010)

http://www.southwestrda.org.uk/about_us/our_performance/evaluation/business.aspx. The figures quoted here are the midpoints of the ranges provided for Financial Savings/ GVA (cumulative plus persistence) and GVA resulting from new sales.

³⁴ SW MAS gross GVA figures are taken from MAS monitoring system. These are self-reported and not verified. We have applied a CEA benchmarks of 0.395 to calculate net impact, and applied the benchmark of 3 years persistence noted in BIS's IEF+ guidance. This persistence has been discounted using HMT Green Book standard rate of 3.5%.

Table 5-14: GVA impacts by area to March 2010 with varying levels of persistence

	Western Peninsula area	Rest of Competitiveness area	Total cumulative discounted GVA benefits of net outputs to March 2010
Total cumulative discounted GVA benefits of net outputs to March 2010			
7 years persistence			
GVA assoc. with turnover (from survey)	£31,258,707	£54,694,337	£85,953,044
GVA assoc. with reduced costs (from survey)	£9,587,700	£3,959,014	£13,546,714
Total GVA (from survey)	£40,846,407	£58,653,351	£99,499,758
3 years persistence			
GVA assoc. with turnover (from survey)	£11,660,988	£22,773,791	£34,434,779
GVA assoc. with reduced costs (from survey)	£3,574,509	£1,783,273	£5,357,782
Total GVA (from survey)	£15,235,497	£24,557,064	£39,792,561
Zero persistence			
GVA assoc. with turnover (from survey)	£556,699	£1,132,050	£1,688,749
GVA assoc. with reduced costs (from survey)	£165,812	£416,625	£582,437
Total GVA (from survey)	£722,511	£1,548,676	£2,271,187

Source: SQW

- 5.57 Applying a three year persistence level, rather than seven, significantly reduces the estimated GVA net impacts to date for both areas, to £15.2m for the Western Peninsula and £24.6m for the rest of the Competitiveness area. With zero persistence, the GVA impacts are estimated as £0.72m in the Western Peninsula and £1.5m in the rest of the programme area. The calculation of the zero persistence results uses the relatively low annual benefits *to date* reported in tables 5.9 and 5.10.

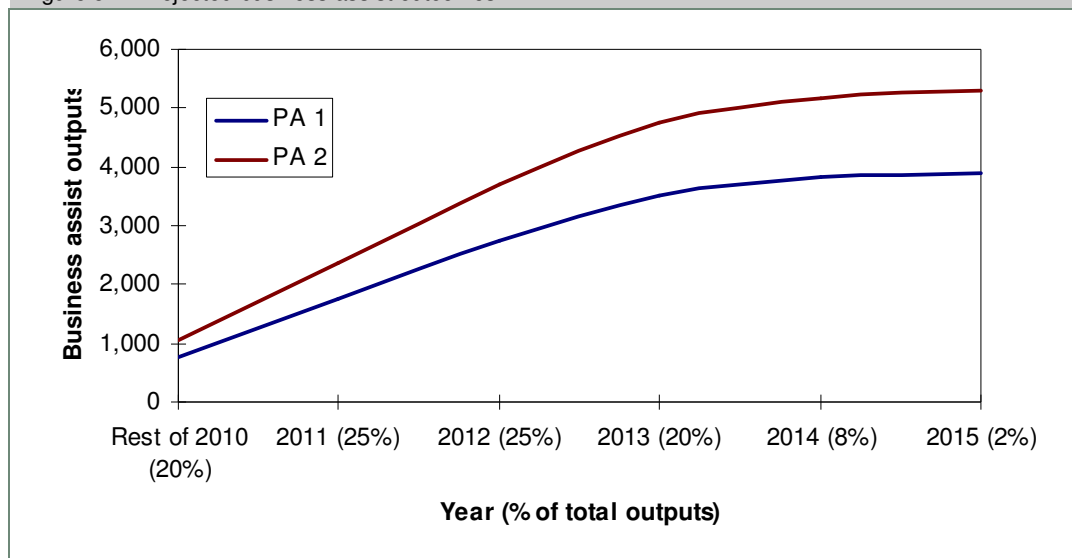
Step 5: Future projections

Post March 2010

- 5.58 In order to understand the potential lifetime impacts of the business assistance planned under PA1 and PA2, we have calculated estimates of GVA impacts based on future projected outputs (the lifetime targets of business assists). This step in the process assumes that the programme will achieve all of the remaining business assists under PA1 and PA2 minus those achieved to March 2010. The reality of how the programme performs may of course be different to this.

- 5.59 The starting point for this has been to subtract the business assists outputs achieved to March 2010 from the OP targets for business assists for PA1 and PA2. This leaves 3,902 assists under PA1 and 5,282 assists under PA2. We have then estimated the profile of when the remaining business assist outputs may be achieved to 2015, based on the assumption that the highest number of business assists will be generated in 2011 and 2012 (see Figure 5-2 below).

Figure 5-2: Projected business assist outcomes



Source: SQW

- 5.60 Based upon these projections, and applying only to the proportion of the assists that are additional (for the Competitiveness area as a whole, this is 48%), we have estimated the potential GVA impacts of the post-March 2010 business assists, relying upon the average benefits found in the business survey. The results of this are presented in the table below for the Competitiveness area as a whole, with varying levels of persistence.

Table 5-15: Projections of GVA impacts post-March 2010 to 2015

	Total cumulative discounted GVA from turnover benefits	Total cumulative discounted GVA from cost reduction benefits	Total cumulative discounted overall GVA
7 year persistence			
Priority Axis 1	£959,980,681	£135,221,640	£1,095,202,321
Priority Axis 2	£1,299,492,045	£183,044,772	£1,482,536,817
Total	£2,259,472,726	£318,266,412	£2,577,739,138
3 year persistence			
Priority Axis 1	£384,326,512	£55,822,772	£440,149,284
Priority Axis 2	£520,249,266	£75,565,321	£595,814,586
Total	£904,575,778	£131,388,093	£1,035,963,870
No persistence			
Priority Axis 1	£169,595,351	£23,672,353	£193,267,704

	Total cumulative discounted GVA from <u>turnover</u> benefits	Total cumulative discounted GVA from <u>cost reduction</u> benefits	Total cumulative discounted <u>overall</u> GVA
Priority Axis 2	£229,575,255	£32,044,431	£261,619,686
Total	£399,170,606	£55,716,784	£454,887,390

Source: SQW

- 5.61 With seven years persistence, we estimate that post-March 2010, business assistance under PA1 may generate a further £1,095m of net GVA and PA2 business assistance activities may generate £1,483m of net GVA. With three years persistence, the net GVA impacts are £440.1m under PA1 and £595.8m under PA2.
- 5.62 The zero persistence post-March 2010 net GVA impacts are estimated as £187.9m under PA1 and £254.4m under PA2. It should be noted that the zero persistence figures have been estimated assuming the average annual benefit per business assist of the total benefits per net business assist reported in the survey for the Competitiveness area as a whole and with seven years persistence. For the Competitiveness area as a whole (i.e. based on all respondents to the survey), total benefits over seven years are estimated as £2.011m per net business assist, made up of £1.922m of turnover benefits and £0.089m of cost savings. One-seventh of this (assuming zero persistence) is equal to an average of £274,600 of turnover benefits per net business assist per annum and £12,600 of cost savings per annum per net business assist. These figures have been used to generate the estimates for zero persistence. We believe this is a fair approach to enable the comparison of zero persistence results against the net additional GVA targets in the OP (given that they do not include persistence).
- 5.63 It is important to note that our estimates of impact are based on the findings taken from our survey of existing business assists. The eventual impacts of the Competitiveness business assists will depend on the level of future support, the nature of the future support and the benefits generated by businesses in receipt of the future support. It should also be noted that the business survey drew largely on businesses assisted under PA2. Consequently, using the business survey results to project forward for PA2 may be more robust than for PA1, which includes different forms of intervention.

Step 6: Lifetime impacts: combining to March 2010 and post-March 2010 estimates

- 5.64 The preceding analysis estimated the impact of Priority Axis 1 and Priority Axis 2 business assists. This analysis was in two parts: *actual* benefits to March 2010 and *projected* benefits post-March 2010. Through combining these, we can illustrate the potential ‘lifetime impact’ of the Priority Axis 1 and Priority Axis 2 business assists. This is presented in the table below.

Table 5-16: Lifetime impacts (from PA1 and PA2 business assists)

	(a) Total cumulative discounted GVA benefits from outputs to March 2010	(b) Total cumulative discounted GVA benefit from outputs post-March 2010	(a + b) Total cumulative discounted 'Lifetime' total GVA benefit
7 year persistence	£99,499,758	£2,577,739,138	£2,677,238,896
3 year persistence	£39,792,561	£1,035,963,870	£1,075,756,431
No persistence	£2,271,187	£454,887,390	£457,158,577
Envision	£4,244,500	-	£4,244,500
SW MAS	£23,244,900	-	£23,244,900

Source: SQW

- 5.65 Assuming zero persistence, we estimate that the programme may generate net GVA benefit of £457.2m. The net additional GVA target in the OP for PA1 is £92m and for PA2 it is £100.5m (or £192.5m combined). The survey results therefore suggest that with zero persistence, the programme is well on course to exceed its net additional GVA targets for PA1 and PA2. Both priorities also have targets for safeguarded additional GVA. The survey results are not directly comparable, as the survey only asked respondents to identify new turnover and cost reduction benefits, not safeguarded benefits. However, if the OP targets for new and safeguarded GVA are added together for both priorities, this is equal to a combined target of £487.7m. The lifetime total GVA benefit assuming zero persistence is just short of this target. Overall, the survey results are very encouraging, suggesting that the programme may exceed its PA1 and PA2 GVA targets if the business assist targets are achieved, the support is additional and businesses secure similar levels of benefits to those reported by businesses that received assistance to March 2010.

Assessment of other programme impacts

- 5.66 As stated in the introduction to this chapter, it is not possible to undertake a robust assessment of all of the impacts of the programme as output and result achievements to March 2010 have been modest. However, to assist the partnership in considering progress towards reaching its impact targets, where possible, we have undertaken an assessment of the relationship or robustness of the assumptions within the OP targets to test whether these look reasonable. We can then provide commentary on whether the targets may be reached. This assessment has been undertaken by Priority Axes.

Priority Axis 1

- 5.67 Applying the additionality ratio (0.48) found by our impact survey for the Competitiveness area as a whole to the PA gross business assists target (3,990) equates to a net total of 1,915 business assists. To fully achieve the PA net additional GVA target of £92m, each net business assist would need to equal GVA performance improvements of £48,000. Evidence from our impact survey suggests that the present value total GVA benefit per net business assist is just over £100,000 with zero persistence (lifetime impact of £457.2m divided by 4,559 net business assists for PA1 and PA2 combined).

- 5.68 The PA OP ratio of gross jobs created to net jobs created is 73% and the ratio of gross additional in GVA to net additional in GVA is 73%. These ratios appear high in light of our impact survey that found an additionality ratio of 48% (for business assistance only).
- 5.69 Using the 2007 South West average of GVA per worker (taken from *Econ i*) at £43,100, the PA OP impact target of net additional employment of 2,330 would create net additional GVA of £100.4m. This is above the PA OP net additional GVA target of £92m.
- 5.70 The evidence from our survey suggests nine FTE jobs created and/ or safeguarded for the Competitiveness area as a whole per net business assist. If it is assumed that one half of these jobs are new jobs (i.e. 4.5 FTE), in order to achieve the PA OP net additional employment target of 2,330, a total of 518 net business assists would be required, equating to an additionality ratio of just 13% of the 3,990 gross business assists target. This compares favourably with the additionality ratio of 48% from the survey³⁵.
- 5.71 The PA OP target of £128m of net additional safeguarded GVA should in part be generated by the OP target of 1,000 gross safeguarded jobs. However, given that only a proportion of these jobs will be additional, other activity will need to contribute to the net additional safeguarded GVA target as the target is too high from net jobs alone.

Priority Axis 2

- 5.72 Applying the additionality ratio (0.48) found by our impact survey to the PA OP gross business assists target (5,810) equates to a net total of 2,789 business assists. To fully achieve the PA OP net additional GVA target of £100.5m, each net business assist would need to equal GVA performance improvements of £36,000. Our survey suggests net GVA benefits per net business assist of around £100,000 (with zero persistence).
- 5.73 The PA OP ratio of gross jobs created to net jobs created is 59% and the PA OP ratio of gross additional in GVA to net additional in GVA is 59%. These ratios appear high in light of our impact survey that found an additionality ratio of 48% (for business assistance).
- 5.74 Using the 2007 South West average of GVA per worker (taken from *Econ i*) at £43,100, the PA OP impact target of net additional employment of 2,543 would create net additional GVA of £109.6m. This is above the PA OP net additional GVA target of £100.5m.
- 5.75 The evidence from our survey suggests nine FTE jobs created and/ or safeguarded for the Competitiveness area as a whole per net business assist. If it is assumed that one half of these jobs are new jobs (i.e. 4.5 FTE), in order to achieve the PA OP net additional employment target of 2,543, a total of 565 net business assists would be required, equating to an additionality ratio of just 10% of the 5,810 gross businesses assisted. This compares favourably with the additionality ratio of 48% from the survey.
- 5.76 The PA OP target of £167.2m of net additional safeguarded GVA should in part be generated by the OP target of 2,000 gross safeguarded jobs. However, given that only a proportion of

³⁵ It is worth reiterating here that the employment outcomes estimated from the business survey should not be added to the turnover estimates from the business survey, as this may double-count the benefits.

these jobs will be additional, other activity will need to contribute to the net additional safeguarded GVA target as the target is too high from net safeguarded jobs alone.

Priority Axis 3

- 5.77 Applying the CEA benchmark additionality ratio (36%) for sub-regional business development and competitiveness interventions to the PA OP gross business assists target (1,200) equates to a net total of 431 business assists. To fully achieve the PA OP net additional GVA target of £16.2m, each net business assist would need to equal GVA performance improvements of £37,600. This appears to be reasonable. It is not appropriate to use the survey results to compare against this figure given the different types of intervention under PA3.
- 5.78 Assuming 1 workstation per 25 square metres of floorspace³⁶ (without knowing the exact type of workspaces PA.3 will deliver, we have made calculations using the combined average figures for general offices and high-tech R&D) and 0.53 FTEs per workstation³⁷, the Priority Axis 3 OP target of 2,000 square metres of new or up-graded premises could achieve 42 gross jobs. This equates to approximately 2% of the total PA OP results target of 2,500 gross jobs created or safeguarded. This suggests that the bulk of the PA OP jobs target will need to result from business assistance under PA3.
- 5.79 The PA OP ratio of gross jobs created to net jobs created is 54%. This ratio is high compared to the CEA benchmark additionality ratio (36%) for sub-regional business development and competitiveness interventions. The ratio of gross additional GVA to net additional GVA in the OP is however in line with the CEA benchmark at 32%.
- 5.80 Using the 2007 Bristol, Torbay and Plymouth combined average GVA per FTE worker (taken from *Econ i*) at £40,600, the PA OP impact target of net additional employment of 809 would create net additional GVA of £32.9m. This is above the PA OP net additional GVA target of £16.2m; however it is likely that the jobs created through PA.3 would be below the combined GVA per worker average as the PA3 jobs are likely to be in the most disadvantaged areas.
- 5.81 The PA OP target of £29.6m of net additional safeguarded GVA should in part be generated by the PA OP target of 1,000 gross safeguarded jobs. However, given that only a proportion of these jobs will be additional, other activity will need to contribute to the net additional safeguarded GVA target as the target is too high from net safeguarded jobs alone.

Summary

This exercise suggests that the programme impact targets are achievable based on the analysis of the relationship between the targets and the emerging evidence from the business survey. This of course assumes that external conditions do not deteriorate significantly which would impact on the ability of the programme to achieve its targets. In relation to the targets, the only question marks are in relation to the relatively high assumed additionality ratios between gross and net jobs and GVA. The evidence also suggests that the targets for net additional

³⁶ English Partnerships (2001), *Employment Densities, A Full Guide*. The figures are based upon the average figure for general offices and high-tech R&D.

³⁷ 1 workstation x 0.80 (occupancy levels) x 0.66 (average proportion of full-time workers) = 0.53 FTEs

safeguarded GVA are unlikely to be met by gross safeguarded jobs alone. However, our business survey findings for zero persistence suggest that the GVA impact targets may be under-estimated given the range of business support and other activities that the programme will support.

Table 5-17: Assessment of impacts

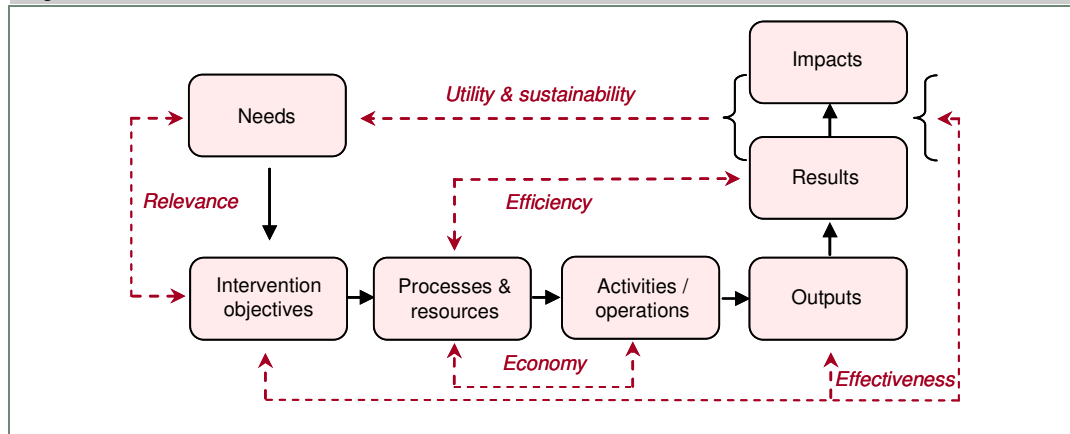
	Net additional employment		Net additional GVA		Safeguarded GVA	
	Target	SQW view	Target	SQW view	Target	SQW view
PA.1	2,330	Appears achievable given estimate of 9 FTEs per net assist reported in survey and potentially 1,915 net assists	£92m	Appears achievable given GVA survey results and potential number of net assists	£128m	Evidence suggests target can not be reached by net safeguarded jobs alone.
PA.2	2,543	Appears achievable given 9 FTEs per net assist reported in survey and potentially 2,789 net assists	£101m	Appears achievable given GVA survey results and potential number of net assists	£167m	See PA1
PA.3	809	No evidence from survey	£16.2m	No evidence from survey	£30m	See PA1

Source: SQW

Assessment of value-for-money

- 5.82 This section considers evidence of the value for money of the programme. It has not been within the scope of the evaluation to assess the value for money of individual projects and in any case this would be limited by the modest output and result achievements of many of the projects.
- 5.83 Value for money analysis is typically undertaken through using the *Three E's* of economy, efficiency, and effectiveness (see figure below).

Figure 5-3: Evaluation framework



Source: European Commission (2007)

Economy

5.84 Economy refers to ensuring that activities are delivered at minimum cost. It is not possible to quantitatively assess the economy of the *programme* as financial data is not broken down by programme activity. SQW was provided with disaggregated data for some TA spending but it is not possible to compare this against any comparators or make a judgement on its value for money. It is worth noting here that this review is not a project review but has focused at the level of the programme as a whole and by Priority Axis.

5.85 Although we quantitatively can not assess economy, there is qualitative evidence that the programme should be achieving value:

- the programme follows procurement rules in making investment decisions
- the programme has implemented a rigorous project appraisal process, which requests applicants to identify the value for money of proposals in the business plans
- all projects are scrutinised by the commissioning teams, Commissioning Delivery Group and programme management team.

5.86 It should also be noted that the TA budget for the programme – at 3.7% of the total allocation – is economic compared with other economic development programmes such as the former Single Regeneration Budget, New Deal for Communities and European LEADER programme which had management and administration budgets of around 10%. The programme TA budget is also less than that allowed for Competitiveness and Employment programmes (4%).

Efficiency

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

5.88 From the business assists to March 2010 (table 5.13), the business survey estimates total net GVA outcomes realised to date of £2.9m, and an expected total net GVA of £109.8m, assuming seven years of persistence (2010 prices, undiscounted). Programme monitoring data has the total cost of the business assistance activity to March 2010 (not including

SWMAS and Envision) as £6.98m (whole programme value). This suggests the business support activities are delivering poor value for money to March 2010 on efficiency grounds, with a GVA to cost ratio of 0.4: 1. However, the evidence suggests good value for money for expected future GVA benefits, with a GVA to cost ratio of 15.7: 1. Overall, to date and expected, a GVA to cost ratio of 16.1: 1 also suggests very good value for money. We have not undertaken an assessment of efficiency against the zero persistence benefits to March 2010 as we do not believe it is a fair comparison, as the survey clearly shows that businesses expect the majority of turnover and cost benefits to be in the future.

- 5.89 We have also undertaken a cost-effectiveness comparison of contracted expenditure and contracted output and result targets for three performance targets of PA1. These were the only indicators where contracted expenditure and contracted output/ results targets in the programme's monitoring data could be compared - like for like - with external spend benchmarks (as shown in chapter 4, there are contracted outputs and results targets for projects under PA2 and PA3, but it was not possible to compare these to external benchmarks).
- 5.90 The findings below suggest that the GVA to cost ratio recorded in monitoring data for contracted projects under PA1 is below the BIS benchmark. However, we have already seen that the GVA benefits projected from the business assistance activity of PA1 could be very significant, so the lower ratio may reflect conservative project contracting rather than what will be achieved. The spend per unit of net additional employment compares well to the AWM benchmark, but is more than the BIS benchmark.

Table 5-18: Cost effectiveness comparisons

	PA1		Benchmark
Total contracted spend (ERDF and UK) (undiscounted)	£19,171,066		
	No. Contracted	Spend per unit	
Net Additional GVA, £	44,199,260	£0.43 / 2.3 : 1	BIS found an achieved net GVA to cost ratio of 7.1 : 1 – i.e. for every 14p of programme spend, a return of £ of GVA
Net Safeguarded GVA, £	34,700,000	£0.55 / 1.8 : 1	BIS found an achieved net GVA to cost ratio of 7.1 : 1 – i.e. for every 14p of programme spend, a return of £ of GVA
Net Additional Employment	540	£35,502	AWM evidence for spend per units of net jobs created found an average of £116,000 per net job, within a range of £41k-138k. BIS found an average spend per unit for net jobs created of £14,200

Source: SQW

Effectiveness

- 5.91 Effectiveness is concerned with the assessment of the extent to which the programme's objectives have been met in terms of targets, milestones and expectations. It is also concerned with the assessment of how effectively the programme's impacts are addressing the needs that justified the programme in the first place.

- 5.92 The strategic objective of the programme is to increase the prosperity of the region through supporting enterprises and individuals to develop ideas and plans which contribute to increased productivity and competitiveness. Under this are four operational objectives:
- increase the productivity of the region's business base, through the promotion and support of innovation, research and development and the application of knowledge
 - reduce intra regional disparities through stimulating enterprise and accelerating business growth in those parts of the region lagging behind
 - to increase employment and enterprise in the region's most disadvantaged communities
 - protect and enhance the region's environmental assets and work towards developing a low carbon economy.
- 5.93 The programme is still in its first phase of delivery, so it is too early to see the full impacts of the activity and make an assessment of the extent to which the objectives have been achieved. The findings of the business survey from business support activity are particularly encouraging with more benefit per net business assist in the Western Peninsula than the rest of the Competitiveness area. There is an exciting portfolio of innovation, R&D, EGS and technology projects starting to deliver on the ground.
- 5.94 The programme has not made good progress with its objective to increase enterprise and employment in the region's most disadvantaged communities. There is also not strong evidence that the programme is enhancing the region's environmental assets and clarifying the approach to the low carbon economy is a priority.
- 5.95 Most targets and milestones have been met, including the N+2 target, although the programme is behind on where it should be in the achievement of outputs and results.
- 5.96 The OP set out that the programme will have the following distinguishing features³⁸:
- doing a few things very effectively – reflecting the limits to the budget available
 - a focus on research and development and innovation and knowledge
 - the ambition to support the growth of the EGS sector and to invest in the drivers of a low carbon economy
 - provision of dedicated resources for the most disadvantaged communities.
- 5.97 The section above has covered some of these areas. The strategy to do a few things effectively is the right one but needs to be followed through now in delivery.

³⁸ Operational Programme, p13

Conclusions

- 5.98 This section has presented evidence on the impact and value for money of the programme. To aid this assessment, the review has considered the reasonableness of the performance targets at the time they were set in the OP. We have not been provided with the methodology that was used to set the targets so have had to assess them based on benchmarks and our evaluation experience. This suggests that the scale of the targets is about right. We have recommended changing the target for the number of SMEs launching new products or processes as this appears to be unachievable. A number of the targets are stretching, including the proportion of results to be generated in the Western Peninsula under PA1 and PA2, but they are in areas core to the objectives of the programme and should continue to be prioritised.
- 5.99 The main evidence to assess the programme's impact is the benefits that have been secured by businesses that have received business assistance. The survey of business beneficiaries of the programme has suggested GVA impacts to March 2010 of £0.72m in the Western Peninsula and £1.55m in the rest of the Competitiveness area, assuming zero persistence to the benefits. The majority of benefits are expected to come in the future from future business assistance, with an estimate of £454.9m of net discounted GVA for the Competitiveness area as a whole from post-March 2010 business assists, also assuming zero persistence to the benefits. The pre and post-March 2010 GVA benefits easily exceed the net additional GVA target of £192.5m in the OP for PA1 and PA2 combined. Other GVA benefits may also come forward from activity under priorities one and two, and importantly from activity under PA3, although we have been unable to quantify the impacts as there has been limited delivery to March 2010.
- 5.100 To help the partnership to consider other potential impacts, we have undertaken a sense test of the impact targets in the performance framework. This suggests that the programme can achieve its impact targets and perhaps surpass them, providing delivery of the priorities progresses to plan.
- 5.101 Evidence suggests that the programme is on course to be cost-effective and has made progress towards meeting some of its objectives, although progress has been slow in increasing enterprise and employment in the region's most disadvantaged communities and clarifying the approach to the low carbon economy is a priority. For the programme to meet its objectives, it must translate the exciting portfolio of projects into effective delivery, where there has been mixed success to date.

Key messages

Table 5-19: Key messages

The assessment of the targets at the time they were set suggests they are achievable based on available benchmarks. Some of the targets are stretching.

The survey of business beneficiaries of the programmes has suggested reasonable GVA impacts to date of £2.27m, assuming zero persistence. The business support activity has been found to be additional, particularly in the Western Peninsula area. If the programme achieves its lifetime business assist targets, and benefits per net business assist are in line with what was reported in the survey, the programme may generate lifetime GVA impacts from business support activity in the order of £457m, assuming zero persistence.

The GVA benefits from future business assists could be significant and suggest the programme may achieve its net additional GVA targets for PA1 and PA2 from business assistance alone.

Other than business assists, the programme has had limited achievements by which to assess impact. However, the evidence suggests that with the existing budget and strong delivery the programme can achieve its net impact targets of 5,682 additional jobs and £533m of GVA. The impacts of the programme will be reduced if the programme value falls.

Source: SQW

6: Effectiveness of Competitiveness and Convergence programme management and administration arrangements

Introduction

- 6.1 Chapter 6 provides an assessment of the effectiveness of management and administration arrangements. **The chapter covers both the Convergence and Competitiveness ERDF programmes and is common to both of the separate Convergence and Competitiveness Final Reports.** A common approach has been followed because of the similarity in processes and standard requirements concerning ERDF programme management. Where there are differences, in terms of both process and effectiveness of programme management and administration arrangements, these are highlighted.
- 6.2 This section provides the overall assessment of the processes and resources that have been devoted to translating the Programmes' objectives into activities and operations. This has involved considering the effectiveness of governance arrangements and administrative processes for project development, selection, delivery, management and monitoring in ensuring that the priorities of the OPs have been, and continue to be economically pursued. It is not an in-depth audit to ensure compliance with EU requirements, nor does it scrutinise the appraisal, claims and monitoring processes in detail.
- 6.3 The main research techniques for assessing the effectiveness of programme management and administration arrangements have been qualitative, involving consultations with strategic and programme management stakeholders, workshops with case officers and delivery partners and the review of documentation.
- 6.4 The section commences with a brief overview of the current management and administration arrangements before providing an assessment of their effectiveness and then concluding with recommendations for the future.

Overview of the management and administration arrangements

Managing Authority – CLG and SWRDA

- 6.5 Communities and Local Government (CLG) is the Managing Authority for the ERDF programmes and SWRDA, as the intermediary body, is responsible for the delivery of both programmes. SWRDA has multiple roles in that it manages the programmes, provides match funding to many ERDF supported projects via its Single Programme and is also the applicant for a number of projects. The current ERDF processes have been aligned with those of SWRDA as far as possible to achieve efficiency savings. The multiple roles of SWRDA reflect a different set of circumstances to when Government Office managed the former Objective 1 and Objective 2 programmes in the South West.

Programme Monitoring Committee and sub-groups

- 6.6 The PMCs for the Convergence and Competitiveness programmes oversee strategy and delivery for both the respective ESF and ERDF programmes. They are supported by:
- the Commissioning Delivery Board (CDB) for Competitiveness, and the Partnership Delivery Group³⁹ (PDG) for Convergence, which oversee the day-to-day management of the programmes (e.g. shaping frameworks, identifying appropriate delivery methods, agreeing key commissioning opportunities).
 - Commissioning teams have been established to develop projects through the commissioning process
 - the Endorsement Advisory Groups (EAGs) (one for each Programme) consider project applications (along with the recommendations from appraisals) and makes recommendations to the PMCs on whether to offer support or not
 - cross programme advisory groups for the environmental sustainability and equality & diversity CCTs which work to ensure that the Programme's objectives with regard to the cross-cutting themes are upheld
 - a joint PMC evaluation sub-group which oversees the joint evaluation programme.
- 6.7 Representation on the PMCs is from a wide range of organisations, including business membership organisations (e.g. Cornwall Business Partnership in the Convergence programme).
- 6.8 In Convergence, ad hoc working groups have been established to consider parts of the programme where there are concerns about delivery or focus (see separate SQW final report on review of Convergence programme for further information).

Programme management team and Technical Assistance

- 6.9 The key activities that Technical Assistance (TA) is applied to are as follows:
- developmental (supporting project development and capacity building)
 - management information (support for the provision of management and monitoring information to ensure effective programme management)
 - evaluation (developing baselines and commissioning studies to support the AIRs and to satisfy evaluation requirements)
 - partnership (coordination of the PMC and sub-groups, and support for partnership working – at strategic and beneficiary levels)
 - communications (TA supports the Cornwall Partnership Office and PR consultants for Competitiveness).

³⁹ Previously named the Partnership Delivery Board

- 6.10 As the intermediary organisation, SWRDA is responsible for all processes from pre-commissioning through to paying claims and final evaluation and clear segregation of duties is required between project development, selection and delivery; and appraisal, claims payment and monitoring requirements.
- 6.11 Cross-Programme team meetings are held to discuss areas of commonality and share good practice and challenges. In addition there is an SWRDA EU Programme Board which considers both programmes.

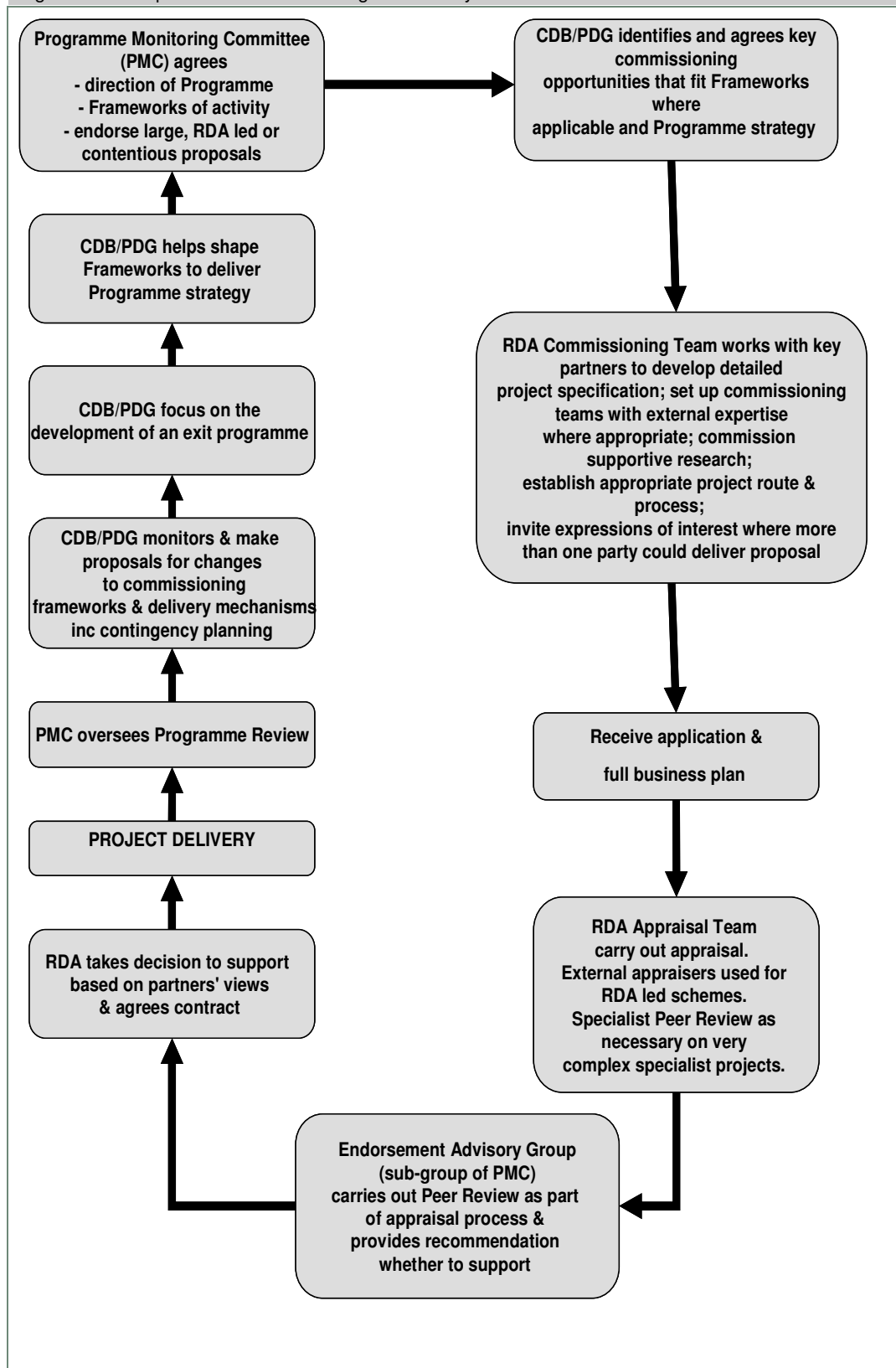
Systems for project development, appraisal, and contracting, monitoring and management

Commissioning, appraisal and contracting

- 6.12 The Competitiveness and Convergence Programmes both aim to make fewer, more strategic investments than the preceding Objective Two and Objective One Programmes. This is to be achieved through commissioning to exploit specific opportunities and meet needs, rather than via open bidding.
- 6.13 The commissioning approach means partners have agreed the type of activity they wish to see happen and the results each Programme requires to be successful, but the method of delivery is not fixed. The CDB/PDG commission activity that will determine the exact shape of a proposal and identify a project deliverer. The commissioning phase could include an exercise to identify the project deliverer such as requesting Expressions of Interest (EoI), which will then include an additional stage of scoring EoIs received against pre-agreed criteria⁴⁰. It has also involved pre-commissioning, where preliminary work is undertaken to determine whether a proposal is viable and then it can move into the full commissioning phase.
- 6.14 At the end of the commissioning phase, a full business plan is submitted alongside the ERDF application form (common to both Programmes) which is then appraised by SWRDA before being considered by the relevant EAG who makes recommendations for funding back to the PMCs (the full process is detailed in Figure 6-1).
- 6.15 Whilst there is no formal open bidding process for either Programme, the Commissioning process does not preclude any organisation from approaching SWRDA with potential project ideas.

⁴⁰ The Competitiveness team is currently preparing rules for the submission, evaluation and selection of expressions of interest and proposals which are intended to be adopted by both Programmes once finalised

Figure 6-1: Competitiveness and Convergence Life Cycle



Source: SWRDA, June 2010

Monitoring and performance management

- 6.16 Following receipt of offer letters, beneficiaries are required to submit quarterly reports (based on the target outputs and expenditure set out in their application form and replicated or revised with offer letter documentation) and progress reports including impacts on the environment and how equality and diversity impacts and opportunities have been managed and promoted, and procurement activity.
- 6.17 Every project receives a Project Engagement Visit (PEV) after the signed offer letter has been received and before the first claim is made. Progress and Verification Visits (PAV) are also undertaken.
- 6.18 Monitoring strategies (one for each Programme) were approved in 2008 which set out how SWRDA will meet its monitoring obligations.

Cross Cutting Theme processes

- 6.19 Embedding the CCTs is at all levels of the Programmes, from representation on the PMC through to the individual activity of projects. This is overseen by the Advisory Groups and CCT team. The processes undertaken to secure that the CCTs are sufficiently taken into account at all stages are summarised briefly.

Environmental sustainability

- 6.20 The CCT team provides investment level support to all applicants from both Programmes and also provides support and training to delivery partners and the programme management team. The Environment Advisory Group meets quarterly and retains membership across academic, private and third environmental sectors.
- 6.21 Various guidance documents and appraisal templates have been developed to support the embedding of environmental sustainability.

Table 6-1: Environmental sustainability guidance documents for Competitiveness and Convergence

- | |
|---|
| <ul style="list-style-type: none"> • Strategic Environmental Assessment monitoring strategy • Integrating Environmental Sustainability into EU Programmes and Projects • Environmental Sustainability Process Flow Diagram • Environmental Sustainability Reporting Form • Capital Environmental Appraisal Template • Revenue Environmental Appraisal Template • Environmental and Social Guidance for Sustainable Construction in ERDF investments • Strategic Investment Framework Delivery Plan Environmental Sustainability Guidance • General Capital Build Requirements and Standards. |
|---|

Source: Convergence Cornwall website, 2010 (www.convergencecornwall.com)

Equality and diversity

- 6.22 The CCT team again provides investment level support to all applicants from both Programmes and also provides support and training to delivery partners, colleagues and the

PMCs. The cross Programme Equality & Diversity Advisory Group meets quarterly with representation from all the key equality and diversity organisations within the region.

- 6.23 Various guidance documents and toolkits are provided to support applicants meet the equality and diversity requirements as detailed in Table 6-2 below:

Table 6-2: Equality and diversity guidance documents for Competitiveness and Convergence

- | |
|--|
| <ul style="list-style-type: none"> • EU Programme Equality Indicators • Social Sustainability Toolkit • Environmental and Social Guidance for Sustainable Construction • Equal opportunities advice and guidance notes • Equality and Diversity – Investment Guidelines • Equality Impact Assessment Guidance notes • Screening Stage Equality Impact Assessment Form • Full Equality Impact Assessment form |
|--|

Source: Convergence Cornwall website,, 2010 (Convergence Cornwall website, 2010 www.convergencecornwall.com)

Communications Strategy

- 6.24 Both Programmes have a Communications Strategy/ Plan. In 2009, a PR consultancy – Bray Leino – was appointed to deliver the Competitiveness Communications Plan (funded from TA). For Convergence the Convergence Partnership Office oversees and manages communications (funded by TA from ERDF, ESF and match-funding from SWRDA and Cornwall Council).
- 6.25 Both programmes are required to produce AIRs each year detailing achieved and expected programme expenditure and outputs, management issues, communications etc. Following endorsement by the PMC, the AIR is then submitted to the Commission for approval.

Assessment of effectiveness of the management and administration arrangements

Strategic management – SWRDA and PMCs/sub-groups

- 6.26 Stakeholders commended SWRDA for taking over the management of the Programmes effectively, understanding the requirements and introducing new working practices. However, some concerns were expressed (by SWRDA stakeholders) that there is a real lack of capacity to properly fulfil its role. It was considered that this has created bottlenecks at certain junctures within the overall appraisal and project management process which is causing delay.
- 6.27 In addition, stakeholders expressed concern about the overall bureaucracy associated with both Programmes and how this slows down the overall process. From our understanding of EU requirements and experience of the management of such Programmes elsewhere, we consider that the structures are appropriate for Programmes of this size which are managing substantial amounts of public funding. It is important that there is broad representation of sufficient stakeholders to represent a variety of interests and if the Programmes are to achieve inclusive participation (rather than just consultation) then formal structures are required.

Additional working groups that have been required (such as the review groups in the Convergence Programme) have been established as Task & Finish Groups with a clear and specific remit and these appear to focus in a business-like and task focused fashion.

- 6.28 Those stakeholders who attend both PMCs reported that the Convergence PMC works much more effectively than the C&E PMC. The increased engagement with Convergence may be due to the fact that there is a much larger amount of funding involved, but the C&E funding is not insubstantial and engagement could be greater.
- 6.29 Overall, the C&E PMC is regarded to be operating reasonably well but not as effectively as it could. Stakeholders expressed concern about the PMC in terms of its representation (the private sector and local government are not sufficiently engaged) and the level of discussion at meetings which tend to focus on reporting back activity which is accepted with little discussion. The PMC needs to be a more challenging strategy body. Currently, the PMC includes one business representative (South West Chamber of Commerce) and one local authority representation (South West Councils). With the pressure on public sector match funding, changes in institutional arrangements and the ultimate objectives of the programme, it is important that there is increased representation of local authorities and of the business community on the PMC.
- 6.30 The sub-groups of both PMCs were highly regarded by stakeholders and considered to run effectively supporting the work of the PMC and taking forward commissioning and decision making on recommendations for funding.
- 6.31 The PMCs cover both ERDF and ESF providing a good opportunity to make links between the two. For example, at the Convergence PMC discussion is held around embedding ESF activity within the ERDF Priority 4 Strategic Investment Frameworks, and representatives of the ESF's co-financing organisations – the Skills Funding agency and Jobcentre Plus sit on both PMCs enabling direct linkages between skills and place based regeneration to be highlighted and addressed.
- 6.32 In addition, the Strategic Added Value resulting from the PMC is discussed further in Chapter 7.

Day to day programme management

Commissioning process

- 6.33 The commissioning process is appropriate for the ERDF Programmes and whilst it may take longer for projects to be worked up, it will ensure that a more targeted and strategic approach is taken which is more likely to achieve the Programme's overall objectives than open bidding. In addition, it is undertaken flexibly through a variety of routes:
- by a single tender process (for example, for Solutions for Business products)
 - through the development of frameworks (such as those used for the SIFs and some business support areas such as Grants for Business Investment)
 - via an EOI process.

- 6.34 It was reported that the programme management teams are open to direct approaches from organisations which have innovative ideas which meet the Programmes' objectives. This should mean that good ideas which have not been anticipated by the CDB/PDG or wider partners are not excluded.
- 6.35 Stakeholder consultees generally considered that commissioning was the right process for the programmes, but expressed concerns that the process is 'over-engineered', time consuming (e.g. pre-commissioning), exclusive (it does not encourage private sector engagement) and in danger of becoming increasingly mechanised and inflexible. Some raised concerns that even though a project has been commissioned and developed in conjunction with SWRDA, it is still taken through a full appraisal process. Some stakeholders have also found the different approaches followed (EOIs/pre-commissioning/single tenders) to be confusing and inconsistent. Clearly there is a need to improve communication concerning the commissioning process and the use of different approaches to fit different circumstances as well as its overall efficiency.
- 6.36 Several consultees raised concerns about the time that projects can take to 'get through the system'. We have undertaken a brief review of a number of projects tracked through the Convergence 'system' and analysed the Competitiveness Project Status Log which tracks projects and frameworks from the period when they were commissioned by CDB through to the offer letter date. The average time taken to proceed through the entire process was eight months, but this varied from five to 14 months. Frameworks, unsurprisingly, took longer to process with an average time of 11 months, and individual Frameworks taking between five months and two years. The largest amount of time taken was between CDB and application/appraisal; that is, the time taken by the applicant to work up the application. The period from application form to offer letter was generally around three to four months with the period from EAG to offer letter taking around two months. The Competitiveness team provided a proposed ('ideal') timeline from launching an Expression of Interest call through to offer letter which was estimated at four months.
- 6.37 Across the eight projects reviewed within the Convergence Programme, the average time taken from issuing the Commissioning Instruction Form through to the receipt of offer letter was 11 months, however this varied from four to 22 months. The length of time the process took appears to be very much related to the size of project which is unsurprising. As with Competitiveness, the largest proportion of time was dedicated to the period between issuing the CIF and the period from application form to offer letter was much shorter (an average of 3.5 months) whilst the period from EAG to offer letter only exceeded two months where external influences had impacts (template letter not being available from CLG).

Application, Appraisal and contracting

- 6.38 Applicants are required to complete an ERDF application form (the same form is used for both Competitiveness and Convergence), which must be accompanied by a comprehensive and detailed business plan. Some elements of the business plan requirement are fairly complex, such as the economic appraisal of each of the options, but the detail required is likely to be proportionate to the amount of grant requested and SWRDA staff members are available to provide support and advice. The business plan components do not appear to

request a full risk assessment of the preferred option, which should be addressed. The same appraisal approach is undertaken for Single Pot and European funded projects. The technical appraisal guidance again mainly covers green book components and includes the requirement for a risk assessment.

- 6.39 Stakeholders considered the process to be particularly cumbersome where RDA Single Pot match is required. A decision is required on the RDA appraisal outcome from the RDA Investment Group before the project can be considered by EAG and the timing of the two does not always dovetail. Match funding must always be committed prior to the EAG considering investment proposals, which has further delayed the process on occasions (at no fault of the appraisal team/ EAG). Our view is that where the same organisation is overseeing the ERDF funding and the match, there must be a solution concerning streamlining the two. The appraisal process was commended as being particularly thorough, (one stakeholder suggested 'gold-plated') but also proving a real bottleneck for the progress of projects through the system. There is a need for SWRDA roles – between project development/appraisal/contracting/monitoring and management – to be separated, but there should be a way of making the process more efficient. In addition, whilst these roles need to be separate, there should be communication between the ERDF and RDA central teams which was perceived by Competitiveness and Convergence consultees to be lacking.
- 6.40 Reflecting back on issues around the length of time it takes for projects to flow through the process, this is in part because the business cases that are accepted at the commissioning stage do not always fully address green book investment requirements. Full business plans are then required at the appraisal stage which must be fully green book compliant and therefore require considerably more detailed analysis. Once projects have been appraised and contracted, there are often still a number of conditions that are passed on to the monitoring teams for follow up. Whilst the process to a large degree is no more complicated than any two stage grant funding process, often involving an initial Expression of Interest, it would be helpful for SWRDA to review the relationship between commissioning and appraisal to ensure that it is time and cost effective and efficient for applicants, commissioners and appraisers.
- 6.41 The contracting stage appears to be particularly slow, which SWRDA representatives stated was due to there being only one officer responsible for all ERDF and RDA contracts. (However there was a difference of view within SWRDA on this matter, as others considered this process to work well).
- 6.42 SWRDA stakeholders considered that difficulties with the process were ultimately due to a lack of capacity. As the Programme moves into a more delivery focused phase with increasing numbers of projects coming forward, and the requirement for efficiency savings being introduced, there will be real issues for the future if capacity is an issue and processes are not as efficient as they could be. We have highlighted this as a risk going forward.

Performance monitoring and project management

- 6.43 Projects are monitored to enable SWRDA and the PMCs to keep track of investments that are not performing in line with their contracts and provide an early opportunity to mitigate the

effects. Currently it is important that the momentum created is sustained to ensure delivery and spend within proposed timelines and SWRDA should closely monitor contracted investments to identify any difficulties arising. It is particularly important that the use of current public sector funds is maximised due to imminent funding cuts, which will make match more difficult to secure in the future.

- 6.44 Delivery managers and case officers that participated in the Convergence Programme workshop were very positive about the project management and monitoring processes. The PEV visit was particularly commended by delivery partners as it enables potential problems to be identified quickly and resolved, and provides an opportunity to explain the claims process and evidence requirements. According to the 2009 Convergence AIR *'Although difficult to quantify we believe this visit significantly reduces subsequent queries'*. In addition, delivery managers considered that claims processing had been improved significantly, but there was a general view that the bureaucracy is overwhelming and unnecessarily onerous. Whilst public money requires clear accounting procedures, bureaucracy should be reduced wherever possible to increase efficiency. However, it was also reported by SWRDA stakeholders that on occasion projects provide far more information than is required or possible to analyse and therefore this element may relate more to communication rather than overly onerous monitoring requirements.
- 6.45 Case officers attending the workshop had particular concerns around the over-involvement of senior management and policy teams in case officers' work – sometimes providing contradicting advice and resulting in a lack of clarity. Consultees suggested that case officers should retain responsibility throughout the project development, appraisal and management process although this would be contrary to the required separation of roles.
- 6.46 It is our understanding that monitoring procedures have not been as rigorous as they could be in terms of identifying where there are challenges and following these up quickly with projects. This is acknowledged by SWRDA and will be addressed through the project monitoring approach (contract monitoring rather than the monitoring of Article 13 requirements) being developed by the Competitiveness team to be rolled out across both Programmes later this year.

Cross-cutting themes

- 6.47 The Cross Cutting Theme Team (appointed in 2008) established a business process, which laid out the preferred method of engagement with projects pre-approval/endorsement. While initially intended to be a distinct three stage process (pre-commissioning, commissioning and appraisal/endorsement), with forms to complete at each stage, the process became unworkable (partly due to onerous reporting requirements) and therefore a more fluid and responsive process was developed with CCT team advising projects through early discussions with project leads on initial project concepts through to appraisal.
- 6.48 Within ERDF Programmes, no cross cutting contractual targets have been imposed upon projects although there are some targets at Programme level for both themes. Monitoring of both CCTs has proved a significant challenge for both Programmes and whilst beneficiaries should report progress against targets within the progress reports that accompany quarterly

claims, this is not happening nor is it being queried (this should be addressed within revised monitoring procedures being developed by the Competitiveness Team). A Strategic Environmental Assessment Monitoring Strategy is being developed which sets out the rationale for monitoring, including the difficulties of effective monitoring of environmental issues (the resourcing and implementation of the strategy is still in development). Key to this strategy is exploiting and speeding the deployment of the RDA carbon accounting methodology. An equivalent strategy is currently in development for equality and will be informed by the outcome of this review.

- 6.49 Both CCT Teams provide an annual update on progress at Programme level to inform the AIR and have continued to provide ad hoc training with individual ERDF team members, capacity building and partnership working with RDA staff, investment leads and strategic and delivery partners.
- 6.50 An agreed target within the OPs is for a specific percentage of the PMC to be female (50% for both ERDF programmes). Following a survey of PMC and PMC sub-groups within both programmes in 2009, it was revealed that this gender balance was not reached in either PMC or within their constituent sub-groups. Both PMCs are now considering actions to ensure that the gender balance is met.
- 6.51 There is also a target concerning the proportion of business support that should be provided to businesses led by women (40% for both ERDF programmes) and the CCT team has invested considerable time in working with Business Link to ensure that the requirements of the equality and diversity CCT are met. However, whilst some projects routinely collect equalities data (for example, those supported by Business Link), others do not and this information is not readily available at the RDA.
- 6.52 The CCT team has been instrumental in sharing good practice with other RDAs through the cross-RDA CCT group with an inter-RDA meeting organised by SWRDA in 2008 to address ERDF equality issues as well as sharing good practice and discussing progress.
- 6.53 Overall it appears that a substantial amount of work has been undertaken by the CCTs, but due to the lack of collated monitoring information, there is very little evidence to prove its effectiveness or otherwise. Processes appear to be undertaken successfully at the pre-commissioning, commissioning and appraisal stages ensuring that applicants are aware of the requirements and can build these into proposals as early as possible. However, there is then no ongoing monitoring of how projects are meeting the requirements of both CCTs.
- 6.54 Stakeholder consultees considered that the environment CCT had been embedded within Programme processes and was having an impact on delivery, but the Equality and Diversity CCT still had some way to go. This may well be due to the stricter requirements in relation to environmental sustainability (such as the need for all new premises to be built to BREEAM 'excellent' standards) and also the fact that the Programme as a whole has a strong environmental driver in terms of the move towards the low carbon economy. Similarly businesses have had to become more environmental in their outlook over recent years due to the financial as well as environmental costs of not doing so. Consultees generally considered the equality and diversity requirements less important and could not always appreciate how they could be built into their projects, especially where these are totally revenue funded.

- 6.55 The failure to collect data to evidence the delivery of impact of both of the CCTs to date will reduce their credibility if not addressed as a matter of importance. Our understanding is that this has resulted because whilst projects are requested to provide appropriate monitoring data for both CCTs, this is not a condition of grant (in that projects still receive funding if they do not provide the information) and the SWRDA monitoring teams do not chase the information. This is not difficult to address and more stringent adherence to monitoring requirements by SWRDA should ensure that the information is provided.

Communications Strategy

Competitiveness

- 6.56 The Competitiveness Programme has a plan in place which is managed by PR consultants, Bray Leino. According to the AIRs publicity now appears to be much more coordinated through a single body and a significant amount of activity is being undertaken in terms of events, media activity, newsletters, development of website, support at external events and briefings, advising grant beneficiaries of publicity requirements and checking that these have been met.
- 6.57 Chapter 4 assesses progress with communications as these are noted as TA outputs. Therefore to avoid duplication, this section just briefly summarises recent progress based on the 2009 AIRs:
- appointment of consultants, Bray Leino, in February 2009 to deliver the communications activities via an action plan covering media engagement, publicising new contracted investments, production and dissemination of a newsletter, development of a website within the SWRDA website and support at external events
 - quarterly joint ERDF and ESF e-newsletter produced since March 2009
 - competitiveness website under development (will be launched in 2010)
 - second Annual Communication Event held in March in Taunton providing information of progress to date to the media and stakeholders
 - produced and contributed to media releases and developed a media protocol outlining how proactive media relations would be managed from 2010 onwards
 - implemented a Grant Recipient's toolkit and undertook a series of workshops aiming to support ERDF beneficiaries in meeting regulatory requirements and share good practice.

- 6.58 Overall, the communications element of the Competitiveness Programme has taken some time to get underway with a website still under development, at the mid point in the Programme. Stakeholders consulted generally had some concerns with communication of the Programme including PMC members. Wider communications should improve with the PR consultancy in place and there is clear evidence of activity (although target outputs appear very low). However, internal communication with the PMC is an issue for the Competitiveness Secretariat which should be addressed.

Convergence

- 6.59 The Convergence Partnership office runs a programme of activity in support of its Communication Plan. This includes annual Convergence conference, monthly newsletters, a dedicated Convergence in Cornwall website, uses Twitter and Flickr and has undertaken significant media activity (press releases, interviews etc), presentations (e.g. in the first quarter of 2010/11 to Devon and Cornwall Business Council and the Business League), communication briefings (e.g. in the first quarter 2010/11 to local media and Cornwall Business Partnership) and communications with partners (e.g. Cornwall Marine Network, Business Link and University of Plymouth).
- 6.60 Progress in 2009 (as reported in the AIR) is summarised below:
- continued encouragement for partners to acknowledge Convergence investment including the use of the logo to help build the profile of the 2007-13 Programme
 - 17,500 hits on the Convergence Cornwall website (increase in visits per day from 33 to 52 throughout the year). The website is constantly updated and developed
 - use of social media linked to the website such as Twitter and Flickr
 - produced and contributed to media releases
 - supported CCTs through dedicated section on the website, attention in media releases, bespoke media articles, via Twitter.
- 6.61 Overall, consultees considered the Communications Strategy delivered by the Cornwall Partnership Office was effective. It was suggested, however, that the Office could play more of a role in facilitating better communication between partners rather than just playing the external facing role. Following on from the earlier chapter concerning Programme strategy there is obviously a continued need to publicise the Programme's objectives clearly in order to ensure a broad understanding of the Programme which will also garner further support.
- 6.62 Consultees overall considered the Partnership Office to be fulfilling its role but there was a tendency for a reactive, rather than proactive response in terms of repeating the key messages of the Programme and working with projects (which have publicity requirements placed on them) rather than providing significant added value at the Programme level. However, it is noticeable that recently the Office has been proactive in having discussions with MPs to discuss risks around availability of future match funding.

- 6.63 Our assessment is that the communications function is performing well – the website is easily accessible and straightforward to navigate providing reasonably up to date information, good press coverage has been achieved and there do not appear to have been any major challenges with beneficiaries meeting the specified publicity requirements. Having a dedicated office to deliver the communications function is clearly beneficial in ensuring that the Programme is widely communicated and beneficiaries are aware of the requirements placed on them.

Summary

- 6.64 The communications function is more heavily resourced and plays a more substantial role in the ERDF Convergence Programme than the C&E Programme with a dedicated Partnership Office and much higher funding support. This is appropriate due to the size of the Programme and the more rural and peripheral nature of the location. The communications function appears to be effectively implemented across both Programmes but there is more evidence of this for ERDF Convergence due to the larger presence and role of the Partnership Office.

Monitoring recommendations

- 6.65 The absence of performance monitoring data has been identified as a weakness of the ERDF programmes in a number of places in this report. It is beyond the scope of this review to undertake a full assessment of monitoring procedures and processes. From the perspective of project delivery partners, the existing processes appear to be working reasonably effectively, after some initial teething problems. However, going forward, both ERDF programmes need to better demonstrate the outcomes, impacts and value for money of their activity.
- 6.66 At a project level, this may require the introduction of more stringent monitoring conditions (that is relating claim payment to meeting conditions and providing adequate information in progress reports). We would recommend that the programmes undertake a review of the efficacy and efficiency of the current monitoring arrangements and ensure that minimising the burden on project delivery partners is a key principle for implementing any new arrangements.
- 6.67 Key areas of monitoring requiring improvement are:
- Technical Assistance: There are currently no formal outputs or results specified for TA. Not only does this mean that performance cannot be measured, but also assessing the soundness of activities is impossible without intended results. We recommend that:
 - Output targets should be set and monitored annually, to include: establishing monitoring databases; evaluation reports; publication/ dissemination of information and guidance; meetings; and publicity and communications events (the latter are already identified within the AIRs)
 - Result targets are set where appropriate against the output targets. These should be changes in behaviour, capacity and performance as a result of the activity that delivers the outputs

- TA spend is monitored and reported against the strands of TA activity in the OP e.g. developmental, management information, evaluation, partnership and communication (with defined sub categories as appropriate)
- Competitiveness programme – Western Peninsula: We recommend that all output and result achievements are monitored separately for the Western Peninsula area and the rest of the C&E area. Reporting just the proportion of results in the Western Peninsula would be progress on the current arrangements but would not help the programme to understand the inter-relationship between outputs and results in the Western Peninsula verse the rest of the programme area.
- Equalities and Diversity CCT: The programme must monitor and report achievements annually against the equalities and diversity targets in the OPs (including the target for 50% of PMC and sub-committee members to be women). Additionally, the long list of equalities indicators should be reviewed to provide a shorter list of core, SMART indicators which all projects are monitored against, to enable consistent monitoring of performance across the programmes.
- Environmental CCT: Currently, only the environmental related outputs and results within the main performance framework are monitored at a programme level, not the full list of performance indicators in the environmental monitoring strategy. The programmes should consider introducing a target for a reduction (relative) in GHG emissions. The long list of environmental performance indicators in the monitoring strategy should be reviewed to provide a shorter list of core, SMART indicators which all projects are monitored against, to enable consistent monitoring of performance across the programmes.
- Spatial activity: It must be possible to report output and result achievements for the spatial priority areas in both programmes. As well as for the Western Peninsula area in the Competitiveness programme, this should be for each SIF area. It should be possible to collate these achievements from project monitoring.

Recommendations for value for money assessments

- 6.68 A request has been made of SQW to provide recommendations on appropriate methods and data to enable VfM assessments of programme activity. Chapter 5 set out that VfM is commonly assessed using the 3 E's framework - the **economy** with which resources are used, the **efficiency** with which benefits are achieved and the overall **effectiveness** of the project or activity under consideration. VfM can be judged to be high when, “*there is an optimum balance between all three elements - when costs are relatively low, productivity is high and successful outcomes have been achieved*”⁴¹.
- 6.69 The figure below provides details on the methods and information requirements for examining economy, efficiency and effectiveness within the 3 E's VfM framework.

⁴¹ <http://www.audit-commission.gov.uk/aboutus/strategicobjectives/challengingpublicbodies/Pages/Default.aspx>

Table 6-3: Data and methods for assessing value for money

Economy

Economy is concerned with the assessment of the cost of inputs. The key question for economy is how much did the inputs to this project or activity cost and how do they compare to benchmarks or similar activity?

Economy can be achieved where the price of inputs are reduced or where more activity is delivered for the same costs. Improved economy could also be achieved through implementing a new procurement or commissioning process or a new way of working.

Evidence to help in assessing the economy of a project or activity will include budgeted and actual financial data broken down by type of input costs (e.g. salary costs, overheads, delivery costs etc) and monitoring data on delivery activity (e.g. number of events, number of publications).

Economy should be assessed drawing on quantitative evidence such as the comparison of actual costs against budget costs and by calculating the unit cost of inputs and comparing the results against benchmarks or similar activity.

The quantitative analysis can be supported through qualitative evidence of methods implemented to drive down the cost of inputs, for example through a new procurement process or staff taking on more responsibilities at no extra cost.

Efficiency

Efficiency is concerned with the comparison of costs against the outputs/ results achieved. The key question for efficiency is whether the results of the project or activity were delivered economically and how these compare to benchmarks or similar activity.

The efficiency of a project or activity can be improved by reducing inputs for the same outputs/ results or increasing the level of outputs/ results with the same inputs.

Evidence to help assess efficiency includes monitoring data on the cost of the inputs used to deliver a project or activity and performance data on the outputs/ results achieved.

Efficiency should be assessed against net outputs/ results rather than gross outputs/ results i.e. the proportion of outputs/ results that are truly additional and can be attributed to the inputs under consideration. In relation to costs, ideally the unit cost of outputs should be calculated against the proportion of the total costs used to generate each output/ result under consideration (e.g. 10% of the total costs were directed toward assisting 50 businesses). It should also be calculated against both gross costs and net costs (gross costs minus income and revenue).

Two techniques to help measure efficiency are cost-effectiveness analysis and cost-benefit analysis (CBA):

- the cost-effectiveness of a project or activity can be shown by calculating the unit cost of outputs/ results achieved and comparing the results to benchmarks or similar activity (net outputs/ results divided by gross and net costs)
- CBA is a technique that quantifies in monetary terms as many of the costs and benefits of a project or activity as possible. The result of CBA is a Benefit-Cost ratio, which is the ratio of the monetised benefits compared with the costs.

There are strengths and weaknesses to both approaches. Cost-effectiveness is a relatively simple method. The main disadvantage is its inability to compare interventions that produce different outputs/ results or even different mixes of the same outputs/ results. Other variations between interventions, such as the degree of intensity of the assistance, can cause simple cost per output measures to vary considerably and therefore be potentially misleading. It can be difficult to 'retrofit' cost-effectiveness assessment if appropriate monitoring systems have not been set up at the outset.

CBA is a more complex but robust methodology. The weakness with CBA is that it does not capture benefits or costs of projects or activities that cannot be monetised. It can also be challenging and expensive to monetise benefits and costs where conceivably this can be done, particularly where there is not a 'market' price and some type of 'shadow' price has to be used instead (for example the monetary value people put on improvements to public spaces or the monetary value of environmental impacts). CBA should therefore be used alongside other evidence in assessing VfM – both quantitative evidence and qualitative evidence.

Effectiveness

Effectiveness is concerned with whether there is evidence that the objectives of the project or activity have been met or exceeded and the intended impact has been realised.

Evidence to assist the assessment of effectiveness includes monitoring, administrative and secondary data on results and impacts (e.g. Gross Value Added achieved); the views of beneficiaries that have benefited from the project or activity; and the views of stakeholders that have funded, managed or delivered the project or activity or have been influenced by it.

Methods to help assess effectiveness include the comparison of achieved outputs/ results against targets, the comparison of achieved outputs/ results against benchmarks or similar activity, CBA or cost-effectiveness analysis, and the views of beneficiaries and stakeholders. The extent to which the project or activity has been mainstreamed or is on the path towards being mainstreamed may also provide evidence of effectiveness.

Effectiveness therefore combines quantitative and qualitative evidence.

Source: SQW Consulting

- 6.70 The figure provides standard information and methods that the programme can implement to aid VfM assessments. However, the approach and methodology of VfM assessments will depend on the nature of the activity under consideration (value, intervention type, riskiness etc.). It is beyond the scope of this study for a full VfM framework to be developed for the programmes. This should be developed at a programme level, prioritising projects/ activities that lend themselves to VfM assessment and those activities that are most important to the programme's ultimate success.
- 6.71 As a minimum, the monitoring requirements include:
- project monitoring of budgeted and actual financial data broken down by year and gross/ net costs
 - input costs - management and administration costs (total/ % of total); cost of inputs to main activities (staff costs, building costs per square metre, equipment costs, other costs); cost of communication, marketing and dissemination activities
 - output/ result costs – proportion of costs directed to the main project outputs/ results (e.g. per business assist)
 - programme monitoring of the same input and output/ result costs for Technical Assistance
 - project monitoring of outputs/ results by year. This should include the outputs/ results in the programme target framework and any other major outputs/ results not captured which may be needed for VfM assessment (e.g. for CBA)
 - project monitoring of administrative and secondary data against project objectives.
- 6.72 This monitoring data will aid the assessment of economy, efficiency and effectiveness. Quantitative analysis will be required for each area, particularly for the assessment of efficiency through techniques such as cost-effectiveness or CBA. However, as the text in the figure above points out, VfM assessments should also draw on qualitative evidence. This is because VfM brings together various factors - cost, quality, resource use, fitness for purpose, timeliness - to judge whether or not together they constitute good value. For example, the benefit-cost ratio of CBA is a strong guide to the value of an activity, but this metric should also be considered alongside qualitative evidence, for example the views of the ultimate beneficiaries of the activity.
- 6.73 The PMC can improve the VfM of projects/ activities and ultimately of the programme as a whole through:
- developing strategies to prevent or reduce the need for more intensive or costly services
 - ensuring the most effective services are commissioned

- reducing inputs for the same outputs
- getting greater outputs/ results with improved quality for the same inputs
- getting proportionally more outputs/ results or improved quality in return for an increase in resources⁴².

Risks to delivery

- 6.74 Any public sector funding Programme aiming to address market failure has inherent risks which need to be managed and mitigated as far as possible. Stakeholders considered that the Programmes have good risk assessment procedures in place, but also recognised that there is a fairly high level of risk associated with a programme aiming to address market failures. Reporting processes are good with for example the EAGs and PMCs are kept regularly informed of spend and progress with delivery. It needs to be accepted that the Programmes will only succeed if they are brave enough to take risks which then means that some projects may fail.
- 6.75 To a large degree, both Programmes should be used to support risky projects that might not succeed elsewhere. However, this does not fit well in an EU funding environment with projected outputs and results etc which are incredibly difficult to pre-determine
- 6.76 Consultees reported that SWRDA is much more risk averse than both PMCs, but no projects have been rejected on the basis of being too risky. However some projects are given qualified approval (phased funding dependent on success) which is considered to be a successful approach.
- 6.77 There is a risk register in place which is managed by the SWRDA EU Operations Board; this covers both the Convergence and Competitiveness programmes. Due to the time it has taken for both Programmes to get underway, risks are only now being considered thoroughly – unsurprisingly availability of match is the key identified risk.
- 6.78 In Table 6-4 the key risks to the Programme are identified along with mitigating measures currently in place and further recommended action.
- 6.79 Below are the key risks for delivery highlighted by the review.

Table 6-4: Risk assessment of the delivery of the Competitiveness and Convergence Programmes

Risk	Probability	Impact	Mitigating action	Action recommended	Red/Amber/ Green assessment
Securing sufficient match funding for projects to proceed BOTH PROGRAMMES	HIGH	HIGH	Investigate potential increased intervention rate, alternative sources e.g. land holdings, maximise private sector & other sources of public	Secure increased intervention rate, set up sub-group to focus on identifying & investigating all appropriate sources of match	

⁴² Audit Commission

Risk	Probability	Impact	Mitigating action	Action recommended	Red/Amber/ Green assessment
			sector (e.g. LAs)		
Failure to progress Next Generation Broadband impacting on the success of the Programme & spend in P3 CONV PROGRAMME	MEDIUM	HIGH	Working closely with EC concerning Major Project Procedure appraisal	Continue working with EC and develop contingency plan	
Changes to national and regional funding and delivery organisations e.g. Business Link, RFA, DfT programme BOTH PROGRAMMES	HIGH	HIGH	Ongoing partnership discussions to determine minimising impact on Programme delivery	Ensure key stakeholders involved in discussions ensuring most positive outcomes with feedback to & support from the partnership	
Change in intermediary management of the Programme with abolition of RDA by March 2012 BOTH PROGRAMMES	HIGH	MEDIUM	Ongoing partnership discussions to determine minimising impact on Programme delivery	Continue discussions, ensure long lead in time & smooth transition to ensure minimal impact on project development, delivery & management	
Delay to Programme delivery if reviews of P2 & P4 become protracted CONV PROGRAMME	MEDIUM	HIGH	Formal groups established reporting back to PMC, clear collective desire to resolve matters	Continuing commitment to resolve issues quickly – set target for both reviews to be completed & recommended way forward in place by end of 2010	
Economic downturn affecting private sector ability to invest in workspace CONV PROGRAMME	MEDIUM	HIGH	Maximum use of flexible intervention rates/investigate local asset backed vehicle/encourage businesses to access full range of support available through the Programme	Continue investigations and maximise positive publicity involving private sector to ensure all potential businesses aware of support & appreciate benefits it can bring	
Economic downturn drives ESF to focus on support for those outside the	MEDIUM	HIGH	Ensure close links between ERDF and ESG programmes	Continued close working with ESF via PMC & other channels to promote need	

Risk	Probability	Impact	Mitigating action	Action recommended	Red/Amber/ Green assessment
labour market rather than support for high skills BOTH PROGRAMMES				for high skills support to support Programme objectives	
SWRDA Capacity appears to prove a constraint on delivery in terms of increasing time periods for appraisal and contracting BOTH PROGRAMMES	MEDIUM	HIGH		Implement recommendations from this review and maximise dovetailing and streamlining of processes wherever possible	

Source: SQW Consulting

Key messages

Table 6-5: Key messages

Key messages

Processes appear to be compliant with EU Regulations (although only a headline review has been undertaken).

Processes are similar across Competitiveness and Convergence although some elements are tailored to specific requirements of each Programme.

Convergence PMC is considered to be more successful than Competitiveness in terms of level of debate and communication of information – by stakeholders and the evaluators.

Concerns were expressed by consultees that the overall structure is overly administrative and bureaucratic – our view is that it is reasonable for Programmes of this scale and measures such as setting up time limited Task and Finish groups to undertake reviews (Convergence) are an effective and appropriate response approach.

Both Programmes are commissioned which we consider an appropriate approach, but there have been overall delays particularly at the project development stage which may require more support.

But related to the above, concerns about SWRDA's capacity have been raised which is a serious issue with cost-efficiency savings being introduced immediately.

CCTs are progressing well with environmental sustainability more embedded than Equality & Diversity, but cannot assess performance as monitoring data is not consistently collected.

Communications are having an impact for both programmes – this largely consists of media engagement, events, newsletters and websites, plus engagement with beneficiaries concerning their publicity requirements.

Source: SQW Consulting

7: Strategic Added Value and Partnership Working

Introduction

- 7.1 The purpose of this chapter is to consider the Strategic Added Value (SAV) of the Competitiveness and Convergence ERDF programmes, and the benefits of partnership working both within these two programmes, between them and with other European funded programmes. The objective of the review in respect of SAV is to assess the nature and scope of the SAV generated by the PMCs and their constituent bodies. The scope of this assessment is to identify the SAV of the programmes and their PMCs and not focus on individual partners.
- 7.2 **This chapter deals with the SAV of both the ERDF Competitiveness and the Convergence programmes and is common to both of the separate Convergence and Competitiveness Final Reports.** This is because there are a number of issues that are common to both, and any conclusions and recommendations will be appropriate to both programmes. Where issues relate to only one of the programmes, this is explicitly stated in this chapter.
- 7.3 The chapter draws on the following sources of evidence:
- consultations with strategic and programme management stakeholders
 - workshops with case officers and delivery partners
 - project case studies
 - input from a parallel study being undertaken into a joint evaluation of ERDF and ESF programmes
 - outputs from a study into ERDF-ESF linkages undertaken by the South West Regional Employment and Skills Board.

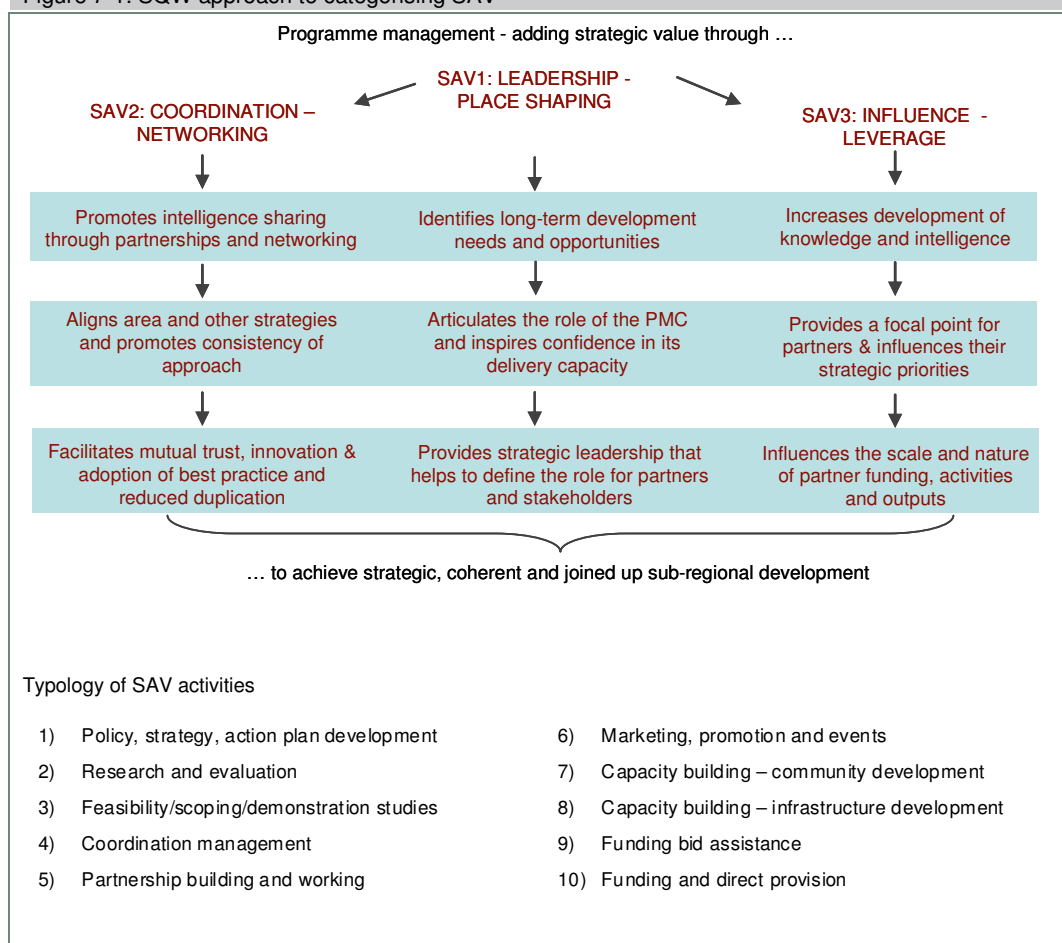
Definition of SAV

- 7.4 According to the IEF guidance, *“the concept of Strategic Added Value (SAV) ... aims to capture the effects of the wider coordinating, catalytic and influencing role of an RDA and its investment, and which is not captured in the outputs of direct project support.”*⁴³ It is a concept that has been developed with respect to the role of the RDAs rather than partnerships such as the PMCs, and therefore it has been conceived in terms of identifying the additional impacts of the activity of the RDA beyond those directly generated by the project or programme. However, it is a useful framework for considering the strategic added value of the PMC and the programmes. There are five tests of SAV set out in the brief (based on the

⁴³ RDA Evaluation: Practical Guidance on Implementing the Impact Evaluation Framework. Department for Business, Innovation and Skills (December 2009) p.21

IEF/PwC version of SAV), which include: strategic leadership and catalyst; strategic influence; leverage; synergy and engagement. Building on extensive work on SAV, SQW has refined the original definition into three categories that make the analysis of SAV more straightforward, but are still IEF compliant. The figure below shows SQW's approach to categorising SAV.

Figure 7-1: SQW approach to categorising SAV



Source: SQW Proposal

SAV as an outcome rather than a function

- 7.5 All the definitions tend to describe SAV in functional terms rather than the outcomes that SAV is expected to generate. They do not set out the hypothesised logic chain that leads to the outcomes from the deployment of SAV functions. As SAV has been treated as a function, it is typically assessed in process terms. Was leadership effectively exercised? Has coordination of partners' activities been achieved? Was information and intelligence generated and effectively disseminated to partners?
- 7.6 SAV has rarely been assessed as an outcome – i.e. what changes have been brought about from the exercise of SAV? So, what are the possible SAV outcomes? Here are some possibilities:

- More for less: SAV can reduce duplication and aid integration in ways which make service provision more economic and efficient as well as simpler – e.g. the same outcomes from business support can be achieved with reduced inputs.
- More investment: It can lead to increased investment in areas of priority by leveraging in partner funding (e.g. into priority sites or areas) and by bending mainstream funds (e.g. public health provision).
- Smarter investment: It can induce more innovation in the way things are done by increased mutual learning with regard to the way services are delivered or in the design of new services (e.g. bringing in the third sector as providers).

7.7 We have set out the above discussion in order to illustrate what we are looking for when identifying the SAV of the programmes and the PMCs over and above what they would be expected to deliver anyway.

SAV and partnership working

7.8 Both the Competitiveness and the Convergence programmes have a joint PMC for ERDF and ESF and so are dealing with two European funded programmes. The relationship between ERDF and ESF is dealt with later in this chapter. The evidence on the SAV generated by the PMCs emerging from the review process is discussed below.

7.9 The following sections identify more detailed findings from the review process about the nature of SAV and the scope of SAV of both programmes. We have structured the following sections to follow the three SAV categories set out in the discussion above.

Strategic leadership

7.10 The review process has investigated strategic leadership by looking for evidence of: articulating and communicating long-term needs, opportunities and solutions; articulating the programme's role and its ability to deliver; and defining roles for stakeholders and partners.

7.11 Stakeholder consultations have identified that there is scope for better communication of the role of the PMCs and their sub-groups to the wider stakeholder community. Stakeholders interviewed for this review have a good understanding of the PMCs and their sub-groups because they are more closely engaged in the programmes, but they recognise that other stakeholders are less closely engaged, less aware of the role, composition and value added by the PMCs and their sub-groups, and that more communication would be helpful. Stakeholders consulted for this review have praised the sub-groups which are recognised as doing a lot of work 'behind the scenes' to support the full PMCs.

Long-term needs, opportunities and solutions

7.12 The extensive research and analysis undertaken to develop the OPs and the OPs themselves articulate the long-term socio-economic needs, opportunities and solutions for both the Competitiveness and Convergence areas, and this is refreshed through reviews, including this review process and the Convergence programme reviews of business support and the SIFs. There was extensive consultation with a wide range of stakeholders in developing the two

programme strategies. Consultees have expressed praise for the Convergence PMC in particular for creating a sense of partnership, engaging in good and healthy debate and agreement on coordinated lobbying on match-funding; but there has been less praise for the Competitiveness PMC which is seen as engaging in less challenging debate. There is a sense that the Convergence PMC is an effective partnership largely due to its maturity as it has its foundations in the Objective One PMC and Objective 5b arrangements before that; whereas the Competitiveness area has less of a shared and consistent identity.

- 7.13 Identifying deliverable solutions to the needs of both the Competitiveness and Convergence areas is likely to become more challenging in the future as a consequence of cuts in UK public spending which will impact on existing sources of match funding, the large part of which has come from SWRDA's Single Programme budget. The PMC and stakeholders will need to address this issue in a number of ways – including consideration of the opportunities and solutions, and working with stakeholders to identify other sources of match funding.

Articulating the programmes' role and their ability to deliver

- 7.14 The OPs for the two programmes set out a comprehensive statement of the programmes and a high-level exposition of the method of delivery. The delivery mechanisms have been developed over a period of time, with a commissioning approach to projects. Whilst there is agreement that the OPs are comprehensive and robust and fit-for-purpose, they are not seen in themselves as effective forms of communication to a broader and non-specialist audience.
- 7.15 Delivery of both programmes is going to become more challenging in the future as discussed above. Articulating the Programmes' role and their ability to deliver will become increasingly important in a more challenging funding environment. The demise of the RDA will mean disruption in the delivery process, and potentially the engagement of new stakeholders to ensure continuation; so lobbying and ensuring that potential future funders have a good understanding of the value added by the programmes in order to secure future match funding is particularly important. This will need to include evidencing the impact and outcomes of the ERDF programmes in supporting local and sub-regional policy objectives.

Defining roles for stakeholders and partners

- 7.16 The programmes have engaged a broad range of public sector organisations, including those involved in the PMCs and those involved in the management and delivery of the two programmes. SWRDA has taken on multiple roles, and has had to ensure clear demarcation between these. Independent chairing of both PMCs by the Government Office has been identified as a positive aspect of both programmes. A large range of organisations in both the public and private sectors have been engaged in project delivery. There have been a range of beneficiaries of the programme interventions.
- 7.17 Some stakeholders were positive about the engagement of the private sector and the introduction of new delivery bodies (such as YTKO and Oxford Innovation) into the Convergence area; although business representative stakeholders have expressed variable views about the engagement of the wider business community with the programmes – with more praise for the Convergence PMC than the Competitiveness PMC in this respect. Given the Coalition Government's emphasis on private sector growth as a key component of

recovery from recession, the engagement of the private sector as a key stakeholder and partner in the management and delivery of the two programmes becomes increasingly important in the latter part of the two programmes.

- 7.18 Engagement of the universities as stakeholders in the programme as well as delivery partners was seen as a positive move on from previous programmes which had not done this.
- 7.19 There is general recognition that since Cornwall Council became a Unitary Authority it has been better engaged in the Convergence programme, and has played a stronger and more strategic role than previously and has been better able to engage as a stakeholder.
- 7.20 SIF partners (particularly in the Competitiveness area, see chapter 4) believed that they would have more local devolved authority to drive their local activity forward but this has not happened with control remaining with the PMC, and commissioning has taken longer than originally anticipated.

Summary

- 7.21 In assessing the strategic leadership of the two programmes, those messages which have been raised by multiple stakeholders (albeit not a majority of stakeholders) are:
- the Convergence PMC is seen as more active and more effective than the Competitiveness PMC; although it is recognised that the PMC has its foundations in previous European programmes and is relatively more mature in that respect
 - communications by the PMCs could be improved – particularly in terms of communicating their own role and progress made by the programmes to a broader group of stakeholders
 - sub-groups of the PMC are a very important part of the process, and these are where much of the work and development is undertaken – with the main PMC seen by some as a ‘set piece.’

Networking

- 7.22 In looking at networking the review process looked for evidence of: promoting intelligence sharing; encouraging strategic alignment or consistency of approach; and facilitating mutual trust, innovation, adaptation of best practice or reduction of duplication. The creation of networks, intelligence sharing and these other benefits is a core purpose of the Competitiveness and Convergence programmes and so should be achieved in the delivery of the programmes.
- 7.23 The two PMCs are an important forum for the networking of their members – although some stakeholders have suggested that this would have taken place anyway, particularly in the Convergence area where the key stakeholders come together in other fora. The annual conferences for each programme also present a forum for networking.
- 7.24 The consultations generated a range of positive and negative comments about networking, with no strong consistent themes emerging from stakeholder feedback. Business networking is a key goal of the programmes e.g. output targets for involvement in collaborative R&D,

businesses engaged in knowledge base collaborations; and results targets for the number of businesses involved in cluster networks. The achievements of both programmes to date has been limited in these areas, although projects have been resourced which have been contracted to provide networking for business.

Intelligence sharing

- 7.25 The public sector and private sector networking discussed above will engender intelligence sharing, although the stakeholder consultations identified a need for more intelligence sharing. Stakeholders stated that the Competitiveness PMC has engendered some regional intelligence sharing which has been useful; but previous programmes in the Competitiveness area were better at disseminating information. There were claims that information is only circulated to a narrow range of partners and it could be circulated more widely.
- 7.26 Stakeholders expressed both positive and negative views about the annual conference – with some stakeholders seeing this as a good opportunity for networking and knowledge sharing, but others seeing little value in this.
- 7.27 Some of the delivery partners attending the Convergence programme consultation workshop held as part of this review process stated that this was the first opportunity that they had been given to network with other delivery partners. This implies a need for more opportunities for project delivery partners to interact. The annual conference may, in part, address this need, but other opportunities should be created or enhanced. The first information event was held in the Competitiveness programme in 2009.
- 7.28 It is evident from the above that there is some networking and communication taking place, but scope for more. Regular communication amongst a wide range of stakeholders would be valuable, as would more (or more effective) opportunities for interaction between groups of stakeholders such as delivery partners.

Strategic alignment and consistency of approach

- 7.29 The programmes have had extensive alignment with SWRDA activity, particularly given the significant role of Single Programme funding in match funding the ERDF funds. This is likely to be adversely impacted by central government spending cuts in the future and the uncertain future of SWRDA. There may emerge a more fragmented group of stakeholders and so ensuring strategic alignment will become a far more important task for the PMC. It will be important to ensure that the two programmes retain their robustness in the face of a rapidly changing and challenging public policy and funding environment.
- 7.30 There are many references to alignment of the ERDF programmes with the ESF programmes in the Competitiveness and Convergence areas, and this has been enhanced through the ESF refresh which is discussed below. Whilst not explicitly stated, it appears that the refresh of the ESF frameworks has been influenced by the two ERDF programmes – e.g. the refreshed Convergence ESF priority areas (low carbon and environment; enterprise and entrepreneurship; key sectors; eco-town; and the digital economy) align very closely with aspects of the Convergence ERDF programme; as do the Competitiveness ESF priorities

(recession and recovery; enterprise culture; and low carbon) with important aspects of the Competitiveness ERDF programme.

- 7.31 Stakeholder feedback indicates that the joint PMC in the Convergence area has led to improved linkages between ERDF and ESF, but there is still scope to improve linkages with RDPE (although we would expect links to be less close).

Facilitating mutual trust, innovation, adaptation of best practice or reduction of duplication

- 7.32 There are a number of targets within the programmes which will contribute to the promotion of innovation and best practice. Both programmes have a dedicated website and produce communication newsletters, which can help to create an 'ERDF' community in the South West and the sharing of intelligence and information, although this has been limited to date. The projects supporting collaboration, networking and the creation of new networks (such as the iNETs in the Competitiveness programme) provide opportunities for innovation and sharing of best practice, although we have found no firm evidence of this happening to date.

Influence and leverage

- 7.33 In looking at the PMC's influence and leverage, the review sought evidence of: development of knowledge and intelligence; partners' strategic priorities; and scale and nature of partners funding, activities and outputs. Development of knowledge and intelligence is substantially dealt with in the section above.

Influencing partners' strategic priorities

- 7.34 For the C&E programme only, there is limited evidence that the PMC has influenced the priorities of partners other than a close alignment between the programme and SWRDA policy and investment decisions.
- 7.35 The extent to which both of the PMCs have influenced SWRDA spend or vice versa has been raised, with suggestions of the programmes being strongly influenced by SWRDA objectives, but also that SWRDA has match funded more activity in areas such as knowledge transfer and innovation than it did historically.
- 7.36 The need to influence partners' priorities is likely to become an increasingly important role of the PMCs. At present there is no certainty about the future, but both programmes may need to seek more diverse and dispersed forms of match-funders, including from the private sector. This will be challenging as the public sector will be impacted by public spending cuts, and will be focusing on their core activities and areas.

Scale and nature of partners funding, activities and outputs

- 7.37 The two programmes have impacted on the funding and activities of some partners, which is evidenced through the match funding of both the Competitiveness and Convergence programmes (including some private sector funding). However, the majority of match-funding has been SWRDA, and both programmes' are currently over-reliant on the RDA. The programmes need to prioritise diversifying the pool of match-funders.

- 7.38 In the stakeholder consultations, it was claimed that environmental partners are being encouraged to consider broader opportunities, and they are now starting to see potential benefits, but there is, as yet, no evidence of additional activity as a result of this.

Joint working between Competitiveness and Convergence

- 7.39 The OPs for the Convergence and Competitiveness programmes were developed in close collaboration with each other, and it is recognised that there is potential for close collaboration between the two around the geographical boundary areas. Whilst there is general discussion about this in the OPs, they are not explicit about how the two programmes will work together.
- 7.40 There is some evidence from the review process of effective joint working between the programmes, generating added value for the region. Examples include:
- several projects have been jointly funded, including PRIMaRE, Knowledge Escalator and MAS, enabling co-ordination in activity across the two programmes
 - the programmes have benefitted to some extent from having shared cross-cutting groups such as the Environmental Advisory Group
 - the synergies in SWRDA acting as the delegated managing authority for both programmes e.g. sharing of information with the agency.
- 7.41 However, the review has not identified significant evidence of joint working at a strategic, operational or project level. Some stakeholders referred to poor communication between the programmes and the opportunity to enhance information sharing. It is claimed opportunities that have been missed for the programmes to work together better and there has been some resistance to the imposition of region-wide approaches (for example to business support).

Links between ERDF and ESF

- 7.42 This section considers the links between the ERDF programmes and their respective ESF programmes.
- 7.43 Earlier in the review we set out an overview of the programmes, which included their aspirations for linkages between ERDF and ESF. These aspirations included aligning with the respective priorities of ESF supporting the development of high skills in the economy (relevant to PA1 and PA2 of both ERDF programmes) and tackling worklessness (relevant to the SIF priorities in ERDF). There was also an expectation that links would be developed at a project level, for example between enterprise and employment initiatives in Bristol, Plymouth and Torbay.
- 7.44 There has been some positive feedback from the stakeholder consultations about the joint ESF-ERDF PMCs which claims that they have led to better joint working between the two programmes, along with ESF representation on the PDG and EAG. The joint ERDF-ESF PMCs have been cited as promoting greater alignment at PMC and management level, but there is less certainty about whether this has promoted effective joint working at the project level (with a suggestion that this sometimes happens more by luck than design). However,

some of the stakeholders consulted have indicated that ERDF and ESF still need to work better together, particularly at the project level, and should be considered jointly when developing projects. Project development needs to engage appropriate potential co-funders such as HEIs, FECs, SFA and Jobcentre+.

7.45 The emerging findings from the ERDF-ESF joint evaluation feasibility study being carried out by Ecotec claim that there is effective joint working between the two programmes in the Convergence area where both the PMC and the Partnership Office are helping to facilitate this; whilst this is less so in the Competitiveness area. The study has identified examples of joint working between the programmes, including:

- the ERDF environment and sustainability institute links to the ESF resource programme
- eco town involves ESF and ERDF working together at the outset
- ESF supports human capital/training/skills for ERDF infrastructure projects
- ESF is involved in the review and development of the business support offer and also offering business skills support
- the ESF clusters project covers the same geographical areas as the SIFs
- school for social enterprise
- next generation broadband has ESF involvement at the outset to ensure that skills support is embedded
- also, ESF is commissioning an enterprise programme.

7.46 Stakeholders reported in our review that links between ERDF and ESF are now being made earlier, as historically they tended to take place after ERDF funded capital projects (for employment initiatives). Improvements have also been implemented in ERDF to ensure that projects consider skills implications in developing business plans (e.g. the skills needs which may arise and how this might link to ESF projects). Similarly, ESF applicants are asked to think about how their project addresses business needs and potential links to ERDF investment/activity. Within the Convergence Programme, an enterprise strategy is currently being developed through a pre-commissioning group to ensure more business focused activities are taken forward under PA1. This process is being supported on a joint basis by ERDF and ESF aiming to ensure integration between the skills and innovation/enterprise agendas.

7.47 There have been challenges in building links between ERDF and ESF, including:

- timing - the ESF programmes are running ahead of the ERDF programmes (e.g. the refresh of each ESF strategy was completed in late 2009)
- ESF is responding to a national agenda whereas ERDF is responding to a regional agenda, although it has been possible to obtain some flexibility in the refresh of the ESF programmes, and achieve more focus on higher skills

- several stakeholders have raised the issue of mismatch between the commissioning approach of ERDF and the competitive bidding approach of ESF which reduces the scope for working together at this early stage.
- 7.48 The recent refresh of the ESF frameworks in the ERDF areas provides an opportunity to build links between ERDF and ESF. Key opportunities to forge closer links in the future include:
- low carbon economy and issues, which is a priority within both ESF frameworks
 - level 3 skills development, with an increase in resources for this as a result of the ESF refresh
 - greater engagement around the support ERDF is providing to HEIs.
- 7.49 There is also the potential opportunity for the ERDF programmes to undertake activity within the ESF strategy, up to 10% of the value of a PA budget. The PMCs should keep this flexibility under careful review, particularly to take account of any further adverse impacts of the recession and the extent to which this could support the delivery of PA3 in the Competitiveness programme. As unemployment is forecast to rise, a future risk to collaboration may be a reduction in ESF resources for higher skilled activities. This can be effectively dealt with at the joint PMCs.

Key messages

Table 7-1: Key messages

Key messages

Strategic Leadership

The purpose of both PMCs is to provide strategic leadership and linkage across the ERDF and ESF programmes.

There is more praise for the Convergence PMC than the Competitiveness PMC – in terms of the quality of engagement, debate, role and value-added; although the history of the Convergence PMC in previous programmes is seen as a contributory factor to its success.

There is praise for the independent chairing of both PMCs by the Government Office; and praise for the work of the PMC sub groups "behind the scenes".

Potential for better communication of the strategic leadership, role and value added by both PMCs to the wider stakeholder community.

Both PMCS will need to provide significant strategic leadership in the future in addressing the likely need for match funding in the future.

Networking

This is an important aspect of both the management of the two programmes and the activity that they are delivering.

Scope to improve networking opportunities, particularly for delivery partners (particularly noted in Competitiveness programme).

Influence and leverage

Both programme do exert influence in terms of directing partners' spend; although this will become more important given the expected challenge to finding match funding in the future.

Competitiveness and Convergence

There are structures in place for collaboration between the two programmes; and there are shared processes and

Key messages

ways of working.

There are some projects which are funded by both programmes; but there are stakeholder comments about limited cross-programme working – but perhaps limited scope for this.

ERDF and ESF

A joint mapping study has been carried out which identifies linkages between these programmes and with RDPE. Stakeholders suggest that alignment between ERDF and ESF has improved over the course of the ERDF programmes. The ESF framework refreshes has improved alignment.

Joint PMCs have been effective at promoting joint working at the strategic level, but this is not often translated to the project level. There is scope for better joint working, but this is sometimes hampered by the commissioning approach of ERDF v the competitive bidding approach of ESF.

Source: SQW Consulting

8: Recommendations

Recommendations

- 8.1 The recommendations from the review of the Competitiveness programme are detailed below.

Programme strategy
1. The rationale and objectives of the strategy were valid at the time they were developed and continue to be valid. We do not recommend significant changes despite the upheaval in the economic and political context. The strategy of the programme should remain focused on tackling structural weaknesses in the regional economy, improving rates of innovation, research and development and enterprise, and tackling intra-regional disparity.
2. That the PMC considers revising the strategy for Priority Axis 3 to enable investment in urban enterprise activities outside of Bristol, Plymouth and Torbay if the economic situation deteriorates further, and to provide greater flexibility to respond to match-funding opportunities. We continue to support the majority of resources being targeted on Bristol, Plymouth and Torbay and that this should be subject to regular performance assessment.
3. That the PMC considers strengthening the programme wide strategy for reducing intra-regional disparity through considering new investments in rural enterprise development in the Western Peninsula under Priority Axes 1 and 2. This should be funded by the virement of all or part of the unallocated budget under PA3. The rural enterprise activity should focus on structural weaknesses in the rural economy and barriers faced by rural businesses to enterprise development and innovation. The programme should build on the work of the RDPE programme and forge closer links between the programmes. Investing in the infrastructure for the knowledge economy could be one priority for investment.
4. That the PMC protect Priority Axes 1 and 2 and investments in the low carbon economy if the programme faces a fall in available resources as a result of cuts in match-funding.
5. That the PMC considers changes to the performance framework. We recommend that the target for the number of SMEs launching new products or processes is reduced as it was not achievable at the time it was set. We also recommend that the PMC consider amending the performance framework to include: <ul style="list-style-type: none"> • new businesses started - priorities 1 and 2 • proportion of new businesses started by under-represented groups – priorities 1, 2 • Equality and Diversity CCT targets across all priorities • reduction (relative) in carbon dioxide emissions.
6. That the PMC re-confirm in the review of the Operational Programme the ultimate objectives of the programme in relation to supporting the transition to the low carbon economy.
7. That the PMC amend the financial tables in the Operational Programme to include private sector match-funding.
Performance
8. That the programme undertakes a review by October 2010 of the risks to project and programme delivery of changes in match-funding availability. This should assess all contracted, endorsed and commissioned projects and assess the risk to each of changes in match-funding.
9. The PMC should consider a refresh of the Strategic Investment Frameworks by December 2010 following the Spending Review and in light of confirmation of match-funding in Bristol. This should consider whether capital projects will help improve the implementation of the Strategic Investment Frameworks. The PMC should also consider adjusting the ERDF intervention rates for the SIFs to around 60%.
Management and administration
10. That the PMC undertake a review of its membership to ensure adequate representation of the business community – to ensure the programme continues to be demand led – and local government – to improve extend the programme's links to the local and sub-regional level. Given the Coalition Government's emphasis on private sector growth as a key component of recovery from recession, the engagement of the private sector as a key stakeholder and partner in the management and delivery of the programme becomes increasingly important in the latter part of the programme.

Programme strategy
11. That the PMC consider the roll-out of SWRDA's zero carbon methodology in the appraisal process. The PMC should consider the resource implications of applying the methodology and how the difference the programme makes can be measured without burdening project delivery partners.
12. That the PMC undertake a review to speed up the commissioning process. Where match funding is available from the RDA, a more streamlined approach is required and there may be the potential to get outside organisations (e.g. local authorities) to provide more support with project development which would also help address the RDA capacity issue.
13. That the programme management team should review the relationship between commissioning and appraisal to ensure that it is as time and cost effective and efficient for applicants and commissioning and appraisal staff.
<p>14. That the PMC adopt the recommendations made in Chapter 6 to improve monitoring and the collation of performance management data:</p> <ul style="list-style-type: none"> • Technical Assistance – <ul style="list-style-type: none"> ➢ Output targets should be set and monitored annually, to include: establishing monitoring databases; evaluation reports; publication/ dissemination of information and guidance; meetings; and publicity and communications events (the latter are already identified within the AIRs) ➢ Result targets are set where appropriate against the output targets. These should be changes in behaviour, capacity and performance as a result of the activity that delivers the outputs ➢ TA spend is monitored and reported against the strands of TA activity in the OP e.g. developmental, management information, evaluation, partnership and communication (with defined sub categories as appropriate) • Western Peninsula - <u>All</u> output and result achievements are monitored separately for the Western Peninsula area and the rest of the C&E area • Equalities and Diversity CCT - the programme <u>must</u> monitor and report achievements annually against the equalities and diversity targets in the OPs (including the target for 50% of PMC and sub-committee members to be women). Additionally, the long list of programme equalities indicators should be reviewed to provide a shorter list of core, SMART indicators which all projects are monitored against, to enable consistent monitoring of performance across the programme • Environmental CCT - the long list of environmental performance indicators in the monitoring strategy should be reviewed to provide a shorter list of core, SMART indicators which all projects are monitored against, to enable consistent monitoring of performance across the programmes. • Spatial activity: It must be possible to report output and result achievements for the spatial priority areas in both programmes. As well as for the Western Peninsula area in the Competitiveness programme, this should be for each SIF area
15. That the PMC adopt the recommendations made in Chapter 6 to improve monitoring and the collation of performance management data to aid value for money assessments. The details of the recommendations are provided in the chapter.
16. That the PMC consider how the programme can more effectively communicate its objectives and work. Articulating the Programmes' role and their ability to deliver will become increasingly important in a more challenging funding environment. The programme needs to be able to demonstrate to a wide range of stakeholders from the public and private sectors the difference it is making and how it can support local and sub-regional priorities.
17. In the face of match funding cuts the PMCs need to take a strong leadership role in identifying and lobbying potential new (and continuing) funding partners and ensuring they have a good understanding of the value added by the programmes in order to secure future resources. This will need to include evidencing the impact and outcomes of the ERDF programmes in supporting local and sub-regional policy objectives
18. The ERDF programmes should continue to explore opportunities for closer joint working between ERDF and ESF and ERDF and RDPE in strategy and in funding projects where this is appropriate.