

# Northwest Competitiveness Operational Programme

2007-2013

Final Programme



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# CONTENTS

<b>1. EXECUTIVE SUMMARY</b>	<b>1</b>
<b>2. SOCIO-ECONOMIC ASSESSMENT</b>	<b>6</b>
<b>3. STRATEGY</b>	<b>64</b>
<b>4. PRIORITIES</b>	<b>98</b>
<b>5. CROSS-CUTTING THEMES</b>	<b>142</b>
<b>6. FINANCIAL ALLOCATIONS</b>	<b>156</b>
<b>7. CO-ORDINATION</b>	<b>160</b>
<b>8. PHASING-IN OF MERSEYSIDE</b>	<b>174</b>
<b>9. IMPLEMENTING PROVISIONS</b>	<b>183</b>
<b>APPENDIX A EQUALITY IMPACT ASSESSMENT</b>	<b>214</b>
<b>APPENDIX B LIST OF STRATEGIES AND EVIDENCE</b>	<b>231</b>
<b>APPENDIX C LISBON EARMARKING</b>	<b>232</b>
<b>APPENDIX D EX-ANTE EVALUATION</b>	<b>236</b>
<b>APPENDIX E STRATEGIC ENVIRONMENTAL APPRAISAL</b>	<b>270</b>
<b>APPENDIX F OUTPUTS, RESULTS AND IMPACTS TABLES</b>	<b>300</b>
<b>APPENDIX G NOTE ON QUANTIFICATION AND RESPONSE TO EX-ANTE EVALUATION</b>	<b>303</b>
<b>APPENDIX H NON TECHNICAL SUMMARY: STRATEGIC ENVIRONMENTAL APPRAISAL</b>	<b>310</b>

## 1. Executive Summary

- 1.1 Over the period 2007-2013 the North West of England is set to receive a total of €756 million<sup>1</sup> in European Regional Development Fund (ERDF) support under the Competitiveness strand of the EU's Structural Funds. Out of this total 41% is ring-fenced for Merseyside as a so-called phasing-in region, reflecting its previous access to higher levels of funding under the Objective 1 Programme, with the remainder available for all of the North West. All parts of the region are eligible for ERDF support. In summary:
- Total North West ERDF over 2007-13 is €756m
  - North West ERDF (excluding Merseyside) is €448m over period 2007-13, with a profile of spending that is constant (in real terms) over the Programme period
  - Merseyside ring-fenced ERDF is €308m, although the annual profile of spending declines sharply over 2007-11
  - Taking account of match funding and the current exchange rate, this provides for total funding of around €1.5bn over this period (i.e. double ERDF total)
- 1.2 In response to the important opportunity represented by these resources, partners in the region have developed a North West Operational Programme (NWOP) to determine how these resources are to be used over the programme period.

### The Programme Vision

- 1.3 Partners have developed the NWOP in response to these challenges and to the policy drivers at a European (especially the Lisbon agenda), national and regional level. The overall vision for the NWOP, which is based on that of the region's current RES, is:

*"A dynamic, sustainable international economy which competes on the basis of knowledge, advanced technology and an excellent quality of life for all", and where;*

- Productivity and enterprise levels are high, in a low carbon economy, driven by innovation, leadership excellence and high skills.
- Employment rates are high and concentrations of low employment are eliminated.

- 1.4 The three main overall Programme targets by which we will measure progress and the overall impact of the programme are:
- Global Target 1: Support the creation of 26,700 net additional new jobs by 2015
  - Global Target 2: Support the creation of £1,170m additional annual GVA by 2015.
  - Global Target 3: Support a 25% reduction in additional CO<sub>2</sub> emissions generated by the NWOP

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<sup>1</sup> Based on the annual allocations in 2006 prices, updated annually by 2% pa for inflation

## Challenges faced by the Region

- 1.5 An extensive analysis of the socio-economic conditions in the region, extending earlier work to underpin the current Regional Economic Strategy (RES), was carried out in developing the NWOP. Although the North West and its sub-regions have, on the whole, seen significant progress over the last decade, there remain significant challenges, which can be summarised as follows:
- The North West continues to have relatively **low rates of innovation, enterprise and productivity** of those in work. The causes of this productivity gap are complex, but include the region's industrial structure, low rates of innovation in many SMEs and deficiencies in skills (including management and leadership). Rates of enterprise are low in most parts of the region. The excellent knowledge assets in parts of the region are far from fully exploited.
  - There remains an **environmental deficit** in the region (in relation especially to land and property). In common with other economies, it faces the challenges of **climate change** and of future increases in costs of energy, which will have a significant impact on the region's industrial base.
  - The recent economic success has not filtered out to all parts of the region. The **lack of economic inclusion** in parts of the region, especially the larger urban areas, is manifest in concentrations of economic inactivity.
- 1.6 The mix of opportunities and challenges varies from place to place. The region is large and varied, ranging from some of the most urbanised areas in Europe with deep-rooted economic and social challenges, and highly competitive areas with concentrations of knowledge based industries and to isolated rural areas. Merseyside has faced the greatest economic and social problems in the past and, in recognition, is a phasing-in region. The most isolated parts of the region, West Cumbria and Furness, also face some of the most daunting prospects of industrial re-structuring. Other parts of rural Cumbria are also particularly isolated. For these reasons, partners have agreed on the need to "Cumbria proof" the NWOP and to provide opportunities for funding in these areas as well as to build in design principles to help businesses in these areas access the benefits of the programmes.

## European Policy Context

- 1.7 The Lisbon Agenda provides the overarching motivation for the NWOP and is the main driver of the EU agenda in relation to cohesion policy. The two broad aims of the Lisbon Agenda are central to the NWOP:
- **Generating stronger, sustainable economic growth.** Achieving this goal requires a significant increase in emphasis on competitiveness, innovation and knowledge-intensive activities
  - **Creating more and better jobs.** A stronger economy will drive higher quality job creation in the EU and policies that promote social inclusion will facilitate faster economic growth by increasing the effective labour pool
- 1.8 The European Community Strategic Guidelines (CSG) for Cohesion Policy set out how the EU's regional policy will be delivered via the EU Structural and Cohesion funds through economic, social and environmental interventions over the period 2007-2013. The CSG suggests ways in

which the regions can build competitiveness on three broad fronts, each of which is supported by the NWOP:

- First, by enhancing the **attractiveness** of Member States, regions and cities by improving accessibility, ensuring adequate quality and level of services, and preserving their environmental potential (Guideline 1.1)
- Second, by encouraging **innovation, entrepreneurship** and the growth of the knowledge economy by research and innovation capacities, including adopting of new ICTs (Guideline 1.2)
- Third, through creating **more and better jobs** by attracting more people into employment or enterprise, improving the adaptability of workers and enterprises and increasing investment in human capital (Guideline 1.3).

### UK Policy Context

1.9 Each EU Member State is obliged to produce a national strategy – or National Reform Programme – which sets out how it will contribute to the Lisbon Agenda. Published by HM Treasury in October 2005, the '*Lisbon Strategy for Jobs and Growth – UK National Reform Programme*' (NRP) – outlines how the UK will work towards achieving the aims and objectives of the revised Lisbon Strategy. The NWOP is coherent with the aims and objectives of the NRP and supports the following actions:

- Macroeconomic policies for jobs and growth
- Promoting productivity growth
- Increasing employment opportunity for all.

1.10 However, as far as the NWOP is concerned the most recent development in the national policy context is provided by the UK's National Strategic Reference Framework (NSRF) which is the UK Government's framework for the use of Structural Funds, reflecting both the CSG and the UK Government's regional policy agenda. The NSRF acts as the bridge between EU cohesion policy and the Regional Competitiveness Programmes. The NSRF was finalised in October 2006 and set out the national split between ESF and ERDF and financial allocations for regions. Together the NRF and NSRF set the framework and purpose for the use of these funding programmes.

1.11 The NSRF sets four priorities for the Regional Competitiveness Programmes, which provide a framework for determining priority interventions and funding allocations based on EU and UK Government policy. These are:

- Priority 1: Promoting Innovation & Knowledge Transfer
- Priority 2: Stimulating Enterprise & Supporting Successful Businesses
- Priority 3: Ensuring Sustainable Development, Production & Consumption
- Priority 4: Building Sustainable Communities.

1.12 The four NSRF pillars define the boundaries of the scope of Regional Competitiveness Plans, and all are supported by the NWOP.

### Programme Priorities

- 1.13 There are relatively limited resources in the NWOP for what is a large region with many needs. The NWOP is therefore focused on areas where it can make the biggest impact in relation to the vision, in conjunction with other funding for economic development and with the European Social Fund (ESF) programme in the region. Partners have agreed on the following 5 priorities and overall resource allocations:
- **Priority 1 – Stimulating Enterprise and Supporting Growth in Target Sectors and Markets** (€205m of ERDF). This priority provides business support and funds financial instruments which help improve the competitiveness of the region's businesses, especially in high value target sectors. It also supports work with the region's businesses in all sectors to improve resource efficiency and reduce their carbon footprint.
  - **Priority 2 – Exploiting Innovation and Knowledge** (€205m of ERDF). This priority aims to make full use of the region's knowledge base in Higher Education Institutes, research institutes and private sector firms. It encourages the exploitation of this knowledge and innovation amongst all firms.
  - **Priority 3 – Creating the Conditions for Sustainable Growth** (€157m of ERDF). There is still the need for some underpinning investment in infrastructure in the region to support the development of successful economies. This priority supports investment in strategically significant sites and premises and, in Merseyside, access to and exploitation of key transport gateways.
  - **Priority 4 – Growing and Accessing Employment** (€159m of ERDF). There is a need to ensure that the fruits of economic success delivered by the NWOP and in the wider economy are shared and that economic exclusion is tackled. This priority, in conjunction with other programmes, is focused on creating employment which is accessible to areas of disadvantage and to help residents in these areas access economic opportunity as employees or in self-employment. The priority will be delivered through commissioning via Sub-Regional Partnerships.
- 1.14 In addition these priorities are supported by Priority 5 – Technical Assistance (€30m in ERDF). This supports the management of the programme, trans-national and inter-regional co-operation and specific sector support where necessary.

### Use of ESF Flexibility

- 1.15 Art 34 (2) of Council Regulation (EC 1083/2006 provides for the ERDF to fund interventions which falls within the scope of ESF (and vice versa), provided such interventions are necessary for the satisfactory implementation of an operation (project) and have a direct link to that operation. A maximum of 10% of the EU contribution at a priority level can be used for such complementary ESF interventions as long as these are integral to the ERDF project. Justification for the use of this flexibility will be provided at project level and the resources used in this manner will be separately identified in project applications and expenditure declared. The NWOP will use this flexibility in priority 1 where further details are given.

### Cross Cutting Themes

- 1.16 The NWOP has two cross cutting themes – Environmental Sustainability and Equality & Diversity. The principles of both will be embedded within project design and followed through into delivery and implementation. Management and monitoring systems will underpin the successful mainstreaming of the CCTs as will robust indicators, including gender.

### **Implementation**

- 1.17 The NWOP will be managed in accordance with the agreed Implementing Provisions, which are contained in Chapter 9.

### **NWOP Quantification**

- 1.18 The NWOP is quantified at programme and priority level, using the framework proposed by CLG. It contains, for each of the priorities (and for the Programme as a whole) tables containing Outputs, Results and Impact indicators capable of measuring progress in implementation. In addition, a subsidiary monitoring framework will be developed to capture any additional outputs and results necessary not contained in the CLG core indicator framework to ensure successful implementation. The core indicators have been fully defined by CLG. The comprehensive monitoring framework for both core and subsidiary indicators and relevant targets will be endorsed by and reported to the PMC, as appropriate. This will include reporting on art. 42 bodies, if used. The CCTs will be integrated within the monitoring framework and gender splitting will be applied where applicable. There is also a series of financial tables in chapter 6 and in appendix 3 on Overall, Merseyside and Rest of North West programme components. Additionally, tables are included for Lisbon earmarking, types of funding and territorial elements.

## 2. Socio-Economic Assessment

2.1 This analysis covers five aspects of North West's economic performance:

- Regional overview of economic performance and issues
- Thematic assessment (using the 5 drivers of productivity and other key OP factors)
- Sub-regional and spatial assessment
- Environmental sustainability
- Equality and diversity.

2.2 The analysis has drawn on the deep and wide evidence base evidence base that underpinned the North West RES<sup>2</sup>, and has been updated to reflect recent economic performance and data releases and by work on Sub-Regional Action Plans submitted by sub-regional partners to the NWDA in August 2006.

2.3 This socio-economic assessment is intended to provide a summary of regional, sub-regional and (where appropriate) local economic performance and the key explanatory factors. It is not intended to provide a repeat of the comprehensive and all-encompassing analysis that was undertaken during preparation of the RES. We have therefore focused on those key factors that will need to be taken on board and responded to in the NWOP.

### Overview of the North West and its Sub-Regions

2.4 The **North West** is the third largest regional economy in the UK with a gross value added (GVA) of £102 bn (2004). With GVA per head at 86% of the English average, the North West is ranked seventh out of the 9 English regions. The North West is a very diverse region, and its constituent sub-regions and localities are characterised by widely varying economic prosperity and wealth, as described below. A summary SWOT for each sub-region can be found at the end of this chapter.

2.5 **Cheshire & Warrington** has a GVA of £17.5 billion in 2003, 16% of the North West total. Total population is 875,000 and key towns include Chester and Warrington, with populations of 118,000 and 194,000 residents respectively. Cheshire & Warrington has an important financial and business services sector reflecting the strength of financial services in locations such as Chester and the concentration of business services activity in Warrington and along the M56 corridor and close to Manchester Airport. Manufacturing is also an important component of GVA reflecting in particular the presence of the highly capital intensive chemical sector and the pharmaceutical sector in the sub-region.

2.6 **Cumbria** is a predominantly rural sub-region, with around half a million residents, producing around £5.9 billion, or 6%, of total GVA in the North West. Strong sectors include the nuclear sector, food and drink and tourism (the sub-region includes the Lake District). Carlisle is the main settlement and administrative centre for the county, with 70,000 residents. Cumbria is the most dependent sub-region on manufacturing and hotels & catering. This reflects the "two-

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<sup>2</sup> "North West Economic Baseline: Final Report" July 2005, Regeneris Consulting for NWDA

speed” nature of the economy with large scale manufacturing on the West Coast and Furness Peninsula coupled with a more traditional tourism (and agriculture) based rural economy in much of the county. Cumbria has a particularly low proportion of financial and businesses services GVA reflecting its geographical position and rural nature.

- 2.7 **Greater Manchester** is the largest sub-region in both population and GVA terms. It has a GVA of £38.3 billion, or 40% of the regional GVA. The sub-region has strengths in high value manufacturing, financial and professional services and the creative industries. Greater Manchester also has established strengths in air transport and related aviation services, whilst the city of Manchester is the UK’s largest centre for financial & business services and creative/digital industries outside London. The strongest-performing sectors in recent years are predominantly located within the city centre and adjacent locations due to a critical mass of economic services producing benefits of clustering and economies of scale for many kinds of business (reflecting the role of the city centre and the South Greater Manchester area). Recent growth in the sub-region has been driven by the expansion of private sector services.
- 2.8 **Lancashire** has a population of 1.4 million, and accounts for £19.1 billion in GVA, 20% of the North West total, making it the second-largest contributor to the overall regional economy. The economy has a number of key sectoral strengths, including advanced manufacturing (the largest concentration outside southern England, and a strong specialism in aerospace), chemicals, tourism and the nuclear sector. It has a small, but growing, financial & business services sector. It is a polycentric and largely rural sub-region. Key settlements include Preston, with 130,000 residents, and Blackpool, with 140,000 inhabitants. Preston and Lancaster are the current drivers of growth in the Lancashire economy.
- 2.9 **Greater Merseyside** has GVA of £16.1 billion<sup>3</sup>, 19% of the regional total, and was historically dominated by port and port related service activities. It has a population of 1.5 million. Now the sub-region has concentrations in chemicals and public sector administration, and a developing services sector. The city of Liverpool is the major city and has 447,000 residents. The most significant features are the importance of the public sector in GVA, the low importance of manufacturing and the significance of financial and business services overall. In relative terms Greater Merseyside has an above regional average concentration of GVA and employment in the financial services sector, but its shares of GVA in business services are similar to the regional average and its employment share lower.
- 2.10 The Merseyside phasing-in sub-region is a slightly smaller area than Greater Merseyside as it excludes the unitary authority area of Halton. Its overall industrial structure is similar to Greater Merseyside as are its challenges. Its population is 1.4 million.
- 2.11 Headline economic indicators for the North West and its sub-regions are summarised in Table 2-1.

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<sup>3</sup> This figure refers to Merseyside NUTS 2 area not Greater Merseyside as official GVA statistics are not available for the latter area.

Table 2-1: Key Economic Indicators in the North West

	Cumbria	Cheshire and Warrington	Greater Manchester	Lancashire	Greater Merseyside	North West
Population (000s, 2004)	498.9	874.6	2,547.6	1,439.3	1,485.9	6,846.3
Population Density (2004)	69	382	1,997	441	1,637	459
Population change (1999-2004)	1.4%	1.5%	0.9%	1.7%	-0.9%	0.8%
GVA, £billion (2003) <sup>1</sup>	£6.0	£17.5	£38.3	£19.1	£16.2*	£97.1
Average annual GVA growth (1998-2003) – current prices*	2.6%	4.3%	4.9%	4.6%	5.1%*	4.6%
GVA per head (2003)*	£12,217	£17,658	£15,144	£13,389	£11,846*	£14,269
GVA per head, England = 100 (2003)*	74	107	92	81	72*	86
No. of firms (000s, 2004)	20.4	35.1	87.6	50	39.8	232.9
Employment (000s, 2004)	213.0	414.6	1,187.3	610.5	589.5	3,014.9
Average annual employment growth (1999-2004)	3.1%	0.3%	1.5%	2.3%	1.6%	1.6%
Economic Activity rate (2005)	79.3%	80.4%	76.3%	77.2%	73.4%	76.6%
Unemployment rate (2005)	3.9%	3.4%	5.5%	6.8%	4.8%	4.7%

Source: ONS, NOMIS Midyear Population Estimates, Annual Population Survey and Annual Business Inquiry © Crown Copyright, and ONS GVA Statistics

Notes: 1. Figures based on latest ONS figures for workplace-based headline GVA at basic prices. These figures refer to the Merseyside NUTS 2 area not Greater Merseyside as official GVA statistics are not available for the latter area. Halton, which is in the Greater Merseyside sub-region, is included in the Cheshire and Warrington NUTS 2 area

- 2.12 Figure 2-1 below illustrates the sub-regional boundaries and location of key towns and cities. Note: the Greater Merseyside sub-region includes the Halton Unitary Authority area, which is not part of the Merseyside Phasing-In area.

Figure 2-1: The North West and its Sub-regions



Source: Digital Mapping Solutions from Dotted Eyes. © Crown Copyright 2005. All rights reserved. Licence number 100019918

Note: the Greater Merseyside sub-region includes the Halton Unitary Authority area, which is not part of the Merseyside Phasing-In area

## Regional Overview of Economic Performance and Issues

### Overall Performance of the Region's Economy

- 2.13 The North West economy has performed well since 2000. The region has seen an improvement in relative performance and considerable absolute economic growth since the late 1990s, in common with other regional economies in the north of England. Furthermore, there has been a particularly strong performance in the labour market since 2000 and the employment rate is now close to the national average (and so above most EU member states). Over the period 2000 to 2004 an extra 182,000 jobs were created in the region<sup>4</sup> (this was nearly a third of all job growth in England in this period). The rate of growth of GVA at 22% was close to the English average during this period and GVA per head exceeded the England average.<sup>5</sup>
- 2.14 However, the great strides in job creation have not, so far, been matched in terms of productivity per worker. This continues to lag behind the best performing regions in the UK (and in Europe). Indeed, the region's relative productivity performance has deteriorated overall, as much of the net gain in employment has been in lower skilled activities.
- 2.15 The rate of growth of GVA per head in the North West in this period was roughly on par with the English average – see Table 2-2. Nevertheless, GVA per head of £14,940 in 2004 was still 13% below the England average, representing a **£15 bn output gap or £2,200 per head of population**<sup>6</sup>. The output gap stems from two main sources:
- Around one quarter of the gap reflects a lower employment rate among the North West's population (equating to 80,000 people below what it would be if at the England average).<sup>7</sup> There are still large pockets of worklessness (90% of which is concentrated in a small number of districts).
  - Around three quarters is due to the below average rates of productivity of those in work, especially those in the service sector (and above all in business services). There is relatively low value added per worker in tradeable service sector activities (financial and business services). Productivity rates overall are above the England average in manufacturing, mainly because of high rates of productivity and a relative specialisation in a handful of high value added sectors: chemicals; pharmaceuticals; and aerospace.
- 2.16 Other factors that help to explain this productivity gap are:
- Evidence of low rates of innovation amongst the mainstream of SMEs (even amongst some world class performers) and poor performance among a large 'tail' of firms, reflected in low rates of patenting (30% below national average per capita rate) and a poor business R&D performance - (apart from a few large, global players). Total R&D investment per capita is 20% below the national average (for more detailed statistical analysis see the following thematic assessment on innovation).
  - Low rates of entrepreneurship and so too few start-up businesses and business stock. This is mainly a demand pull factor, and to a lesser extent also reflects cultural and attitudinal factors, especially in communities where formerly dominant large, traditional

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<sup>4</sup> ONS NOMIS, Annual Business Inquiry © Crown Copyright

<sup>5</sup> ONS, NUTS1 GVA statistics

<sup>6</sup> This is the amount by which GVA would be higher if GVA per capita were to rise to the current England average.

<sup>7</sup> ONS NOMIS Labour Force Survey © Crown Copyright

industries are in decline. A continuing challenge for the region is to break the transmission from generation to generation of fatalistic attitudes and to instil confidence and aspiration in youths.<sup>8</sup> 37,800 more businesses would be needed to reach the national average business density. This is also evidenced by self employment rates, which are 12% below the national average.

- Not enough people in knowledge based industries – employment in these high value industries is 3.5 percentage points behind the national average.
- Too few workers with higher level skills (8% fewer people qualified to NVQ 4 and above than nationally) and a surplus of people with no qualifications (20% more people than national average).

**Table 2-2: GVA per head, £000s 1999-2004**

	1999	2004	% change, 1999-2004
<b>North East</b>	<b>10.6</b>	<b>13.5</b>	<b>23%</b>
North West	11.9	15.0	21%
<b>Yorkshire &amp; the Humber</b>	<b>11.8</b>	<b>14.9</b>	<b>22%</b>
<b>East Midlands</b>	<b>12.3</b>	<b>15.9</b>	<b>25%</b>
<b>West Midlands</b>	<b>12.3</b>	<b>15.3</b>	<b>20%</b>
<b>East of England</b>	<b>14.5</b>	<b>18.4</b>	<b>22%</b>
<b>London</b>	<b>17.8</b>	<b>23.3</b>	<b>27%</b>
<b>South East</b>	<b>15.6</b>	<b>19.8</b>	<b>22%</b>
<b>South West</b>	<b>12.5</b>	<b>16.1</b>	<b>25%</b>
<b>United Kingdom</b>	<b>13.6</b>	<b>17.5</b>	<b>22%</b>

Source: ONS, GVA Statistics

2.17 There are, however, considerable opportunities:

- Critical mass of skills and economies of agglomeration becoming evident in the main urban areas, their surrounding city-regions, and other key urban centres
- Strong research base in HEIs, in Liverpool, Lancashire and especially in Manchester (Knowledge/Science City)
- Some strongly performing sectors with high value added activity and high levels of R&D (although often quite dependent on a few larger, global firms)
- Growing international gateways serving the whole of the North of England (Manchester Airport, Port of Liverpool and to a lesser extent Liverpool John Lennon Airport).

### Sub-regional and Local Variations in Performance

2.18 The poorest performing sub-regions on the key drivers of productivity are Greater Merseyside (although the direction of travel is now very positive) and Cumbria (where the direction of travel is much less positive). Lancashire and Greater Manchester (overall) are in the middle and Cheshire & Warrington is performing best of all.

- Greater Merseyside, and especially Liverpool, has enjoyed a marked turn around in performance and prospects in recent years, and is currently one of the fastest growing

<sup>8</sup> see section on Enterprise for evidence from the Global Entrepreneurship Monitor on attitudes towards enterprise.

parts of England. However, it still lags behind the rest of the region in terms of key socio-economic measures and has large areas of concentrated and long standing deprivation.

- There has been a continued sluggish economic performance of Cumbria, which has been badly hit by closures and reductions in output in its large production sectors (e.g. nuclear re-processing and shipbuilding) and the continued low level of income in agriculture. Over the same period, Cumbria has performed relatively well in terms of job creation, its employment base growing faster than the rest of the region. However, these jobs tend to be low wage, short term and dependent upon seasonal tourism or the public sector.
- Economic growth has continued in Cheshire & Warrington, but at a slower rate than in the recent past and it is no longer substantially outperforming the rest of the region.
- In Greater Manchester, GVA has grown at a similar rate as the regional average since 1999. However, there have been pronounced variations in performance within the sub-region. One of the most striking features has been the strong performance in the Greater Manchester South NUTS 3 area (including Manchester city centre), where both employment and GVA have grown rapidly. In contrast, growth in Greater Manchester North has been well below the regional average.
- Economic growth in Lancashire has been reasonably strong; however employment growth has been above GVA growth, indicating that productivity has fallen. The overall picture for Lancashire masks significant differences in growth rates between parts of East Lancashire and the more dynamic areas around Preston and Lancaster.

2.19 The importance of the North West's three city-regions and other key growth poles has been apparent in the analysis. The core cities of Manchester and Liverpool, along with Preston and Lancaster, Chester and Warrington have enjoyed strong economic growth, contain many of the region's key knowledge assets and are driving economic growth in their surrounding hinterlands. However, concentrations of deprivation and worklessness sit alongside the growth seen in Manchester and Liverpool and neighbouring districts.

## **Thematic Assessment**

2.20 This assessment explores in a little more detail regional and sub-regional performance in the five drivers of productivity (enterprise, innovation, competition, investment and skills) as identified by the HM Treasury/ DTI<sup>9</sup>, along with employment and social inclusion.

### **Enterprise**

#### *Importance to the Programme*

2.21 Enterprise is an important driver of productivity and a source of new jobs and GVA in the long term. It is highly correlated with regional and local economic performance. However, it is also recognised that rates of enterprise are partly explained by economic performance, as more favourable demand conditions help businesses to start up. Enterprise contributes to economic growth and competitiveness by increasing productive churn and competition. It can also achieve economic goals related to equality through facilitating the regeneration of deprived areas and spreading opportunities associated with enterprise to under-represented groups.

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<sup>9</sup> DTI Strategy – The Analysis, DTI Economics Paper No. 5

*North West Position and Performance*

**Table 2-3: Recent North West Performance on Selected Enterprise Indicators**

	1999	2000	2001	2002	2003	2004
Business density (VAT registered businesses per 1,000 working age adults)	37.8	38.0	38.3	38.5	38.7	38.7
Gap on England Business Stock*	36,700	37,600	37,450	37,950	38,250	37,800
Business start up rate (VAT registrations per 10,000 working age adults)	38.6	39.1	37.3	39.1	41.5	40.3
Gap on England Business Start up rate*	4,450	4,350	3,800	3,800	4,150	3,850
Self employment rate (as % of all in employment)	10.7%	10.3%	10.3%	10.5%	10.9%	10.7%
Self employment gap on England*	34,050	42,200	42,350	38,700	43,450	47,850
Total Entrepreneurial Activity rate – UK figure in brackets	-	-	-	4.8% (5.4%)	4.7% (6.4%)	4.6% (6.3%)
Survival rate – England figure in brackets	63.6% (65.9%)	-	64.6% (65.7%)	-	-	-
Total number of businesses	222,700	225,475	227,050	225,600	229,325	232,900
GVA per employee	£28,500	£29,500	£30,500	£31,200	£32,800	£33,800

Source: ONS, NOMIS VAT Registrations and Stocks, Labour Force Survey, and Annual Business Inquiry © Crown Copyright, and DTI/SBS Ward based VAT Registrations data; - Data unavailable

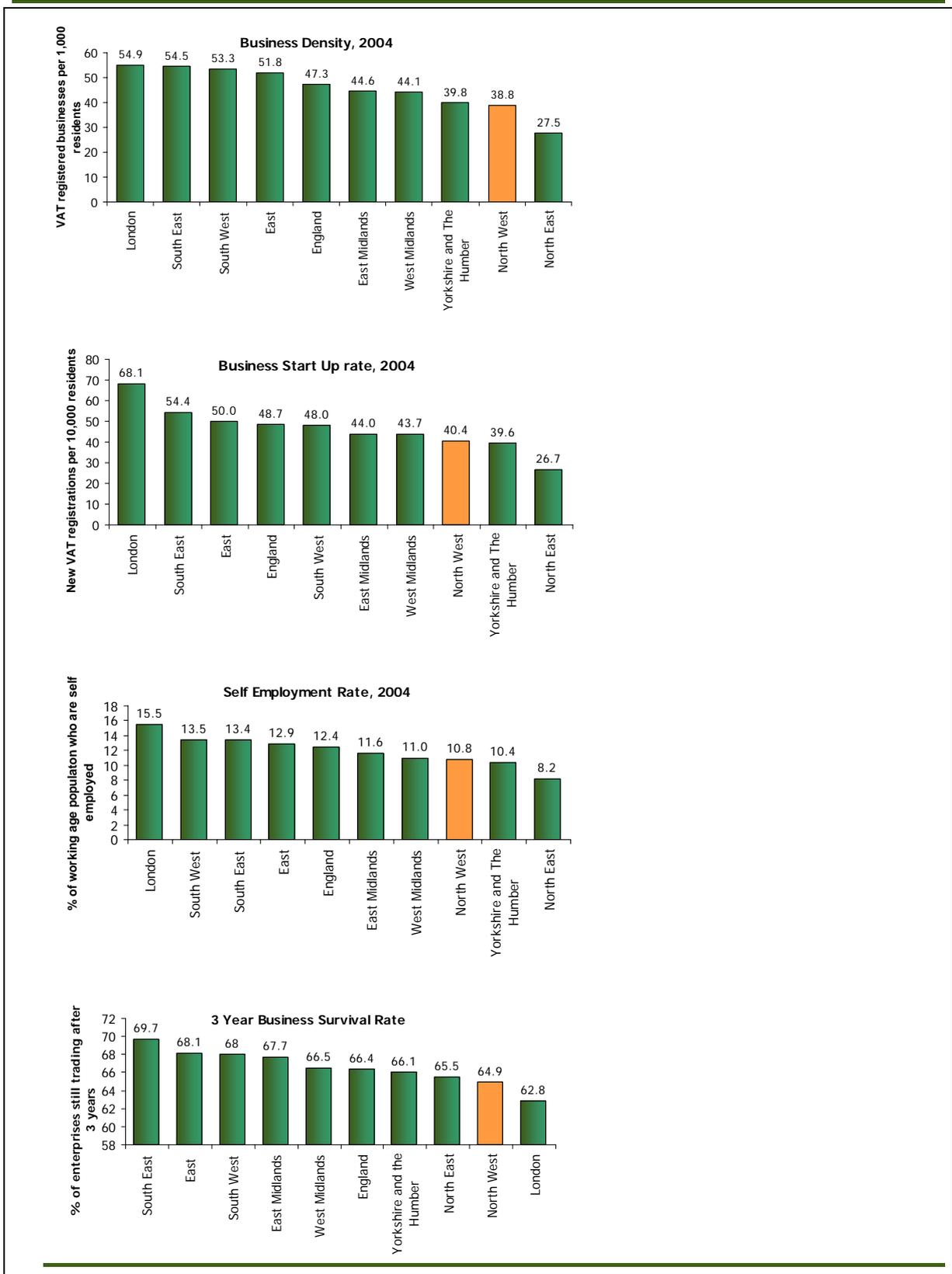
Note: \* "gap" represent the increase in absolute numbers in the region were it to rise to the same rate as the (then) England average

2.22 The North West has a relatively small business base given the size of its economy. Business density, as measured by the number of VAT registered businesses per 10,000 working age adults, is 18% below the average for England, and indeed the region has the lowest business density of any English region after the North East. To reach the national average rate of business density in 2004, the region would need an additional 37,800 VAT registered businesses, and despite an increase in the business stock, this gap has increased over the past five years.<sup>10</sup> In this period, the sectors that have grown their business stock have been financial intermediation, business services and hotels and restaurants.<sup>11</sup> Agriculture, manufacturing and mining, electricity, gas and water supply have all seen falls (see Table 2-5).

<sup>10</sup> ONS NOMIS VAT Registrations and Stocks, and Midyear Population Estimates © Crown Copyright

<sup>11</sup> This refers to "real estate, renting and business activities", section K in the Standard Industrial Classification. This broad definition takes in professional services in areas including IT, accounting, legal services, consultancy services, architectural activities, advertising and call centres but excludes financial intermediation services, such as banking and insurance.

Figure 2-2: Current North West Position on Key Enterprise Indicators Compared to other English Regions



Source: ONS, NOMIS VAT Registrations and Stocks, Labour Force Survey, Regional Trends and Annual Business Inquiry © Crown Copyright

2.23 The business stock of the region is slightly skewed towards larger firms, compared with the England average. Greater Merseyside in particular has a lower share of small firms (1-10 employees) than the England average – 78.5% of firms are in this size category, compared with 83.7% at national level. See Table 2-4.

**Table 2-4: Size breakdown of Firms, 2004 (% of total firms)**

	1-10 employees	11-49 employees	50-199 employees	200 or more employees
<b>England</b>	<b>83.7%</b>	<b>12.5%</b>	<b>3.0%</b>	<b>0.7%</b>
<b>North West</b>	<b>81.2%</b>	<b>14.4%</b>	<b>3.5%</b>	<b>0.8%</b>
<b>Cumbria</b>	<b>82.6%</b>	<b>14.2%</b>	<b>2.7%</b>	<b>0.5%</b>
<b>Cheshire &amp; Warrington</b>	<b>83.2%</b>	<b>13.0%</b>	<b>3.0%</b>	<b>0.7%</b>
<b>Greater Manchester</b>	<b>80.9%</b>	<b>14.4%</b>	<b>3.8%</b>	<b>0.9%</b>
<b>Greater Merseyside</b>	<b>78.5%</b>	<b>16.4%</b>	<b>4.2%</b>	<b>0.9%</b>
<b>Lancashire</b>	<b>81.9%</b>	<b>14.0%</b>	<b>3.4%</b>	<b>0.7%</b>

Source: ONS, NOMIS, Annual Business Inquiry © Crown Copyright

**Table 2-5: VAT Registered Business Stock and Employee Jobs by Sector in the North West**

	1999		2004		Change, 1999-2004	
	Business Stock	Jobs	Business Stock	Jobs	Business Stock	Jobs
<b>Agriculture; Forestry and fishing (SIC A,B)</b>	<b>11,310</b>	<b>3,654</b>	<b>10,645</b>	<b>4,104</b>	<b>-6%</b>	<b>12%</b>
<b>Mining and quarrying; Electricity, gas and water supply (SIC C,E)</b>	<b>115</b>	<b>16,540</b>	<b>110</b>	<b>9,365</b>	<b>-4%</b>	<b>-43%</b>
<b>Manufacturing (SIC D)</b>	<b>16,940</b>	<b>514,254</b>	<b>15,875</b>	<b>415,491</b>	<b>-6%</b>	<b>-19%</b>
<b>Construction (SIC F)</b>	<b>17,035</b>	<b>126,442</b>	<b>19,090</b>	<b>151,509</b>	<b>12%</b>	<b>20%</b>
<b>Wholesale, retail and repairs (SIC G)</b>	<b>44,560</b>	<b>520,572</b>	<b>42,395</b>	<b>552,696</b>	<b>-5%</b>	<b>6%</b>
<b>Hotels and restaurants (SIC H)</b>	<b>12,035</b>	<b>181,559</b>	<b>13,585</b>	<b>204,244</b>	<b>13%</b>	<b>12%</b>
<b>Transport, storage and communication (SIC I)</b>	<b>7,965</b>	<b>157,435</b>	<b>8,545</b>	<b>182,933</b>	<b>7%</b>	<b>16%</b>
<b>Financial intermediation (SIC J)</b>	<b>1,565</b>	<b>99,656</b>	<b>1,980</b>	<b>101,744</b>	<b>27%</b>	<b>2%</b>
<b>Real Estate, renting and business activities (SIC K)</b>	<b>39,740</b>	<b>355,371</b>	<b>46,770</b>	<b>426,381</b>	<b>18%</b>	<b>20%</b>
<b>Public administration; Other community, social and personal services (SIC L,O)</b>	<b>10,910</b>	<b>289,072</b>	<b>11,875</b>	<b>315,744</b>	<b>9%</b>	<b>9%</b>
<b>Education; health and social work (SIC M,N)</b>	<b>2,475</b>	<b>561,831</b>	<b>2,700</b>	<b>660,291</b>	<b>9%</b>	<b>18%</b>
<b>Total</b>	<b>164,650</b>	<b>2,826,386</b>	<b>173,570</b>	<b>3,024,502</b>	<b>5%</b>	<b>7%</b>

Source: ONS NOMIS VAT Registrations and Stocks and Annual Business Inquiry © Crown Copyright

2.24 The business start-up rate is 17% below the England average, making it the third worst performing English region. Although there has been a small closing of the gap, the region would need to generate a further 3,800 new business registrations every year to match national rates of formation.<sup>12</sup>

<sup>12</sup> ONS NOMIS VAT Registrations and Stocks, and Midyear Population Estimates © Crown Copyright

- 2.25 Rates of business survival are also low. The three year survival rate of businesses started in 1999 was 4% below the national rate.<sup>13</sup> This makes the North West the worst performing region after London, which is a highly competitive economy, and makes up for its low business survival rate with a very high formation rate. This business failure rate is down to a mix of factors, including lack of management skills and business planning, poorly conceived business ideas, unsuitable local market conditions and a lack of demand.
- 2.26 The rate of self-employment is 10.8%, compared to 12.7% nationally (based on the Annual Population survey). The region would need 47,800 people to move into self employment to close this gap. The rate of self employment among females in the North West is well below the national rate. While the male self employment rate is below the national rate, this represents a greater gap in volume terms. Males contribute two thirds of the overall self employment gap.
- 2.27 Self employment varies by ethnic group. Asian and Chinese residents have higher rates of self employment than white residents, whilst self-employment among Asians and Chinese groups is higher than the national average for these groups. According to Census 2001, self employment rates among white people in the North West lag behind those in England as a whole by 16% - 3,000 more white people would have to become self employed to match the average for all ethnicities. Black and mixed race residents have lower rates of self employment generally, at 3.9% and 5.1% respectively, and also lag behind the national rates. The region suffers a deficit among those age groups which typically have the highest rates of self employment (broadly, 35-69 year olds).
- 2.28 There are a number of explanations for the low rate of enterprise in the region:
- **Sectoral structure.** Low rates of new firm formation partly reflect the region's past industrial structure and its historic dependence on manufacturing. Business start-up rates tend to be higher among regions that have a high share of employment in business services (see footnote 11). This broad sector is forecast to be an important driver of employment growth over the medium term. Forecasts (based on a continuation of long term trends) produced by Experian to underpin the latest Regional Economic Strategy update predict that the sector will grow by 7% between 2006 and 2010, equivalent to around 57,000 net new jobs. The sector will continue to grow in the 5 years following this, although at a lower rate.
  - **Skills/earnings.** Research suggests that at the national level high rates of enterprise tend to be associated with high levels of earnings, large proportions of highly skilled/qualified residents, population growth, and an existing base of self employed people. The North West faces a challenging context in addressing its enterprise gap. Earnings are 10% lower than the England average,<sup>14</sup> and there is an 8% shortfall in the levels of attainment at NVQ4 or above.<sup>15</sup> Population growth has been weak in recent years overall and self employment rates are below the national average.
  - **Cultural factors.** Evidence from the Global Entrepreneurship Monitor 2005 on attitudes to enterprise reveals that overall there is not a strong enterprise culture in the North West. This is a key underlying weakness and will be a priority for the OP. Although culture is difficult to pin down and operationalise, the Global Entrepreneurship Monitor collects some useful indicators. Research has shown that knowing an entrepreneur is an important

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<sup>13</sup> DTI/SBS Ward Based VAT Registration Statistics

<sup>14</sup> ONS, NOMIS, Annual Survey of Hours and Earnings © Crown Copyright

<sup>15</sup> ONS, NOMIS, Labour Force Survey © Crown Copyright

factor in influencing entrepreneurialism in others – existing entrepreneurs function as role models and provide demonstration effects to others of the possibilities offered by self employment. In the UK, only the North East has a lower proportion of people who know an entrepreneur, and 10% fewer people than the national average know someone who has started a business in the last two years.<sup>16</sup> People's perceptions of start-up opportunities are not favourable in the region – 20% less than the national average believes there will be good start up opportunities in the next six months (based on respondents in 2005). However, there is evidence that North West residents believe there is good media coverage of entrepreneurship, and that entrepreneurs have high status. The latest data also suggests that North West residents are no more likely to be put off starting their own business by fear of failure than those in the country as whole. Some of these positive perceptions could be built on in the programme.

#### *Key Sub-Regional Variations*

- 2.29 There are sizeable variations in the level of enterprise across the sub-regions. **Cheshire & Warrington** has by far the highest levels of enterprise and entrepreneurship in the region, with business density and start up rates above the national average, and survival rates roughly on par with national levels.
- 2.30 **Lancashire** is performing around 15% below the national average in terms of business density and start ups, largely reflecting the inherited industrial structure rather than any deep-seated lack of local entrepreneurship. **Greater Manchester** has a business density roughly on par with the North West average, with start up rates some 10% below the national average. Within the sub-region Manchester city centre performs well.
- 2.31 **Cumbria** actually has a higher business density than the national average, due mainly to its sector mix and focus on micro-tourism and land based businesses, the vast majority of which are self-employed. However, start-up rates are around 18% below national levels.
- 2.32 **Greater Merseyside** is some way behind the rest of the region, trailing the national per capita average for business density and business start up rate by some 40%. Self employment rates are also low compared to national levels. Survey evidence suggests that there are prevailing negative attitudes to enterprise in Greater Merseyside. The proportion of respondents, who believe that entrepreneurs have high status, and that there is good media coverage of entrepreneurship, is lower than both the national and regional average. Also, compared to the rest of the region, Greater Merseyside residents are less likely to see setting up a business as a good career choice.

#### *Messages for the Programme*

- 2.33 In spite of some enterprise hotspots, overall the formation, survival and growth rates of businesses in the North West are significantly below the England average. This is a cultural as well as a demand pull factor. The historic sectoral composition of the region's economic and the lower levels of higher skilled people also contribute to low levels of enterprise formation. The result is that not enough people in the North West see enterprise as a viable career option. Low rates of enterprise are concentrated both geographically and in certain groups.

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<sup>16</sup> Global Entrepreneurship Monitor, UK Reports, 2004-5.

- 2.34 The programme will seek to address these issues in a number of ways. The low rate of business start up overall and particularly in higher value sectors will be addressed in priority 1, which will seek to stimulate enterprise and support growth in high value sectors, with activities including mentoring, advice and guidance and other initiatives to support entrepreneurs and start ups in these sectors. There will be positive spillovers associated with the creation of higher value enterprises (enterprise begets further enterprise), and the knock on effects on innovation (higher value businesses are more likely to engage in innovative activity).
- 2.35 This priority also includes initiatives to develop a more enterprising culture in the region, such as promotional and marketing activities to raise the profile of self employment as a career option. Particular attention will be paid, under priority 4, to the low level of enterprise in deprived communities, and activities may include the provision of specialist business advice and business premises, and support for social enterprise.

## Innovation

### *Importance to the Programme*

- 2.36 Rates of innovation are highly correlated with economic success and strong productivity growth. Innovation is also a central theme of the Lisbon Agenda. Increasing globalisation of markets, intensified international competition and shortening product life cycles are underlining the importance of new technologies, products and processes in fostering competitive advantage. In this context a region's ability to develop its base of knowledge assets and exploit these commercially is crucial. The importance of innovation does not apply merely to products and processes, but also more generally to approaches to management skills, organisational forms, and cooperative relationships between firms.

### *North West Position and Performance*

- 2.37 Overall the North West is ranked 56th out of 208 NUTS1 European regions in the EU's 2006 Regional Innovation scoreboard. The only English regions below the North West are Yorkshire and the Humber and (72<sup>nd</sup>) and North East (78<sup>th</sup>). Highest ranked in the UK are the South East (12<sup>th</sup>) and Eastern (17<sup>th</sup>). Table 2-6 set out some key performance indicators of the region on selected indicators of innovation.

**Table 2-6: Recent North West Performance on Selected Innovation Indicators (figures in brackets are England figures)**

	1999	2000	2001	2002	2003	2004
<b>Total R&amp;D expenditure (millions) per 10,000 residents</b>	<b>£2.63</b>	<b>£2.65</b>	<b>£2.81</b>	<b>£3.07</b>	<b>£2.90</b>	-
<b>Business R&amp;D spend (millions) per 10,000 residents</b>	<b>£2.18</b>	<b>£2.14</b>	<b>£2.23</b>	<b>£2.45</b>	<b>£2.29</b>	-
<b>Government R&amp;D spend (millions) per 10,000 residents</b>	<b>£0.07</b>	<b>£0.08</b>	<b>£0.10</b>	<b>£0.10</b>	<b>£0.08</b>	-
<b>HEI R&amp;D spend (millions) per 10,000 residents</b>	<b>£0.38</b>	<b>£0.42</b>	<b>£0.48</b>	<b>£0.52</b>	<b>£0.53</b>	-
<b>% of labour force in R&amp;D employment in businesses</b>	<b>0.59%</b> <b>(0.60%)</b>	<b>0.52%</b> <b>(0.54%)</b>	<b>0.55%</b> <b>(0.59%)</b>	<b>0.58%</b> <b>(0.64%)</b>	<b>0.53%</b> <b>(0.62%)</b>	-
<b>Patent applications per 100,000 adults</b>	-	<b>29 (34)</b>	<b>26 (36)</b>	<b>26 (35)</b>	<b>25 (35)</b>	<b>23 (33)</b>

Employment in "Knowledge Based" <sup>17</sup> Industries as % of all employment	24.1% (27.9%)	24.0% (28.4%)	24.6% (28.5%)	25.1% (28.3%)	24.6% (27.9%)	24.5% (27.9%)
"Knowledge based" firms as % of total	30% (36%)	31% (37%)	32% (37%)	32% (37%)	33% (38%)	34% (38%)

Source: ONS, Economic Trends, Patent Office Annual Reports and NOMIS, Annual Business Inquiry, © Crown Copyright

- 2.38 The messages on innovation are mixed. A recent DTI survey found that 58% of North West firms were "innovation active". However, of all regions, the North West had the lowest proportion of firms that had introduced new products to the market, and the third lowest proportion introducing new products to industry<sup>18</sup>. Total combined R&D expenditure by firms, Higher Education Institutions (HEIs) and Government departments in the North West is somewhat below the UK average in per capita terms (£1.9 billion in 2003 or £2.9 million per 10,000 residents compared to overall England average of £3.6 million).<sup>19</sup>
- 2.39 However, relative to total GVA, the North West has the fourth highest level of business R&D expenditure in the UK.<sup>20</sup> This is largely due to the strong presence of a small number of global companies in R&D intensive sectors, especially pharmaceuticals, aerospace and chemicals. To reach the national per capita rate of investment the region's businesses would need to invest £185.9 million more in R&D annually. The North West has lower than average numbers of people working in R&D, indeed R&D employee numbers have been falling.<sup>21</sup>

<sup>17</sup> "Knowledge based industries" are those private sector industries for which 25% of their workforce nationally is qualified to at least NVQ level 4.

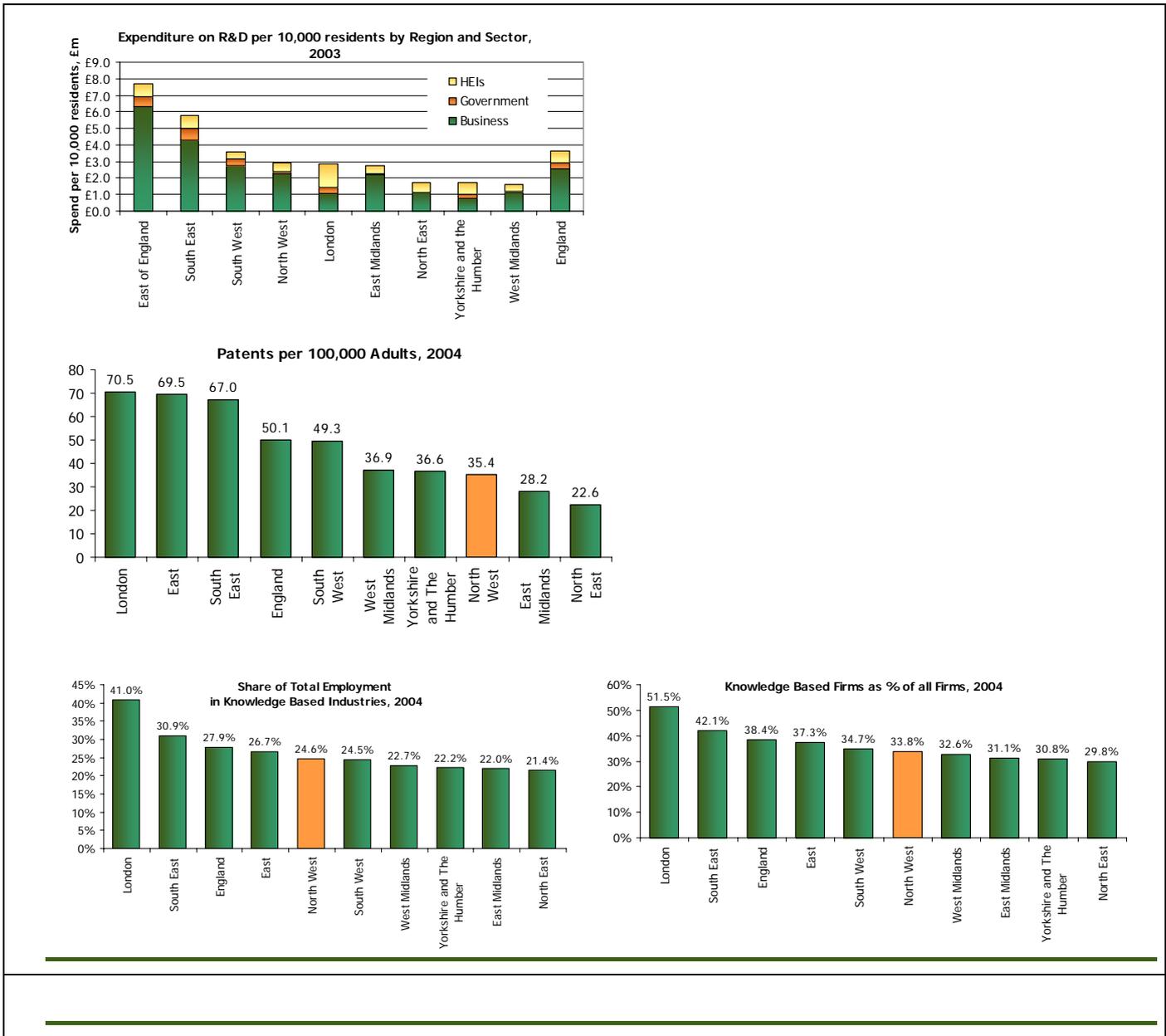
<sup>18</sup> DTI, Innovation in the UK: Indicators and Insights, July 2006

<sup>19</sup> ONS, Economic Trends

<sup>20</sup> ONS, Breakdown of R&D performed within UK businesses by Government Office region, dataset rdbd7

<sup>21</sup> ONS, Economic Trends

Figure 2-3: Current North West Position on Key Innovation Indicators Compared to other English Regions



Source: ONS, Economic Trends, Patent Office Annual Reports and NOMIS, Annual Business Inquiry, © Crown Copyright

2.40 The number of patent applications per 100,000 adults is around 30% below the England average. Although the picture looks slightly better when taken on a per firm basis, the region still lags behind the national average, and is showing no signs of closing the gap.<sup>22</sup> EU benchmarking data reveals that “high tech” patent applications per capita in 2001 were just 32% of the EU15 average, and all patent applications per capita were 35% below the EU15 average<sup>23</sup>. (However, it has to be recognised that patent applications need to be treated

<sup>22</sup> Patent Office, Annual Reports

<sup>23</sup> European Commission (2003) European Innovation Scoreboard, Technical Paper No. 3 Regional Innovation Performances, European Commission, Enterprise DG. “High Tech” patents are defined as those in computer and automated business equipment, micro-organism, genetic engineering, aviation, communications, semiconductors, and lasers.

cautiously as an indicator of innovation activity in any region as patents may be registered where firms have headquarters rather than where the R&D activity takes place).

- 2.41 The North West does have some strong educational assets. Manchester University is the Region's major recipient of funding from HEFCE drawing in over half the Region's allocation for research activities (£61m of £110m in 2004/5) and is also the largest recipient of teaching funds. Overall the North West's HEIs received £500m in 2004/5 for teaching and research activities from HEFCE. The Research Assessment Exercise, conducted in 2001, found that the North West's higher rated departments tend to be located in Greater Merseyside and Greater Manchester and that the internationally recognised 5\* rated departments are primarily concentrated in Greater Manchester: 17 of the Region's 25, 5\* departments are located in Greater Manchester and the other 8 are evenly split between Greater Merseyside and Lancashire. This assessment is soon to be updated and so is now a bit outdated.
- 2.42 Looking more closely at Science, Engineering & Technology (SET) departments in the RAE, the North West matches the performance of benchmark regions like London, the East of England and South East in the proportion of its SET departments with a 4 or better rating, but falls behind when the scope is narrowed to look at just 5\* Rated departments.
- 2.43 However, R&D expenditure by HEIs is considerably lower relative to other regions – the fourth lowest of all English regions, per capita. To match the national per capita rate the North West's HEIs would have to attract £129m more income every year for R&D. Evidence on knowledge transfer activity indicates that the region's universities could be doing a more to commercialise their ideas and interact with the private sector. There is a need to align university research more closely with the needs of regional businesses.
- 2.44 The designation by UK Government of Manchester as one of six science cities nationally was in recognition of the considerable concentration of knowledge assets in and around Manchester.
- 2.45 Just 34% of the region's businesses can be classed as being in "Knowledge based industries", (i.e. those which employ a large proportion of graduates<sup>24</sup>, and have high rates of innovation), compared to the England average of 38%. To close this gap, the region would need 14,500 more businesses of this type.<sup>25</sup>
- 2.46 Evidence on the level of investment in ICT in the North West is mixed. Although in need of updating, the DTI national benchmarking indicates that, despite lagging behind London and the South East, the region is ahead of many other regions in adoption of ICT<sup>26</sup>. However, evidence suggests that ICT usage among small firms is low<sup>27</sup>.

#### *Key Sub-Regional Variations*

- 2.47 There is limited data on innovation at the sub-regional level, but trends tend to be correlated with rates of enterprise and GVA per employee. There is evidence of considerable variation in

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<sup>24</sup> "Knowledge based industries" are those private sector industries for which 25% of their workforce nationally is qualified to at least NVQ level 4.

<sup>25</sup> ONS, NOMIS, Annual Business Inquiry © Crown Copyright

<sup>26</sup> DTI (2004) Business in the Information Age: The International Benchmarking Study

<sup>27</sup> North West Regional Intelligence Unit (2004) North West Regional ICT Survey

levels of innovation within the North West. There is a strong concentration of HEI assets and a good base of knowledge-intensive businesses in **Greater Manchester** and in **Greater Merseyside** (concentrated in city centres).

- 2.48 **Cheshire & Warrington** has considerable strengths in R&D, and is home to several big companies in R&D intensive sectors. It also has the highest concentration of knowledge based businesses. **Cumbria** and **Lancashire** have the lowest concentrations of knowledge based businesses overall, although in Lancashire there are growing concentrations around the main urban centres. Lancashire has a relative lack of R&D facilities. However, the new university of Cumbria will provide an opportunity to promote higher level skill formation and will have positive impacts on the sub-region's image. Lancashire also has the fifth largest university in the country, in the University of Central Lancashire, and Lancaster University is ranked as one of the UK's top ten universities for research.

*Key Messages for the Programme*

- 2.49 The region has a number of excellent sources of knowledge and a good track record in some areas. However, overall performance on innovation is poor and is concentrated in a small number of (large) firms. The region needs to improve to build on latent strengths and in particular to encourage more collaboration between HEIs and firms, for SMEs to reap the benefits of knowledge transfer and exploitation of the science base. To achieve the step change needed, larger scale projects across HEIs, private sector research and innovation base and firms will be required, which chimes with the lessons learnt from Objective 1 and 2. Broadening out the range of innovation and leadership support is another priority that will enable firms to move into higher-value activity.
- 2.50 The programme will contain a suite of activities under priority 2 which tackle these areas of need and opportunity. Exploiting the science and R&D base of the region is a key action area, and activities could include collaborative programmes between research institutions and firms, brokerage arrangements, and promotion of the importance of R&D to North West businesses. Resources are required at the interface between HE/R&D and businesses to traverse cultural and conceptual differences between the two. Activities will also be included to encourage innovation within businesses, such as diagnostic support and services to reduce barriers to accessing support, which could include scouting for research ideas with commercial potential. These will address a number of market failures relevant to innovation (which higher value firms are just as likely to experience as other firms):

*Coordination failure: where wealth generating actions are not initiated because no business or HEI steps forward to coordinate action.*

*Spillovers to R&D: where firms under-invest in R&D due to an inability (real or perceived) to capture the full benefits of the innovation.*

*Information failures: where firms lack the information about, and awareness of, the potential benefits that engaging in innovation can have for their firm.*

## Competition

### *Importance to the Programme*

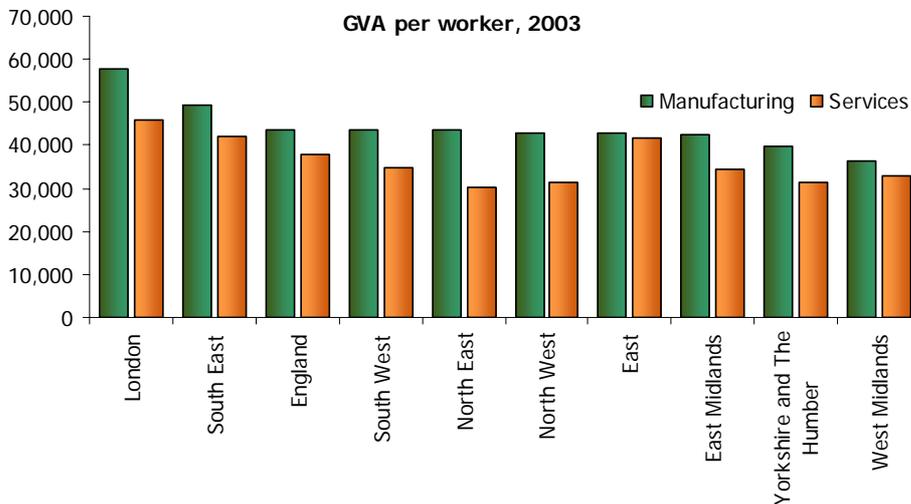
2.51 A competitive environment provides firms with incentives to innovate in their products and production processes, and therefore to invest in capital, both physical and human. It encourages the effective allocation of resources into their most productive uses, and spurs productivity growth. Economies which are more internationally open to trade and investment tend to be associated with a more competitive and productive stock of businesses than those that are focussed on meeting local demand.

**Table 2-7: North West Performance on Selected Indicators**

	1999	2000	2001	2002	2003	2004
<b>GVA per worker (England = 100)</b>	<b>91.0</b>	<b>91.6</b>	<b>90.7</b>	<b>88.3</b>	<b>88.2</b>	<b>88.0</b>
- in manufacturing	99.3	97.9	100.5	99.4	98.0	-
- in services	86.4	87.5	86.0	83.6	84.1	-
Exports as % of regional GVA - UK figure in brackets	-	-	18.5% (21.4%)	18.3% (20.1%)	17.5% (19.2%)	17.5% (18.4%)

Source: ONS GVA Statistics, NOMIS Annual Business Inquiry and HM Customs and Excise Regional Trade Statistics © Crown Copyright

**Figure 2-4: Current North West Position on Key Competition Indicators Compared to other English Regions**





Source: ONS GVA Statistics and NOMIS, Annual Business Inquiry © Crown Copyright

Table 2-8: Sectoral Data for the North West (2003)

Sector	GVA (£ million)	Employment (000s)	LQ employment versus GB	Employment change, 1999-2003	No. of Businesses (000s)	% change in Businesses, 1999-2003	% change in GVA, 1999-2003
Agriculture, hunting, forestry & fishing	£796	15.2	0.65	-17%	0.7	23%	7%
Mining and quarrying	£127	2.1	0.50	60%	0.2	-26%	-26%
Manufacturing	£18,587	431.5	1.15	-2%	18.6	-7%	-3%
Electricity, gas and water supply	£1,510	7.3	0.58	-16%	0.2	-6%	-17%
Construction	£5,867	139.8	1.08	-49%	19.5	6%	40%
Wholesale and retail trade (including motor trade)	£12,835	541.0	1.01	11%	57.7	-5%	18%
Hotels and restaurants	£3,373	206.7	1.04	4%	17.6	5%	23%
Transport, storage and communication	£7,970	173.4	0.95	14%	11.3	6%	24%
Financial intermediation	£5,076	97.7	0.78	10%	4.7	1%	61%
Real estate, renting and business activities	£20,764	414.6	0.87	-2%	58.6	15%	33%
Public administration and defence	£4,351	171.9	1.09	17%	2.6	-6%	18%
Education	£6,923	272.0	1.02	4%	6.5	3%	24%
Health and social work	£7,307	360.9	1.10	10%	11.8	0%	33%
Other services	£4,685	138.9	0.90	15%	19.3	4%	28%
FISIM	-£3,074	0.0		13%	0.0		
<b>Total</b>	<b>£97,096</b>	<b>2973.1</b>	<b>1</b>	<b>5%</b>	<b>229.3</b>		

Source: ONS GVA Statistics and ONS NOMIS Annual Business Inquiry © Crown Copyright

Note: FISIM means financial intermediation Services indirectly measured and is an adjusting factor; LQ = location quotient, see Footnote 28 for explanation.

### North West Position and Performance

2.52 Since 1999, extensive research and analysis has been undertaken to identify the strengths in terms of employment and GVA in the region. This has led to an approach that focuses on a small number of sectors which are the drivers of the NW economy. Significant variations exist at the sub regional level, particularly in Merseyside where tourism and the maritime sector are also significant (see below). In particular, employment and GVA data have been used to establish those activities where, compared either to the England average (for manufacturing) or the England less London average (for services), the North West has a degree of sectoral specialisation. There are two dimensions to such specialisation: firstly, the absolute size of the sector; and second, its size in relation to the overall economy.

2.53 The North West has a high **concentration** of aerospace, chemicals, textiles and food & drink firms. These sectors are both large in scale (i.e. have large absolute employment numbers) and are highly specialised (i.e. have a location quotient<sup>28</sup> greater than 1.5). The region has few

<sup>28</sup> Location quotients (LQs) are a measure of concentration relative to some benchmark area. An LQ of 1 for a sector means the employment share of that sector is on par with its share at national level. An LQ above 1 means that the sector accounts for a greater share of total employment in the geography of interest than in the benchmark area. We have benchmarked against England for the manufacturing sector and against England less London for the service sectors.

specialisms in services, with the exception of travel services (travel companies, many of whom are located in the region, in part due to the presence of Manchester Airport) and home shopping. The region has a large number of financial & business services firms, but the concentration of the sector (as % of total economy) is relatively modest. Other sectors that show signs of concentration in the region, but are of a smaller scale in employment terms (although not necessarily in GVA terms), are the nuclear fuel reprocessing and pharmaceuticals sectors.

- 2.54 The analysis of sector specialisation has some limitations, not least that it is driven by traditional SIC sector classifications. Increasingly there is convergence across standard SIC sectors (manufacturing and services) in activities and skills such as use of ICT, and specialisms and strengths in these areas are much harder to identify using standard data sources. Nor does the analysis identify emerging strengths. Creative and media, environmental technologies, and digital industries are important strengths in the North West that do not easily show up in standard datasets.
- 2.55 The 2006 North West Regional Economic Strategy identifies six broad target/priority sectors in the region, chosen due to their scale in terms of GVA, global growth potential, concentration and comparative advantage at a regional level (including regional research strengths), and their recent rate of growth. The six sectors have been identified based on extensive research, ongoing from 1999, and research is continuing to refine the sector approach within the region. Although some of the sub-sectors within these broad sectors show up on our analysis, some do not for the reasons outlined above. It should also be noted that the North West has a very broad economy with few dominant sectors. In addition, a number of NW businesses have headquarters outside the region. Together, these sectors account for around 55% of North West GVA:
- Biomedical: Biotechnology, Pharmaceuticals and Medical Devices
  - Advanced Engineering and Materials: Chemicals, Aerospace, Automotive, Advanced Flexible Materials.
  - Digital and Creative Industries
  - Business and Professional Services
  - Food and Drink
  - Energy and Environmental Technologies.
- 2.56 There are different market failure rationales for the NWOP investing in different aspects of the development of these sectors. There are considerable positive externalities which arise from activities such as development and support of networks and creating a critical mass of skills and supply chains that help improve the productivity of firms and the attractiveness of the region for inward investment. Support for innovation and knowledge transfer activities in the sectors is clearly linked to spillover and information market failures.
- 2.57 Overall, the North West's **productivity** (GVA per employee) in manufacturing has been hovering at around the national average, due to relative concentrations of manufacturing sectors which are highly capital-intensive, particularly chemicals and nuclear fuel reprocessing. However, even in manufacturing, outside of a handful of big global and national players, the North West performance is relatively weak.

- 2.58 Productivity in the service sector overall is low in the North West. In the business services sector, productivity is some 18% below the national average (even excluding London). Although data are limited, it is most likely that this productivity shortfall in the business services sector is down to the composition and nature of service sector activity in the region being skewed towards lower value added, back office financial and business services.
- 2.59 Looking at international trade, the North West is one of the UK's most important exporting regions, and (in 2003) was one of only 3 UK regions to show a positive trade balance. Exports account for 18% of GVA, which is very similar to the national average. Much of the export activity is concentrated in a small number of highly globalised sectors, most notably chemicals and pharmaceuticals.<sup>29</sup>

*Key Sub-Regional Variations in Sectoral Concentrations*

- 2.60 In applying the same methodology at the sub-regional level (based on employment and output levels and concentrations) the results suggest that there are more apparent specialisms for smaller, less average economies such as Cumbria. Nevertheless, the sector specialisms identified in the sub-regions are often similar to those at the regional level. **Cheshire & Warrington** has a concentration of activities in the paper, nuclear, chemicals, motor vehicles and water sectors. It also hosts a significant concentration of financial services employment. With the exception of paper these are all covered by the RES target sectors.
- 2.61 It is perhaps surprising that sectors such as business and financial services, or creative and media do not show up as strong sector concentrations in **Greater Manchester**. Manchester is the UK's largest centre for financial & business services and creative/digital industries outside London, and these sectors are important drivers of economic growth. The planned relocation of several BBC departments to the Manchester City Region presents a big opportunity to increase the scale and quality of activity in the media and wider creative industries sector. However, in relation to the overall Greater Manchester economy, textiles and travel related employment (in air transport and associated aviation services and tourism and associated industries) is higher than the comparable UK average for these sectors. The reason for this is the sheer scale of the Greater Manchester economy, so although financial & business services and creative/digital industries (both included in RES target sectors) are very important to the Greater Manchester economy, there are other sectors that also account for a significant employment share at the sub-regional level.
- 2.62 **Greater Merseyside** has a concentration in chemicals (RES target sector), tourism and public sector administration, and an important maritime sector (which cuts across SICs). The tourism sector on Merseyside supports 21,000 jobs attracts 60 million visits and visitor spend of £1.2 billion a year. It has attracted major inward leisure investment in museums, hotels, restaurants, retail and other visitor facilities. The potential exists to develop the sector much further to support 30,000 jobs and attract visitor spend of £2billion a year by 2015. However, intervention is required to address market failure due to fragmentation, low levels of cluster collaboration, underperformance and poor productivity, low levels of business start-up, skills gaps and shortages, poor take-up of business support and ICT, and to address destination marketing, attract major events and new demand generators such as attractions and to provide visitor services.

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<sup>29</sup> HM Customs and Excise, UK Regional Trade Statistics Data.

- 2.63 The maritime sector in Merseyside is made up of 1001 companies employing 26,600 staff and accounting for £2.6billion annual turnover (approximately 15% of the Merseyside total annual turnover). At least 65% of total maritime activity in the North West is in Merseyside – with Liverpool Port being the 7<sup>th</sup> biggest port in the UK. The maritime sector is largely fragmented with a low profile and poor public perception. The challenge is to raise the profile of the sector, change perceptions and recruit quality staff. The private sector is investing heavily to support the growth of maritime in Merseyside with public investment needed for coordination of activity, raising the profile of the sector and in the skills agenda.
- 2.64 In **Lancashire**, Advanced manufacturing (including aerospace which is part of RES target sector), paper, textiles (linked to advanced flexible materials which is part of RES target sector), clothing and rubber/plastics are important industries, along with the tourism and nuclear sector (part of RES target sector). Indeed, Lancashire has the largest concentration of advanced manufacturing outside Southern England. However, Lancashire is currently under-represented in sectors that are expected to grow. **Cumbria** shows a number of specialisms in the primary and manufacturing sectors, particularly in agriculture, forestry, food and drink (RES target sector), timber manufacture, and the nuclear and chemicals sectors (latter two parts of RES target sectors). The county has one of the highest dependencies on manufacturing/production industries in its GVA in the UK. Tourism related activities are also strong, with the Lake District a major driver, having significant concentrations of hotels and catering and recreational services.

*Messages for the Programme*

- 2.65 The size of the region, and in turn its critical mass of firms in some sectors will help to drive competition, as does the international orientation of some of our best performing sectors. Internationally competitive sectors should be supported by the programme. However, there is still a large mass of firms that are not focussed on international trade.
- 2.66 A key focus of the programme will be to stimulate a compositional change in the region's business base, by stimulating enterprise in high value sectors and markets, and supporting those businesses which are already operating in high value areas. Under priority 1, emphasis will be placed on those sectors which are knowledge-based, have a strong chance of helping the region to close the GVA gap, and which have international growth potential. Extending the market reach of businesses, and encouraging a greater focus on international trade, will be addressed under priority 2.

**Investment**

*Importance to the Programme*

- 2.67 Rates of investment by the public and private sector in human capital, physical capital and intellectual capital will all, if coupled with good management, provide the basis for future productivity growth and business performance, and create the sustainable conditions for growth.

North West Position and Performance

2.68 T **Table 2-9: North West Performance on Selected Investment Indicators**

	1999	2000	2001	2002	2003	2004
<b>Business capital investment per capita, Eng. = 100</b>	<b>90</b>	<b>81</b>	-	-	-	-
<b>% of working age population in receipt of job-related training in last 13 weeks (England figure in brackets)</b>	-	-	<b>22.0%</b> <b>(23.0%)</b>	<b>21.4%</b> <b>(23.0%)</b>	<b>21.7%</b> <b>(22.3%)</b>	<b>21.4%</b> <b>(22.1%)</b>
<b>Previously developed land (hectares)</b>	-	-	<b>10,710</b>	<b>11,770</b>	<b>11,390</b>	<b>11,830</b>

Source: ONS, Regional and Sub-regional Gross Fixed Capital Formation, NOMIS, Labour Force Survey and Annual Population Survey (© crown copyright), and National Land use Database

els of investment in our infrastructure, housing and business base are lower than many other regions. In part this reflects the past slow rate of economic growth and static population, which has constrained investment in new business premises, housing and transport infrastructure. Overall investment (public and private) per head of population is 19% below the national rate<sup>30</sup>. The additional investment in new growth areas in the South East is likely to increase the infrastructure deficit that the North West faces.

- 2.69 **Business capital investment** per head of population is well below the England average, although total net capital investment in our manufacturing sector is slightly above the national average per manufacturing employee (due to the capital intensive nature of a high proportion of the manufacturing base). To match the national rate of investment the North West would need to invest £3.4 billion every year. Investment in **human capital** is low. On average, workers in the North West are less likely than nationally to have received off-the job training, and this is most likely a reflection of the region’s over-representation of firms operating in low value sectors.
- 2.70 Greater Manchester and Greater Merseyside have enjoyed the majority of business investment (indigenous and inward investment) in recent years. Within these sub-regions, the core cities of Manchester and Liverpool have performed the best overall. With continued growth in the service sector, and tradeable business services in particular, these areas will continue to be a key pole for business investment.
- 2.71 The North West’s portfolio of **Regional Strategic Sites** is a vital resource in the region’s efforts to maximise both employment and wealth. There are 25 Regional Strategic Sites in the North West which have an important role to play in attracting investment in high value functions in target sectors. They also provide an opportunity to capitalise on strong or world-class assets such as HEIs and R&D-intensive sectors. The sites have been earmarked based on the potential to accommodate knowledge based industry (Regional Strategy growth target sectors) and generic manufacturing (Regional Strategy established target sectors). The development of investment frameworks will further develop the prioritisation among the regional strategic sites. This is based on an extensive analysis of current state of development, success of previous interventions, potential for further development, especially in the knowledge based industries, market demand, and accessibility (including public transport). The work is on going at the moment. The designation of the Regional Strategic Sites is as follows:

<sup>30</sup> ONS (2003), Economic Trends Vol 601

Table 2-10: Regional Strategic Sites: Primary Economic Targets

	Growth Target Sectors/ Knowledge Based Industries	Established Target Sectors/ Strategic Distribution
Ashton Moss, Tameside	✓	
Daresbury Park, Runcorn	✓	
Basford, Crewe		✓
Cuerden Regional Business Park, Leyland/Preston		✓
Kingmoor, Carlisle	✓	✓
Kings Business Park, Knowsley	✓	
Kingsway Business Park, Rochdale	✓	✓
Omega, Warrington	✓	✓
Royal Ordnance Factory, Chorley		✓
The Estuary, Liverpool (Speke/Garston)	✓	
Wirral International Business Park		✓
Barton, Salford	✓	
Birkenhead/Twelve Quays		✓
Blackburn/Whitebirk	✓	✓
Carrington, Trafford		✓
Chester Business Park	✓	
Davenport Green, Trafford	✓	
Ditton, Widnes		✓
Lancaster University/Bailrigg	✓	
Liverpool University Edge	✓	
Central Manchester Business Park	✓	✓
Parkside Former Colliery, St. Helens		✓
Wavertree Technology Park, Liverpool	✓	
Westlakes, Whitehaven	✓	
Alderley Park (Astra Zeneca), Macclesfield	✓	

Source: NWDA, 2005, Regional Strategic Sites: Evidence Base and Emerging Issues

2.72 The locations of these Regional Strategic Sites are illustrated below.

Figure 2-5: Regional Strategic Sites in the North West



Source: Digital Mapping Solutions from Dotted Eyes. © Crown Copyright 2005. All rights reserved. Licence number 100019918

2.73 Demand for **property** is highest in and around the major conurbations although demand is growing strongly in Warrington, Halton, other parts of Cheshire and parts of Lancashire, where access to major transport routes is good. Changing patterns of employment and economic activity by sector are being reflected in changing sectoral and spatial demand for different types of business property. This ongoing industrial change means that the region's already large stock of previously developed land (PDL) (i.e. brownfield sites) is likely to increase. Redeveloping PDL is particularly challenging for the North West as it is largely concentrated in areas where demand for development is weak and where the costs associated with recycling land are high. Greater Merseyside's industrial legacy in particular has left it with a high proportion of derelict land.

2.74 Nevertheless, the planning system seeks to encourage the use of PDL, as a vital element of its drive to bring about sustainable and inclusive forms of development. This aim is reflected at all levels of the planning process. For example, at the national level, Planning Policy Statement 1 (Delivering Sustainable Development) emphasises the need to promote the more efficient use of land through the use of suitably located previously developed land and buildings, and for the planning system actively to seek to bring such land back into productive use.

<b>Table 2.11: Total floor space, 2005</b>				
Area	<b>Office Space</b>		<b>Industrial space</b>	
	(000 sq m)	% of NW total	(000 sq m)	% of NW total
Cumbria	568	5.0%	4,112	6.8%
Cheshire & Warrington	1,645	14.5%	8,386	13.9%
Greater Manchester	4,934	43.6%	24,029	39.7%
Greater Merseyside	2,376	21.0%	10,701	17.7%
Lancashire	1,799	15.9%	13,966	23.1%
North West	11,322	100.0%	60,497	100.0%
% of England	11.8%		16.4%	
<b>England</b>	<b>95,809</b>		<b>367,781</b>	

**Source:** Valuation Office Agency

- 2.75 The table above shows the baseline for the total amount of office and for industrial floorspace in the region in 2005. Overall, the region has just under 12% of all of England's stock of office and 16% of its stock of industrial floorspace. The region's office floorspace is particularly focused in Greater Manchester, reflecting its role as the main commercial centre for the region; whereas the industrial stock is disproportionately focused in Lancashire, reflecting the continuing importance of manufacturing to the sub-region's economy. The North West as whole has seen the stock of office floorspace rise by 9% since 2000 and the stock of industrial property by just 2%, reflecting sectoral trends.
- 2.76 Most of the region has reasonable transport **connectivity**, both internally and with other regions, reflecting considerable investment in the region's air and sea port infrastructure. The region is a major international gateway for the North of England (Manchester Airport is the UK's third largest airport, handling 10% of all passengers at UK airports in 2005) and there are other important gateways in Greater Merseyside (Port of Liverpool and Liverpool Airport, which has seen significant growth), whilst the Port of Heysham and Blackpool Airport provide important gateways in Lancashire. The construction of the Mersey Gateway will enhance Greater Merseyside's connectivity to national markets. However, the region also suffers from high levels of congestion on the main motorway and trunk road network, particularly around areas of high growth, including Manchester and Liverpool. Growth in airport passenger numbers, particularly at Manchester Airport, will increase demands on surface access. The level of connectivity is poorer in remoter parts of the region, especially Barrow and West Cumbria. However, Carlisle Airport offers opportunities for stimulating economic growth. The North West now has a good basic **ICT infrastructure** with broadband coverage approaching 100%, even in sparser rural areas. The challenge is now to invest in 3<sup>rd</sup> generation ICT infrastructure, to capitalise on existing networks and develop advanced ICT connectivity to address economic and social inclusion issues. Business connectivity and usage also needs to be improved.
- 2.77 There have been significant improvements in the region's **image** as a place to live and to invest in recent years, both internally and externally, partly due to the successful regeneration of the region's major city centres and their rising profile. Nevertheless, problems do remain and parts of the region are still associated with industrial decline, crime and poor environment, which are played out in a lack of investment and depopulation.
- 2.78 Linked to the above, survey evidence suggests that the region's **tourism** product is still perceived to be heavily slanted towards more traditional forms of tourism and visitors in the form of the Lake District and Coastal resorts such as Blackpool, areas which both are facing wider economic restructuring. In 2004, revenue generated by staying visitors amounted to £4.4bn with day visitors adding a further £6.5bn. There is scope for investment in upgrading current visitors' attractions, customer services, quality of accommodation, local produce, arts and crafts. Furthermore, the region has not traditionally been particularly successful in attracting visitors/tourists from high-value markets in southern England or from overseas, or in attracting business tourists. There are signs that this is changing, however. The major cities in the North West are continuing to develop their image and offer of attractions and culture in order to attract a growing number of visitors. The regional Tourism Strategy is focused on attack brands (Blackpool, the Lakes, Liverpool and Manchester) and a small number of high profile signature projects.

- 2.79 **Quality of life** is important in both attracting and retaining its workforce, and has a direct impact on the size and quality of the workforce. The region's residents have easy access to high quality landscapes and cultural facilities, and housing is more affordable than in southern regions. However, high crime and dereliction, and a lack of quality housing continue to blight certain parts of the region. These problems are concentrated in the Housing Market Renewal areas and other more localised areas such as Blackpool and parts of West Cumbria and Barrow.
- 2.80 During the current period of sustained economic growth, the **housing** market has become increasingly polarised between areas of strong demand and rapidly rising house price inflation (raising housing affordability issues especially in rural areas and urban areas in the south of the region) and areas of low demand and housing market failure. These areas are typically concentrated in areas of high worklessness and deprivation in the major urban centres as well as in East Lancashire and in West Cumbria and Barrow.

#### *Messages for the Programme*

- 2.81 The main focus to boost the region's investment performance will be on encouraging business investment through accessibility to Merseyside's key economic assets (Ports, Airport and City Centre), the provision of high quality sites and premises (to support the development of regionally strategic sites) and improvements to the region's tourism industry, natural and cultural heritage sites and attractions.
- 2.82 In Merseyside under priority 3, the focus is on provision of improved access to economic gateways to support the development of employment sites in close proximity to ports, in order to capture growth opportunities arising from air and sea port expansion as well as the city centre. For the entire region, the priority also emphasises developing high quality sites and premises of regional importance, which will be intended to support growth in high value knowledge based industries that provide the potential to tackle the productivity gap. This will include ICT connectivity, energy management, and sustainable transport accessibility. Activities to enhance the region's 'visitor offer' and image will also be supported under this priority, such as investment in tourism businesses, visitors' attraction, and sustainable accessibility (green transport plans).

#### **Skills**

##### *Importance to the Programme*

- 2.83 With the importance of the knowledge economy to long term competitiveness now firmly recognised, skills issues are paramount. Higher skill levels facilitate the generation of new ideas and the process of adapting to changing economic conditions<sup>31</sup>, and human capital is one of the major determinants of economic growth. Although skills issues are also covered in the European Social Fund programme, it is still important to examine the key issues here, due to their links with productivity.

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<sup>31</sup> DTI Strategy – The Analysis, DTI Economics Paper No. 5

## North West Position and Performance

Table 2-12: Recent North West Performance on Selected Skills Indicators (England figures in brackets)

	1999	2000	2001	2002	2003	2004
% of working age population qualified to NVQ4 +	19.6% (22.4%)	21.2% (23.1%)	21.1% (23.4%)	21.4% (23.9%)	23.1% (25.0%)	-
% of working age population with no qualifications	19.1% (16.5%)	18.9% (16.4%)	19.0% (16.2%)	18.9% (15.4%)	17.7% (14.8%)	-
Knowledge Workers as % of all workers	-	-	36.5% (39.5%)	36.7% (40.0%)	38.0% (40.9%)	38.6% (41.8%)

Source: ONS, NOMIS Labour Force Survey and Annual Population Survey © Crown Copyright  
- data unavailable

- 2.84 The North West, like most regions, is faced with the challenges of a two-speed labour market - meeting the needs of those often with low or no skills that are unemployed or economically inactive, whilst at the same adapting to the move towards the long-term structural changes of a higher skilled, higher value, knowledge economy.
- 2.85 The proportion of the working age population qualified to NVQ level 4 or above (broadly speaking degree level qualifications) is behind the national average, at 23.1%, compared to 25.0% in England as a whole in 2003<sup>32</sup>. This equates to a deficit of 80,000 people who would need to upskill to this level if the region is to reach the national rate. The North West is significantly behind the best performing regions – 5 percentage points behind the South East, and 8 percentage points behind the London average.
- 2.86 The North West has around 120,000 more people with no qualifications at all in the working age population compared to what it would have if its skills profile matched the England average (17.7% of the working age population have no qualifications, compared to the England average of 14.8%). This is the third highest proportion of any English region.
- 2.87 Some progress has been made over the past few years, particularly at higher skill levels. The region has a very large number of students, and is a net importer of young people studying for Higher Education qualifications. In 2003-4 there were 240,000 students in Higher Education Institutions in the North West, which was the second highest in England, after London, whilst some 65% of graduates finding work stay in the region.
- 2.88 The ASPIRE survey<sup>33</sup> of businesses in the region found that most respondents experienced a skills gap among Managers and Senior Officials – 38% reported a gap here. In terms of employers' perceptions of the skills lacking in their employees, the highest proportion (nearly 40%) stated that technical knowledge and job specific skills were lacking amongst employees. There is also evidence of inadequate investment in skills – on average employees in the region are less likely to have received off the job training in the last 4 weeks or indeed 13 weeks – this is true across most sectors. This suggests that many firms may be stuck in a "low skills equilibrium."
- 2.89 The term *knowledge worker* has been coined to described those whose work involves working with information and who develops and uses knowledge in the workplace. Using the Standard

<sup>32</sup> ONS, NOMIS, Labour Force Survey © Crown Copyright

<sup>33</sup> Survey by the North West Regional Intelligence Unit

Occupational Classification as an indicator of this<sup>34</sup> shows that the North West in 2004-05 had 39% of its workers in this category, compared to 42% in England as a whole.

- 2.90 Projections by the Regional Skills Partnership suggest that broadly, there will be an increase in demand from the financial and professional services, education, retail, health and social and digital industries, with demand falling in engineering, construction and most manufacturing sectors. The greatest net growth in demand for skills will be at the NVQ level 4/degree level, although the majority of occupations will still demand NVQ level 2 and 3 skills. There will continue to be growth in the need for generic skills, including communication skills, technical/ICT skills, planning and organisation skills and basic numeracy and literacy. If current supply trends continue, demand for higher level skills may not be met.
- 2.91 The region's qualifications profile varies by gender and by ethnicity. The qualification levels of both males and females are generally below the national average for their gender. Males are generally better qualified than females in the North West, and the gender disparity in qualification levels is somewhat greater in the North West than nationally. Around 24% of working age males are qualified to at least NVQ level 4 or above, compared to 22.2% of females; females contribute 56% of the overall gap on the national average at this level.
- 2.92 Females are also more likely than males to have no qualifications – 19.1% have no qualifications, compared to 16.4% of working age males (Labour Force Survey, 2003). There is a complex pattern in qualification levels among different ethnic groups. According to the Census 2001, in general, ethnic minority groups are not necessarily less well qualified than white residents in the North West. There is bipolarity among many ethnic groups in terms of qualifications held – with high proportions holding no qualification, and high proportions qualified to at least NVQ 4. This is especially true of Asian communities.

#### *Key Sub-Regional Variations*

- 2.93 The skills picture is not uniform across the region. **Cheshire & Warrington** residents have on average the highest qualification levels in the region. The proportion qualified to NVQ 4 and above is over 5 percentage points above the national average, and a lower proportion than the national average have no qualifications. **Greater Merseyside** and **Greater Manchester** have the lowest proportion of residents qualified at graduate level. Greater Merseyside has 51,000, and Greater Manchester has 34,000 fewer residents with NVQ 4 + skills than if they were at the national rate. Greater Merseyside also has 71,000, and Greater Manchester 58,000 more people with no qualifications than if they were at the national level. The proportion of people in **Lancashire** qualified to NVQ or above is 2 percentage points behind the national rate, and the share with no qualifications is 0.5 percentage points above. **Cumbria** has 5,000 fewer people than the national average with NVQ4 or above, although it also has 11,000 fewer with no qualifications.

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<sup>34</sup> This takes SOC codes 1, 2 and 3 as being knowledge worker categories. Data taken from ONS, NOMIS, Annual Population Survey © Crown Copyright

*Messages for the Programme*

- 2.94 Most interventions to tackle the region's skills gaps will be funded through ESF in conjunction with UK domestic funding, however this funding is less able to tackle issues associated with intermediate, managerial and other higher level skills, which have been identified as issues, in relation to the targetted sectors. ERDF could also be used to fund complementary activities, such as those related to innovation, enterprise and higher-level management skills, in particular, activities aiming to raise awareness of the economic change agenda, the need to innovate and to enhance the ability of managers to respond to competitive threats and opportunities.

## Employment and Social Exclusion

*Importance to the Programme*

- 2.95 Alongside the rates of productivity of those in work, the economic participation rates of the population are a key determinant of the competitiveness of a region. Worklessness has been found to be a central factor in poor economic performance and is highly correlated with a raft of social exclusion issues and problems, and tends to be highly concentrated in the region's more deprived communities. The factors which explain low levels of labour market participation vary and include low skill levels, health issues, caring responsibilities and ethnicity.

*North West Position and Performance.*

- 2.96 In the North West, approximately 25% of the GVA gap is due to employment factors, with too few working age residents in employment.

**Table 2-13: North West Performance on Selected Employment and Social Exclusion Indicators (England figures in brackets)**

	1999	2000	2001	2002	2003	2004
<b>Economic Inactivity as % of working age population</b>	24.2% (21.1%)	25.0% (21.4%)	24.8% (21.4%)	24.4% (21.5%)	23.5% (21.5%)	23.8% (21.7%)
<b>Employment rate as % of working age population</b>	70.9% (74.4%)	70.7% (74.5%)	71.2% (74.8%)	71.4% (74.5%)	72.8% (74.6%)	72.6% (74.6%)
<b>Unemployment rate as % of working age population</b>	6.5% (5.8%)	5.7% (5.2%)	5.2% (4.9%)	5.5% (5.1%)	4.9% (4.9%)	4.7% (4.8%)
<b>Percentage of Districts in top 10% most deprived nationally</b>	-	-	-	-	-	20%
<b>Percentage of Districts in top 20% most deprived nationally</b>	-	-	-	-	-	44%

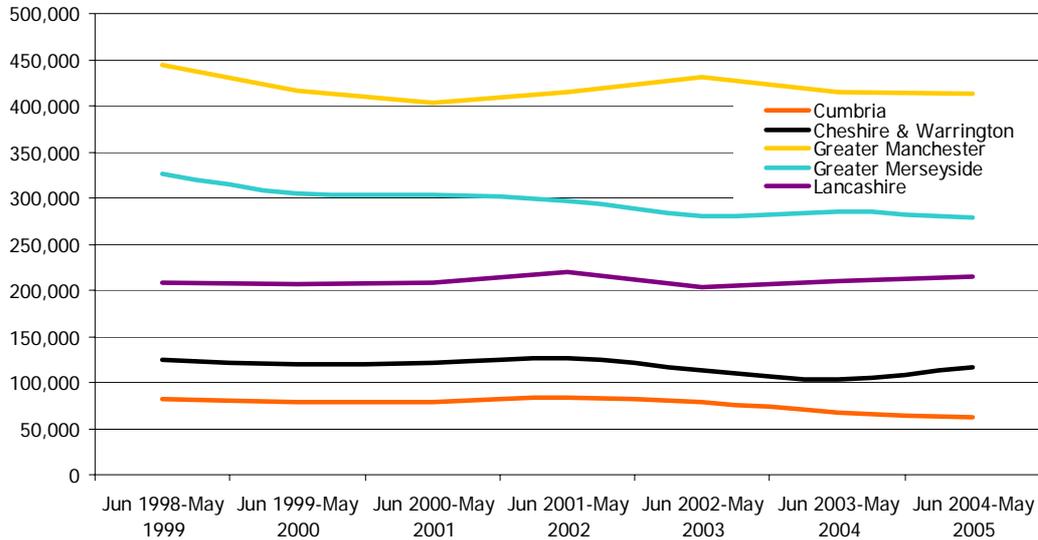
Source: ONS, NOMIS, Annual Population Survey and Labour Force Survey, © Crown Copyright

- 2.97 Worklessness is a particular problem in the North West. Of all the English regions, the North West has the largest number of economically inactive residents. At 1.7 million people, this is 15% of all the economically inactive in England. In 2003, of the working age population of 4.27 million, 23% were inactive, which is a percentage point above the England figure, and considerably above the rates in the South East, South West and Eastern regions, where economic activity stands at 18% or 19%.<sup>35</sup> Labour Force Survey data suggests that inactivity has been falling in recent years, with a 0.7 percentage point reduction between 1999/2000 and

<sup>35</sup> ONS NOMIS, Labour Force Survey, © Crown Copyright

2003/4. While this is a step in the right direction, it has been partly driven by the large growth in low skill employment in the service sector. The increases in female participation have also been a big factor.

Figure 2-6: Worklessness in the North West, by sub-region



Source: ONS, NOMIS, Labour Force Survey, © Crown Copyright

- 2.98 The North West has the highest number of people of all regions claiming benefits related to sickness or disability, at 375,000 people. Indeed, the North West also has the highest number of people (almost 400,000 people, or 9% of the working age population) claiming incapacity benefit. It is telling that the nearest region to this is London, which has just 280,000 claimants.
- 2.99 Worklessness and economic inactivity is disproportionately focussed on some labour market groups: particularly lone parents; certain ethnic minority groups; and older workers. Overall, women are considerably more likely to be inactive than men. 28% of females of working age are inactive, compared to 19% of males. This is mainly explained by the large number of women who are looking after the family/home.
- 2.100 Activity rates also vary by ethnicity (see Table 2- later on). Over half of all those of working age in Pakistani/Bangladeshi ethnic groups are economically inactive, compared with 35% of the white population. This is influenced by the extremely low levels of participation among Asian women (8% of all people looking after the home/family are Asian, while Asians represent 3% of the working age population).
- 2.101 There remains a persistent concentration of deprivation within the region, and this imposes a significant constraint on the region's economic performance and potential. There have been improvements in many indicators of deprivation in recent years, and in many cases at a faster rate than the England average (for example, between 2000 and 2004 the number of people in employment increased by 1.9 percentage points (compared to 0.2 percentage points for England). However, research in Merseyside into the Objective 1 Pathways areas has identified that although there have been significant absolute improvements in these areas in relative

terms the gap between Pathways and non-Pathways area in Merseyside has not closed. Across the North West, safe and efficient transport linkages between deprived communities and (new) employment opportunities are also critical: travel distances are lower in deprived communities, journeys are more likely to be undertaken by bus and public transport networks are not always aligned to these opportunities.

- 2.102 Nevertheless, the most recent Index of Multiple Deprivation (IMD, 2004) highlights the problems afflicting some parts of the region. Nine districts in the North West (a fifth of the region's total) are ranked in the 10% most deprived in England, whilst 19 are ranked in the 20% most deprived (44% of all districts in the region). This is worse than for most other regions in England. The region has 28% of the most deprived 10% of super output areas in England.<sup>36</sup> These most deprived communities (both by district and super-output area) are heavily concentrated in the region's urban conurbations, where the presence of potential and actual "sink" neighbourhoods and low housing demand is a major issue. Figure 2-7 illustrates the geographical pattern of deprivation in the region.
- 2.103 Employment growth in recent years has been concentrated in the North West's city regions, and this trend is likely to continue. City regions are becoming an increasingly important way of considering economic performance and policy, recognising that there are important economic, environmental and social interdependencies between the city and its neighbouring towns and fringes. The region's three City Regional Development Plans each place a strong importance on accessibility to labour and linking areas of opportunity (i.e. strong employment growth) with areas of regeneration need.
- 2.104 There has been progress in regenerating the region's main towns and cities (particularly in the centres), which has helped to improve the quality of life, although there remains much to be done. The investment which is currently being made in the low demand and other 'at risk' areas (alongside support to get people into work) is vital to reversing the trend of depopulation in these areas. However, the employment prospects in some parts of the region which are experiencing housing failure remain poor (such as East Lancashire) and this will impact upon the ability to tackle low demand issues across the board.

#### *Key Sub-regional Variations*

- 2.105 The North West is characterised by wide disparities in economic prosperity and wealth between – and within – its sub-regions and local authority areas. This is most evident in Greater Manchester and Greater Merseyside. Whilst Manchester has enjoyed a sustained period of economic growth since the mid-1990s, and Liverpool is enjoying a renaissance, the two cities still have areas of severe deprivation and have a number of neighbouring local authorities characterised by persistent poverty and multiple deprivation. In general there are acute concentrations of worklessness and deprivation around the main (and fast growing) urban centres. The geography of worklessness is shown in Figure 2-8. The reasons for this are complex, with an important factor being the problems associated with the decline of traditional industries. However, it is clear that in these areas, many local residents have been unable to access the employment opportunities created due to lack of information, skills, transport linkages, etc.

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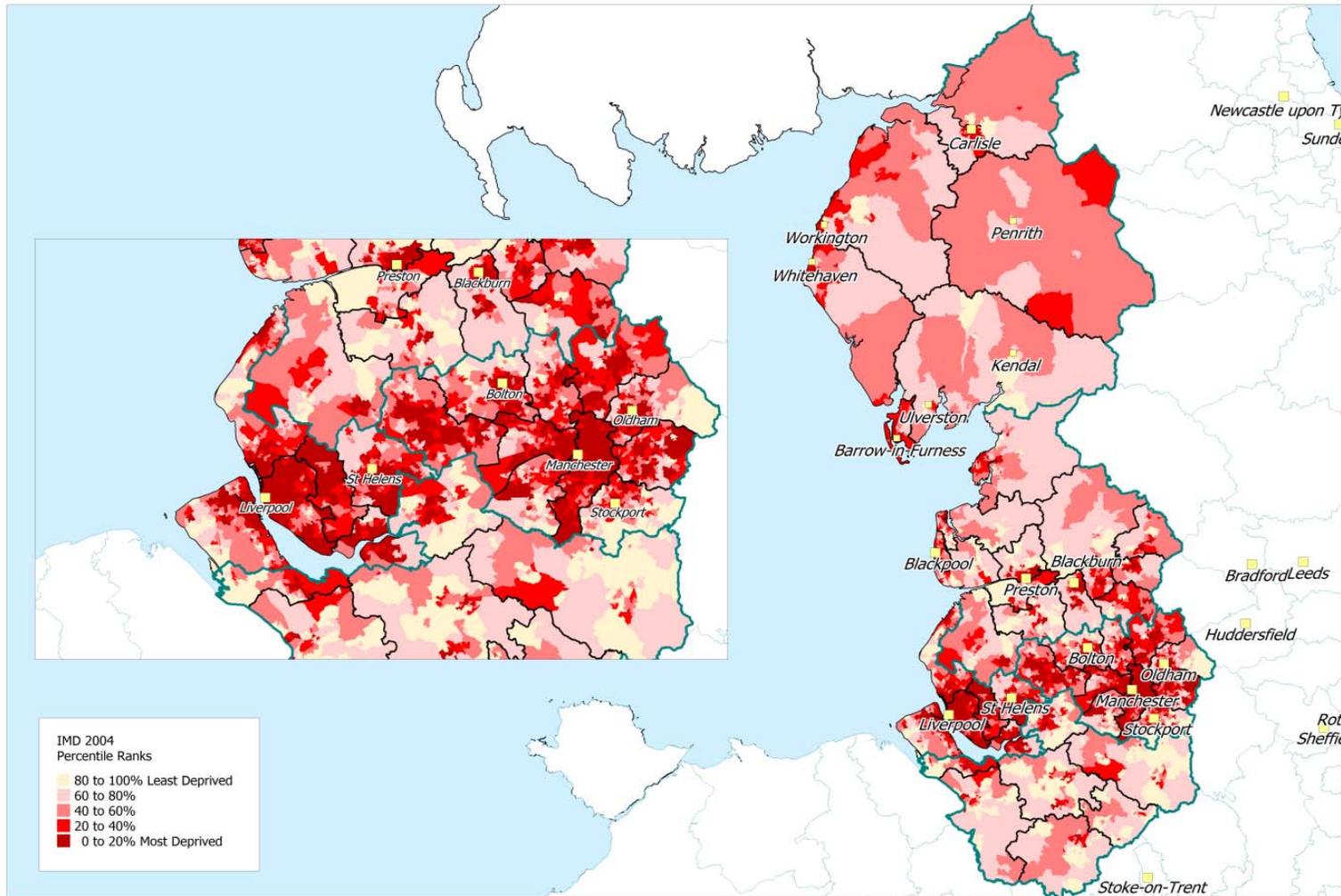
<sup>36</sup> ODPM/DCLG Index of Multiple Deprivation, 2004.

- 2.106 **Greater Manchester** has by far the greatest number of economically inactive in the region, at 635,000 (24% of the working age population) in 2001. Despite the strong employment growth experienced there, 187,000 of these are in Manchester. Other hotspots for employment growth, including Rochdale and Trafford, also have a high proportion of residents who are inactive. Salford also has a high job density and high inactivity rate. Seven out of ten local authorities are ranked in the top ten in terms of Incapacity Benefit claimants.
- 2.107 Although the gap in national employment rates has closed, with 432,000 economically inactive, **Greater Merseyside** still has the largest number in the region after Greater Manchester. This represents 28% of the working age population. Several of its districts have seen healthy employment growth, with Sefton, Knowsley, Liverpool and St. Helens all in the top ten employment growth hotspots in the region. However, these areas all have high rates of worklessness. The sub-region has some significant concentrations of deprivation – Liverpool is ranked the most deprived local authority in the country, and Knowsley the third most deprived.
- 2.108 **Lancashire** has overall a relatively low proportion of economically inactive residents – with 357,700 people in this category, which is 21% of the working age population. **Cumbria** has overall the lowest number of economically inactive residents, and a low proportion relative to the North West average – 20% of the working age population. However, in both sub-regions there are significant areas with extreme levels of worklessness, in particularly parts of West Cumbria and Furness and the seaside resorts of Blackpool and Morecambe.
- 2.109 After Cumbria, **Cheshire & Warrington** has the lowest number of economically inactive, with 200,400 people economically active in the sub-region. These are relatively spread, although 64,000 are in Warrington. These are areas of strong employment growth that are not themselves areas of significant deprivation, but could potentially be accessible to areas of regeneration need (e.g. Chester and Warrington).

*Messages for the Programme*

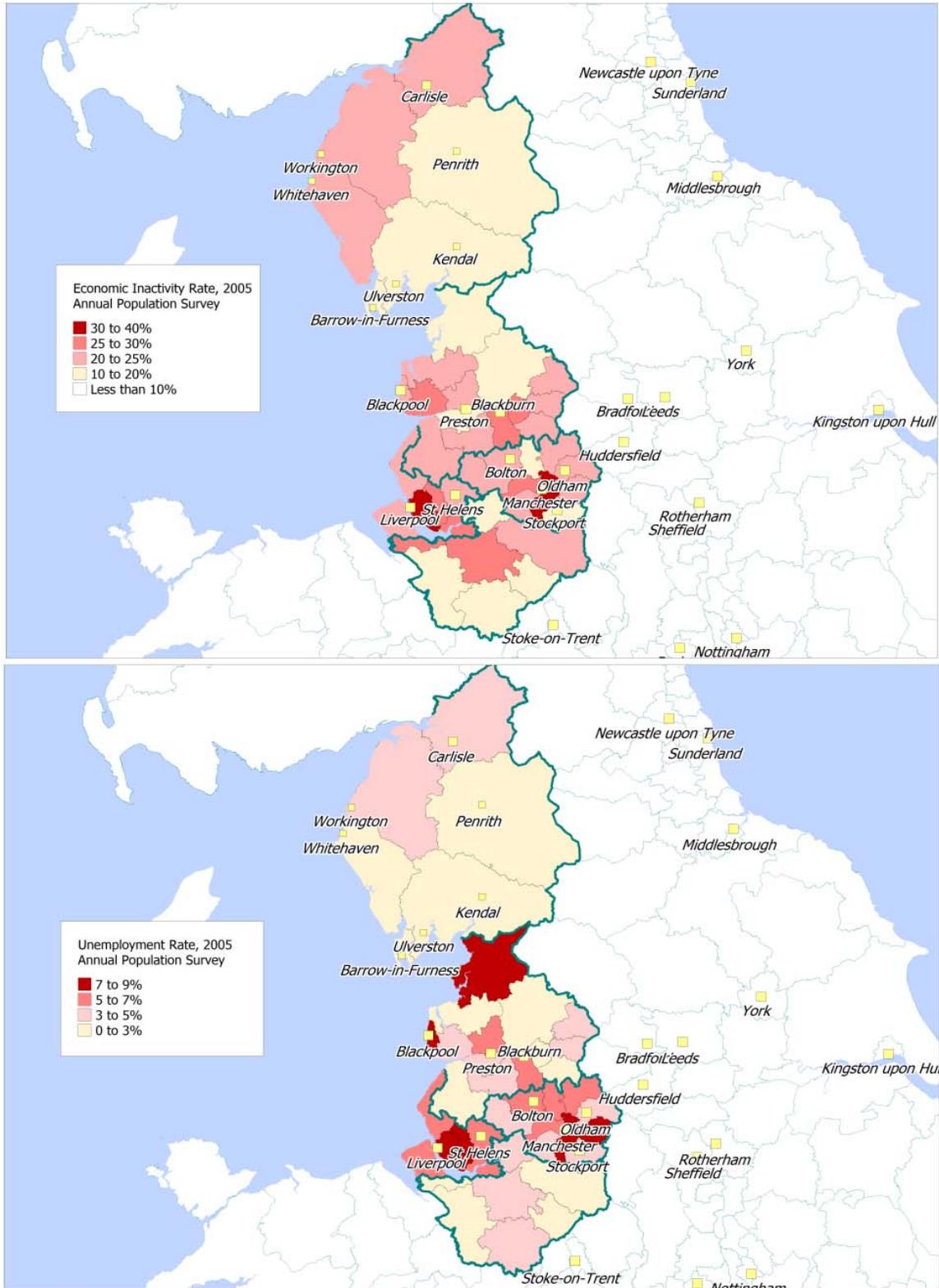
- 2.110 The concentrations of worklessness reflect a need for a spatially focussed approach or one focussed on particular communities. Any interventions must keep in mind that worklessness is usually linked to a wide range of issues, and barriers to work are not just about labour market and skills issues.
- 2.111 In the programme, *Priority 4: Growing and Accessing Employment* targets these issues. This includes interventions to encourage enterprise in deprived communities, in order to tap into the latent economic potential in the region's disadvantaged localities. A further action area under this priority aims to support linkages to key employment areas, so that those who are workless can access the employment opportunities being created in close proximity to them. This would make use of job brokerage activities, local employment agreements and local transport schemes aimed at accessing employment. A further linked intervention will be to support the creation of employment in areas of regeneration need, principally via packages of employment sites, workspace creation and other environmental improvements which are necessary to facilitate an improved business environment.

Figure 2-7: North West Deprivation, IMD 2004



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Figure 2-8: Spatial Pattern of Worklessness, 2005



Source: Digital Mapping Solutions from Dotted Eyes. © Crown Copyright 2006. All rights reserved. Licence number 100019918

Note: The data from which this is based for local authority areas is based on a national sample, this leads to significant

sampling errors, especially for districts with smaller populations. For instance Previous work and data has identified significant concentrations and rates of worklessness in Barrow and parts of West Cumbria

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## Urban Areas

### *Importance to the Programme*

- 2.112 The North West's major conurbations are the key drivers of growth in GVA and employment, containing concentrations of skills, businesses and HEI assets. Factors such as access to international airports, world class cultural, retail and sporting facilities and events, and cosmopolitan urban centres, are becoming increasingly important economic drivers.
- 2.113 The region's major urban areas are also home to significant concentrations of worklessness and multiple deprivation (See Employment and Social Exclusion section above), and in parts suffer from a continued environmental legacy due to de-industrialisation and demographic change.

### *The North West Urban Economy*

- 2.114 The North West's main urban centres have experienced strong growth in their business bases in recent years, reflecting both higher levels of start-up and survival. This improvement in performance has been concentrated in the urban cores of Manchester and Liverpool (although the improvement in Liverpool has been from a relatively low base), whilst Preston and Lancaster have also experienced strong economic growth.
- 2.115 The region's key knowledge assets are concentration in a key institutions (HEIs) and firms in a relatively small number of urban locations. The most successful research departments and research funding is concentrated in Manchester, then Liverpool and to a lesser extent Lancaster. Business R&D activity is also highly concentrated in a few urban locations (e.g. Alderley Park, Warrington/Risley).
- 2.116 There are significant travel to work flows between the region's major cities, and Manchester has the greatest sphere of influence in labour market terms. There are some particularly significant flows between Merseyside and north Cheshire, and between Greater Manchester and north and east Cheshire and Lancashire. In terms of labour market catchment areas, Manchester has the largest sphere of influence drawing net inflows from a large hinterland.
- 2.117 The major conurbations also benefit from their proximity to key international gateways, both as business centres and tourist destinations. Manchester and Liverpool have both benefited from improved international flight connections (they are now ranked 3<sup>rd</sup> and 9<sup>th</sup> in terms of international visitors).
- 2.118 The major conurbations have experienced a steady increase in their employment rates reflecting the strong growth in employment. However, the extent of this increase has varied and it is not necessarily those urban areas with the strongest employment growth which have seen the largest increase in the employment rate. Greater Manchester is an interesting case in point – whilst there has been strong jobs growth, the employment rate has not increased strongly, reflecting the combination of good connectivity and a large travel to work area and mismatches between the types of jobs

being created and the skills, aptitudes and locations of the workless locally. In spite of strong employment growth there are large pools of workless people. Particularly in the inner urban areas which have been relatively untouched by the economic growth.

- 2.119 Whilst urban centres tend to be well served by direct and frequent transport services, some employment locations in non-central areas can be difficult for people in lower skill/paying jobs to reach by public transport (for example, in Speke-Garston or Chester Business Park) and journeys from some more peripheral urban areas are still relatively difficult by public transport (for example Skelmersdale to Liverpool).
- 2.120 The region also contains a number of relatively isolated and self-contained urban economies that face major regeneration challenges, particularly in parts of Cumbria dependent on a few, vulnerable sectors (nuclear, defence). For example, West Cumbria and Furness is suffering from persistent industrial decline, partly due to its remoteness from key transport axes and from the core urban areas, and has few strong labour market linkages.

#### *Key Messages for the Programme*

- 2.121 The recent concentration of employment growth in the region's main urban centres is likely to continue. The urban centres in and around Manchester and Liverpool (including those in Cheshire & Warrington) and to a lesser extent parts of Lancashire, can be expected to continue to be key drivers of employment growth, especially in the growth in the knowledge based industries. A key issue which will be the ability to both accommodate and proactively manage growth.
- 2.122 There are also some major challenges, such as providing good access to the labour and skills that are demanded by employers, as this is where the region's economic growth potential is greatest. In order to address the supply of skills, there is the need to tackle the acute problems of concentrated and persistent worklessness and promote the creation of attractive sustainable communities close to the location of job growth and which will attract the workers required to sustain the growth.

## **Rural Areas**

#### *Importance to the Programme*

- 2.123 The North West rural economy is diverse, and like the region as a whole, is characterised by widely varying economic prosperity and wealth. For example, some parts of Cumbria are suffering due to their remote locations and sparse populations, whilst those areas located close to the urban fringes are enjoying stronger growth.
- 2.124 Whilst there are a number of wealthy rural districts (typically made up of higher-paid, higher skilled commuters), many of the jobs available in remote rural areas are low paid and this is constraining housing affordability among local people, and this in turn is impacting on local communities and the local service base.

Table 2-14: Selected Rural and Urban Indicators

	Rural <sup>37</sup>	Urban
Population, 2004	1,511,000	5,316,200
Population change, 1999-2004	2.3%	0.4%
GVA, 2002	£21bn	£70bn
- % of GVA in agriculture	2%	0.3%
- % of GVA in manufacturing	34%	28%
- % of GVA in services	63%	74%
GVA per capita (2002)	£13,000	£13,800
Employment	655,300	2,359,600
Employment change, 1999-2004	7.8%	6.4%
Employment rate, 2005	77.1%	71.3%
Self employment rate, 1005	10.3%	7.2%
Unemployment rate	3.7%	5.7%
Economic Activity rate	80.1%	75.6%
Businesses, 2004	61,800	171,000
% of working age population qualified to NVQ level 4 and above	31%	22.4%
% of working age population with no qualifications	12%	18.4%

Source: Pion (2005) State of the Rural NW Region, ONS NOMIS Annual Business Inquiry and Annual Population Survey, © Crown Copyright

### North West Rural Economy

- 2.125 Over four fifths of the region's land mass is defined as rural (Defra 2005 definition), although just 12% of the population live in these areas (i.e. a relatively low population density).
- 2.126 Whilst the economic structure of the rural economy does have some distinct features (namely the more important presence of agriculture and tourism employment), it is not too dissimilar to the North West as a whole. However, the rural economy is under-represented in those (typically services) sectors that are growing rapidly in the region. Business services has grown in importance within rural areas in recent years, and it tends to be located in the more accessible rural areas and market towns.
- 2.127 Many parts of the rural economy have seen employment and population growth in recent years, with the exceptions of parts of Cheshire (where the capacity for growth is heavily constrained), parts of the Pennines and the Fylde coast. However, parts of the rural economy, most notably Cumbria (and especially West Cumbria and Furness), have performed far less well than the region as a whole in terms of wealth creation.
- 2.128 Average figures suggest that rural areas tend to perform well on most economic and quality of life indicators. In particular, average earnings and skills levels tend to be high. However, the challenges faced by rural communities can often be hidden by average statistics, which are skewed by those higher-paid, higher skilled commuters

<sup>37</sup> Most of this data uses a rural definition based on amalgamating the following districts, following Pion (2005): Eden, Allerdale, Ribble Valley, Copeland, South Lakeland, West Lancs., Vale Royal, Carlisle, Lancaster, Chester, Crewe, Wyre, Fylde, Congleton and Macclesfield. As Pion point out, the results should be treated with "extreme caution," as within these districts there are significant urban areas. The data should therefore be viewed as a rough guide only.

who reside in rural areas but work in urban areas. The wage rates, incomes and employment opportunities of those relying on rural employment are often low. Furthermore, there is a higher frequency of multiple incomes in remote rural areas where family and farm income is sustained by undertaking additional jobs<sup>38</sup>.

- 2.129 The fact that deprivation occurs in smaller 'pockets' makes it more difficult to target assistance effectively upon those who most need it. Economic activity is high (80% compared to 75% of the working population in the urban areas) and there are comparatively fewer low-skilled and unskilled workers (only 13% of the population hold no qualifications compared to 18% for the working age population in the urban areas). Participation is higher in the more dynamic areas which have become increasingly popular as commuter areas for the larger urban centres. However, this could put further pressure on already failing housing areas, high demand suburbs and rural urban fringe areas. The ability to successfully regenerate inner city areas will be important in tackling this issue.
- 2.130 Average per-capita GVA in the rural northwest is just 4-5 percentage points below that for the region as a whole. However, the rural figure is boosted by the inclusion of many parts of (largely wealthy) rural Cheshire in the definition of the rural area. Excluding these more affluent rural areas, the estimates for the West Cumbria, East Cumbria and (rural) Lancashire are some 25-30% below the region's average.
- 2.131 Self-employment rates in the region's rural economy are higher than in urban areas (for both men and women), and are highest in the more sparsely populated areas. This reflects a number of factors including the structural composition (especially the presence of agriculture and other land-based activities in which rates of self-employment are high and which distort the overall picture of enterprise in sparse rural areas) as well as the relative fewer employment opportunities. The business birth rate as a percentage of stock and, especially, per head of population are well above the regional average.
- 2.132 The population base of the rural North West has an older age structure, the average age of which is increasing, and migration patterns have been an important influence (out-migration of younger workers and in-migration of older workers and retirees). These trends are more pronounced in the remoter rural areas, where access to work is a constraint. The more accessible areas have tended to experience stronger in-migration and a growth in population due to their popularity amongst commuters.

#### *Messages for the Programme*

- 2.133 The region's rural economies are characterised by a wide variety in performance, and there remain some significant challenges. The economic structure of the region's rural areas is often markedly different from urban areas. There tend to be fewer knowledge based business in rural areas (especially remoter, sparser areas) and less immediate proximity to key knowledge assets such as HEIs. This raises the need to consider ensuring that work to develop the knowledge economy in the region picks up the need

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<sup>38</sup> Cumbria Rural Regeneration Agency, 'Understanding Rural Disadvantage in Cumbria' (2003)

to foster links to business in rural areas. Economic performance in remote of parts of the sub-region (in particular West Cumbria) located far away from the main urban centres has been poorer.

- 2.134 There is a need for diversifying and strengthening the business base of the more vulnerable parts of the rural economy, whilst for those closer to the main urban centres the challenge is to ensure sustainable growth.
- 2.135 There is also a need for a firm public intervention commitment to stimulate local demand and in turn to generate sufficient sustainable employment creation in those places. Finally, in the sparser populated rural areas there are significant delivery challenges associated with most business (and people) support services, so that bespoke approaches may be needed to address higher cost and accessibility issues.

## Cross-Cutting Themes

### Environmental Sustainability

#### *Importance to the Programme*

- 2.136 Environmental quality is of critical importance to the economy of the North West. The environment underpins primary industries such as agriculture and supports wider economic growth. It is also at the centre of much of the region's tourism industry, and the quality of the environment plays a key role in shaping the image of the region as a place to live, work and visit. The quality of the natural environment is a key factor in attracting and retaining investment and skilled workers.
- 2.137 There is a need to minimise the adverse impact of economic growth on the environment. Increased economic growth leads to increased movement of goods and people, resulting in higher vehicle emissions, reducing air quality and increasing emissions of carbon dioxide and other gases associated with climate change. However, it should also be recognised that economic growth and increased wealth also facilitates greater investment in newer, cleaner technologies and processes. There are related opportunities and threats in terms of changes in environmental legislation and their impact on businesses.

#### *North West Position and Performance*

**Table 2-15: Selected Environmental Indicators in the North West**

	1999	2000	2001	2002	2003
<b>Waste production (000s tonnes)</b>	640	700	600	650	700
<b>Emissions of CO2 from industry (000s tonnes)</b>	17,200	18,600	19,900	18,800	20,400
<b>% of employment in environmental goods and services</b>	3.1%	3.3%	3.3%	3.1%	3.0%

- 2.138 This section provides a brief overview of key environmental indicators. A full examination of the region's environmental position and performance can be found in the Strategic Environmental Assessment, which is being prepared to inform development of the NWOP.

- 2.139 **Air quality.** In spite of the sustained period of economic growth in the North West, emissions of major pollutants from industry and major installations monitored and regulated by the Environment Agency have fallen in the region in recent years, partly reflecting greater investment in newer, cleaner technologies and processes. However, these reductions have been offset by the growth in emissions associated with road use. According to Defra, some 50% of the region's population live in a local authority that is classified as an Air Quality Management Area, largely reflecting the increase in emissions from road use.
- 2.140 **Energy use.** The North West has concentrations of activity in energy intensive sectors, including the chemicals sector. However, the energy intensity of the North West economy has been falling overall, and modelling work undertaken during the SEA of the RES suggested that energy use (excluding power and transport will fall by 10% over the period 2005-2015, based on a strong decline in demand from energy-intensive industries. However, the same report predicts that energy use from transport is expected to continue to rise. Therefore, it is by no means certain that overall CO<sub>2</sub> emissions will decline during this period, as growth in emissions from road traffic, shipping and aviation is expected to continue.
- 2.141 **Waste and recycling.** Residents in the North West generate the greatest amount of household waste per person in England and this quantity is growing rapidly. It also generates a large amount of commercial waste. The North West is relatively dependent upon land disposal as a means of managing waste, representing poor recycling rates (in 2005/6 the total rate of household re-cycling was 23.8% compared to the England average of 26.7% according to Defra Waste Recycling Statistic). The dependency on landfill is highest in Greater Manchester and Cumbria. However, these waste streams also present considerable business development opportunities.
- 2.142 **Water quality.** The North West has seen major improvements in river water quality in recent years, particularly given the relatively strong manufacturing (for example, chemicals) presence in the region. Although still below national averages for river lengths of good or fair quality, the North West's river water quality is now considerably improved. Progress in the chemical composition of river water has been particularly strong and is very likely to be related to the reduction in pollution incidents discussed below. Whilst improvements have been made to the biological quality of river water, the North West still has some significant way to go before it reaches national average standards.
- 2.143 **Environmental technologies.** Although not highlighted by employment or GVA data, the region has some emerging strengths in environmental technologies and this sector (or group of sectors) is highlighted as one of the North West's priority sectors for development. This includes such areas as air pollution control, environmental consultancy, energy efficiency and waste management. In particular, there are opportunities associated with low carbon emitting technologies (in relation to energy production and other forms of production and waste minimisation). There are also opportunities around environmental management and monitoring (for example, the spin-out from the nuclear sector in west Cumbria).

*Messages for the Programme*

- 2.144 There are a number of key environmental issues which will need to be addressed over both the short and long terms. Whilst some issues may be beyond the scope of regional partners, there are important actions that can be adopted within the OP.
- 2.145 **Environmental Quality.** The OP will maintain and, where possible, enhance distinctive landscape character and biodiversity, quality of and access to green space, and conservation of heritage assets. This is important as it impacts on quality of life, community safety, health, and the attractiveness of the region to investors and employees.
- 2.146 **Mitigating against climate change.** This will be taken into account as a major factor impacting on economic growth. As the UK Government has stated, climate change is the most serious long term threat that the UK faces, and it is important that the Competitiveness Programme puts mitigation and adaptation at the heart of its strategy. Economic and population growth will, other things being equal, result in an increase in CO<sub>2</sub> emissions, and so the programme will need to mitigate against this by seeking a reduction in emissions from business practices and processes as well as encouraging ICT connectivity, energy efficiency and the promotion of sustainable transport elsewhere in the programme and through the selection and design of projects.
- 2.147 **Sustainable Construction.** The North West, like other regions, has experienced a significant upturn in construction activity over recent years. A proportion of this can be attributed to economic development and regeneration activity. Looking forward, it is important that partners seek to minimise adverse impacts arising from the construction process and to ensure that high environmental standards (design, materials, and energy efficiency) are promoted in building design (i.e. all buildings must be rated Very Good or Excellent according to BREEAM<sup>39</sup> standards).
- 2.148 **Environmental indicators.** The NWOP will contain a number of quantifiable environmental outputs, results and impacts indicators as part of the overall performance framework.
- 2.149 The environmental implications of activities supported under all priorities are a key consideration, and all potential projects will have to consider their environmental impact. Indeed embedding the cross cutting themes will have to be an explicit commitment for all projects, and all projects will benefit from best practice advice in these areas.
- 2.150 More specifically, under Priority 1, action area 3 – *Increasing Sustainable Consumption and Production* – there are activities to support businesses in the area of resource and waste efficiency, including environmental audits. This action area also supports activities to develop low impact technologies relevant to North West businesses, and to promote alternative energy sources and use of renewables in SMEs.

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<sup>39</sup> Building Research Establishment Environmental Assessment Method

## Equality and Diversity

### *Importance to the Programme*

- 2.151 Diversity is a key economic strength of the region, providing a positive contribution to the image and economic potential. The region has some considerable strength in multicultural arts and heritage assets, which is important for tourism, as well as providing a positive image.
- 2.152 However, some distinctive communities are being left behind, and are suffering from multiple deprivation, entrenched poverty, discrimination, disadvantage and lack of opportunity and are still subject to exclusion from the benefits of economic growth. This is reflected in low skills and low pay, and high rates of worklessness and economic inactivity. This disadvantage and lack of opportunity among particular communities in the North West acts as a constraint on the region's economic potential.

### *North West Position and Performance*

**Table 2-16: Key North West Indicators on Equality and Diversity**

	Working age population		Working age employment rate		Economic inactivity rate	
	number	%	number	%	number	%
- white	3,829,000	93.4%	2,830,400	73.9%	853,000	22.3%
- mixed ethnic group	24,200	0.6%	13,600	56.4%	8,500	34.9%
- Indian	43,800	1.1%	26,500	60.5%	15,700	35.8%
- Pakistani/Bangladeshi	101,100	2.5%	43,500	43.0%	51,200	50.7%
- Black or Black British	36,700	0.9%	22,900	62.4%	10,600	28.8%
- other ethnic groups	60,600	1.5%	37,500	61.8%	19,500	32.2%
- disabled	838,200	20.4%				
- gay or lesbian	240,000	5.9%				

Source: ONS, NOMIS, Annual Population Survey © Crown Copyright material is reproduced with the permission of the controller of HMSO

- 2.153 The diversity of the region's people and communities and environment is a key economic asset. The region's Equality and Diversity Strategy defines 'equality communities' as those differentiated by characteristics of:
- Gender
  - Race and ethnicity
  - Disability
  - Age; older (45+) Age; and younger (16-24)
  - Faith and belief
  - Sexual orientation and transgender
- 2.154 **Gender.** Economic inactivity among women in the region, at 28% is 9 percentage points higher than among men. The gender disparity in qualification levels is

somewhat greater in the North West than nationally. Around 24% of working age males in the North West are qualified to at least NVQ level 4 or above, compared to 22% of females; females contribute 56% of the overall gap on the national average at this level. Women are also more likely than men to have no qualifications – 19% have no qualifications, compared to 16% of working age males. All of this is reflected in much lower average earnings among women than men. The rate of self employment among women in the North West is well below the national rate and below the rate for men in the region.

- 2.155 **Race and ethnicity.** People of all non-white ethnic backgrounds make-up 5.6% of the population, but tend to be heavily concentrated in some Local Authority areas. For example, in the City of Manchester, the non-white population is 19% of all residents, and about one in six in Oldham, Pendle and Preston.
- 2.156 Although employment rates for all ethnic groups in the region (including white residents) are below national rates, there are marked differences in employment rates across ethnic groups. People of Asian origin have the lowest employment rate, whilst within this group those of Pakistani or Bangladeshi origin account for by far the lowest levels of economic participation of any ethnic group in the North West (and these ethnic groups are particularly concentrated in Greater Manchester and Lancashire).
- 2.157 The Asian population also has some of the best rates for achievement of higher level qualifications. Workers of Indian and Chinese heritage outperform the North West average in NVQ Level 4 qualifications and in average earnings.
- 2.158 **Disability.** Just over one-fifth of the working age population is registered as disabled - almost a million people in the region. Disabled people are over twice as likely as non-disabled people to have no qualifications and to be economically inactive. Whilst some disabled residents cannot work due to the physical and mental factors, others face organisational and attitudinal barriers to labour market participation.
- 2.159 **Age.** Employment rates for people aged 45-64 employment rates in the North West are 4 pp below than England average. Those aged 55 and over are disproportionately employed in lower-skilled occupations, lack qualifications and earn less than other age groups. Furthermore, one-third of those aged 50 to 64 suffer from a long-term limiting illness. Just over one-fifth of under 25 year olds have higher level qualifications and 1 in 7 of all aged 16 is not in education, training or employment.
- 2.160 The proportion of older people in the North West varies across sub-regions. For example Greater Manchester has a lower than average proportion of over 50s, whilst the other main conurbations and East Lancashire have relatively youthful populations, often with a strong ethnic minority presence. In Cumbria the percentage of resident aged 50+ is much higher, and out-migration of young people is a critical problem. Cumbria has almost 20% fewer people aged 20-24 than the national average.
- 2.161 **Faith and belief.** Christians and Hindus have the largest proportions of their working age population economically active, whilst the employment rate among Muslims is much lower.

- 2.162 **Sexual orientation and transgender.** Gay men and lesbians in the North West account for an estimated working age population of 240,000 people. The City of Manchester and Blackpool have the highest concentrations of same sex households in the country (after Brighton and some inner London Boroughs).

*Messages for the Programme*

- 2.163 An increasingly competitive economy requires social and economic inclusion in addition to economic growth. There are a number of distinct types of disadvantaged communities that are under-represented in the labour market in the North West. This will require interventions that match the complex mix of factors that create barriers. There will be direct targeting of specific under-represented groups in Priority 4 (e.g. women, BME communities), which seeks to tackle worklessness, whilst all NWOP projects must consider the implications of their activities on these communities and groups. The overall monitoring framework should contain relevant indicators as appropriate. Reporting on gender will be included.

**Summary of the North West's Strengths, Weaknesses, Opportunities and Threats**

- 2.164 This analysis has identified a range of regional strengths and weaknesses. There are important strengths in the performance of the region and its current stock of assets (physical, human and intellectual), which provide significant opportunities for future economic growth. However, there are some worrying weaknesses and a number of threats that must be overcome if the North West economy is to perform to its full potential. These, and the key messages for the programme, are summarised here (under the themes discussed previously in this chapter). A summary SWOT of the region's economy is set out in Table 2-. This table is drawn from the economic baseline for the RES and has subsequently been updated. Table 2-11 contains a SWOT for each of the North West's sub-regions, informed by the RES baseline analysis and the Sub-Regional Action Plans
- 2.165 The main weaknesses in the regional economy were identified in the work for the RES. In summary these are:
- Low rates of innovation and a large mass of SMEs investing little in R&D.
  - Low rates of enterprise in much of the region – driven by demand and cultural factors.
  - Too few workers in knowledge based sectors and too little of the economy operating in these sectors.
  - Large productivity gap in the service sector, especially business services sector.
  - A skills gap at higher level skills and a surplus of workers with few or poor qualifications.
  - Significant spatial concentrations of worklessness and multiple deprivation – accounting for the majority of the employment rate gap faced by the region.

- Continued environmental legacy left from the process of de-industrialisation and demographic change – with large concentrations of previously developed land, derelict/outdated buildings and outdated housing stock.
- 2.166 The future raises a number of important challenges for the region, some generic to most industrialised regions, others specific to the North West:
- The fundamental challenge is that of globalisation and competition from lower cost locations for manufacturing activity, but also in some cases back-of-office business/financial services.
  - Uncertain future over the nuclear sector – an important source of wealth and GVA in parts of the region.
  - Uncertainties over future structure of aerospace sector in Europe and so supply chain in the region.
  - Impact of future high energy prices on certain key energy intensive regional sectors (especially chemicals) and the wider impact of environmental legislation and changes in energy policy on business competitiveness.
  - Potential impact of a slower rate of growth in government spending, especially on public services, which has been a key driver of the region's employment growth.
  - The danger that future economic and employment growth continues to bypass those residents and communities where worklessness is deep-rooted. Indeed, the role of international in-migration to fill skills shortages and labour recruitment difficulties may mean that it proves harder to tackle worklessness.
- 2.167 It is easy to focus on the negatives; the region has seen a significant improvement in economic performance overall and in its city cores in particular. There are plenty of opportunities to build upon which, rightly have been identified in the RES. These include:
- The regions large HEI base, concentrated in and around its city regions.
  - Strength in depth of a small number of high value internationally competitive sectors based in the region, especially in high value, research based manufacturing.
  - The large concentrations of higher level skills workers in parts of the region, second only to the wider south east of England.
  - Relocation opportunities for public sector and other functions seeking a cost effective alternative to London/south east.
  - The city regions as motors of growth with their critical mass of skills and businesses and other assets (particularly in Manchester which has been one of the few really strong performing cities outside southern England in recent years)<sup>40</sup>.
  - Excellent international connectivity (by air and sea).

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<sup>40</sup> "State of the English Cities" report for ODPM/DCLG 2006

**North West Competitiveness Operational Programme 2007-2013**

**Table 2-17: Summary of the North West's Strength, Weaknesses, Opportunities and Threats**

<i>SWOT</i>		<i>PRIORITY</i>
<b>STRENGTHS</b>		
<ul style="list-style-type: none"> <li>• Major representation of world class manufacturing sectors (especially chemicals, pharmaceuticals, nuclear and aerospace) where productivity is above average and which account for large part of exports and business R&amp;D</li> <li>• No over-reliance on one sector (i.e. a diverse economy)</li> <li>• R&amp;D in businesses is high overall compared to other regions</li> <li>• Second largest concentration of higher education students outside London, with two thirds of graduates who find work doing so in the region. Largest concentration of graduate level workers outside London and the South East</li> <li>• Strong HEI science base – large share of 5 and 5* rated departments</li> <li>• Strong concentration of knowledge based industries and workers in Cheshire &amp; Warrington and South Manchester</li> <li>• Above average levels of enterprise in Cheshire &amp; Warrington</li> <li>• Two large core cities (Manchester and Liverpool) with dynamic centres that are enjoying strong economic growth</li> <li>• Major international gateway for the North of England (Manchester Airport) and other important gateways (Port of Liverpool and Liverpool Airport)</li> <li>• High levels of entrepreneurialism in some ethnic minority groups, compared to national average</li> </ul>		<ul style="list-style-type: none"> <li>• Priority 1</li> <li>• Priority 1 &amp; 2</li> <li>• Priority 1</li> <li>• Priority 1,2 and 4</li> <li>• Priority 3</li> <li>• Priority 1</li> </ul>

**Table 2-17: Summary of the North West's Strength, Weaknesses, Opportunities and Threats**

WEAKNESSES	
<ul style="list-style-type: none"> <li>• Widening economic disparities between areas enjoying strong economic growth and others suffering from economic stagnation or decline</li> <li>• Negative image based on poor environmental quality of some parts of the region</li> <li>• Below national average manufacturing productivity outside a handful of manufacturing sectors with world class players</li> <li>• Significant productivity gap in service sector, especially business services</li> <li>• Under representation of many knowledge based industry sectors including business services</li> <li>• Below average rates of innovation and overall investment in R&amp;D, especially poor representation of non-University government funded R&amp;D</li> <li>• R&amp;D activity is not widespread enough – concentrated in a few large international and national firms</li> <li>• The region is not exploiting its strong HEI science assets as much as it could – HEI-private sector collaboration is weak</li> <li>• Skills gaps at the higher levels, and a large concentrations of working age adults with no or poor qualification; reflected in too many workers in low paid, low value-added occupations</li> <li>• On the whole, levels of investment in skills and human capital are low</li> <li>• Skills mismatch in areas of high employment growth – inability of many local residents to access employment opportunities</li> <li>• High rates of worklessness and low skills are an issue among BME groups, people with disabilities and lone parents</li> <li>• Significant enterprise gap on rest of country and business start up rate currently too low to allow the gap to be closed. Lack of culture of enterprise in many areas Below average survival rates of new businesses</li> </ul>	<ul style="list-style-type: none"> <li>• All priorities</li> <li>• Priority 3</li> <li>• Priority 1 &amp; 2</li> <li>• Priority 2</li> <li>• Priority 1 and 4</li> <li>• Priority 1</li> <li>• Priority 4</li> <li>• Priority 4</li> <li>• Priority 1 and 4</li> </ul>

**Table 2-17: Summary of the North West's Strength, Weaknesses, Opportunities and Threats**

Table 2-17: Summary of the North West's Strength, Weaknesses, Opportunities and Threats	
<b>OPPORTUNITIES</b>	
<ul style="list-style-type: none"> <li>• Development of world class knowledge centres in Liverpool and Manchester (especially the newly merged University of Manchester) and building on Manchester Science City</li> <li>• Expansion of region as centre for high value, advanced manufacturing</li> <li>• Developing low carbon-using technologies</li> <li>• Demand for higher level skills as a potential driver of upskilling</li> <li>• Continued development of Manchester as second city (outside London) for creative, business services and many financial services</li> <li>• Continued self-sustaining expansion of Liverpool City Centre</li> <li>• Opportunities to attract on-going investment and tourism into the wider region that will be a legacy of Liverpool Capital of Culture 2008</li> <li>• Redevelopment of Blackpool through the URC and Masterplan</li> <li>• Continued growth of international gateways and external air connectivity, especially at Manchester Airport, and clustering of businesses needing international air connections</li> <li>• Growth in Asian and Eastern European markets, for increasingly advanced goods and services</li> <li>• Closer collaboration with surrounding regions</li> <li>• Spreading and building on the higher value activity, higher skills base and higher rates of enterprise of many parts of Cheshire &amp; Warrington</li> <li>• Exploitation and use of ICT on competitiveness and innovation</li> </ul>	<ul style="list-style-type: none"> <li>• All priorities</li> <li>• Priority 1 and 4</li> <li>• Priorities 1 and 2</li> <li>• Priority 1</li> <li>• Priority 1 and 3</li> <li>• All priorities</li> <li>• All priorities</li> <li>• Priority 3</li> <li>• Priority 1 and 3</li> <li>• All priorities</li> <li>• Priority 1 and 4</li> <li>• Priority 1, 2 and 4</li> </ul>
<b>THREATS</b>	
<ul style="list-style-type: none"> <li>• Continued globalisation of manufacturing and increasingly also of service activity, outsourcing of many lower value, lower paid jobs overseas (e.g. in call centres)</li> <li>• Continued economic dominance of London and concentration of future Government investment in housing, transport and R&amp;D in south of England</li> <li>• Global warming and associated climate change and flood risk</li> <li>• Impact of responses to global warming in terms of increased energy costs and other costs of production</li> <li>• Concentration of business R&amp;D in sectors which are vulnerable to environmental and other government policy changes (e.g. procurement)</li> <li>• Impact of higher energy costs and environmental legislation on chemicals sector</li> <li>• Demographic trends acting as a break on employment growth due to reduction in entry of young people and growth in older workers</li> <li>• Adverse prospects for nuclear sector, especially in Cumbria</li> <li>• Growth in internal congestion, especially in Greater Manchester and urban motorways, limiting effective operation of city regions</li> </ul>	<ul style="list-style-type: none"> <li>• Priority 1 and 4</li> <li>• All priorities</li> <li>• Priority 3 and 4</li> <li>• Priority 1 &amp; 2</li> <li>• All</li> <li>• Priority 1</li> <li>• Priority 4</li> <li>• Priority 1 and 4</li> <li>• Priority 3</li> </ul>

**Table 2-11: Strength, Weaknesses, Opportunities and Threats in the Sub-regions**

**Greater Merseyside**

**STRENGTHS AND OPPORTUNITIES**

- Critical mass of culture, sporting, heritage, leisure, natural environment and retail assets.
- Sea-board location and role as the seaboard gateway for trade and people into the North West, North Wales and North of England; important maritime sector.
- Liverpool John Lennon Airport is one of the fastest-growing in the UK in recent years.
- Premier Business Locations including Liverpool City Centre, Wirral Docklands, Parkside, Prescot Business Park, Atlantic Gateway and Widnes Waterfront
- An excellent HE and FE sector
- Greater Merseyside is one of the fastest growing regions in the UK in recent years. Liverpool has performed particularly well in job creation terms.
- The gap on national employment rates is being closed, and at current growth rates should equal the UK in less than a decade.
- Internationally and nationally significant clusters
- Capital of Culture 2008 provides an opportunity for the whole region and a spur to creative industries and the arts in Greater Merseyside
- Construction of the Mersey Gateway will enhance Greater Merseyside's connectivity to national markets
- Opportunities related to the strength of the third sector

**WEAKNESSES AND THREATS**

- Per capita GVA remains well below the England average and the lowest of all the sub-regions
- Economic activity rates in Greater Merseyside is lower than in any other metropolitan area
- Despite economic growth experienced in Liverpool, deprivation and worklessness remain high
- Greater Merseyside business density and start up rate is well behind the UK and NW figures – total entrepreneurial activity is low and entrepreneurial skills are under-developed
- Deficiency in skilled and highly qualified people – skill levels lower than in the region and UK as a whole, particularly among younger people
- Industrial legacy has left Greater Merseyside with high proportion of derelict land
- Deprivation levels in parts of the sub-region and among the highest in the UK – Liverpool is ranked number 1 and Knowsley number 3 on the indices of deprivation

Greater Manchester	
<b>STRENGTHS AND OPPORTUNITIES</b>	<b>WEAKNESSES AND THREATS</b>
<ul style="list-style-type: none"> <li>• Manchester Airport and aviation – the largest airport outside the Greater South East, providing a gateway to Europe for overseas and North West companies</li> <li>• World class universities – the highest performing research and training institutions outside the “golden triangle” of Oxford Cambridge and London, with 100,000 students.</li> <li>• Regional Media Hub – the north’s centre for Creative Industries</li> <li>• Manchester: Knowledge Capital Partnership is leading on establishing Manchester as the first and one of the most economically significant Science Cities (there are 6 designated across England, outside London and the South East)</li> <li>• The planned relocation of BBC departments to Greater Manchester offers a major opportunity to achieve a step change in the level of activity in the media sector</li> <li>• Greater Manchester has the North’s greatest concentrations of high value activity in key sectors projected to experience significant growth in levels of GVA and employment up to 2015.</li> </ul>	<ul style="list-style-type: none"> <li>• Qualifications of Greater Manchester residents are below regional and national averages</li> <li>• Disproportionate numbers of people who are economically inactive and excluded from mainstream support services</li> <li>• Seven of ten local authorities are ranked in the region’s top ten in terms of Incapacity Benefit claimants.</li> <li>• Although business start up rates are on par with the regional average, rates are below national levels, as are self employment rates and business survival rates.</li> <li>• Need to reduce congestion on roads and move from private to public transport</li> <li>• Although there is variation, overall the housing offer is constraining, rather than positively driving economic performance</li> <li>• Wide disparities in economic performance – proximity of employment hotspots to areas of worklessness and deprivation.</li> <li>• Growth in passenger numbers at the airport will increase demands on surface access, raising capacity issues for transport links</li> </ul>
Cumbria	
<b>STRENGTHS AND OPPORTUNITIES</b>	<b>WEAKNESSES AND THREATS</b>
<ul style="list-style-type: none"> <li>• Well developed tourism sector, with the Lake District a major asset</li> <li>• Strong nuclear, maritime and food processing industries</li> <li>• Examples of high end consumer advice and guidance call centres which recruit skilled staff on higher wages than more routine call centres.</li> <li>• Opportunities for very small businesses to expand and provide employment opportunities in niche markets including tourism, food and drink, creative and maritime industries</li> <li>• New University of Cumbria will provide a major opportunity to promote high level skill formation and improve the image of the county to inward investors</li> <li>• Broadband infrastructure offers possibility of overcoming physical remoteness from, and poor transport connectivity to, major and growing urban centres.</li> <li>• Carlisle Airport offers opportunities for stimulating economic growth. Recent change in ownership could lead to more realistic expectation that it will be developed to provide access to aviation services for Cumbria and South West Scotland</li> </ul>	<ul style="list-style-type: none"> <li>• Over dependence on a small number of large employers – medium sized businesses are underrepresented. A large number of businesses trade below the VAT threshold</li> <li>• Limited higher education provision hinders attracting and retaining young people and assisting the economy to move to high value-added employment</li> <li>• Low levels of qualification at NVQ levels 3 and 4</li> <li>• Long standing structural weaknesses – overdependence on declining sectors and insufficient numbers of businesses in growth areas</li> <li>• Pockets of high concentrations of worklessness in West Cumbria and Furness</li> <li>• Disadvantages due to remoteness from other centres of population and poor connectivity in transport infrastructure</li> <li>• Consistent underperformance and disadvantage in Allerdale and Copeland</li> <li>• The Lake District faces competition from other locations – it is a mature</li> </ul>

	<p>destination and the product that it offers needs to be revitalised in order to equip it to meet market demand</p>
<b>Lancashire</b>	
<p><b>STRENGTHS AND OPPORTUNITIES</b></p>	<p><b>WEAKNESSES AND THREATS</b></p>
<ul style="list-style-type: none"> <li>• Blackpool Masterplan – Blackpool remains a leading UK destination, but is in urgent need of investment and renewal. A radical Masterplan for the town, spearheaded by ReBlackpool URC, is already beginning to remodel the resort into a 21<sup>st</sup> century destination of choice</li> <li>• Largest concentration of high-value manufacturing outside southern England</li> <li>• Unemployment and long term unemployment rates are below regional and national levels</li> <li>• Blackpool airport has seen a large expansion in passenger numbers and routes offered</li> <li>• University of Central Lancashire is the 5<sup>th</sup> largest in the country</li> <li>• Lancaster University is rated as one of the UK's top ten research universities</li> <li>• Above average survival rates of new businesses</li> <li>• Good access to metropolitan centres in Greater Merseyside, Greater Manchester and West Yorkshire</li> <li>• Establishment of Aerospace Innovation Centre which will act as a catalyst for developing and disseminating new technologies. Proposals also exist for the creation of a Regional Aerospace Business Park at Samlesbury.</li> <li>• Heysham to M6 link will open up the Port of Heysham to development activity.</li> <li>• Pennine Lancashire – implementation of the 'Transformational Agenda' transforming the economy and housing market in East Lancashire. In addition to the housing market renewal programme, improved economic prosperity will be delivered by enhancing the economic contribution of the manufacturing sector and developing embryonic sectors which will bring higher added value.</li> <li>• Preston and Central Lancashire – building upon the dynamic growth area of Preston, South Ribble and Chorley, significant investment is planned, in which the transformation of Preston City Centre represents a major development and commercial opportunity</li> </ul>	<ul style="list-style-type: none"> <li>• Mixed economic performance – recent economic growth rates have been below the national average, and East Lancashire and the Fylde Coast have experienced significant decline.</li> <li>• Lack of investment in product development and services has impacted on competitiveness of manufacturing sector</li> <li>• Lancashire is underrepresented in those sectors that at a national level are anticipated to grow</li> <li>• Poor representation of Headquarters and R&amp;D facilities – essentially a “branch economy”</li> <li>• Tourism sector is predominantly low value, low skill seasonal employment</li> <li>• A high representation of Small and Medium-Sized Enterprises (often family-owned) with weak managerial capacity not yet fully equipped to deal with the opportunities and challenges presented by a fast moving economic climate of global competition and new supply chain relationships.</li> <li>• Low business formation rates in many areas</li> <li>• Low industrial and commercial rental levels and rates of return act as a disincentive to new private sector speculative property development in many parts of the County</li> <li>• Underrepresented in high level skills compared to national average.</li> <li>• Many medium sized retail centres under threat from competition from other large retail centres.</li> </ul>

Cheshire & Warrington

**STRENGTHS AND OPPORTUNITIES**

- High level of wealth creation – GVA per capita is above the national average
- High levels of inward investment from new and existing firms, often global players
- Highly skilled workforce
- Above average rates of business formation
- Large proportion of firms in knowledge based industries
- Proximity to major international gateway of Manchester Airport
- R&D expenditure is high, mainly due to presence of chemicals, pharmaceuticals and biotechnology
- Unprecedented levels of private sector investment in town centre developments in Chester, Warrington, Macclesfield, Northwich and Crewe.
- 'Deeside Hub', including Chester, Ellesmere Port and Neston, as well as North East Wales and parts of Greater Merseyside
- Strategic Investment sites are coming on-stream and offer potential for attracting further knowledge based activity
- Untapped areas of derelict previously developed and in need of development.

**WEAKNESSES AND THREATS**

- Untapped pockets of deprivation, particularly in rural economy, which is in need of diversification
- Traffic congestion is a problem in some areas, associated with economic success
- Affordability of housing is a challenge in many areas
- Lack of immediate availability of employment land
- 21% of employers have reported skills gaps in recent surveys
- Some residents cannot access employment opportunities created due to lack of basic skills
- Rural economy remains vulnerable to economic change and change associated with EU agricultural policy

### 3. Strategy

#### Main Policy Context for the Strategy

##### The ERDF Regulation

- 3.1 Article 5 of EC Regulation 1080/2006, published in July 2006, states that the European Regional Development Fund under Regional Competitiveness and Employment Programmes should primarily focus on the following three priorities:
- 1. Innovation and the knowledge economy
  - 2. Environment and risk prevention
  - 3. Access to transport and telecommunication services of general economic interest.
- 3.2 There are additional two priorities, which, according to the ERDF regulation, may be taken up by programmes under the Regional Competitiveness and Employment objective. These are:
- 4. Interregional co-operation, and 5. Sustainable urban development.
- 3.3 This regulation provides an envelope for the activity that can be supported under the most of the NWOP. In addition for the Phasing-in area (Merseyside), the NWOP may support a broader range of activity under Article 4 of the Regulation related to the phasing in area, subject to negotiations and agreement with the Managing Authority and the European Commission.

##### European Policy Context

- 3.4 The starting point for the NWOP is the policy context provided at a European level for the use of Structural Funds. The Lisbon Agenda provides the overarching motivation for the NWOP and is the main driver of the EU agenda in relation to Cohesion Policy. The original Lisbon Strategy (2000) set out a ten-year plan for the transformation of the EU's labour, capital and product markets to 2010 in response to three major economic threats: an ageing population; rising energy prices (with further, significant increases anticipated in the long term); and intensified competition from emerging economies. However, in reaction to the slow initial pace of progress, the Lisbon Strategy was re-launched at the March 2005 Spring European Council with two broad, overarching aims:
- **Generating stronger, sustainable economic growth.** Achieving this goal requires a significant increase in emphasis on competitiveness, innovation and knowledge-intensive activities, with the explicit targeting of investment on:
    - Improving competitiveness and raising productivity
    - Using knowledge to gain competitive advantage
    - Increasing and improving investment in research & development
    - Facilitating innovation, the use of information and communication technologies (i-2010 agenda) and the sustainable use of resources

- Making Europe more attractive to business
  - Building infrastructure for a competitive economy.
  - **Creating more and better jobs.** A stronger economy will drive higher quality job creation in the EU and policies that promote social inclusion will facilitate faster economic growth by increasing the effective labour pool. Investment is targeted on:
    - Encouraging more people into the workforce
    - Increasing the adaptability of workers and flexibility of labour markets
    - Investing in human capital through better education and skills.
- 3.5 It is an EC regulatory requirement that the Regional Competitiveness Programmes should ensure that at least **75% of resources** are demonstrably aligned with the Lisbon Agenda. The NWOP therefore must have a clear focus on those interventions that support enterprise, innovation, sustainable development, skills and employment. Appendix C sets out the Lisbon earmarking exercise for the NWOP.
- 3.6 The EU Sustainable Development Strategy (SDS) 2001 (the Gothenburg Agenda) provides a 'third dimension' to the Lisbon Strategy, recognising that economic, social and environmental renewal go hand in hand. However, a mid-term review identified several unsustainable trends across five broad areas: climate change, public health, poverty and exclusion, demographic pressure and ageing, management of natural resources and transport. In response to these perceived failings, the EU Council approved a renewed SDS in June 2006, which has three aspects most relevant to the NWOP:
- Supporting sustainable production and consumption
  - Conserving and managing natural resources
  - Promoting social inclusion.
- 3.7 The renewed Sustainable Development Strategy adopted by the European Council on 15-16 June 2006 reads as follows: In order to ensure that EU funding is channelled and used in an optimum way to promote sustainable development, Member States and the Commission should co-ordinate to enhance complementarities and synergies between various strands of Community and other co-financing mechanisms, such as cohesion policy, rural development, LIFE+, research and development (RTD), the Competitiveness and Innovation Programme (CIP) and the European Fisheries Fund.
- 3.8 The European Community Strategic Guidelines (CSG) for Cohesion Policy set out how the EU's regional policy will be delivered via the EU Structural and Cohesion funds through economic, social and environmental interventions over the period 2007-2013. The CSG suggests ways in which the regions can build competitiveness on three broad fronts:
- First, by enhancing the **attractiveness** of Member States, regions and cities by improving accessibility, ensuring adequate quality and level of services, and preserving their environmental potential (Guideline 1.1)

- Second, by encouraging **innovation, entrepreneurship** and the growth of the knowledge economy by research and innovation capacities, including new ICT (Guideline 1.2)
  - Third, through creating **more and better jobs** by attracting more people into employment or enterprise, improving adaptability of workers and enterprises and increasing investment in human capital (Guideline 1.3).
- 3.9 A supplementary communication on 'Cohesion Policy and Cities: the Urban Contribution to Growth and Jobs in the Regions' expands on and reinforces the urban dimension of the CSG. It sets out how Member States, regions and cities can contribute to an integrated urban policy in the development of the new 2007-2013 programmes. The document emphasizes that there is no 'one size fits all' approach; instead, individual regions and cities should adopt different methods tailored to the specific characteristics and needs of their urban area.
- 3.10 Section 2 in the annex of the CSG (2006/702/EC) outlines the territorial dimension of the EU Cohesion Policy and stresses the importance of preventing uneven regional development and requires that the specific problems and opportunities of urban and rural areas may need to be addressed. This is highly relevant to rural parts of the North West – notably within the sub-regions of Cumbria and Lancashire. Furthermore, the CSG in annex 2 (section 2.3 and 2.4 in annex) also states the need for measures to promote cross-border, trans-national and interregional cooperation to help "speed up economic development and the achievement of higher growth" (p32). This highlights the importance of Programme partnership within the region and aspirations to learn and share information and know-how with other European partners.
- 3.11 The EU state aids regulations, guidelines and frameworks also wrap round the NWOP investments. The final 2006 Regional Aid Guidelines map agreed for the UK was developed with input direct from regional and local partners and now align better with the economic opportunities in the NW and the priorities agreed in the RES. The delivery of the NWOP will rely on the utilisation of the full set of state aids instruments such as the State Aid Risk Capital Framework (SARC), the general block exemption (when approved), infrastructure, de minimis etc. Many of the interventions in the NWOP are aimed at SMEs/firms which do not have to be in a geographical area defined by the RAG map. The impact of the revised Regional Aid Guidelines Map is therefore likely to be small. The implementing provisions in chapter 9 sets out the compliance rules in relation to state aid and public procurement that the NWOP will follow.

### **National Strategic Reference Framework**

- 3.12 Each Member State is obliged to produce a national strategy – or National Reform Programme – which sets out how it will contribute to the Lisbon Agenda. Published by HM Treasury in October 2005, the *'Lisbon Strategy for Jobs and Growth – UK National Reform Programme'* (NRP) – outlines how the UK will work towards achieving the aims and objectives of the revised Lisbon Strategy. The NWOP is coherent with the aims and objectives of the NRP and supports the following actions under each of the three priorities:
- Macroeconomic policies for jobs and growth
  - Promoting productivity growth
  - Increasing employment opportunity for all.

- 3.13 However, as far as the NWOP is concerned the most recent national policy context is provided by the UK's National Strategic Reference Framework (NSRF) which is the UK Government's framework for the use of Structural Funds, reflecting both the CSG and the UK Government's regional policy agenda. The NSRF acts as the bridge between EU Cohesion policy and the Regional Competitiveness Programmes. The NSRF was finalised in October 2006 and set out the national split between ESF and ERDF and financial allocations for regions.
- 3.14 Together the NRF and NSRF set the framework and purpose for the use of these funding programmes. As clearly outlined within the NSRF "*the purpose of EU Cohesion Policy is to provide EU Member States and regions within Member States with assistance to overcome structural deficiencies in order to reduce economic, social and territorial disparities and to enable them to strengthen their competitiveness and increase employment*".
- 3.15 The NSRF sets four priorities for the Regional Competitiveness Programmes, which provide a framework for determining priority interventions and funding allocations based on EU and UK Government policy. These are:
- Priority 1: Promoting Innovation & Knowledge Transfer
  - Priority 2: Stimulating Enterprise & Supporting Successful Businesses
  - Priority 3: Ensuring Sustainable Development, Production & Consumption
  - Priority 4: Building Sustainable Communities.
- 3.16 The use of the four NSRF pillars is not mandatory, but defines the boundaries of the scope of Regional Competitiveness Plans. The NSRF makes it clear that the actions identified under each priority represent a 'menu' of indicative examples. The NSRF emphasises the need to ensure complementarity and coherence between actions to be financed by different EU funding programmes in a given geographical area or activity. Interventions under NWOP should ensure links to ESF supported activity (such as training or job brokerage) to help those who are workless access employment opportunities.
- 3.17 The NSRF explicitly states that EU funding will be firmly justified on the basis of a market failure rationale. The document makes clear across the UK "*regional policy interventions can only be justified when they respond to a clear market failure. ...The Structural Funds should therefore only be used to finance these and other regional interventions in cases where free markets have genuinely failed to provide the goods or services by themselves.*"

### North West Regional Policy Drivers

- 3.18 The **Regional Economic Strategy (RES)**, published in 2006, was developed in response to the challenges and opportunities outlined in Section 2 after extensive consultation with stakeholders in the region. The RES provides the framework for public and private investment in the economy in the region in both the short term (to 2009) and the longer term (to 2026). The RES is a broad and ambitious strategy, but it will need to be funded. At present the NWDA and partners are going through a process of developing a RES Implementation Plan and identify funding sources to deliver the actions set out in the RES. At the same time each of the 5 sub-regions have developed their own Sub-Regional Action Plans (SRAPs), to set out the priorities at a sub-regional level which are being discussed with the NWDA. The NWOP provides one important mechanism by which the ambitions of the RES can be achieved.

- 3.19 The RES sets out a broad agenda to respond to the region's challenges and opportunities. It identifies three drivers for the regional economy, which are:
- Improving Productivity and Growing the Market (accounting for £10bn of the £13bn output gap)
  - Creating the Conditions for Sustainable Growth
  - Growing the Size and Capability of the Workforce (accounting for £3bn of the £13bn output gap).
- 3.20 The RES sets out 5 themes to support these drivers (Business, Skills/Education, People/Jobs, Infrastructure and Quality of Life) and a series of transformational actions. The RES supports and is consistent with the Northern Way Growth Strategy covering the North West, North East and Yorkshire and the Humber. Both strategies have at their heart the concept of the output gap compared to the rest of the UK and the need to find ways of closing this gap. Both the RES and Northern Way identify the importance of the city regions of Manchester, Liverpool and Central Lancashire as areas to drive growth.
- 3.21 Although the language used is in some respects different, there is a high degree of overlap and mutual consistency between the RES and the Lisbon agenda. The RES has provided an important input into the development of the NWOP. The NWOP programme complements the RES framework, but has a separate focus and identity.
- 3.22 The other key regional policy document which needs to shape the NWOP is **Regional Spatial Strategy** (RSS); this provides the statutory framework for land-use planning and transport investment in the region. The RSS is going through a process of development at present. The most recent version of the RSS was the Consultation Draft published in January 2006. This sets out a series of objectives to 2021 for the region which are
- Improved, sustainable economic growth, closing the gap with parts of the country that have the highest economic performance;
  - A more competitive, productive and inclusive regional economy, with more people in employment that uses and develops their knowledge and skills;
  - The development of urban, rural and coastal communities as safe, sustainable, attractive and distinctive places to live, work and visit;
  - The reduction of economic, environmental, educational, health and other social inequalities between North West communities;
  - The protection and enhancement of the region's built and natural environmental assets, its coastal areas and unique culture and heritage;
  - The active management and prudent use of our natural and man made resources, with fewer emissions of key greenhouse gases, and the most efficient use of infrastructure; and
  - The introduction of a safe, reliable and effective integrated transport network that supports opportunities for sustainable growth and provides better links with jobs and services.

- 3.23 In spatial terms the main thrust of draft RSS is to encourage the support the concentration of most new development in the region within the urban areas of the Regional Centres, Regional Towns and Cities. The RSS and the RES are linked strategies and inform each other.
- 3.24 In addition there are several other relevant pan-regional and regional policies and strategies of relevance to the NWOP that have contributed to its development. These are listed in Appendix B. The North West is a large and diverse region with different mixes of economic challenges and opportunities. Sub-regional strategies and associated actions plans (SRAPs) have also helped shape and inform the NWOP (see Appendix B).

## The Challenges and Opportunities Shaping the Strategy

### A. Underlying Economic Conditions

- 3.25 Section 2 of this document set out the wide range of socio-economic challenges still facing the region and particular parts of the region, based on the extensive evidence base prepared for the 2006 RES and the more recent analysis for this NWOP. The conclusion of this analysis on the region's challenges can be summarised as follows:
- It continues to have relatively **low rates of innovation, enterprise and productivity** of those in work – accounting for the lion's share of the region's overall output gap. The causes of this productivity gap are complex, but include the region's industrial structure, low rates of innovation in many SMEs and deficiencies in skills (including management and leadership). Rates of enterprise are low in most parts of the region.
  - The **environmental deficit** in the region (in relation especially to land and property) and the challenges of **climate change, carbon emissions** and of future increases in costs of energy on the region's industrial base (which is especially vulnerable).
  - Continuing problems of lack of economic inclusion in parts of the region which contributes to economic inactivity and related need for **territorial and community cohesion**.
- 3.26 The region is large and varied, from some of the most urbanised areas in Europe with deep economic and social challenges, to highly competitive areas with concentrations of knowledge based industries and isolated rural areas. Merseyside has faced the greatest economic and social problems in the past and, in recognition, is a phasing-in region. As we have seen in the previous section, the mix of opportunities and challenges varies from place to place. The NWOP is a regional-level Programme, but at the same time must acknowledge this diversity and in particular the special needs of its phasing-in area. In recognition of the particular economic challenges in Cumbria – with its extremely poor performance in GVA terms – partners have identified the need to “Cumbria proof” the NWOP, to ensure it is relevant to the needs and challenges in this sub-region, thus allowing projects to come forward to address the issues of West Cumbria in particular. West Cumbria in this context is the NUTS 3 area which includes the districts of Allerdale, Copeland and Barrow & Furness. The critical issues facing West Cumbria are nuclear decommissioning, access and progression to HE provision, lack or low levels of enterprise and low levels of skills. Extensive plans with prioritised actions and the sub regional action plan for Cumbria cover these areas and the NWOP will draw in part from these.

## **B. Reduced levels of Funding and Funding Profile**

- 3.27 Given that the 2007-2013 Structural Funds resources in the region are significantly lower than previous programmes, resources will be concentrated to achieve visible impact and added value. Partners have agreed to select a more limited number of activities that best lend themselves to securing the sustainable growth and jobs targets demanded by the Lisbon Agenda.
- 3.28 In addition to this challenge of diminishing resources, in the Merseyside phasing in region we face an additional issue of the rapid declining profile of ERDF resources between 2007 and 2011. By 2011, the annual level of ERDF funding for Merseyside will be around just 15% of what it is for 2007. This means partners have particularly focussed on the absorption capacity for interventions in these early years of the programme.

## **C. Need to Concentrate Resources**

- 3.29 This reduced level of funding calls for a concentration of resources within promising spheres of activity; a focus on areas of market failure; and to geographic concentration in funding decisions. In line with the NSRF, market failure is a particularly important concept in the delivery of the NWOP. Depending on the intervention proposed, market failure and the evidence to substantiate this/these can take a number of different forms, including externalities, public goods, imperfect information, market power, and failure of outcome. The NWOP will use standardise definitions and guidance documentation in line with Green Book principles. The programme will support a portfolio of projects, some of which are inherently more risky than others. All projects and any art 42 bodies will be the subject of a risk assessment and there will be an overall monitoring of risk by the Programme Executive and the PMC. At the same time, the new Structural Fund programme is in principle open to all parts of the region. This is in contrast to the 2000-2006 programmes where only part of the region was a beneficiary of Objective 1 and 2.
- 3.30 It is a difficult task to apply the principles of concentration and targeting within a much reduced programme when the previous constraints of eligible areas and maps have been lifted. The socio-economic analysis in Chapter 2 provides a sound basis for concentration and targeting and the SWOT analyses provide extensive details of both the region and each of the five sub regions. The programme seeks to focus funds on both projects and wider initiatives which present good prospects for high value growth and sustainable jobs, which address market failure, whilst tackling some of the most prominent deprivation and disadvantage within the region. The partners have drawn from this analysis the elements of the four major priorities for the programme. Both the RES and the Sub Regional Action Plans will contain spatial targeting and concentration within and across the regions and its sub regions. The SRAPs are developed by partnerships in each of the sub regions and are supported by an executive team. The SRPs are different across the region, reflecting the different challenges and opportunities within the NW region.
- 3.31 Because of Merseyside's phasing-in status and ring-fenced allocation, there is an explicit spatial element to the allocation of resources within the Programme. For the most part, the NWOP does not suggest explicit spatial priorities or rigid boundaries outside which investment cannot be supported. However, because of the nature of the programme and the region, the great bulk of resources will be directed at urban areas. The NWOP allows for the different delivery

and access issues for services between rural and urban areas, with different emphases given at different places.

- 3.32 Specifically in relation to rural and/remote areas, issues relate to higher unit costs, intensity of support required and accessibility of services and the NWOP seeks to ensure that business support and knowledge transfer is accessible across the region. Projects will be developed which meet regional and local needs and opportunities against investment frameworks which are currently in development. In particular, delivery models will ensure local access to business support and will recognise the issues above. With regard to Merseyside and its ring-fenced allocation, we would envisage an intensification of activity, recognising particular needs of this area, but with an overall NW programme.

#### **D. Territorial Cohesion**

- 3.33 Regions have the option to include Territorial Cohesion in their Operational Programmes, which will address areas with issues related to their remoteness and sparse population. Regional partners feel very strongly that the most effective way to mainstream territorial cohesion is to include it within the body of the existing priorities. In the North West the most isolated parts of the region, West Cumbria and Furness; also face some of the most daunting prospects of industrial re-structuring. Other parts of rural Cumbria are also particularly isolated. For these reasons as stated earlier, partners have agreed on the need to “Cumbria proof” the NWOP.
- 3.34 Territorial Cohesion provides the NWOP with an opportunity to focus on the distinctive issues facing communities in West Cumbria, Barrow & Furness and East Lancashire, areas which are remote from the region’s key transport axis, knowledge assets such as HEIs and main urban centres, and where proximity cannot lead naturally to clustering and co-working of companies. The NWOP is been designed to provide the opportunity for suitable projects in these areas to be funded and it recognises that special efforts will be needed in the design and delivery of business support and knowledge transfer projects to reach out to these parts of the region. The investment frameworks will recognise the issues set out in para 3.32 in their design.

#### **E. Ensuring links to other funding**

- 3.35 The NWOP cannot operate on its own. It needs sources of public match funding and, crucially, needs to work with and ensure mutual support with other funding streams. A particular challenge is ensuring close working between ERDF and ESF. There is a separate national programme for Skills and Employment (funded through European Social Fund (ESF)) co-ordinated in the UK by the Department for Work and Pensions, with funding, and limited discretion over spending priorities, devolved to the regions. It is expected that, as at present, ESF funding will be largely administered and spent through co-financing arrangements with (predominantly) the Learning and Skills Council and Jobcentre Plus. In the North West regional partners are preparing a regional framework to guide the use of ESF in the North West, using regional flexibilities especially in the Merseyside phasing-in area, and ensure as close as possible full alignment with the NWOP.
- 3.36 We have included scope for ESF-type activities in Priority 1 (Action Area 1-2). This will be tightly focussed on technical and professional development in priority sectors, and leadership development in high-growth companies to embed innovation, support GVA growth and create sustainable employment. Projects seeking to use ESF type activities will only be able to do so if this is an integral part of and directly linked to the ERDF project (para 1.15 refers).

- 3.37 Rural areas in the region will benefit from the new Rural Development Programme for England, funded through the European Agricultural Fund for Rural Development (EAFRD), which is intended to be complementary to and not a substitute for ERDF. The NWOP must demonstrate linkages with the Rural Programme and Chapter 7 sets out proposals for demarcation between ERDF and EAFRD in the North West.
- 3.38 In terms of UK domestic programmes, a key area where funding can and will be aligned is in the Regional Development Agency's Single Programme Funding. In 2007/8 the Agency's budget is around £400m, most of which is already committed to existing projects and programmes linked to the North West's Regional Economic Strategy. The NWDA is engaged in discussions with partners to explore where it is most appropriate for its resources to provide match funding for ERDF, particularly through the annual review of the sub regional action plans and dialogue with regional partners. The five Sub Regional Action Plans (SRAPs) will provide another mechanism for prioritising projects and identifying match funding from a range of partners, including those representing rural areas. Other sources of domestic match funding include Universities, Local Transport Plan (LTP) funding, Local Authorities via the 4<sup>th</sup> leg of Local Area Agreements, the Local Enterprise Growth Initiative (LEGI) and some elements of Neighbourhood Renewal Funding. Partners are confident that there will be sufficient match funding to support the NWOP, especially in the light of its reduced scale of resources.

## Overview of Strategy

### A. Drivers for the Strategy and Intended Focus

- 3.39 In developing the NWOP partners have drawn on the policy framework at European, national and regional level and the analysis of socio-economic conditions to identify three areas of focus (or drivers) which have shaped the development of the NWOP. These are:

1. *Increasing rates of enterprise, innovation and productivity.*
2. *Ensuring environmental sustainability, especially in relation to climate change and tackling the environmental deficit.*
3. *Supporting territorial and community cohesion.*

- 3.40 The primary driver of the NWOP is tackling the low rates of **enterprise, innovation and productivity** in the region to ensure long-term economic sustainability. Here the NWOP has four strands:

- First, the better exploitation and use of the region's **knowledge base** by SMEs. The region has significant concentrations of R&D in its major Higher Education Institution (as acknowledged in the role of Manchester Science City) and also some important world-class private sector firms with strong R&D basis. However, the use of R&D and innovation rates across the broad spread of the SMEs in the region is relatively poor. (The principles for support are set out in Table 3-1).
- Second, support for the development of **regional sectors** with potential for growth in higher value added activity to help close the productivity gap. Work for the RES has identified a number of sectors with growth potential which can, with some public sector assistance to address market failures, help raise the region's productivity and GVA levels.

- Third, encouraging high rates of enterprise and a more **entrepreneurial culture** in the region and in parts of the region where this is a particular issue.
- Fourth, preparing business for and developing business opportunities related to **environment and associated changes**, especially climate change, waste reduction and renewable energy sources and energy efficiency.

3.41 It is intended that the NWOP will not support the basic business and enterprise support infrastructure in the region which is universally available to all firms. Rather it will help fund those added value elements related to the four areas of focus above (including targeted services). The NWOP will complement and add value to Single Programme funding from the NWDA and resources for innovation and knowledge transfer in the region's HEIs<sup>41</sup>. This focus provides the region with the opportunity to build on the universal service delivered via Business Link NW, a government branded and funded initiative, available to all businesses in the region. The ERDF will be used to add specialist business support services to support high growth enterprise development, cluster/sector development in line with the RES sectors, knowledge transfer and innovation with SMEs and, where necessary, larger firms which are critical to, say, the supply chain. Target groups (firms and/or individuals) would be brokered to these services via Business Link NW following an initial diagnostic.

3.42 The NWOP will predominantly target support on SMEs and new enterprises (within the current EU definition of an SME), but will include an element of support for larger firms where necessary for the satisfactory implementation of the operation. This is particularly the case in work related to the supply chain, knowledge transfer, innovation and new technologies such as environmental technologies. It is envisaged that no more than 10% of ERDF will be provided for such intervention. This will vary at project level depending on each project and will be monitored closely by the Programme Executive. The NWOP will respect state aid rules in relation to any support given.

3.43 Support for business and enterprise support will be consistent with the regional Business Support Simplification process. UK Government expects ERDF to be aligned with and support the emerging strategy for the simplification of business support - the Business Support Simplification Programme (BSSP). The BSSP has agreed a broad definition of business support:

*"Any publicly funded activity that benefits a business or potential business through grant, subsidy, advice or other service"*

3.44 The definition includes support to businesses designed to achieve wider economic, environmental, regulatory, social or cultural objectives.

3.45 Additionally, the Technology Strategy Board (TSB) is a new Executive Non-Departmental Public Body, which is being set up to develop a coherent UK-wide strategy for technological innovation and to deliver a programme of Government financial support to encourage business investment in, and use of, technology across all sectors of the UK economy. Where Structural Funds interventions aim to promote innovation and knowledge transfer, they will seek to achieve alignment with national priorities and maximise the benefits from collaborating with TSB supported programmes.

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<sup>41</sup> Such as the Higher Education Innovation Fund (or HEIF)

3.46 All levels of government are working together to develop a flexible, comprehensive and shared portfolio of business support products deployable across the public sector, to meet business needs and deliver policy aims. Standard descriptions will provide assurance of the quality of a product's design and rationale. ERDF funding can be used to extend the scope of these products and improve access to priority groups. Genuinely innovative products will eventually become part of the shared portfolio. A standard approach to branding these products will allow for shared branding across funding streams. Where ERDF proposals impact on business, they must be clear how they plan to use the Business Link information, diagnosis and brokerage model to best effect, simply duplicating this activity may not represent an effective use of funds. ERDF activity will add value to domestic funding and procurement will comply with EU and national guidelines on open and competitive tendering arrangements. The principles for support in the NWOP are set out in Table 3-2.

3.47 The main focus of the NWOP in relation to this driver will be investment to support productive (revenue) investment and in financial instruments (See Table 3-3). However, there is scope for focused physical (capital) interventions where the investment has the potential to create conditions where new knowledge based activity can flourish and where there is demonstrable market failure. This is especially the case in the phasing-in area.

Table 3-1: Principles for Knowledge Transfer Support in the NWOP

<p>Partners have built on and learned from the experiences of the 2000-2006 Programmes in the region. The clear message from this was that there needed to be a much stronger strategic focus in investment in knowledge transfer activities across the region, rather than support for a series of discrete, local and unconnected activities. The knowledge transfer activity should directly be of relevance and benefit to the region's SMEs. At the same time creativity and innovation in design and delivery need to be encouraged. There is also the need to ensure knowledge transfer activities are appropriately linked to the Business Simplification Agenda, set out by UK Government. To take this forward, the NWOP aims to work to the following principles:</p> <ul style="list-style-type: none"> <li>• There should be a region-wide strategic approach which ensures there is co-ordination and a reduction in business support products</li> <li>• This requires a commissioning of activity across the whole region (including the phasing-in area), this needs to build on the region's Science and Innovation strategies</li> <li>• Commissioning will generally be of large packages of activity with strategic impact and clear rationale as to their impact, although piloting of new and innovative approaches will be encouraged</li> <li>• The commissioning framework will need to be agreed by the NWOP PMRC (in line with Implementing Provisions) and may be delegated to a commissioning body, which will be required to include representation from the region's HEIs, the NWDA and private sector/business bodies. This will build on current experience which has focussed on linking HEIs to SMEs. The region's HEIs are increasingly focussing on supporting SME competitiveness in the priority sectors.</li> </ul>
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Case Study 1: Knowledge Transfer (Objectives 1 and 2)

The HE sector has been involved in both the Objective 1 and 2 programmes during 2000-06. A number of innovation/RTD centres have been funded, including the National Bio Manufacturing Centre, InfoLab 21, AIMES centre, the Wolfston Molecular Imaging Centre and Daresbury Innovation Campus. The aim of the investments has been to encourage linkages and knowledge transfer between the region's universities, knowledge transfer nodes, and SMEs.

Extensive graduate placement schemes have also been funded to benefit both graduates (business led work experience) and SMEs (business improvement projects) to increase the region's GVA potential further. HEIs have also been involved in programmes to support clusters/sectors such as the Merseyside Automotive Group and CAS:CADE. Other knowledge transfer projects have supported the Manufacturing Advisory Service and the Motivating Businesses to Innovate Programmes.

Table 3-2: Principles for Business Support in the NWOP

There are some very clear principles for the delivery of business support funded via ERDF which will apply to ensure quality and maximum value added. Partners recognise that the lessons of past programmes have been too much dissipation of activity into small projects and a lack of co-ordination. The North West is part of the Business Support Simplification Programme (BSSP), which requires a significant reduction in the number of business support products funded by the public sector to simplify the offer to business and the delivery channels. NWDA is leading a process to ensure that there is a clear rationale, built on market failure and/or social equity considerations, for any publicly funded business support. A key principle in this process is the need to eliminate duplication in activities. A key part of this process is confirmation of Business Link as the primary access point for public sector business support through its core Information, Diagnostic and Brokerage (IDB) service, which will signpost firms to suitable solutions and products. It is essential that business support funded via ERDF works with and through this process. To take this forward partners the NWOP aims to work to the following principles:

- Activity funded via the NWOP will be largely commissioned regionally.
- Where sub-regionally commissioned, activity must be consistent with the principles of the business support simplification process and not add to the proliferation of activity.
- Activity will need to be entirely consistent and, where appropriate, work with the Business Link IDB service.
- Projects will need to demonstrate clear rationale in terms of market failure. This will vary according to the type of investment proposed and could include externalities, imperfect information, market power and failure of outcome. Standard definitions and guidance will be provided to guide applicants.
- Projects will need to demonstrate that they add value to the existing baseline provision.

In the case of assistance granted from the Structural funds to a large enterprise, the Managing Authority undertakes to request an assurance from the enterprise concerned that the assistance will not be used in support of investment that concerns the relocation of its production or service facilities from another Member State of the European Union.

Table 3-3: Principles for the use of Financial Instruments in the NWOP

National work has looked at the role of Venture Capital and Loan Funds (VCLFs) and concluded that there remains a strong market failure argument for intervention as a result of a finance gap which continues to exist and grow for SMEs and the value added to the regional economy from the improvement in productivity, GVA and jobs that can be brought by VCLF support.

Imperfect information in the market for finance means that some firms with viable investment projects find it difficult to access finance. In situations where investors are unable to access relevant information that is known to the borrower, they may protect their exposure by rationing lending by quantity rather than through the price mechanism. This leads to "finance gaps" for many small and medium sized enterprises and, potentially, for some new technology areas. Start-up businesses and those lacking a track record sometimes face difficulties in accessing debt finance, and SMEs with high growth potential are often unable to raise the relatively modest amounts of equity finance required to meet their growth ambitions. These problems can be compounded for firms operating in disadvantaged areas or firms set up by individuals living in disadvantaged areas who do not have an investment/business track record.

Current estimates indicate that the gap in funding is around £3m. VCLFs also provide the very important benefit of re-cycling ERDF resources and so creating significant legacy funding available beyond the life of the 2007 – 2013 programme. The value of a range of financial support delivered via VCLFs is also clear, from loans for start-ups, micro and established SMEs to significant equity finance for proof of concept, innovation, development, start-ups, spinouts and high growth potential SMEs, moving away from grants and/or subsidy. The importance of VCLF arrangements being set up and managed effectively is also an important message.

In the North West there are currently different types of regional and sub regional VCLF infrastructure in place. A total of £175m is currently available in a range of instruments, ranging from seed to mezzanine to equity and loan funding. Some have an element of EU funding. All partners involved in VCLF activity have agreed that in principle, there should be one region-wide strategic approach. To take this forward, the NWOP aims to work to the following principles:

- There should be a single region-wide strategic approach for developing and managing an appropriate and cost effective range of financial instruments (investment funds) meeting the different elements of the equity/finance gap, spanning the priorities, achieving necessary economies of scale, delivered by appropriately experienced and qualified fund managers and generating a legacy for post 2013.
- This approach should support a range of debt/loan and equity investment funds from pre-start and seed capital to more established high growth businesses, from micro loans to larger loans.
- Whilst the emphasis is innovation and growth, there needs to be a degree of appropriate sector and technology focus within investment funds.
- Private sector expertise is needed to manage the funds and work with SMEs and the financial community.
- Private sector expertise will be necessary to carry out expert financial assessment of the gap in financing requirements.
- The delivery of the funds will need to be procured via the normal OJEU competitive tendering process.
- Financial allocation from the various priorities will be indicated early to enable parameters of funds to be defined, procurement, establishment and operation before the end of 2008

The VCLF model will be designed in line with the revised guidelines on SARC. The obligation to notify under art 88.2 and report state aids will be strictly and continuously applied throughout the programme not just for VCLF. Subject to UK Government's position and timing there may be scope to consider any benefits of the JEREMIE financial instrument for the region.

#### Case Study No 2: Risk Capital and New Financial Engineering Instruments (Objectives 1 and O2)

Both the Objective 1 and Objective 2 programmes developed innovative and flexible financial instruments to support the economic regeneration of the eligible areas. In Merseyside, the MSIF was established in 1996 and has been supported within the 2000-06 programmes. The MSIF provides loans, mezzanine and equity investments in Merseyside companies. In 2005, the Liverpool Seed Fund was established specifically to invest in early stage technology businesses, intellectual property, and inventions. It would fund proof of concept, commercialisation, and first stage VC investments. At the time, it was the largest fund of its kind in Europe.

In Objective 2, the NWBIS is an innovative financial engineering instrument, known as a co-investment model. It was established in 2003 and operates in accordance with both state aids and Risk capital Framework, but without any state aid, investing with the private sector. It has been recommended by DG Regio as an 'innovative financing best practice model' in the 2000-06 programming period.

Both models have been established to bridge the finance gap for SME and will generate profits to its investors and will enable the recycling of ERDF for future investments. This best practice and learning from these projects will be utilised in the 2007-2013 programme and the most appropriate model will be taken forward.

- 3.48 The second driver of the NWOP is on **environmental sustainability**, in particular helping the business base anticipate, adapt to and benefit from environmental change and reduce its carbon footprint, whilst also tackling the region's **environmental deficit**. Economic growth supported by the NWOP needs to have the minimum environmental impact and, wherever possible, positively support environmental sustainability. The challenge of climate change is enormous and has and will have profound impacts on the region's business base, people and environment. Linked to climate change is of course better use of energy and also recycling.

**Case Study No. 3: Enworks Resource Efficiency Programme Objective 2**

ENWORKS is environmental business support programme charged with improving business competitiveness and environmental excellence through the region. ENWORKS was set up following independent research by the Environment Agency and Sustainability North West (NGO). It is a unique regional partnership driving forward the sustainable agenda in the North West.

The programme included expert on-site audits, consultancy support and access to legal and technical information about areas such as environmental management, improving water, energy and resource efficiency, legislative compliance and health and safety.

Companies have received further on and off site specialist business support to further investigate and realise these savings through detailed resource flow mapping looking at risk and opportunity. All advisors have relevant qualifications and experience in auditing and waste management. The Project has resulted in increased environmental resource efficiency, development of leadership/management skills of SMEs, specialist business advisory activity, specialist support to manufacturing businesses to force product and process innovation and best practice dissemination to other SMEs to encourage the adoption of resource efficiency.

- 3.49 In all these areas legislative change and price factors will provide threats and opportunities for the region's businesses. The NWOP tackles the need to adapt to and prepare for a low carbon economy. There are both specific actions to encourage this as well as building in a suitable approach across the whole Programme, through embedding the environmental sustainability cross-cutting theme into project selection and design and delivery. The NWOP will contain core indicators relating to the low carbon nature of the programme (CO<sub>2</sub> reduction and brownfield land reclaimed) in line with the CLG framework of indicators. However, regional partners fully recognise that other indicators such as increase in renewables, energy efficiency, reduction in waste, and indicators related to BREEAM will also be required; these will be part of the wider monitoring framework under development.
- 3.50 The poor quality of parts of the region's environment has been identified as an inhibitor of economic growth. However, as the NWOP's resources are limited, so there are very few interventions providing general environmental improvements (e.g. brownfield land reclamation or public realm improvements) that are not directly linked to the economic objectives of the Programme. Any building supported with ERDF will also have to comply with the Sustainable Buildings Policy which sets reduction targets in relation to CO<sub>2</sub>, waste and water.
- 3.51 The third driver of the NWOP is in its support for "**territorial and community cohesion**" or in, UK policy terms, sustainable communities. The region remains one of considerable contrasts in spite of overall success in its economy and significant increase in its employment rate. In some parts of the region there is a lack of local and accessible employment opportunities at present and consequent low employment rates; other parts (especially West Cumbria and Furness) face the prospect of large scale industrial re-structuring; and in parts of the region there has been substantial employment growth but many local communities and groups have struggled to access these employment opportunities (a particular issue in parts of Greater Merseyside and Greater Manchester) due to a combination of skills, employability and physical

access issues. These areas are mainly, but not exclusively, in the region's urban areas. Table 3.4 describes the principles of intervention.

- 3.52 There are several other important sources of funding which aim to tackle the causes and issues associated with worklessness and economic exclusion. These include of course resources for human resource interventions in employability actions and training (the European Social Fund where €540 million (in current prices) are available for the region and UK Government funding via the Learning and Skills Council and Jobcentre Plus). In addition, there is considerable national and local government support for housing (e.g. via Housing Market Renewal funding) and neighbourhood renewal, although this often has a limited economic focus. Local Area Agreements are focussing on the so-called Fourth Block (linked to economic development) as are new central government programmes such as Local Enterprise Growth Initiative (LEGI).
- 3.53 The NWOP needs to add value to these other forms of support, working through sub-regional priorities for intervention. There are three main strands or drivers:
- First, on supporting the **linkages** between employment opportunities and residents in need of employment (complementing ESF interventions).
  - Second, focused investment in **employment creation** in disadvantaged areas where access to wider employment opportunities is limited (due to travel to work considerations)
  - Third, the use of support for **enterprise** in disadvantaged communities (social enterprise and other forms of enterprise).
- 3.54 One of the important lessons of past programmes is the need for a concentration of actions. The NWOP envisages that the support for territorial and community cohesion/sustainable communities will be focused on a small number of geographies and communities where the funding, in conjunction with UK public funding, can make a significant difference. The precise mix of activities will be determined at a sub-regional level as the key spatial building blocks within the regional context of the NWOP. The other important aspect of concentration is that the NWOP will focus on a limited number of economic interventions in line with the above, rather than wider community and social support.

Table 3-4: Principles for the support for territorial and community cohesion in the NWOP

Partners recognise that there remain large challenges in parts of the region in terms of worklessness and economic exclusion. The main locations where these problems persist were highlighted in Section 2 and in the RES. Although the general strong performance of the UK economy and labour market has seen marked drops in levels of worklessness. Those that remain out of the labour market face competition from new migrants to the North West and significant barriers to work (social, skills and physical). There are far fewer resources in the current programme to contribute towards tackling these issues. Partners have considered a variety of options, including ring-fenced allocations for selected geographies. However, the chosen way forward is to work with Sub-Regional Partnerships (SRPs) who are best able to identify how to target resources and what packages will produce most impact in their areas. To take this forward, the NWOP aims to work to the following principles:

- The NWOP sets out the framework for what types of intervention will be supported and how resources should be targeted – these will be further augmented through the investment frameworks
- The NWOP and the investment framework identify the need to target interventions on those areas in each sub-region that can make the greatest contribution to reducing worklessness (now and in the future in the light of industrial re-structuring) in the region.
- The region has five sub regional partnerships, which are changed with drawing up a sub regional action plan for their sub region. These plans contain a full list of priorities for investments, some of which would be eligible for ERDF.
- Each SRP will need to make proposals for packages of intervention, working with other funding and through existing delivery arrangements. These will be developed in the broad context of the scale of the worklessness challenge in each sub-region and the resources available for this aspect of the NWOP.
- The packages will be expected to have clear concentration principles with a strong geographic and/or target group focus in line with the priorities set out in the Sub-Regional Action Plans and the investment framework for the relevant priorities.
- The PMC will decide how much of each package to support and will monitor the performance of all packages closely. In the event that art 42 status is utilised, this body will be tested on ability and capacity to comply with regulatory, monitoring and control arrangements in line with CLG guidance requirements, including art 13 monitoring. Learning from the Objective 1 and 3 programmes will be embedded.
- A single application and appraisal system is currently being developed to streamline the interaction between single pot and ERDF and reduce the burden on applicants. This will facilitate access to match funding where the RDA is the most appropriate match funder. Irrespective of whether ERDF is delivered via individual projects or through art 42 bodies, applicants will be tested rigorously in their actual capacity and ability to meet the stringent regulatory requirements in relation to state aids, public procurement, art 13 requirements, etc.

### 3.55 Cross Cutting Themes

- 3.56 In order to drive the development of greater environmental sustainability and of genuine economic inclusion across the Programme the cross-cutting themes of environmental sustainability and equality & diversity are an essential part of the Programme strategy. In the NWOP these are not intended to be add-ons, but to strongly inform programme and project design and delivery. Considerable work has been undertaken by partners to develop these and there is ongoing work to develop a cross-cutting theme implementation plan.
- 3.57 CCT specialists in environmental sustainability and equality & diversity will be recruited to the programme executive and there will be CCT champions on the PMC when it is constituted. The programme will also include relevant CCT indicators and targets, having regard to central UK guidance on the monitoring and evaluation framework. This will include a CO<sub>2</sub> reduction tool. Relevant guidance for applicants will be developed, building on best practice. The proposed approach is set out in Section 5 and embedded in Section 4 on priorities, including Action area 1.3 sustainable production and consumption.

### B. Overall Vision and Objective

- 3.58 The NWOP's vision draws on these drivers above and is to create in the North West:

*"A dynamic, sustainable international economy which competes on the basis of knowledge, advanced technology and an excellent quality of life for all", and where;*

- Productivity and enterprise levels are high, in a low carbon economy, driven by innovation, leadership excellence and high skills.
- Employment rates are high and concentrations of low employment are eliminated.

- 3.59 The three main overall Programme targets by which we will measure progress and the overall impact of the programme are:

- Global Target 1: Support the creation of 26,300 net additional new jobs by 2015
- Global Target 2: Support the creation of £1,170m additional annual GVA by 2015
- Global Target 3: Support a 25% reduction in additional CO<sub>2</sub> emissions generated by the NWOP

- 3.60 The global target increase in net additional annual GVA in the region of £1.2bn (by the end of the Programme period) is significant compared to the current GVA gap. In Chapter 2 we identify the GVA gap for the region to be of the order of £15bn compared to the England average in 2004. The £1.2bn target increase in annual GVA in the region is expressed in 2011/12 prices and need to be compared to the scale of regional GVA in that year. In money terms if there is no relative improvement the GVA gap will have risen to around £22bn<sup>42</sup> in

<sup>42</sup> £15bn in 2004 times the increase in money GVA for the UK economy between 2004/5 and 2011/12 estimated from the HM Treasury deflator website: [http://www.hm-treasury.gov.uk/economic\\_data\\_and\\_tools/gdp\\_deflators/data\\_gdp\\_fig.cfm](http://www.hm-treasury.gov.uk/economic_data_and_tools/gdp_deflators/data_gdp_fig.cfm)

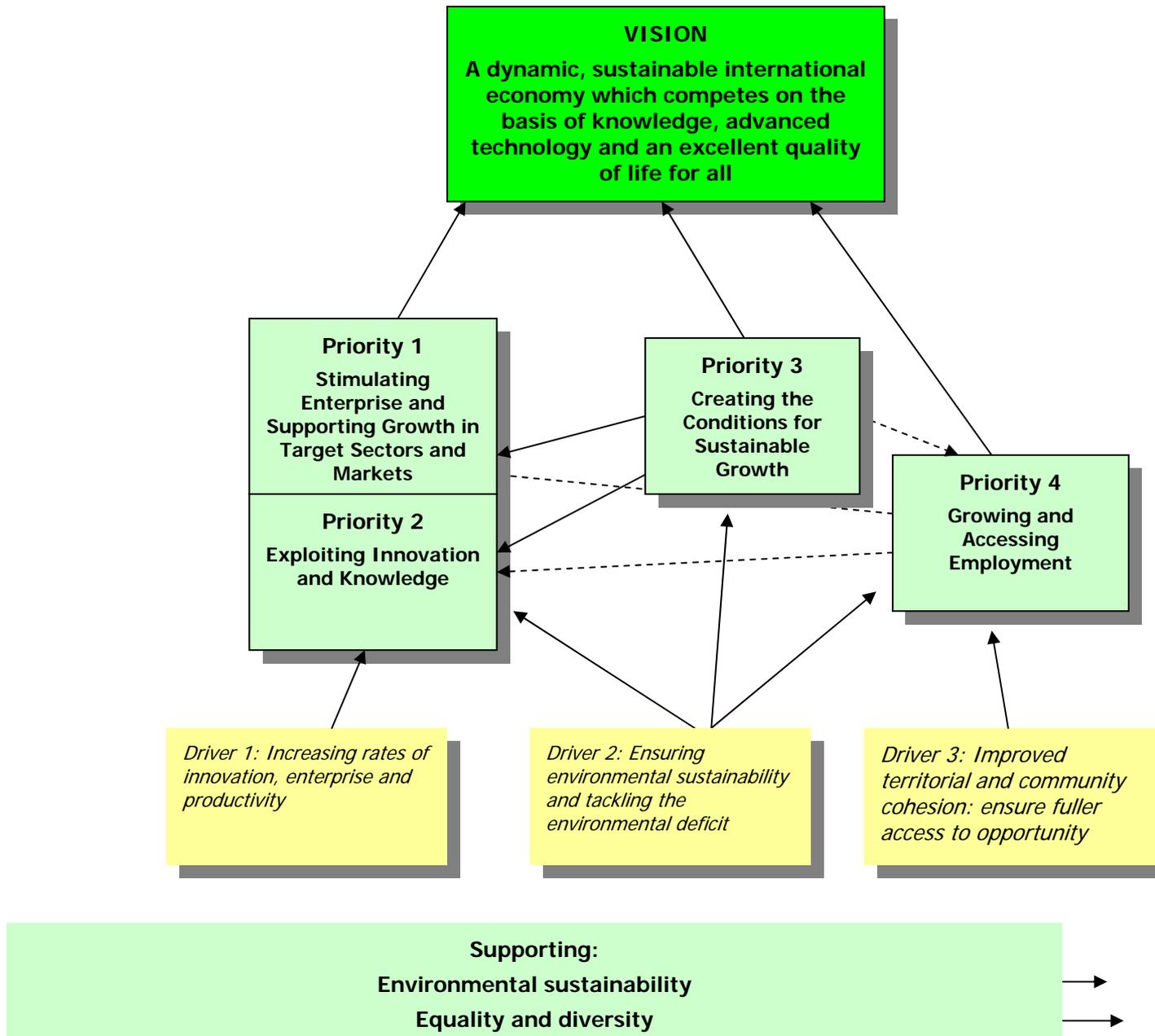
2011/12 prices (or around £23bn by 2014/15 in 2011/12 prices). The relative contribution of the NWOP could therefore be of the order of 5% to the closing of this gap. However, the actual relative contribution depends on the extent to which other factors close (or widen) this gap.

- 3.61 The importance of contributing to the EU and UK targets to reduce CO<sub>2</sub> emissions is recognised by partners. However, the creation of additional jobs and GVA could, of their own, lead to increases in CO<sub>2</sub> emissions, unless mitigated by changes in economic behaviour.
- 3.62 The target in the NWOP is to ensure that the programme minimise CO<sub>2</sub> emissions from the region as a result of the additional economic growth it is targeting. If the current relationship between GVA/jobs and CO<sub>2</sub> emissions remained the same, the result of the £1.4bn extra GVA would be to increase annual level of CO<sub>2</sub> emissions produced in the region by 800,000 tonnes (it was 61 million tonnes in 2004). To move towards decoupling economic growth from increased CO<sub>2</sub> emissions, a 25% reduction target has been established for the whole life of the NWOP. This percentage reduction target will be based on the predicted increase in CO<sub>2</sub> through the NWOP generating an extra £1.17bn GVA at current emission rates, without intervention. This target is thought to be challenging, exceeding current national and regional targets, yet achievable.
- 3.63 The detailed methodology for managing the programme's carbon reduction target and assessing the carbon footprint of each project will be set out in the CCT Implementation Plan. The environmental sustainability CCT specialist will oversee the development of the CO<sub>2</sub> tool. The carbon calculation will need to be technically robust without being over bureaucratic. It is anticipated that annual carbon 'caps' will be determined for each year of the programme. These 'caps' will be reviewed at the end of each year to ensure that the Global target for the whole programme is achieved or exceeded.
- 3.64 It is believed that the way the interventions in the programme work on existing businesses, physical infrastructure and wider economic base will accelerate over time. This will ensure that the NWOP increasingly links the increase in GVA to reduced Co<sub>2</sub> emissions rates in a manner which stimulates a low carbon economy. Emphasis will be placed on reducing the direct and indirect carbon footprint of the projects within the programme. Carbon 'offsetting', or the purchase of carbon credits, will not be utilised as a means of achieving the target.
- 3.65 Subsidiary targets for each Priority axis are set out in Section 4.
- 3.66 There are four main Priority Axes in the NWOP which help contribute to this vision. These are:
- Priority 1 – Stimulating Enterprise and Supporting Growth in Target and Markets (€205m)
  - Priority 2 – Exploiting Innovation and Knowledge (€205m)
  - Priority 3 – Creating the Conditions for Sustainable Growth (€157m)
  - Priority 4 – Growing and Accessing Employment (€159m).
- 3.67 In addition these priorities are supported by Priority 5 – Technical Assistance – which has been allocated €30m to support the implementation of the programme and also trans-national and inter-regional activity.
- 3.68 The allocation to the five priorities have been determined by the regional partnership and based on four interconnected factors: views gathered from consultees, the evidence base as set out

in chapter 2, the policy context, and likely absorption capacity and past experience. The extensive evidence base prepared for by the RES, and utilised in the drafting of the NWOP, points to low productivity for those in work as by far the main factor explaining the region's overall poor economic performance. The evidence base does not provide a simple explanation for a split between priority 1 and 2 and the view of partners has been to focus on both interventions in support of the region's knowledge intensive and significant GVA sectors (priority 1) and a more generally to raise rates of innovation and leadership across growth businesses (priority 2). Creating and accessing employment (priority 4) by the people of the region as well as creating the conditions for sustainable economic growth (priority 3) were equally seen as important priorities for regional partners. In terms of Merseyside, a slightly different allocation is proposed across the priorities, taking into account the need to address to lower employment rate and also the phasing-in status of the sub region. Related to this was the view that there may be some absorption issue in priority 1 and 2, especially in the early years in the process. The regional Partnership has agreed the allocation across the priorities.

3.69 The overall programme strategy is summarised in Figure 3-1 below.

Figure 3-1: The North West Operational Programme 2007-2013, Overall Structure – Showing Links Between the Drivers and Priorities



**C. Rationale, Policy Drivers and Concentration Principles by Priority Axis**

3.70 The following tables summarise the rationale, main policy drivers, concentration and implementing principles for each priority.

<p>Table 3-5: OP1 - Stimulating Enterprise and Supporting Growth in Target Sectors and Markets (€205m)</p>
<p><b>Overall Rationale.</b> For the North West economy to generate greater levels of wealth and compete more effectively, it needs to restructure the composition of its business base. Priority 1 will focus on change in the make-up of the North West's business base and aim to ensure the region has more successful businesses competing in higher value markets. Given the importance of environmental sustainability, it also supports work with existing SMEs to ensure that the impact on climate change of economic activity is minimised. There are three activity areas proposed:</p> <ul style="list-style-type: none"> <li>• 1. New high growth, knowledge based businesses encouraged</li> <li>• 2. Existing and emerging strengths in regional target high value sectors are developed,</li> <li>• 3. Businesses are encouraged to operate in a more resource efficient manner and to access new sustainable markets.</li> </ul>
<p><b>Policy Drivers.</b> This priority links directly with the Lisbon Agenda and EU policy. Productivity growth underpins strong economic performance. UK regional economic development, irrespective of whether it is funded nationally or through Europe, is closely linked to the achievement of Lisbon's productivity and growth objectives. The Community Strategic Guidelines set out the important role business support plays in improving the productivity and competitiveness of regional business. The guidelines advocate a one stop shop approach that provides quality, easy to access business support, responsive to needs of SMEs and tailored, where appropriate, for specific categories of business. Improving access to finance for start-ups and improving e-business is another key ingredient of the CSG. There is a clear realization at EU level that access to finance is an important element of support for innovative SMEs, as reflected in a number of recent Commission Communications on Access to Finance.</p> <p>Specific activities in the CSG related to this priority are:</p> <ul style="list-style-type: none"> <li>• CSG 1.1.2. To strengthen the synergies between environmental protection and growth <i>e.g. resource efficiency support to SMEs</i></li> <li>• CSG 1.1.3. Addressing Europe's intensive use of traditional energy sources <i>e.g. promotion of alternative energy sources</i></li> <li>• CSG 1.2.2. Facilitating Innovation &amp; Promoting Entrepreneurship <i>e.g. support for new SMEs</i></li> <li>• CSG 1.3.2. Improve adaptability of workers and enterprises and the flexibility of the labour market. <i>e.g. intermediate and higher level skills development in target sector SMEs</i></li> </ul> <p>OP1 also sits clearly within Priority 2 of the NSRF Framework (Stimulating Enterprise &amp; Supporting Successful Businesses). OP1 also covers direct support to encourage sustainable production and development of business activity in two ways: first, by expanding business activity linked to renewable and environmental technologies; second, by improving overall resource efficiency of business activity. As such it links directly to the Priority 3 of the NSRF.</p> <p>OP1 also contributes directly to the RES driver of improving productivity and growing the market and its business theme. The priority has been developed in the context of the national and regional focus on business support simplification. One of the key principles in any interventions supported is that they should fit into this regional framework for business support.</p>
<p><b>Lessons learned.</b> The interventions and approach in this priority have been built on lessons learned from previous interventions at a regional and national level. In summary these lessons include:</p> <ul style="list-style-type: none"> <li>• The importance of larger and fewer initiatives, with a clear focus on intended impacts and beneficiaries; this is particularly true for initiatives aimed at enterprise development. The need for more co-ordinated provision that connects different elements of support – <i>hence the need for a regionally co-ordinated approach (see Table 3-2)</i></li> <li>• Evidence (from research in Merseyside, and applicable to the wider North West region) points to further focus support on businesses employing more than 10 employees (which may therefore have the capacity to deal with and respond to the support) as the intensive support required to achieve net increases in employment in businesses with 1 to 10 employees is less likely to offer value for money – <i>hence the important focus on working with SMEs in existing target high value sectors</i></li> <li>• The positive role of VCLFs (equity and debt finance) in supporting business growth and the need to ensure the expertise built up in the region is retained and harnessed in the future – <i>VCLFs to remain an important</i></li> </ul>

*tool in the NWOP supporting new starts and existing firms in target sector, using the principles in Table 3-3.*

**Concentration principles.** The NWOP covers the whole region and there is, intentionally, no predetermined *spatial* focus for Priority 1. It covers the whole region – urban and rural. However, the spatial patterns of economic activity, particularly in the six target sectors, are likely to result in an implicit spatial distribution of resources. There is a clear *sectoral concentration* in the NWOP. The RES and the socio-economic analysis in the previous chapter identified those sectors in which the region either has existing specialisms (e.g. pharmaceuticals and chemicals) or the potential for rapid growth. These sectors are therefore the focus of much of the intervention in OP1:

Biomedical: biotechnology, pharmaceuticals and medical devices

Energy and Environmental Technologies

Advanced Engineering and Materials: Chemicals, Aerospace, Automotive, Advanced Flexible Materials

Food and Drink

Digital and Creative Industries

Business and Professional Services.

There is also scope for significant investment in key sub-regional sectors in the Merseyside phasing-in region not included in the above sectors i.e. tourism and maritime.

**Implementing Principles.** See 3-2 to 3-4.

Table 3-6: OP2 – Exploiting Innovation and Knowledge

**Overall Rationale.** Priority 2 targets performance change within the region's businesses and institutions by driving forward the take-up of knowledge and innovation. Although the composition of the economy needs to be restructured over the long term, all businesses need to improve their productive performance and competitive position. Innovation and knowledge are key drivers of growth and opportunity in all sectors and all markets. There are already some excellent knowledge assets within the regional economy, particularly in our HEIs, in research institutions and amongst key private sector firms. The concentration of these assets and their potential has been acknowledged by UK Government in the designation of Manchester as a Science City. Although considerable strides have been made in the exploitation of the region's knowledge resources and link the knowledge and business bases, much more can be done. There is also the need to attract and retain more knowledge workers in the region to help better exploit the knowledge base including increasing the rate of overall graduate retention and attraction. It has been identified that managers and leaders of SMEs could do much more to lead the process of innovation and change.

Priority 2 will target three activities:

1. Working with the existing science and R&D base in the region (especially HEIs) to find ways of better exploiting the knowledge that exists there and that can be used by firms in the region.
2. Working with all SMEs (not just in target sectors) in the region to improve their ability to innovate and exploit knowledge, including ICT, new products and processes.
3. Supporting management and leadership development of SMEs (in a complementary way to ESF) to encourage innovation

<p><b>Policy.</b> This priority sits centrally at the heart of the EU's Lisbon Agenda and the Community Support Guidelines in terms of its support for Guideline 4.2 Improving Knowledge and Innovation for Growth. The CSG states "<i>it is necessary to enhance national and regional RT&amp;D capacities, to support investment in ICT infrastructure, and to disseminate technology and knowledge through appropriate technology transfer and knowledge exchange mechanisms</i>". This priority fits fully into this area of activity. It also explicitly links to the first pillar of the NSRF (Promoting Innovation &amp; Knowledge Transfer). The priority also links to a key part of the RES and also the region's Science, ICT and Innovation strategies. Specific activities in the CSG supported by this priority are:</p> <p>CSG 1.2.1 Increasing &amp; Improving Investment in RT&amp;D <i>e.g. promotion of R&amp;D</i></p> <p>CSG 1.2.2. Facilitating Innovation &amp; Promoting Entrepreneurship <i>e.g. advice on product innovation</i></p> <p>CSG 1.2.4. Improve access to finance <i>e.g. venture capital</i></p> <p>CSG 1.3.2 Improving adaptability of workers &amp; enterprises and the flexibility of the labour market <i>e.g. skills development of SME managers</i></p> <p>CSG 1.2.3. Promote the Information Society <i>e.g. improving access and increased utilisation of ICT</i></p>
<p><b>Lessons learned.</b> Many of the lessons from OP1 also apply here. Evaluation work carried out for the Objectives 1 and 2 programmes identified a number of important lessons also reflected in the work nationally on lessons learned carried out for DCLG in 2006. The regional evaluation work had identified the need to significantly improve the approach to commissioning and managing activity.</p> <p><b>Need for a strategic and coherent approach.</b> Future programmes of Knowledge Transfer investment must be built upon a clear framework of investment priorities (rather than an experimental or competitive approach) which encourage long-term and intensive support to initiatives. <i>Adopted in new principles – see Table 3-1</i></p> <p><b>Accepting Risk through a Portfolio Approach.</b> In the past, the pressure to generate larger volumes of outputs from innovation and knowledge transfer activity has militated against important developmental, market-making and culture change activities – <i>the commissioning framework needs to encourage a portfolio mix of activities from lower level, lower impact less risky, to higher impact, more innovative</i></p>
<p><b>Concentration principles.</b> The NWOP covers the whole region and there is, intentionally, no predetermined spatial focus for Priority 2 (it covers the whole region), nor is it focused on priority sectors (although there will inevitably be some overlap). The spatial concentration of the region's knowledge assets, especially in the main urban areas, is likely to result in some spatial concentration of where activity and investment is, initially, located. However, links to and interface between business and HEIs and other research institutions do not, necessarily, need to take place in a particular physical space. Much of the support will be available to firms throughout the region. Indeed, it will be especially important to ensure a good take-up of support for innovation and technology in those parts of the region where economic performance is weakest, where there are fewer knowledge assets on the ground or in close proximity and that face the greatest challenges (e.g. West Cumbria and Furness and East Lancashire).</p>
<p><b>Implementing Approach.</b> See Tables 3-2 to 3-4.</p>

Table 3-7: OP3 – Creating the Conditions for Sustainable Growth

<p><b>Overall Rationale.</b> The focus of this Priority is on providing the conditions which will support the region's aspirations for sustainable economic growth, through developing infrastructure, improving the environment and limited support on tourism activities. This also demands a focus on related investments in ICT connectivity, energy management, and public transport links. The overall objectives of the OP3 are to support the economic development of the region in tackling market failure through providing the infrastructure to support opportunities for economic growth. In the phasing-in region only this priority also covers specific investment in relation to exploiting opportunities from two key transport gateways (these are defined in chapter 8). The activity areas supported are:</p> <ol style="list-style-type: none"> <li>1. Access to regional gateways (by public transport wherever possible) to support development of the opportunities at these gateways (Merseyside only)</li> <li>2. Development of regional strategic sites that support the development of the region's high value and knowledge based sectors</li> <li>3. Focused improvements for the region's visitor offer that can add value to the region's economy.</li> </ol>
<p><b>Policy.</b> The relationship between this priority and the CSG is in some case direct and in other cases indirect. The element of OP3 supporting strategic site development is aimed at encouraging the development of business in the knowledge based economy and so links to CSG Guideline 1.2 (as does OP2). The element focused on transport gateways in the phasing-in area links to CSG 1.1.1 "Expand and improve transport infrastructure", to improve the overall economic competitiveness of this part of the region. The Priority will also support CSG 1.1.2. "To strengthen the synergies between environmental protection and growth" via the re-use of brownfield sites. The Priority links to the NSRF both indirectly, via its support for NSRF Priorities 1 and 2, and also directly via its support for the NSRF Building Sustainable Communities Priority.</p>
<p><b>Lessons learned.</b> The evaluation work carried out nationally for DCLG in 2006 included themes focussing on sites and on premises for SMEs. The three key recommendations were on:</p> <p><b>Sustainability.</b> There were examples of major site developments being supported by ERDF grant for which the overall sustainability of the scheme was questionable. The environmental sustainability of a site for example in terms of its nature (greenfield/brownfield), location (e.g. urban centre, urban fringe) and connectivity (e.g. links to public transport and deprived communities) should be a major consideration in the decision to support schemes. <i>The NWOP makes it clear for the need for projects supported to demonstrate environmental sustainability, or at least minimise environmental impact.</i></p> <p><b>Delivery.</b> The experience of all programmes has been the considerable slippage in delivery of major physical schemes for a range of reasons. <i>The NWOP will only support projects that are clearly implementable in the time horizon, especially important in Merseyside.</i></p> <p><b>Market Failure.</b> There was a need to take a more rigorous approach to understanding market failure, the ways in which this can be tackled and opportunities to maximise limited public sector funds by leveraging in private investment (for example through the creation of new Joint Venture vehicles). Market failure will vary according to the type of investment proposed and could include externalities, imperfect information, market power and failure of outcome. Standard definitions and guidance will be provided to guide applicants. <i>Investment in any sites or other infrastructure will need to be based on a clear market failure case, for several regional strategic sites the private sector can deliver the site with no or very limited public intervention.</i></p>
<p><b>Concentration principles.</b> Priority 3 has clear concentration principles which are that investment related to transport gateways will only take place in Merseyside, site development investment will only relate to regional strategic sites that contribute to the development of the knowledge economy and that any investment related to tourism support will need to contribute to projects identified in the regional tourism strategy. In terms of the transport related investments in Merseyside, the Local Transport Plan provides the framework for investment proposals coming forward in relation to the three gateways (the Ports, the Airport, and the City Centre). It sets out how transport investments support economic regeneration and growth through a focus on the safe and efficient access to the labour market for local people (particularly through sustainable modes of transport (public transport (rail, bus), cycling, and walking) and more sustainable and efficient movements of goods and services (particularly rail freight). Exceptionally, there may be scope for limited highly focused road infrastructure in support of economic regeneration and growth in these locations.</p>
<p><b>Implementing approach.</b> These are discussed in more detail in Section 4.</p>

Table 3-8: OP4 – Growing and Accessing Employment

<p><b>Overall Rationale.</b> The socio-economic analysis highlighted the need not only to grow the region's economic base with the aim of improving economic performance, but also better linking job growth to areas and/or groups of people where there is a need to increase economic participation. This is important both for social cohesion purposes, but also as a contributor to overall economic performance by raising employment rates. This also requires investment to support sustainability through ICT connectivity, public transport, cycling and walking as well as energy management. It also means the creation of more SMEs and sustainable social enterprises in deprived communities and from within excluded groups. The overall objectives of the priority are to support the economic development of the region and the creation of sustainable communities through packages which:</p> <ol style="list-style-type: none"> <li>1. Support the creation of enterprise opportunities as a route out of worklessness. This will include support for individuals, outreach work and support for sustainable social enterprise.</li> <li>2. Supporting people in areas of high worklessness to benefit from the jobs being created by the regional economy or specifically via projects in OP1, OP2 and OP3.</li> <li>3. Direct support for employment creation to provide employment opportunities relevant and accessible to those in areas of need.</li> </ol>
<p><b>Policy.</b> The priority links to primary to the CSG 1.3 of More and Better Jobs and also to the NSRF Pillar of Sustainable Communities. However, there are also enterprise stimulation and promotion activities in this priority so it contributes to CSG 1.2 and to the NSRF Pillar of "stimulating enterprise and supporting successful business". In particular it will support</p> <p>CSG 13.1. Attract and retain more people in employment and modernise social protection systems <i>e.g. improving employment and recruitment practices</i></p> <p>CSG 1.3.5 Help Maintain a Healthy Labour Force <i>e.g. supporting hard to reach groups to access employment</i></p> <p>CSG 1.1.2. To strengthen the synergies between environmental protection and growth <i>e.g. public realm improvements</i></p> <p>CSG 1.2.2. Facilitating Innovation &amp; Promoting Entrepreneurship <i>e.g. support for enterprise stimulation activity</i></p> <p>CSG 1.2.4. Improve access to finance <i>e.g. specialist start-up financial support.</i></p> <p>Interventions in this Priority would link to those set out in Article 8 of EC Regulation 1083/2006</p>
<p><b>Lessons learned.</b> The evaluation work carried out nationally for DCLG in 2006 included a theme focussing on enterprise in deprived communities. This had a number of important lessons including:</p> <p><b>Focus of Enterprise Development.</b> If the objective is to encourage greater rates of entrepreneurship amongst residents of deprived communities then it is unlikely that the past Community Economic Development focus of programmes and support is the best way forward, the evidence had been that much of the activity had been dissipated and had had limited impact. <i>The focus is therefore on direct support for individuals considering enterprise, working through and with existing business support structure</i></p> <p><b>Alignment with Mainstream Provision and Delivery Structures.</b> There is a strong national policy push towards reducing the number of schemes, projects and organisations involved with business (and enterprise) support. <i>The principles of delivery in Table 3-2 will apply here.</i></p> <p><b>Role of Structural Funds.</b> The role of Structural Fund programmes in relation to enterprise support could have two explicit value-added main foci: (i) supporting the "outreach" role of enterprise support through projects and organisations that are effective in helping residents of deprived communities access mainstream support; and (ii) supporting larger projects that focus on stimulating and supporting enterprise targeted on particular groups facing common issues. <i>This is picked up in the design of OP4 and will be in the guidance given in packages from SRPs</i></p>

**Concentration principles.** The main concentration principle in this Priority is a spatial one, following the principles identified in the RES which was on those local authorities with the largest levels of worklessness. Resources should be focused on those parts of the region where the challenge of worklessness and low rates of enterprise (both factors closely correlated) are greatest (both now and in the future with possible economic changes for instance in West Cumbria and Furness). The approach in Table 3-4 identifies that SRPs need to define precisely their spatial priorities for this area of intervention.

**Implementing approach.** See Table 3-4

#### *OP5 – Technical Assistance*

- 3.71 Technical Assistance will be an important part of the Programme. The intention is that 4% of the available programme resources will be used for technical assistance.

### **Process of Development of NWOP and the Partnership Approach**

- 3.72 The process of development of the NWOP has been led by the Operational Programme Steering Committee (OPSC). This Group is separate from the existing governance arrangements for Objective 1 and Objective 2/3 in the region. It draws on representatives from all sub-regions, GONW, the NWDA the NWRA and a range of economic, social and environmental partners. A smaller Technical Advisory Group (TAG) has been responsible for advising the Steering Committee on the EU regulatory environment and on specific technical matters. Developing the NWOP is also being undertaken in close conjunction with team of consultants undertaking the ex-ante evaluation and Strategic Environmental Assessment (SEA) led by EKOS Ltd and Ecodyn.
- 3.73 There has been wide-spread consultation over a 9 month period. Prior to the formal consultation draft being circulated on 27<sup>th</sup> November 2006 two earlier drafts of the NWOP were circulated for comment and five sub-regional events were held. A regional consultation event was held in December 2006. Thematic sounding board sessions were held on finance, knowledge transfer and on transport in February 2007.
- 3.74 In total over 300 people have attended these events to make their views known and 42 organisations sent in formal comments on the Statutory Consultation draft. There has therefore been an extensive debate and process of dialogue in the region. At each stage of public consultation, partners have been informed about how the Programme has been modified to reflect their views.
- 3.75 As well as the partnership approach in the development of the NWOP there are strong partnership principles in the future governance, management and implementation of the programme.

### **Private Sector Role in the NWOP**

- 3.76 The private sector will play an important role in the NWOP in four main areas:
- **Delivery and Design.** Private sector expertise will be used as appropriate in delivery, especially in relation to financial instruments (VCLFs) and in services to businesses (such as consultancy support). Relevant sector SMEs and other firms are involved in the design of sector programmes in the region.

- **Beneficiaries.** Private sector SMEs will be the main beneficiaries of interventions supported by OP1 and OP2. Involvement of the private in the delivery of Strategic Regional Sites, employment sites and specific technology and innovation measures will also involve the private sector.
- **Provision of match funding.** The Private sector has an important role to play in the provision of (some) of the match funding for the NWOP. Examples include VCLF, sites, and premises and supply chain work.
- **Management and Governance.** An important principle of management and governance is that there is strong private sector representation, as well as social and economic partners. This applies to regional governance bodies as well as other key organisations that will be part of the NWOP. SRPs all include strong private sector representation.

### Alignment with Regional and Sub-Regional Strategies

- 3.77 The NWOP has a good fit with the RES. All the priorities and activities within the NWOP are highlighted in the current RES. However, the NWOP must reflect not only regional coherence but also sub-regional diversity. There are clear sub-regional drivers and trends in places like Cumbria and Greater Merseyside which are particular to those sub-regions and different action areas in the NWOP will need to be developed along different lines.
- 3.78 As such, there should be a clear read across to the RES daughter documents: the Sub-Regional Action Plans (SRAP) for each of the five sub-regions. These involve sub regional partnerships defining priorities for investments in the area. These are reviewed every year. The SRPS involve, among others, local authorities, FE, HEIs, private voluntary and community sectors. The development of the NWOP in the phasing-in region fits closely to the aspirations and priorities expressed in the developing SRAP for Greater Merseyside (for instance around transport gateways and Liverpool Capital of Culture opportunities).

### Urban Aspects of the NWOP

- 3.79 The North West's population and business base largely live in urban areas – overall it is a highly urbanised region. The main focus of interventions supported by the programme will be on the region's urban areas. The target sectors, the region's knowledge assets and most firms are located in urban areas, the regional strategic sites are in or immediately adjacent to urban areas. Therefore the focus of Priorities 1-3 will be on urban areas.
- 3.80 Priority 4 supports packages of interventions in urban areas to tackle worklessness and deprivation in urban areas through the development of integrated packages of activities covering job creation, enterprise support and employment access. These elements of support fit well in the context of Article 8 of Regulation 1083/2006 on Sustainable Urban Development which states that ERDF may *"support the development of participative, integrated and sustainable strategies to tackle the high concentration of economic, environmental and social problems affecting urban areas"*.
- 3.81 These packages are being developed as part of wider efforts by SRPs and others, especially local authorities, to tackle urban problems. Investment frameworks underpinning the NWOP will set out the regional NWOP context against which these will be assessed. The partners wish to assess whether the use of JESSICA would be an appropriate vehicle in relation to OP3 and OP4.

## Rural Aspects of the NWOP

- 3.82 As stated above, because of the nature of the programme and the region, the great bulk of resources will be directed at urban areas. However, the region is large and varied, and contains some isolated rural areas. Therefore, the mix of opportunities and challenges varies from place to place. The NWOP is a regional-level Programme, but at the same time acknowledges this diversity and in particular the special needs and particular economic challenges in Cumbria – with its extremely poor performance in GVA terms. Partners have identified the need to “Cumbria proof” the NWOP, to ensure it is relevant to the needs and challenges in this sub-region (see 3.26).
- 3.83 For the most part, the NWOP does not suggest explicit spatial priorities or rigid boundaries outside which investment cannot be supported. The NWOP allows for the different delivery and access issues for services between rural and urban areas, with different emphases given at different places. In particular, investments will need to address issues such as higher unit costs and difficulties related to access in rural areas. The Programme Executive will monitor the spread of projects across the North West region.
- 3.84 Rural areas in the region will benefit from the new Rural Development Programme for England, funded through the European Agricultural Fund for Rural Development (EAFRD), which is intended to be complementary to and not a substitute for ERDF. The NWOP must demonstrate linkages with the Rural Programme and Chapter 7 sets out proposals for demarcation between ERDF and EAFRD in the North West.

## Lisbon Earmarking

- 3.85 All OP1, 2 and OP4 supported activity will directly contribute towards achievement of Lisbon goals, while OP3 addresses those factors that underpin economic development, thereby supporting Lisbon-related interventions. A large proportion of NWOP resources (over the 75% threshold) will be Lisbon compliant. The table located in Appendix C demonstrates how the Programme's priorities contribute to achieving the EC Lisbon targets<sup>43</sup>.

## Inter-Regional and Trans-National Co-operation

### Regions for Economic Change

- 3.86 ERDF resources can be targeted towards participation in inter-regional cooperation networks and joint projects. The NW region is active in relation to both the trans-national and inter-regional agendas through the development of the NWE, Atlantic Area and the Interreg IVC (Regions for Economic Change Programmes). The new ‘Fast Track’ initiative also presents opportunities for the region.
- 3.87 DCLG suggest that, if the NWOP wishes to take up the option for including such activities, then this will need to be shown as a separate priority with activities identified and a separate financial allocation. The guidance also suggests that regions should explicitly identify in the OP a small number of key partner regions (1-3), although there may be flexibility to work with other regions as the programme evolves. In addition, co-operation can only take place with regions that have identified similar opportunities within their OPs.

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<sup>43</sup> Council Regulation (EC) No. 1083/2006, Annex IV, Categories of Expenditure

- 3.88 Regional partners, through the OPSC, have discussed this dimension to the NWOP development and feel strongly that the most effective way to engage is to embed inter-regional cooperation within the five priorities of the programme so as not to dilute the effectiveness of programme planning and concentration. Current thinking would expect the NWOP to engage via additional support to any Fast Track network to support the transfer of learning, support for a limited number of projects originating either within the Fast Track network or through regionally significant transnational or inter-regional EU funded networks in line with the programme, and through an exchange of best practice programme funded via technical assistance. Such activities would have to demonstrate how they support the delivery of the NWOP.
- 3.89 This approach would allow programme partners to ensure that any inter-regional cooperation network/project proposed is aligned with the NWOP and that learning can be easily transferred into the NWOP. Regional partners see this as a development opportunity to re-inforce the ERDF Programme and feel that the scope for identifying a small number of regions up front is less of a priority as inter-regional partnerships are likely to differ depending on the theme for which the NW is seeking collaboration partners.
- 3.90 In addition, the OPSC has discussed the proposed 'Fast Track' Initiative and is keen to be involved with a number of the proposed themes. An analysis has been carried out, based on information available, to identify which of the proposed themes are best aligned with the NWOP. Agreement has been reached to prioritise one or two of the following:
- Improving the capacity of regions for research and innovation (10)
  - Bringing innovative ideas to market more quickly (11)
  - Promoting entrepreneurship (17)
  - Moving to a low Carbon Economy (3)
  - Achieving sustainable urban development (27)
  - Supporting the economic diversification of rural areas (30)
  - Meeting the demographic challenge (18)
- 3.91 Partners are keen to stress that the participation in any such network must bring tangible benefits to the NWOP and the NW region, i.e. the transfer of learning and experience must not be one way and should help to deliver, and in particular, OP 1 and 2 as the competitiveness of the NW economy is critical to the Programme. Clearly, there also has to be an assessment as to the relevance of any transnational and inter-regional proposals to the NWOP and its agreed targets, prior to commitment to an investment from the NWOP. More generally, the Programme Executive will report to the PMC on transnational and inter-regional proposals, including the Regions for Economic Change, to facilitate the exchange of learning and knowledge. Necessary arrangements will be made to mainstream best practice from inter-regional and transnational cooperation in the NWOP, provided such best practice is relevant to the NWOP. This will also build on and link to the work of the regional European Cooperation Group, which is a sub group of the NW Regional European Partnership. The ECG's remit is to promote and facilitate transnational and interregional projects across the NW region.

### Links to the 7<sup>th</sup> Framework Programme for RTD

- 3.92 The *Seventh Framework Programme* for research and technological development (FP7) is the European Union's main instrument for funding research in Europe over the period 2007-13. The core of FP7 and its largest component by far, the *Cooperation programme* fosters collaborative research across Europe and other partner countries. Also, in the *Capacities Programme*, FP7 is establishing new *Regions of Knowledge* that brings together the various research partners within a region. Universities, research centres, multinational firms, regional authorities and SMEs can all link up and strengthen their research abilities and potential.
- 3.93 The links between the 7<sup>th</sup> Framework Programme with Structural Fund activities are highlighted in the ERDF Regulation (EC) No 1080/2006 (10). Furthermore, a number of key sectors of the 7<sup>th</sup> Framework Programme are aligned with the Draft Programme's key sectors (e.g. energy and environmental technologies, food, biotechnology, ICT). Partners in the region will wish to consider how relevant NWOP actions are to be co-ordinated with the 7<sup>th</sup> Framework Programme, to bring about tangible benefits to the North West and how they can help to deliver on the objectives of OP1 and 2. The region has established Frameworks North West to support SMEs to access the 7<sup>th</sup> Framework Programme.

### Links to Competitiveness and Innovation Programme

- 3.94 The Competitiveness and Innovation Programme (CIP) 2007-13 is an initiative that seeks to support competitiveness and innovation in the single market between 2007-13. It brings together a number of existing Community programmes in a number of fields that have been identified as most critical to boosting European productivity growth. It covers areas such as 'competitiveness of enterprises', 'promotion of innovation', 'acceleration of ICT', and the 'promotion of energy', themes at the heart of the NWOP. Partners in the North West will wish to consider how NWOP activities can be aligned with the CIP. The North West is leading on an inter-regional programme called CLUNET, which is brings together some 18 regions in Europe to develop cluster policies across Europe.

### Additionality

- 3.95 There are two important elements of additionality in the NWOP: financial and strategic.
- **Financial Additionality** is the extent to which an activity is undertaken at all, on a larger scale, earlier, or within a geographical area of policy concern as a result of being supported by expenditure under the Structural Funds. Thus, Structural Funds must be additional to the funds provided by the public purse and must not replace public expenditure. Another aspect to consider is whether a project would have proceeded without Structural Funding. In essence, additionality is the principle that European funding for projects is additional to, and does not substitute, national funding. The UK has always accepted these principles and as with other programmes, the principle of additionality must be taken into account. The methodology for calculating additionality will be agreed in due course by the DTI and the EC.
  - **Strategic Additionality** is the extent to which the NWOP adds value to what would be happening in any event in the region. There are several ways in which the NWOP offers added value:
    - First, there has been a careful selection of which type of activity is suitable for support and only those activities which offer a strong strategic fit with the Lisbon

agenda will be supported. This will have the effect of gaining additional Lisbon promoting activity and influencing the activities of funding and delivery organisations in a way which aligns them more strongly with the Lisbon agenda. However, it should be pointed out that the RES already strongly encourages such activity.

- Second, the NWOP will enable the creation and support of entirely new financial engineering instruments to support the regional economy. In the absence of the NWOP, it is unlikely there would be significant public support for VCLF activity to help fund the finance gap in SMEs and to focus on target sectors and firms.
- Third, the NWOP has a strong focus on cross-cutting themes (CCTs). The work here in design and implementation will impact on funding and delivery bodies to encourage their embedding of the CCTs. The importance placed on environmental sustainability and adopting these principles in project design is particularly critical.
- Fourth, as described in Table 3-4 the NWOP encourages the development of focused packages of intervention, with domestic resources, to ensure maximum impact on territorial and community cohesion.

### **Approach to Risk in the NWOP**

- 3.96 Besides considering the types of interventions to fund, partners also need to consider the balance between the risks and returns that these investments can secure. Drawing on the experiences of some of the current programmes, there is merit in pursuing a portfolio approach that mixes a few riskier investments offering the potential for significant returns/impacts if successful (often riskier due to the degree of innovation or focus on new technologies) with a greater concentration of resource in activities offering greater certainty of delivery and impact. In this way, if some riskier interventions prove unsuccessful this does not matter so long as the overall investment generates sufficient returns. The NWOP will appraise risk at the level of each project proposal through the project development and appraisals system and at the level of the whole Programme, with a view to be able to affect early intervention in case delivery failure. This approach is in line with best practice and will be reported to the PMC on an annual basis.

### **Ex-Ante Evaluation**

- 3.97 DCLG is required to undertake ex-ante evaluations of the ERDF Programmes for England. EC guidance states that the purpose of the ex-ante evaluation is:

*'to optimise the allocation of resources and to improve the quality of programming. Ex ante evaluation should be an interactive process whereby judgement and recommendations are provided by experts on the content of programmes drawn up by those responsible for their composition. It should be also an iterative process whereby the recommendations of the experts are taken into account by the planners in subsequent drafts of different parts of programmes.'*

- 3.98 The ex-ante evaluation of the NWOP is being conducted by EKOS Ltd. The key aspects of the ex-ante evaluation are that it is an *interactive process* with the programme developers, it is an *iterative process* throughout the development period, and it *adds value* and leads to a stronger draft programme and provides a stronger basis for its subsequent approval by all partners.

3.99 Prior to publication of the consultation draft NWOP, we received EKOS Ltd's summary assessment of the 1<sup>st</sup> draft NWOP. This has been followed by detailed assessments of:

- Socio-economic assessment and SWOT analysis (1<sup>st</sup> draft NWOP)
- Strategy (1<sup>st</sup> draft NWOP)
- Priorities (2<sup>nd</sup> draft NWOP)
- Cross-Cutting Themes (2<sup>nd</sup> draft NWOP)
- Co-Ordination and Phasing-In Arrangements chapters (3<sup>rd</sup> draft NWOP that went to TAG prior to presentation of statutory consultation draft to OPSC)
- Draft Ex-Ante Appraisal of the Statutory Consultation draft:

3.100 The ex-ante evaluator's views have played an important role in shaping our thinking and informing the various NWOP drafts. We have found EKOS' comments to be both helpful and challenging, and we have considered them alongside those of other partners in the region in revising the draft NWOP both prior to statutory consultation and in preparation of the draft final NWOP for presentation to the OPSC.

3.101 The ex-ante appraisal highlights how the NWOP has been modified in light of ex-ante comments, and so we do not intend to repeat this in detail here. EKOS Ltd do state that the majority of their comments on the NWOP chapters have been addressed. Key aspects of the NWOP that have been modified to reflect the views of the ex-ante evaluator include:

- The final **socio-economic assessment** now provides: more comprehensive identification of quantified deficits, which are useful baselines for the Programme; more clarity and availability of basic data by region and theme; an improved separation between urban and rural areas; key regional variations are now more explicit and provide a good guidance for Programme implementation and geographic focus; improved contents of messages for the ERDF programme.
- The final **strategy** now provides: a more distinct identity of the NWOP complementing and adding value to the RES, rather than mirroring RES; a good introduction to the NWOP priorities, addressing its aim to add value throughout; a more prominent discussion of the phasing-in area of 'Merseyside'; spatial concentration principles are now more closely aligned with the rationale of the programme;
- The final **Priorities** chapter now contains: greater clarity on Merseyside-specific issues; the needs of rural areas are more clearly addressed; clarification that the Programme partnership wishes to contain a 'package' of interventions, rather than a single capital expenditure measure; and an explanation of a more risk-taking approach of the NWOP

3.102 Key conclusions are attached as Appendix D (ex ante) to this document.

## Strategic Environmental Assessment

3.103 Development of the NWOP is being undertaken in close conjunction with team of consultants (Ecodyn) undertaking a Strategic Environmental Assessment (SEA) of the NWOP. The purpose of the SEA is to:

- **Set the environmental context and objectives:** The report will establish the baseline information and decide on the scope.
- **Develop, refine alternatives and assess effects:** The report will test the programme objectives against the SEA objectives to identify potential synergies and inconsistencies and develop strategic alternatives.
- **Monitor the significant effects** of implementing the Programme on the environment: The Report will devise the aims and methods for monitoring the effects of the programme and will help identify unforeseen effects of the programme.

3.104 The SEA considers the impacts that the OP might have on the natural environment and people within the region. The purpose of the SEA is to help make sure that the OP has as many positive effects as possible and that negative effects are avoided or reduced. This approach is consistent with the concept of sustainable development. The most widely used and recognised definition of Sustainable Development is that taken from the report 'Our Common Vision' produced by the World Commission On Environment and Development in 1987 (Brundtland Report):

*"Development that meets the needs of the present without compromising the ability of future generations to meet their own needs"*

3.105 The Government has also produced a definition of sustainable communities. Sustainable communities are:

*"Places where people want to live and work, now and in the future. They meet the diverse needs of existing and future residents, are sensitive to their environment, and contribute to a high quality of life. They are safe and inclusive, well planned, built and run, and offer equality of opportunity and good services for all."*

3.106 There has been a great effort to mainstream the environment within the NWOP and there appears to have been good communication between the NWOP authors and the SEA team to enable the various iterations of the NWOP to improve their "environmental credentials". This included a meeting between Regeneris Consulting, Ecodyn and key partners to agree a series of modifications to the NWOP prior to publication of the statutory consultation.

3.107 The SEA has been very much an iterative process and therefore considerable changes have been made to the Operational Programme throughout the duration of the SEA as environmental considerations have been incorporated. Among the key changes to the NWOP that reflect the findings of the SEA are:

- The issue of environmental sustainability is better embedded into the NWOP, and under each Action Area there is a discussion of how the NWOP activities will deliver environmentally sustainable economic growth. Prior to this, the key issues were discussed at Priority level. For instance there is clearer wording related to what for of sties and premises investment will be supported.
- The socio-economic assessment contains a wider discussion of the interactions between the economy and the environment
- The cross-cutting themes chapter provides a stronger commitment to the principles of environmental sustainability. For example, it states the intentions of the NWOP to

support economic development that positively impacts on the environment, rather than simply minimising adverse effects

- Projects will be assessed against environmental criteria. The outputs and results of projects will be aggregated up to the priority and Programme level so that the performance of the Programme can be measured. Progress towards meeting environmental sustainability targets will be reported on a regular basis. This assessment allows the Programme to evaluate its impacts and mitigate negative effects, if necessary.

3.108 Key conclusions are attached as Appendix E (strategic environmental assessment) to this document.

## 4. Priorities

### Introduction

- 4.1 This chapter provides greater detail on the structure of the four Priorities that form the Operational Programme (plus a fifth 'Technical Assistance' Priority). It is intended to provide sufficient direction to partners on the type of investment required to achieve the OP's agreed objectives and targets, but it does not provide an overly prescriptive formula. The OP therefore provides a framework that allows for innovation, adaptation and lessons to be accommodated in the future. The allocation of ERDF resources across the five NWOP Priorities is set out in Chapter 6.
- 4.2 It is a requirement of the European Commission that all Operational Programmes for the use of ERDF 2007-2013 need to be adequately quantified. The targets in this NWOP relate to the resources to be deployed, activities to be supported and the subsequent outputs and impacts. The targets provide a framework by which the NWOP will be evaluated and progress monitored. Based on advice from the EC and DCLG, this OP has a limited number of headline results and impact indicators for each priority (the overall programme targets were set out in para in Section 3). There will be a companion document to this OP which sets out more detailed targets by activity area.
- 4.3 The NWOP Quantification Framework contains a list of the 'menu' of outputs, results and impacts indicators used to quantify the NWOP and monitor performance at the project, Action Area, Priority and Programme levels. The suite of indicators includes those related to environmental sustainability and equality and diversity (including the gender equality duty requirements of setting targets for monitoring progress in relation to outputs, results and impacts by gender where this is relevant).

### Relationship between the Merseyside Phasing-in Area and the Rest of the North West

- 4.4 The NWOP provides a region-wide framework and set of interventions. Consequently, any interventions eligible for funding in the wider region will be applicable in Merseyside. However, the level of resource available in Merseyside will enable some Merseyside-specific interventions to be implemented. These are described below:
- OP1, Action Area 1-2 (Regional Sectors) will include support for key sectors in Merseyside identified in the SRAP, and which are not otherwise covered by the six RES target sectors (e.g. maritime and tourism).
- 4.5 The ring fenced ERDF allocation can be used in Merseyside to fund Convergence Objective activities. These activities which feature in the NWOP in Merseyside are as follows:
- OP3, Action Area 3-1 (Exploiting the Potential of Major Gateways in Merseyside) is a Merseyside-specific Action Area, which can include convergence objective activities such as spending on rail links to the sub-region's major gateways, multimodal transport schemes and 'intelligent transport' systems.
  - Provision of facilities in target communities as part of local area regeneration activity that supports excluded groups to re-enter the labour market or provide outreach to help

excluded groups obtain employment generated by the programme (under OP4, AA4-3 Employment Creation for Areas of Regeneration Need).

4.6 There are other infrastructure activities currently envisaged in the NWOP for which Merseyside's higher allocation of resources may foster a higher proportion of investment in capital projects:

- Tourism Facilities under OP3, AA3-3 (Region's Visitor Offer and Image)
- Environmental improvement and public realm works under OP4, AA4-3 (Employment Creation for Areas of Regeneration Need)

### Summary of Priorities and Actions Areas

4.7 Although there is no regulatory requirement to identify individual measures and projects, the work undertaken has generated some strong thoughts on the key types of interventions that should be incorporated in the OP. Under each Priority, a number of key Action Areas have been identified under which intervention will be brought forward. This approach will help to foster greater linkages between the OP's strategic objectives and those projects/actions intended to address them. The structure of the NWOP is summarised below:

Figure 4-1: Outline of NWOP Framework

**RES Vision:** *"A dynamic, sustainable international economy which competes on the basis of knowledge, advanced technology and an excellent quality of life for all"*

Improving Productivity and Growing the Market		Creating the Conditions for Sustainable Growth	Growing and Accessing Employment
Priority 1 – Stimulating Enterprise and Supporting Growth in Target and Markets	Priority 2 –Exploiting Innovation and Knowledge	Priority 3 – Creating the Conditions for Sustainable Growth	Priority 4 – Growing and Accessing Employment
AA1-1. Developing high value new enterprise	AA2-1. Exploiting the science and R&D base of the region	AA3-1. Exploiting the economic potential of major gateways in Merseyside	AA4-1. Stimulate enterprise in disadvantaged communities and under-represented groups
AA1-2. Developing higher added-value activity in target regional sectors	AA2-2. Encouraging innovation to improve productivity in all companies	AA3-2. Developing high quality sites and premises of regional importance	AA4-2. Supporting linkages to key employment areas
AA1-3. Increasing sustainable consumption and production		AA3-3. Supporting the improvement of the region's visitor offer and image	AA4-3. Supporting employment creation for areas of regeneration need

4.8 Each Action Area is supported by a range of eligible activities. However, it is important to recognise that the extent to which these eligible activities are delivered will be dependent upon the identified need at the point that activity is commissioned. This will be determined by the

potential value of the activity to the Programme's delivery objectives, with those activities most capable of demonstrating economic growth prioritised for investment.

### Key Economic Development Needs that the NWOP will Address

4.9 The preceding chapters highlighted the economic development needs in the region that the NWOP will address. Many of these issues are tackled implicitly across the NWOP, and the table below highlights those Action Areas in which more intense efforts will be undertaken:

Table 4-1: Key Economic Development Needs Addressed in the NWOP

Key Need	Where Addressed in the NWOP
Reduce productivity gap	All Action Areas across OP1 and OP2
Increase employment (and tackle worklessness)	All Action Areas under OP4
Increase the rate of new business starts (and survival)	OP1, AA1-1 and OP4, AA4-1
Tackle higher-level skills gaps and boost managerial skills	OP1, AA1-2
Boost innovation	OP2, AA2-2
Increase spending on R&D	OP2, AA2-1
Increase the number of knowledge-based businesses	OP1, AA1-1 and AA1-2, and OP2, AA2-1 and AA2-2
Increase the number of knowledge-based workers	OP1, AA1-1 and AA1-2, and OP2, AA2-2
Increase business investment	OP1, AA1-1, AA1-2, OP2, AA2-1, AA2-2
Reduce energy consumption and emissions	OP1, AA1-3, OP3 AA3-2, OP4 AA 4-3
Increase the range and quality of business property	Part of the package of interventions proposed across the NWOP's Action Areas
Improve surface access to gateways and employment sites	OP3, AA3-1 and AA3-2, and OP4, AA4-3
Enhance the image of the region	OP3, AA3-3

### Overall Programme Targets

4.10 Overall Programme targets are summarised below (Appendix F contains the full programme wide and individual priority level output and results tables):

Table 4-1: Total NWOP targets: Overall Programme		
Type of Target	Target	Target to 2015
Output	Private sector investment levered (£m)	£370m
Results	No. of gross jobs created	48,200
<i>Results</i>	<i>Gross jobs created - filled by men</i>	<i>24,300</i>
<i>Results</i>	<i>Gross jobs created - filled by women</i>	<i>23,900</i>
Results	No. of gross jobs safeguarded	15,800
<i>Results</i>	<i>Gross jobs safeguarded - filled by men</i>	<i>8,000</i>
<i>Results</i>	<i>Gross jobs safeguarded - filled by women</i>	<i>7,900</i>
<b>Impact</b>	<b>Net additional GVA (annual) (£m)</b>	<b>£1,170m</b>
<b>Impact</b>	<b>Net additional employment</b>	<b>26,300</b>
<b>Impact</b>	<b>Net Reduction as result of interventions in expected OP CO<sub>2</sub> emissions (%)</b>	<b>TBA</b>

Table 4-2: Total NWOP Targets: Merseyside

Type of Target	Target	Target to 2015
Output	Private sector investment levered (£m)	£160m
Results	No. of gross jobs created	17,900
<i>Results</i>	<i>Gross jobs created - filled by men</i>	<i>9,100</i>
<i>Results</i>	<i>Gross jobs created - filled by women</i>	<i>8,900</i>
Results	No. of gross jobs safeguarded	6,200
<i>Results</i>	<i>Gross jobs safeguarded - filled by men</i>	<i>3,100</i>
<i>Results</i>	<i>Gross jobs safeguarded - filled by women</i>	<i>3,100</i>
<b>Impact</b>	<b>Net additional GVA (annual) (£m)</b>	<b>£430m</b>
<b>Impact</b>	<b>Net additional employment</b>	<b>10,000</b>
<b>Impact</b>	<b>Net Reduction as result of interventions in expected OP CO<sub>2</sub> emissions (%)</b>	<b>TBA</b>

Table 4-3: Total NWOP targets: Rest of NW

Type of Target	Target	Target to 2015
Output	Private sector investment levered (£m)	£220m
Results	No. of gross jobs created	30,300
<i>Results</i>	<i>Gross jobs created - filled by men</i>	<i>15,300</i>
<i>Results</i>	<i>Gross jobs created - filled by women</i>	<i>15,000</i>
Results	No. of gross jobs safeguarded	9,600
<i>Results</i>	<i>Gross jobs safeguarded - filled by men</i>	<i>4,800</i>
<i>Results</i>	<i>Gross jobs safeguarded - filled by women</i>	<i>4,800</i>
<b>Impact</b>	<b>Net additional GVA (annual) (£m)</b>	<b>£750m</b>
<b>Impact</b>	<b>Net additional employment</b>	<b>16,300</b>
<b>Impact</b>	<b>Net Reduction as result of interventions in expected OP CO<sub>2</sub> emissions (%)</b>	<b>TBA</b>

## OP1: Stimulating Enterprise and Supporting Growth in Target and Markets and OP2: Exploiting Innovation and Knowledge

- 4.11 The productivity agenda is the North West region's top priority: around £10bn of the overall output gap can be attributed to poor productivity performance. The regional economy has expanded over recent years and on some measures begun to catch up. Nevertheless, there still needs to be a structural leap in the composition of its business activities if the region is to close the gap on the rest of the UK and higher performing regions of the EU. This agenda has two major strands:
- Stimulating a **composition change** in the business base of the North West through new business and sector development (OP1)
  - Generating a **performance change** through greater adoption of innovation and exploitation of R&D (OP2)
- 4.12 These strands are both central to the North West RES and are reflected in its Improving Productivity and Growing the Market driver. This driver is in turn broken out into seven themes and 25 Key Actions, the majority of which are reflected in Priorities 1 and 2 of the Operational Programme (with a few minor modifications which are explained below).
- 4.13 There is no particular spatial focus for these Priorities. They cover the whole region – urban and rural. Any interventions in rural areas will need to complement the actions under the Rural Development Plan for England (RDPE), under which interventions will be funded by the European Agricultural Fund for Rural Development (EAFRD). Priority 1 is focused on developing new high growth companies anywhere in the region, SMEs in the targeted sectors which provide most of the GVA in the region and the development of sustainable production and consumption methods. Priority 2 is focused on assisting SMEs across the region and in all sectors, which wish to grow in terms of turnover and employment through accessing and working with HEIs and the wider R&D/innovation/leadership base to develop and growth sustainably.
- 4.14 There are a range of proposed activities (grants and VCLF) related to the provision of finance to SMEs set out across the action areas in Priorities 1 and 2. However, there is no separate action area for access to finance; we view access to finance as a tool to help effect change that can apply to different parts of the NWOP. Many of the activities proposed are intended to develop and build on the Venture Capital and Loan Funds (VCLFs) supported under the previous Objective 1 and 2 programmes in the region (see Table 3-3). Investing in VCLFs has the advantage of providing the potential to generate legacy funding beyond the life of the NWOP. The intention is that there should be a single region-wide approach to organising and delivering VCLFs supported by the NWOP, building on the good expertise that has already been built up in the region.
- 4.15 The clear emphasis in both Priority 1 and Priority 2 is on SMEs as they make up the predominant part of the region's business base. However, in order to achieve this, specific projects will need to engage and potentially fund activity by large firms due to the nature of business operational relationships. One example would be in Action Area 1.2 where the proposed support to businesses and supply chains needs to be tailored to the complex interrelationships which generate threats and opportunities between larger firms and SMEs in their supply chains. Another would be in relation to AA1.3 where large firms' participation is often required to embed environmental and CRS responsibilities in SMEs. Accessing the R&D base of the region may also

benefit from involvement of large firms, which would provide access to R&D facilities, more resources, knowledge transfer, and engagement of the supply chain.

- 4.16 Overall, we envisage that ERDF going to large firms (outside the SME definition) to be less than 10% but this will vary at project level depending on each project and will be monitored closely at the individual project level. The NWOP will respect state aid requirements and will comply with the principles of table 3.2. In the case of assistance granted from the Structural funds to a large enterprise, the Managing Authority undertakes to request an assurance from the enterprise concerned that the assistance will not be used in support of investment that concerns the relocation of its production or service facilities from another Member State of the European Union.
- 4.17 All interventions in companies under these two Priorities will also comply with the European Union competition and public procurement rules.

## OP1: Stimulating Enterprise and Supporting Growth in Target and Markets

- 4.18 For the North West economy to generate greater levels of wealth and compete more effectively it needs to restructure the composition of its business base. Priority 1 will focus on change in the make-up of the North West's business base and aim to ensure the region has more businesses competing in higher value markets. This demands:
- That existing strengths in **high value sectors** are developed
  - New sustainable market opportunities are capitalised upon
  - New **high growth businesses** are encouraged in key high value markets.
- 4.19 The North West is over-dependent on business in lower value sectors, is reliant on lower skill activities, has a low level of new business start-ups in growth markets and needs to shift away from its traditional high-carbon manufacturing base. With greater numbers of business operating in emerging higher value markets the North West's business composition will evolve leading the economy to grow, become more durable in the face of evolving competitive pressures and have greater potential to absorb new opportunities from the innovation & knowledge agenda set out in Priority 2.
- 4.20 Regional partners also wish to examine the potential for the use of JEREMIE within this priority.

### Targets for Priority 1

- 4.21 The overall targets for this priority are:

Table 4-4: Targets for Priority 1: Stimulating Enterprise and Supporting Growth in New Sectors and Markets		
Type of Target	Target	Target to 2015
Outputs	No. of businesses assisted to improve performance	16,700
Outputs	Private sector investment levered (£m)	£140m
Outputs	Skills – number of people assisted in their skills development	5,600
Results	No. of gross jobs created	19,800
Results	<i>Gross jobs created - filled by men</i>	<i>10,000</i>
Results	<i>Gross jobs created - filled by women</i>	<i>9,800</i>
Results	No. of gross jobs safeguarded	4,100
Results	<i>Gross jobs safeguarded - filled by men</i>	<i>2,100</i>
Results	<i>Gross jobs safeguarded - filled by women</i>	<i>2,000</i>
Results	No. of businesses with improved performance	11,700
Results	CO <sub>2</sub> emissions from Programme interventions (tonnes)	TBA
Results	New or upgraded floorspace built/upgraded to BREEAM excellent or very good at current standards (sq m)	140,600
<b>Impact</b>	<b>Net additional GVA (annual) (£m)</b>	<b>£360m</b>
<b>Impact</b>	<b>Net additional employment</b>	<b>8,400</b>
<b>Impact</b>	<b>Net Reduction as result of interventions in expected OP CO<sub>2</sub> emissions (%)</b>	<b>TBA</b>

## Evaluation Messages

4.22 The current Objective 1 & 2 Programmes in the North West have both invested in business and enterprise support. Although comprehensive evaluation of their successes and failures has not been undertaken, the research undertaken has generated some valuable lessons which the 2007-2013 Programme should adopt:

- Activities and Programmes should be explicit about their **targeting** of priority locations and business. Services which have a clear sense of their client group:
  - Are better able to configure services which meet their needs
  - Can focus marketing and after-care activities to exploit the particular routes to market for that group.
- **Fewer, larger initiatives** can deliver significant benefits to the efficiency and effectiveness of services and investments. A smaller number of major projects would provide greater scope to:
  - Offer intensive support in key areas which can be better balanced against lighter touch interventions, instead of all initiatives striving to hit Programme level target unit costs.
  - Reduce overhead costs by limiting the administrative costs across many different initiatives, making best use of the region's limited management resource & competence, and improving scope for greater sharing of central resources such as marketing, after-care and client management.
- Create a **web of co-ordinated provision** to counter-balance the risk that a smaller number of initiatives would generate gaps in coverage and to:
  - Spread risk between projects by developing a portfolio approach that clearly identifies higher risk initiatives, which require closer supervision but that offer great scope for learning lessons on innovative solutions.
  - Improve learning to better understand how best to intervene, particularly in some of the newer arenas such as technology transfer, and to progressively build a knowledge base of realistic benchmarks against which performance and project design can be assessed.
  - Allow responsive change in the face of an evolving range of opportunities and threats (such as new technologies or unexpected market shocks) and in order to act upon the lessons learnt from what is succeeding
  - Avoid duplication within the network of supported activities, to prevent confusion, frustration and disengagement among SMEs
  - Drive forward a consistent set of quality standards in the services delivered to SMEs
  - Demand better integration and greater complementarity between services and with the mainstream support already on offer, to reduce client confusion and improve referrals between services.

- 4.23 There is evidence from past Programmes that poorly defined outputs can unhelpfully dictate activities, generate wasteful administrative obligations and set in train some perverse incentives for project managers.

### **Final Beneficiaries**

- 4.24 Business and sector development agencies, including those with a specific focus on environmental sustainability, Higher and Further Education bodies and other accredited training providers, venture capital funds and other financial services providers, and other bodies in the public and voluntary/community sectors.

### **Target Beneficiaries**

- 4.25 Prospective entrepreneurs and existing SMEs in the North West.

### **Sources of Match Funding**

- 4.26 The sources of match funding for OP1 are expected to be the NWDA Single Programme, Local Authorities and other public sector agencies.

## **AA1-1. Developing New High Value Enterprise**

*This Action Area would support a range of interventions to support high value start-ups to establish and grow. The emphasis is on businesses which will generate GVA for the North West economy. To that end priority should be placed on entrepreneurs (including those within key RES target groups such as women, BME communities and disabled people) and business plans which show a reasonable potential to:*

- Employ people (e.g. generate staff base of 5 employees in the first 3 years of operation)
- Grow turnover (e.g. generate £0.5M of turnover in the first 3 years of operation<sup>44</sup>)
- Attract customers and trade from outside the North West region (e.g. over half of their turnover is with customers outside the region).
- In addition this Action Area seeks to raise general awareness of interest in enterprise across the region.

### **Rationale**

- 4.27 The North West has 18% fewer businesses (per 10,000 adults) than the England average resulting in a gap of 38,000 businesses. The region's start up rate is well below the national average: although progress has been made recently. The North West is the second worst performing region on business survival. The largest new business growth rates have tended to be in relatively low value-adding sectors. The North West faces a challenging context for stimulating enterprise as it underperforms on each of the key factors which tend to be correlated closely with start-up rates e.g. population change, earnings, education levels and existing rates

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<sup>44</sup> The DTI Definition of High Growth is £1M turnover or 10 employees in four years.

of self-employment. Finally there is some evidence to suggest that lower growth aspirations and greater risk avoidance are features of the North West enterprise culture.

### **Eligible Activities**

4.28 A range of enterprise support activities will be invested in under this Action Area. The focus of the Action Area will be on:

- Mentoring: providing expert ongoing coaching, advice and counselling support to early stage entrepreneurs from experienced mentors with proven business track-record in national and international markets.
- Advice & Guidance: a structured programme of enterprise support for entrepreneurs, alongside Business Link as the gateway to accessing other services. This support needs to be delivered to nationally recognised and accredited standards.
- Financial Support for New Starts: where a gap in the start-up finance market has been proven and evaluated against existing solutions additional forms of finance support could be supported. This would in the form of grants, loans or equity as defined within the regional investment framework. This will abide by the principles in table 3.3<sup>45</sup>.
- Specialist Business Premises: where failure in the market for specialist business premises can be proven gap-funding schemes to support private sector development and management could be supported. This might include incubation facilities and managed workspace, including highly flexible facilities for very nascent businesses.
- Development of and support for social enterprises that are likely to fulfil the high growth criteria through the above activities.
- This Action Area will also support innovative approaches to tackling issues related to cultural barriers to enterprise and the promotion of self-employment as a career option: promotional and marketing activities which raise the profile of enterprise to current employees, the unemployed and to students/learners (in FE/HE).

### **Delivery Arrangements**

4.29 The services would be commissioned through the regionally co-ordinated structures for enterprise support delivery, working with sub-regional partners and Action Plan priorities. ERDF support will not encourage a process of service and product proliferation. A set of principles will inform delivery:

- Accredited providers working to established and high quality standards of diagnostics and delivery
- Shared approaches to marketing and client relationship management, integrated into the regional Business Link arrangement
- Clear and specific eligibility criteria which focus support on target business
- All business support will comply with European competition and procurement law

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<sup>45</sup> This could include access to a range of instruments specifically designed to support micro enterprises and SMEs as part of the EIB/EIF JEREMIE initiative. The UK government is currently conducting an analysis of access to finance provision and a decision will be taken in 2007 about whether JEREMIE will apply in the UK.

- 4.30 Financial support for high growth start-ups would need to be organised through regional structures and will abide by the principles in table 3.3. The NWOP will have a concerted strategy for VCLF as deployed within the priorities to ensure that no overlap and duplication exists.

#### **Environmental Sustainability**

- 4.31 Projects will only be supported that can demonstrate they have taken all practicable measures to reduce negative environmental impacts arising as a result of the project, in order to realise a better environmental performance among new start-ups in the North West. Therefore:
- The package of assistance to start-ups and entrepreneurs will be integrated with the types of environmental management assistance/training provided under Action Area 1-3, including support for new start-ups to minimise energy consumption and maximize resource efficiency
  - All buildings must conform to sustainable construction principles which will be incorporated in guidance via the NWDA Sustainable Buildings Policy, go beyond minimum building regulation standards for energy, waste and water resource use and achieve at least a 'very good' BREAM rating.

#### **Equality and Diversity**

- 4.32 It is essential that all projects supported have suitable arrangements to ensure access to services for all under-represented groups and that there is no discrimination.
- 4.33 The implications of the Gender Equality Duty is that there will need to be positive steps taken to ensure that enterprise is encouraged and supported amongst women under this activity area.

#### **Sustainable Communities**

- 4.34 This Action Area will support the Sustainable Communities agenda in a number of ways:
- The generation of a larger and more durable base of business in the economy and creating the new jobs that some communities badly need.
  - Breaking opportunities in new markets and products are often best exploited by new entrepreneurs and companies, often built upon new business models (and including social enterprise). These non-traditional developments can extend the reach of economic opportunities into priority groups of people such as BME communities, women, people with disabilities and those living in deprived communities.
- 4.35 Support will be required to consider how it can be configured to exploit the potential of key communities and groups whilst maintaining its focus on improving the number of business capable of closing the productivity gap.

## AA1-2. Developing Higher Added-Value Activity in Target Regional Sectors

*This Action Area will provide tailored and highly targeted support to businesses and supply chains, supporting SSPA activity to increase their market share, extend their customer base beyond the region (especially internationally) and strengthen their competitive position in the higher value aspects of the following regionally significant sectors:*

- *Biomedical: biotechnology, pharmaceuticals and medical devices*
- *Energy & Environmental Technologies*
- *Advanced Engineering & Materials: chemicals, aerospace, automotive and advanced flexible materials*
- *Food & Drink*
- *Digital & Creative*
- *Business & Professional Services.*

*Note: the focus on these target sectors may change over the life of the Programme in line with new agreed regional priorities.*

*There is also scope for significant investment in key sub-regional sectors in Merseyside not included in the above sectors, ie maritime and tourism.*

*In some sectors there may be scope and benefit from trans-regional or trans-national projects (see para 4.39).*

### **Rationale**

- 4.36 Priority emphasis needs to be placed on sectors which have the strongest likelihood of growing and helping close the GVA gap. The UK and North West economy needs to compete in higher value sectors where our skills and cost base give us the strongest competitive edge. The regional priority sectors account for 55% of the North West GVA, are knowledge based, widely traded and have international growth potential. Data on the broadly defined business services sector (which included digital industries and computer services) alone accounts for 40% of the North West GVA gap.

### **Eligible Activities**

- 4.37 Sector development involves an element of risk taking implicit in any targeting process. This Action Area includes a mixture of higher risk, higher reward sector activity focused on emerging technologies (especially environmental technologies) and investment in more traditional strengths in the region.
- 4.38 The focus of the Action Area will be on:

- Centres of Excellence<sup>46</sup>: specialist premises, facilities and/or incubators which allow businesses, sector support, and R&D excellence to collaborate (physically or virtually) – such as the national Bio-Manufacturing Centre funded under the Merseyside Objective 1 programme. Any incubation support should be linked to, and build on, the existing 20 incubators in the region. This will be a mix of capital and revenue investment.
- Sectorally focussed business advice: specialist mentoring, advice and guidance consistent with the Business Link targeted service
- Supply-chain development: assisting groups of businesses to understand future market trends, exploit emerging opportunities and implement sector standards.
- Financial support (venture capital): in line with the start-up support in AA1-1 for start-ups.
- Networking: supporting collaboration between businesses with mutual interests or complementary expertise.
- Human capital investments relevant for the identified targeted sectors, especially related to leadership and specialist technical skills focused directly on increases in productivity in SMEs within the targeted sectors through flexible 'bite sized' opportunities in areas such as impact of globalisation, strategic planning, business management, organisational change, CSR and impact of climate change. This investment will be integral to an ERDF project within the action area and not freestanding ESF type provision (see 1.15).
- Promotion of trade opportunities, direct assistance to help more companies export and inward investment, after-care & trade missions:

4.39 There may be scope for a small number of inter-regional projects in this action area, provided the project has developed from the region's participation in a Fast Track network or inter-regional or trans-national networks of regional significance. Such projects should influence programme delivery.

#### **Delivery Arrangements**

4.40 All activities will work within the business deproliferation agenda. Activities will be organised through established regional channels for sector development support, having regard to the phasing-in arrangements in Merseyside. There will be a regional approach to VCLFs in the programme to align with the business support de-proliferation agenda.

4.41 Any ERDF project which wishes to include a leadership and/or management component in their ERDF project will be required to show that this is integral to the ERDF project within the action area (see 1.15).

#### **Environmental Sustainability**

4.42 Projects will only be supported that can demonstrate they have taken all practicable measures to reduce negative environmental impacts arising as a result of the project, in order to realise a better environmental performance among existing businesses in key sectors in the North West. Therefore:

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<sup>46</sup> These interventions may support the development and delivery of the DTI technology support programmes through the new Technology Strategy Board (TSB).

- There will be explicit support for the exploitation of opportunities in the energy and environmental technologies sectors, such as the generation of low-carbon energy generation technologies
- The package of assistance to sectors and supply chains will be integrated with the types of environmental management assistance/training provided under Action Area 1-3, including support to minimise energy consumption and waste, and to improve resource efficiency.
- All buildings must conform to sustainable construction principles which will be incorporated in guidance via the NWDA Sustainable Buildings Policy, go beyond minimum building regulation standards for energy, waste and water resource use and achieve at least a 'very good' BREAM rating.

### **Equality and Diversity**

- 4.43 It is essential that all projects supported have suitable arrangements to ensure access to services for all groups and that there is no inadvertent discrimination.

### **Sustainable Communities**

- 4.44 As with Action Area 1-1, this Action Area will support the Sustainable Communities agenda by delivering a more competitive stock of business and creating new jobs. Support will be required to consider how it can be configured to exploit the potential of key communities and groups whilst maintaining its focus on improving the number of business capable of closing the productivity gap.

## **AA1-3. Increasing Sustainable Consumption and Production**

*This Action Area will help reduce the environmental impact of all SMEs, prepare SMEs for the opportunities/threats arising from future environmental legislation and policies and explore business opportunities emerging from waste treatment, new forms of energy production and other aspects of environmental improvement. In doing so, it supports the North West Climate Change Action Plan.*

### **Rationale**

- 4.45 The environment and use of resources in production presents major opportunities and challenges to the region's businesses. The costs of energy have risen sharply recently and are likely to continue to increase in the future. There are new EU Directives in force and coming into force, impacting on waste reduction and recycling (which have both economic and environmental dividends). The North West has a substantial base of manufacturing businesses (420,000 workers in the industry or 13.8% of the workforce) and some of the UK's worst environmental degradation. Evidence suggests that North West firms are not maximising the potential of recycling, energy and waste reduction to reduce environmental impacts, despite a relatively high usage of recycling centres.

### **Eligible Activities**

- 4.46 The focus of the Action Area will be on:

- Business resource and waste efficiency (BREW) support to SMEs including support for environmental audits, to improve business efficiency and reduce carbon footprint.
- Support for the development of low-carbon impact technologies relevant to North West businesses and commercial markets.
- Promotion and use of alternative energy sources, use of renewables and best practice in SMEs.
- Initiatives in support of sustainable procurement where this supports the programme's aspirational target of a low carbon economy
- Awareness raising: to future proof SMEs in relation to environmental legislation (EU directives and to domestic UK legislation) and support for business planning to develop business response; of the risks and opportunities presented by climate change (including the potential implications for different market and sectors) and support for business planning to develop business response

4.47 There may be scope for a small number of inter-regional projects in this action area, provided the project has developed from the region's participation in a Fast Track network or inter-regional or trans-national networks of regional significance. Such projects should influence programme delivery.

#### **Delivery Arrangements**

4.48 Regional approach, with co-ordinated sub-regional activity, integrated into the existing delivery framework for business and environment support.

#### **Environmental Sustainability**

4.49 AA1-3 focuses exclusively on extending the sustainability agenda in the region's business base and promoting associated business opportunities. All eligible activities will directly impact on the environmental performance of businesses assisted, and will encourage them to modify their business models toward a more environmentally sustainable one.

#### **Equality and Diversity**

4.50 It is essential that all projects supported have suitable arrangements to ensure access to services for all groups and that there is no inadvertent discrimination.

#### **Sustainable Communities**

4.51 Integration of environmental, social and economic factors is critical to developing sustainable communities. Action Area 1-3 will support the Sustainable Communities Agenda through the development of more environmentally sustainable businesses, which in turn will help to create places for people to live that are considerate of the environment.

4.52 Support will be required to consider how it can be configured to exploit the potential of key communities and groups whilst maintaining its focus on improving the number of business capable of closing the productivity gap.

## OP2: Exploiting Innovation and Knowledge

### Setting the Scene

4.53 Priority 2 will target performance change within the region's businesses and institutions by driving forward the take-up of knowledge and innovation. Although the composition of the economy needs to be restructured over the long term, all businesses need to improve their productive performance and competitive position. Innovation and knowledge are key drivers of growth and opportunity in all sectors and all markets. Spreading exploitation within the business base will drive up wealth creation and remodel how many companies operate internally. Priority 2 will target *Performance Change* by:

- **Facilitating businesses to shift into higher value activities**, through increasing innovation through better use of IT, greater foresight and leadership and more effective exploitation of Intellectual Property.
- **Extending the market reach of businesses so they can improve their competitive edge** outside of the North West through better management, commitment to innovation and increased focus on international trade.
- **Improving access to the region's R&D base and Higher Education Institutions** to ensure a strong supply of higher value commercially viable ideas leading to new products, new processes and new customers & markets.

4.54 The North West economy is characterised by poor overall levels of innovation & ICT adoption, low levels of investment in R&D and a weak skills base for managing and leading change and innovation in our businesses. Tackling each of these fronts are critical objectives of Priority 2.

4.55 Regional partners also wish to examine the potential for the use of JEREMIE within this priority.

### Targets for Priority 2

4.56 The overall targets for this priority are:

Table 4-5: Targets for Priority 2: Exploiting Innovation and Knowledge

Type of Target	Target	Target to 2015
Outputs	No. of businesses assisted to improve their performance	7,700
Outputs	Firms becoming engaged in collaborations with UK knowledge base	1,000
Outputs	Private sector investment levered (£m)	£50m
Results	No. of gross jobs created	13,100
<i>Results</i>	<i>Gross jobs created - filled by men</i>	<i>6,600</i>
<i>Results</i>	<i>Gross jobs created - filled by women</i>	<i>6,500</i>
Results	No. of gross jobs safeguarded	5,200
<i>Results</i>	<i>Gross jobs safeguarded - filled by men</i>	<i>2,600</i>
<i>Results</i>	<i>Gross jobs safeguarded - filled by women</i>	<i>2,600</i>
Results	CO <sub>2</sub> emissions from Programme interventions (tonnes)	TBA
Results	No. of businesses with improved performance	5,400
<b>Impact</b>	<b>Net additional GVA (annual) (£m)</b>	<b>£470m</b>
<b>Impact</b>	<b>Net Reduction as result of interventions in expected OP CO<sub>2</sub></b>	<b>TBA</b>

	emissions (%)	
Impact	Net additional employment	8,600

## Evaluation Messages

- 4.57 Many of the important evaluation lessons for Priority 2 have already been set out in Priority 1:
- Activities and Programmes should be explicit about their **targeting** of priority locations and business.
  - **Fewer, larger initiatives** can deliver significant benefits to the efficiency and effectiveness of services and investments.
  - A **web of co-ordinated provision** can counter-balance the risk that a smaller number of initiatives might generate gaps in coverage
- 4.58 Additionally Priority 2 (and to a lesser extent Priority 1) must absorb the following lesson:
- Investment should be driven from a robust and consistent understanding of **market failure and clear, evidence-driven rationale** to focus resources on those areas where public sector intervention is most needed. This will:
    - Refine the scope of activities to focus on those issues which warrant attention (and, importantly, avoid spend on those which do not) and where the public sector can have greatest impact
    - Raise the importance of developing solutions which go with the grain of market-based activity, making maximum use of existing private sector investment and activity. This approach will also encourage solutions that progressively play in the private sector and taper the public intervention, thus reducing the inevitable problems encountered when projects come to the end of their life-span
    - Improve investment decision making by providing a common platform for identifying the highest priority areas for support. The scale of resources available will not be sufficient to address all areas of need and opportunity
    - Provide a stronger basis for assessing the effectiveness of delivery and the impact of interventions during subsequent evaluation exercises.
- 4.59 There is evidence from past Programmes that poorly defined outputs can unhelpfully dictate activities, generate wasteful administrative obligations and set in train some perverse incentives for project managers.

## Final Beneficiaries

- 4.60 Business Development Agencies (including those with a specific focus on environmental sustainability), Higher and Further Education bodies and other accredited training providers, venture capital funds (and other financial services providers), and other bodies in the public and voluntary/community sectors.

## Target Beneficiaries

- 4.61 New and existing SMEs in the North West.

## Sources of Match Funding

- 4.62 The sources of match funding for OP2 are expected to be the NWDA Single Programme, HEIs (including HEIF), Local Authorities, and other public sector agencies.

## AA2-1. Exploiting the Science and R&D Base of the Region

*This Action Area will build the region's capacity to produce and exploit commercially valuable Research & Development relevant to the North West business base. The emphasis should be on near market technologies which can be translated into economically valuable products & processes, generating turnover, market share, new clients for North West businesses, and new employment opportunities for North West residents. Although the ultimate beneficiaries must be North West-based businesses the Action Area could support links to R&D activity based outside the region where no existing regional partner is able to deliver.*

### Rationale

- 4.63 The North West has a substantial and in many cases world-class base of science and research institutions, with varying degrees of relevance to, and contact with, businesses in the region. The region's HEIs have become increasingly active in the current EU structural funded programmes, as these programmes have provided the financial means and thus the incentive for HEIs to engage in non-core activity, however, the focus of activity and dissemination of this expertise could be aligned more closely, as piloted using the current Regional Action Plan, with the requirements of the region's business base. There are some excellent assets within the knowledge base to build upon. For example the important concentration of science in the region was recognised in UK government's designation of Manchester as one of six science cities nationally.
- 4.64 Clearly much more can be done to encourage, enable and develop knowledge transfer activity given the emerging international status of our regional HEIs. Furthermore, there are real economic and institutional barriers standing in the way of greater exploitation of these facilities and the knowledge they generate and facilitate. Some parts of the region are more remote from the region's main concentrations of R&D activity, so it will be important to ensure interventions reach out to businesses in all parts of the region.

### Eligible Activities

- 4.65 The HEI, R&D base and business interface has to be a developmental one which is able to take risks and adopt a commercial, almost speculative mindset. There remains much to be learnt about the relative emphasis to be placed on changing attitudes (in both academia and business) and how best to deploy public sector interventions to support those objectives. The solution probably lies in striking a balance between direct awareness raising interventions (which generate little direct impact) and demonstrating by doing (which is inherently risky, longer term and does not necessarily reach those with greatest need or potential).

- 4.66 The focus of the Action Area will be on:
- A gateway service offering information access and brokerage arrangements to help SMEs access and be aware of R&D opportunities
  - Support to SMEs to define their R&D needs to help stimulate demand for R&D, including working to stimulate greater commitment to investment in new product & process development, and provision of facilities to support such R&D transfer to SMEs
  - Development of appropriate 'access to finance' and grant mechanisms to support R&D, new product and process development and enhanced business performance processes
  - Collaborative R&D programmes between R&D institutions and businesses developing new products and processes to improve business performance, including facilities where necessary
  - Development of knowledge transfer mechanisms from business to business in order to harness non-HEI research expertise
  - Delivery of improved links and placement schemes of graduates within SMEs to encourage knowledge transfer and innovation.
- 4.67 There may be scope for a small number of inter-regional projects in this action area, provided the project has developed from the region's participation in a Fast Track network or inter-regional or trans-national networks of regional significance. Such projects should influence programme delivery.

#### **Delivery Arrangements**

- 4.68 A co-ordinated, regionally driven approach to contracting is required that concentrates activity into a focussed and manageable suite of interventions, which are integrated with mainstream business support and innovation activities within the programme including the regional Business Link and private sector providers of counter-part support. This action area will be characterised by a small number of larger scale commissioned initiatives within a clear regional investment framework. It must include suitable links with regional cluster organisations and links to the Business Simplification agenda.

#### **Environmental Sustainability**

- 4.69 The drive for improved competitiveness in the Priority can directly and indirectly support environmental sustainability outcomes by generating new R&D capacity to develop future generations of low carbon technologies.
- 4.70 Projects will only be supported that can demonstrate they have taken all practicable measures to reduce negative environmental impacts. All buildings must conform to sustainable construction principles which will be incorporated in guidance via the NWDA Sustainable Buildings Policy, go beyond minimum building regulation standards for energy, waste and water resource use and achieve at least a 'very good' BREAM rating

#### **Equality and Diversity**

- 4.71 It is essential that all projects supported have suitable arrangements to ensure access to services for all groups and that there is no inadvertent discrimination. Any support for

graduates/undergraduate to work with SMEs will need to ensure support for access to premises for any people with disabilities.

### **Sustainable Communities**

- 4.72 Action Area 2-1 will support the Sustainable Communities agenda indirectly by delivering sustainable regeneration and higher living standards through long term economic growth, and ultimately creating the new jobs.
- 4.73 Support will be required to consider how it can be configured to exploit the potential of key communities and groups whilst maintaining its focus on closing the productivity gap.

### **AA2-2. Encouraging Innovation to Improve Productivity in All Companies**

*This Action Area will provide support to raise SME competitiveness by improving the exploitation of Intellectual Property, accelerating the implementation of new processes and expanding the development of new products for market using new technologies and new leadership and management capabilities and approaches. It focuses on the introduction to and use of innovation, technology and ICT within SMEs to improve their productivity and future sustainability. The Action Area will focus on*

- *Higher Value Priority Sectors (set out in AA1-2)*
- *Businesses in any eligible sector with growth potential, a competitive edge in the market and a commitment to new ways of working.*

*It is therefore focused on a broad swathe of SMEs in the region and on a range of innovation improvements in processes and products. Support for the use of ICT is included in this Action Area as part of general support for innovation.*

### **Rationale**

- 4.74 Innovation is a key strand of business development. Global competitive pressures have increased the need for businesses to continually innovate in their products and processes. The bulk of R&D in North West businesses is concentrated in a small number of major companies. Although the DTI UK Innovation Survey (2005) suggested that the proportion of 'innovation-active' businesses in the North West (58%) was fairly high and had improved since 2000 when it was one of the UK's lowest (43%), the gap between innovation-active large and small firms remains pronounced.
- 4.75 Evidence shows that North West firms have also been slow to take up e-commerce with just 16% of small businesses buying online, 17% selling online and 4% providing online after-sales service in late 2005. Most small firms report little or no increase in the size of their customer base from e-commerce activity which suggests that few are making the most of technology and its benefits.
- 4.76 Lack of leadership and management skills are a critical factor in the low numbers of innovation-active SMEs. The under-performance of North West businesses can, in part, be attributed to the levels of leadership and management in our companies. The recent Leitch report has identified

that UK managers are significant underqualified and that there is a need to improve management and leadership capability of owner managers and employees, particularly in relation to innovation, research and efficient use of ICT.

### **Eligible Activities**

4.77 The focus of the Action Area will be on:

- Intensive diagnostic support to assist SMEs understand and articulate their innovation potential and requirements, including entrepreneurial and leadership capabilities to support this
- Brokerage assistance to help businesses seeking innovation and ICT support to select appropriate providers
- Development of appropriate 'access to finance' and grant mechanisms for businesses to access financial support, advice and intelligence from qualified, accredited specialist providers to implement innovation, new processes and products in their operations
- Provision of innovation & ICT facilities and activities aimed at SMEs, including development of leadership and management capacity, to stimulate demand for innovation, technology and the efficient use of ICT in companies
- Promotion of trade opportunities, direct assistance to help more companies export and inward investment, after-care & trade missions:

4.78 There may be scope for a small number of inter-regional projects in this action area, provided the project has developed from the region's participation in a Fast Track network or inter-regional or trans-national networks of regional significance. Such projects should influence programme delivery.

### **Delivery Arrangements**

4.79 A regionally driven and co-ordinated approach built into the regional Information Diagnostics & Brokerage service delivered by Business Link. The principles of delivery should be:

- Best of class providers are engaged to support regional businesses.
- Promotion, diagnostics and client management are concentrated in a central regional approach.
- Service delivery needs to be integrated with the regional Business Link package of Information, Diagnostics & Brokerage.
- Systems should be in place to ensure all support generates economic benefits to regional businesses.

### **Environmental Sustainability**

4.80 The drive for improved competitiveness through increased innovation will directly and indirectly support sustainable outcomes by reducing resource inputs and waste and exploiting less environmentally harmful methods of production. This will help assisted companies to develop a more progressive environmental business model.

- 4.81 Projects will only be supported that can demonstrate they have taken all practicable measures to reduce negative environmental impacts.

**Equality and Diversity**

- 4.82 It is essential that all projects supported have suitable arrangements to ensure access to services for all groups and that there is no inadvertent discrimination. There needs to be specific recognition given to managers from under-represented groups.

**Sustainable Communities**

- 4.83 Action Area 2-2 will support the Sustainable Communities agenda indirectly by delivering sustainable regeneration and higher living standards through long term economic growth, and ultimately creating the new and better jobs.
- 4.84 Support will be required to consider how it can be configured to exploit the potential of key communities and groups whilst maintaining its focus on closing the productivity gap.

## OP3: Creating the Conditions for Sustainable Growth

### Setting the Scene

- 4.85 At the heart of the RES is the concept of creating the conditions for sustainable growth, which underpins the two other major drivers. The diversity of the region's people, communities and environment is a key economic asset and must be protected. In growing the region's economy, resources need to be invested in the region's environment, culture and infrastructure to improve quality of life, tackle deprivation, value diversity and social inclusion and recognise the social and environmental implications of economic growth.
- 4.86 Regional partners also wish to examine the potential for the use of JESSICA within this priority.
- 4.87 OP3 focuses on providing the conditions which will support the region's aspirations for sustainable economic growth, as set out in the RES, by regionally significant investments:
- First, providing the infrastructure, including sites and premises for SMEs, necessary for economic growth in targetted locations.
  - Second, enhancing the region's cultural and visitor offer in support of the development of sustainable tourism.

### Targets for Priority 3

- 4.88 The overall targets for this priority are:

Table 4-6: Targets for Priority 3: Creating the Conditions for Sustainable Growth		
Type of Target	Target	Target to 2015
Output	Private sector investment levered (£m)	£110m
Output	Brownfield Land reclaimed and/or redeveloped (ha)	260
Results	No. of gross jobs created	8,500
Results	<i>Gross jobs created - filled by men</i>	<i>4,300</i>
Results	<i>Gross jobs created - filled by women</i>	<i>4,200</i>
Results	No. of gross jobs safeguarded	3,600
Results	<i>Gross jobs safeguarded - filled by men</i>	<i>1,800</i>
Results	<i>Gross jobs safeguarded - filled by women</i>	<i>1,800</i>
Results	CO <sub>2</sub> emissions from Programme interventions (tonnes)	TBA
Results	New or upgraded floorspace built/upgraded to BREEAM excellent or very good at current standards (sq m)	178,000
<b>Impact</b>	<b>Net additional GVA (annual) (£m)</b>	<b>£150m</b>
<b>Impact</b>	<b>Net additional employment</b>	<b>4,600</b>
<b>Impact</b>	<b>Net Reduction as result of interventions in expected OP CO<sub>2</sub> emissions (%)</b>	<b>TBA</b>

## **Evaluation Messages**

- 4.89 The national O1/O2 Thematic Study highlighted the need for a much stronger justification of property intervention in terms of market failure and need. The study also raised concerns that the links between actions to create sustainable growth (e.g. sites and premises) and the cluster agenda were often weak. This points to the need for a strong case to be made for property investment that purports to support knowledge based industries and the region's high value clusters.
- 4.90 Changing economic circumstances – in particular sudden economic shocks (e.g. foot and mouth disease) – can affect where and what to invest in. A pragmatic approach would be to manage change by redefining the areas of need and opportunity to adjust the spatial focus for investment, as part of the ongoing monitoring and evaluation underpinning the Programme.

## **Final Beneficiaries**

- 4.91 Public bodies incurring expenditure on major development schemes.

## **Target Beneficiaries**

- 4.92 New and existing SMEs in the North West.

## **Sources of Match Funding**

- 4.93 There are a number of possible sources of match funding. These include the NWDA, Local Authorities, transport authorities, Transport Innovation Scheme (TIF), and other public bodies.

## **AA3-1. Exploiting the Economic Potential of Major Gateways in Merseyside**

- 4.94 Investment in access to key gateways supporting international access (people and goods) to the region through Merseyside Gateways (ports, airport and city centre). Interventions are based on eligible activities as set out in art 4 of the ERDF regulation (EC 1080/2006).
- 4.95 This Action Area is limited to Merseyside, due to the nature of the opportunity to capture economic benefits from this type of investment but also the limited resources available for the rest of the region in the programme for this type of infrastructure investment.

## **Rationale**

- 4.96 The air, seaports and city centre are widely recognised as major economic drivers for the North West region. In Merseyside, the Liverpool John Lennon Airport acts as a driver for knowledge-based economic activities and tourism, supports the Liverpool city centre and can help to improve the region's image. Mersey Ports also provide a global gateway for the regional and national economy.
- 4.97 All of these ports are well placed to benefit from the expansion of world trade and greater international passenger travel, which has the potential to generate significant economic benefits for the region as a whole and Merseyside in particular. However, these activities do generate a

range of environmental impacts and sustainability issues and these have to be balanced against the economic benefits that can be secured through expansion in order to deliver benefits which are sustainable.

- 4.98 The focus of this Action Area would be upon access improvements for people, goods and services to the Merseyside ports, airports and the city centre to encourage related economic development activity such as the development of employment sites and premises to cater for SMEs that wish to locate close to the air, sea ports and within the city centre. The private sector is often reluctant, in its own right, to finance access improvements to public highway or rail infrastructure or to develop employment sites in port locations which often bear abnormal development costs (e.g. due to contamination). For this reason there is an important role for the public sector to play alongside the private sector.
- 4.99 This activity is limited in the NWOP to Merseyside, both due to the significant opportunities for this type of targeted investment to secure significant economic benefits in the sub-region, but also the practical issue of the limited resources available in the programme in the rest of the region for infrastructure investment. The phasing-in status of Merseyside also allows investments of this type during the transitional period.

#### **Eligible Activities**

- 4.100 Spatially, the investment activity under this Action Area would be focused on Merseyside. The focus of the Action Area will be on:
- New or improved surface access to air, sea ports and the city centre in Merseyside with an emphasis on sustainable public transport, walking and cycling, rail freight and, exceptionally, highways investment;
  - The development of public transport facilities in order to provide improved services to international visitors and workers accessing these employment locations; this includes rail links to the sub-region's major gateways, multimodal transport schemes and 'intelligent transport' systems (using ICT to control and manage infrastructure and to provide high quality, up to date information to travellers - allowing best use to be made of networks both for private and public transport, facilitating links between transport modes, and mitigating against adverse environmental impacts, of travel, reducing congestion and improving air quality);
- 4.101 The Action Area does not envisage the use of ERDF in air or sea port infrastructure itself, as this type of investment, in the vast majority of cases, is made by the private sector without the need for public sector assistance. In terms of highways investments, Merseyside partners have prioritised and agreed that this means Edge Lane and Hall Lane only, as outlined below.
- 4.102 The first scheme, Edge Lane West, will compliment and enhance a number of major regeneration initiatives that have already been supported through the 2000/06 Objective One Programme. It is the key gateway into Liverpool City Centre, providing the only direct access from the national motorway network. Edge Lane West involves the creation of a high quality urban boulevard in Kensington a neighbourhood that is classified as one of the most deprived communities in the country. Major infrastructure works to access and develop the new Liverpool Innovation Park will support creation of 3,000 new high value jobs. Over 200 semi-mature trees will be planted as part of the overall Edge Lane corridor, all adding to create a vibrant community and significantly enhanced townscape and appearance, including additional cycle facilities, providing safe and efficient linkage to the existing Merseyside Cycle Network. High quality footways will provide

greater connectivity and new public transport facilities will be introduced with enhanced bus priority measures.

- 4.103 The second, the Hall Lane scheme, provides a gateway into the City Centre and is a catalyst for local regeneration created through the redevelopment of the Royal Liverpool University Hospital. The scheme will incorporate cycling facilities to enhance and link with existing routes (Radial Route 7) and create improved accessibility in the area. A dedicated bus lane will be incorporated into the project. The scheme also improves pedestrian movement and safety with, wider pedestrian footways, planted areas, and landscaping, incorporating 300 new semi mature trees within the Edge Hill conservation area.

#### **Delivery Arrangements**

- 4.104 The strategic priorities for investment should be determined at a sub-regional level but in conjunction with key national (in terms of strategic road and rail investments) and regional agencies and within the regional priority frameworks in the case of transport infrastructure. In practice, delivery will occur at a local level in partnership between the public and private sector. The SRAP and the RES will drive prioritisation for investments.

#### **Environmental Sustainability**

- 4.105 There are a number of clear implications for sustainability under this Action Area. The investment in gateways through Action Area 3-1 will have some potentially adverse environmental implications, such as increased air emissions as a result of greater road and air traffic and an increased demand for energy.
- 4.106 This Action Area will therefore seek to mitigate against these impacts by promoting access by low-carbon public transport, cycling and walking wherever practicable and discouraging the extension of private car use. This will include the promotion of green transport plans, which encourage occupiers and developers to introduce more sustainable access (public transport, cycling, walking) to their developments. The approach outlined under AA3.2 will also be applied here.

#### **Equality and Diversity**

- 4.107 Any transport access improvements will need to be accessible and useable by all, including people with disabilities.

#### **Sustainable Communities**

- 4.108 Action Area 3-1 will support the Sustainable Communities Agenda by enhancing access to employment at gateways or employment sites located close by, and supporting economic and social regeneration through the development of high quality sites and premises.
- 4.109 Support will be required to consider how it can be configured to exploit the potential of key communities and groups.

## **AA3-2. Developing High Quality Sites and Premises of Regional Importance**

- 4.110 Support for the development of regional strategic sites (where these meet sustainability criteria and the focus of the Action Area on supporting Priorities 1 and 2, especially the knowledge economy) in order to provide a portfolio of opportunities to support knowledge-based growth in general, the development of a range of key sectors and the economic restructuring in particular locations, with the aim of creating sustainable employment. As such, this Action Area will be instrumental in driving up regional competitiveness and GVA of the region, but also tackling issues of brownfield land and the negative image which this can generate. This Action Area is likely to be the main area of investment under this Priority.
- 4.111 If the sites are to prove successful in encouraging higher value business activity, there is the need to create a 'sense of place' through supporting interventions that develop high quality premises within high quality environments (using landscaping, public realm and green infrastructure). Articles 5 and 8 in the ERDF regulation will underpin investments.

### **Rationale**

- 4.112 The Action Area is focused on the provision of targeted support for the delivery of those major employment sites of strategic regional importance. These are known as Regional Strategic Sites<sup>47</sup>, and are identified in the Regional Economic Strategy, focused on regional investment sites, knowledge nuclei and inter-modal freight terminals. The sites provide a portfolio of opportunities to support knowledge-based growth in general, a range of key sectors and the economic restructuring in particular locations. This Action Area is likely to be the main area of investment in this priority.
- 4.113 The importance of the Programme supporting this type of investment through the Operational Programme lies in the potential to drive up regional competitiveness and GVA growth, but also helping to tackle sub-regional economic disparities. Although the private sector is often a willing partner in these types of schemes, it would not necessarily bring forward the optimum mix, scale or spatial pattern of regional employment sites to meet the needs of SMEs and inward investors and the wider economic development requirements of the region.
- 4.114 In developing the Regional Strategic Sites focused on knowledge-based businesses and high value added sectors, it is important to create the right 'sense of place'. The Action Area will therefore support interventions that develop high quality environments, using landscaping, public realm (including gateway features), ICT connectivity, energy management, and green infrastructure and transport plans.
- 4.115 It is highly desirable that the Regional Strategic Sites are sustainable in environmental and economic terms and consequently they will need to be appraised according to best practice guidance.
- 4.116 There are currently 25 Regional Strategic Sites identified in the RES. It is not suggested that all are suitable for support under this activity area. It is proposed that the following approach should be used in determining support:

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<sup>47</sup> This NWOP relates to the current list of Regional Strategic Sites or any subsequent list agreed by regional partners and accepted by PMC

- First, only those where there is a strong market failure argument for intervention should be supported.
- Second, the sites supported would be those where the intended end use was not general industry and not distribution, rather sites which have the potential to encourage the expansion of the region's knowledge economy and high value sectors.
- Third, sites which are close to or have the potential to provide employment to areas of regeneration priority in the region should be supported.

4.117 Prior to investment, the NWDA, SRPs and relevant regional partners will agree a list of priority sites to support through the development of an investment framework. This will be agreed by the PMC.

### **Eligible Activities**

4.118 The focus of the Action Area will be on:

- Interventions that support the delivery of the Regional Strategic Sites, including the clearance of derelict land and treatment of contaminated land, provision of site servicing and related site infrastructure;
- Site-specific access into Regional Strategic Sites and site-specific public transport facilities where this is part of a sustainable transport strategy for the site;
- Activities that support the development of the high quality business environments, including premises, landscaping, public realm and gateway features, energy and resource use and management, including green infrastructure, and site specific IT/broadband infrastructure.
- Support for marketing and promotion of specific sites whose role is supporting innovation and cluster development.

4.119 It should be noted that some related activities would be funded through Action Areas in other Priorities:

- The development of sites which are important at a sub-regional or local level would be supported through AA4-3 in Priority 4; and
- Activities to improve the accessibility of regional strategic sites to workers in areas of high economic inactivity would be supported through AA4-2 in Priority 4; and
- Investment in incubators linked to the development of specific growth sectors (and forming part of a Regional Strategic Sites) will be supported through AA1-2 in Priority 1.

### **Delivery Arrangements**

4.120 The strategic priorities and approach will be determined at a regional level though consultation between NWDA, NWRA, SRPs and other regional partners. Delivery will include partners working with the relevant national (e.g. English Partnerships) and local partners (including Urban Regeneration Companies, local authorities) to deliver the projects in a coordinated manner.

### **Environmental Sustainability**

- 4.121 Whilst there is a need to balance the economic and environmental impacts of site development schemes, the sustainability of a site for example in terms of its nature (greenfield/brownfield), location (e.g. urban centre, urban fringe) and connectivity (e.g. links to public transport and deprived communities) will be a major consideration in the decision to grant fund projects. The emphasis will be on brownfield sites in line with UK policy.
- 4.122 There is currently some concern that many of the Regional Strategic Sites in the region are accessible only by road. This Action Area will therefore seek to support the wider sustainability of business locations in the region by assessing the sustainability of the development, encouraging travel by low-carbon public transport wherever practicable, and discouraging the extension of private car use. One practical example of this is by not investing in major new sites and premises on motorway junctions, unless green transport plans and suitable environmental measures are also in place. Green transport plans are travel plans which encourage occupiers and developers to introduce more sustainable access (public transport, cycling, and walking) to their developments/sites. It is envisaged that there will be limited investment in site specific road access infrastructure.
- 4.123 This Action Area is highly capital-intensive and (as with all property construction funded by the NWOP) all buildings must conform to sustainable construction principles which will be incorporated in guidance via the NWDA Sustainable Buildings Policy, go beyond minimum building regulation standards for energy, waste and water resource use and achieve at least a 'very good' BREEM rating. The wider development of employment sites should be to a high environmental standard.

### **Equality and Diversity**

- 4.124 Any buildings and sites developed will need to be accessible and useable by all, including people with disabilities.

### **Sustainable Communities**

- 4.125 Action Area 3-2 will support the Sustainable Communities Agenda by encouraging the redevelopment of brownfield land where this can support economic and social regeneration. Location is a key determinant of sustainability in the development of high quality sites and premises. The factors which influence investment decisions should place strong importance on improving accessibility for local communities, thereby ensuring that local people benefit from new employment opportunities. Equality and diversity issues around social and economic inclusion can also be addressed by helping people from underrepresented groups, for example BME communities, from worklessness into employment.
- 4.126 Support will be required to consider how it can be configured to exploit the potential of key communities and groups.

### **AA3-3. Supporting the Improvement of the Region's Visitor Offer and its Image**

4.127 Investing in the region's visitor offer where there is a clear economic spin-off regionally, including increasing the quality of infrastructure and service, the enhancement of the built and natural environment, and the awareness and image of the region for visitors.

4.128 There will be limited resources in this action area.

#### **Rationale**

4.129 The region has significant strength in its cultural assets, history and heritage, and its built and natural environment. This supports a major visitor economy both in rural and urban areas, responsible for employing hundreds of thousands of people across the region. The region offers visitors a distinctive and diverse range of experiences. It also supports the quality of life of its residents.

4.130 However, the visitor economy faces significant challenges, as a consequence of the changing pattern of tourism and consumer tastes, as well as issues around the region's image and perceptions amongst potential visitors, the quality of the tourism and visitor infrastructure and service, and environmental quality.

4.131 However, the region is well placed to take advantage of a variety of opportunities, arising from changing tastes, major events and specific investments opportunities. These include the European Capital of Culture 2008 and the London Olympics, as well as the main investment opportunities (the so called 'signature projects') highlighted in the region's Tourism Strategy.

4.132 The Action Area is focused upon raising the quality of the region's visitor and tourism offer, enhancing the built and natural environment where it supports this offer, and improving the image and raising awareness of the region and its distinctive offer. Given the breadth of this agenda and the limited resources available within the Action Area, there is a need for this investment to be used in a strategic manner, concentrated on distinct themes and specific locations.

#### **Eligible Activities**

4.133 The focus of the Action Area will be on:

- Protection and enhancements of natural and cultural heritage assets, in line with regional strategic priorities as set out in the region's Tourism Strategy;
- Limited capital investment in new visitor or tourism facilities and attractions in the Merseyside phasing-in region, in line with sub-regional strategic priorities;
- Specific support for Liverpool 2008 Capital of Culture, including spreading the benefits regionally – this will be linked to the legacy activity post 2008, including the themed years (2009 environment and 2010 innovation)
- Promotion and marketing of natural and cultural heritage assets to promote sustainable tourism
- Green transport plans (see below) for accessing natural and cultural heritage sites to promote sustainable tourism, including limited investment in sustainable transport

### **Delivery Arrangements**

- 4.134 For most interventions under this Action Area priorities should be determined and coordinated at regional level, but with close coordination with the SRPs and local Tourist Boards (TBs). Delivery would typically be channelled through the SRPs/TBs. Local authorities and Urban Regeneration Companies (as well as others) will be important partners in the delivery of investment in this Action Area.
- 4.135 Specifically in relation to the Liverpool European Capital of Culture, the NWOP recognise that much investment has already taken place within Objective 1. ERDF funding for Capital of Culture in the NWOP will be for post March 2009 - when Objective One funding has all been spent. Activity to be funded will focus on interventions which have proved successful - such as support to cultural partners and major events and new activity in line with the Cultural Strategy to ensure the legacy of 2008 is maximised. The roll out of the benefits and lessons learned through Capital of Culture to the NW region will be an important part of the new Strategy - contributing to an increased profile for the region as a whole. The Programme Executive will work with the GONW, Capital of Culture Company, Liverpool City Council and relevant partners to ensure that there is no double funding of activities undertaken in the Objective 1 Programme.

### **Environmental Sustainability**

- 4.136 Actions that recognise built heritage assets and the improvement of the physical environment will enhance existing environmental resources, whilst enhancements to the natural environment will have a positive impact on biodiversity.
- 4.137 Although actions to increase additional visitors to the region could increase carbon dioxide emissions from transport, the emphasis on the cultural offer of major towns and cities should foster visitor development in those areas accessible by public transport.
- 4.138 Key tourist locations not currently well served by public transport should be supported through the implementation of green transport plans. These are travel plans which encourage the introduction of more sustainable access to natural heritage, cultural and tourism attractions. This could include enhanced public transport, more cycling and walking/pedestrian facilities, through ticketing across different transport modes, better in-time information and timetabling coordination as well as support for sustainable public transport such as low emission buses. It is envisaged that there may be some very limited investment in sustainable transport infrastructure (buses, rail and not roads) in relation to less accessible sites in rural areas, depending on vfm assessments.

### **Equality and Diversity**

- 4.139 Any facilities improved will need to be accessible to all (especially people with disabilities) and their use should be encouraged by groups who are under-represented as visitors/users.

### **Sustainable Communities**

- 4.140 Action Area 3-3 will support the Sustainable Communities Agenda through cultural regeneration and improving the environment as a means of creating more attractive places to live and work. Support will be required to consider how it can be configured to exploit the potential of key communities and groups.

## OP4: Growing and Accessing Employment

### Setting the Scene

- 4.141 The socio-economic analysis highlighted the need not only to grow the region's economic base, with the aim of improving economic performance across the regions, but also to better link job growth to areas and groups where there is a need to increase economic participation. The region suffers from significant concentrations of worklessness and yet five of the six districts where this worklessness is concentrated are within or close to areas of job growth. Priority 4 will support the economic development of the region in two ways:
- First, to increase wealth creating activity and hence jobs across the region as a whole – but more specifically in prioritised areas with existing low employment rates and concentrations of worklessness – which are remote from economic growth and/or provide the opportunity for strong growth.
  - Second, linked to the above objective, to enable people in areas of low employment generally – and more specifically deprived communities – to benefit from the jobs being created either through access to jobs or enterprise opportunities.
- 4.142 The main focus of this Priority will be the region's urban areas as this is where the great majority of worklessness **opportunity for strong economic growth** is concentrated. However, there will be scope for some interventions in rural areas that complement the actions under the Rural Development Plan for England.
- 4.143 The development of activity funded in this Priority will need to build on the existing extensive activity and support the work of the City Employment Strategies<sup>48</sup>.
- 4.144 The logic of the content in this Priority, as well as the RES and the developing delivery arrangements, has led to the overall approach:
- First, this whole priority is focused on actions which reduce worklessness, either by better linking those out of work to jobs (or into self-employment), or by job creation/enterprise support where there a lack of demand. The thrust of OP4 is therefore the employment element of the wider Sustainable Communities agenda.
  - Second, it is vital that there is close integration and linkage with other funding streams relevant to this area, particularly training/employability actions funded via ESF and support for neighbourhood renewal. This means that there needs to be co-ordinated use of the ERDF resources locally (potentially through mechanism such as Local Area Agreements).
  - Third, the NWOP sets out the priorities for the types of intervention in the 3 action areas. It is for partners to design appropriate packages of intervention and organise their delivery.
- 4.145 Regional partners also wish to examine the potential for the use of JESSICA and JEREMIE within this priority.

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<sup>48</sup> Currently being piloted in Blackburn, Liverpool and Manchester

## Targets for Priority 4

4.146 The overall targets for this priority are:

Table 4-7: Targets for Priority 4: Growing and Accessing Employment		
Type of Target	Target	Target to 2015
Outputs	Number of new social enterprises assisted	210
Outputs	Private sector investment levered (£m)	£80m
Output	Brownfield Land reclaimed and/or redeveloped (ha)	240
Results	No. of gross jobs created	6,800
Results	<i>Gross jobs created - filled by men</i>	<i>3,400</i>
Results	<i>Gross jobs created - filled by women</i>	<i>3,400</i>
Results	No. of gross jobs safeguarded	2,900
Results	<i>Gross jobs safeguarded - filled by men</i>	<i>1,500</i>
Results	<i>Gross jobs safeguarded - filled by women</i>	<i>1,400</i>
Results	No. of people gaining employment within 6 months of the intervention	5,300
Results	CO <sub>2</sub> emissions from Programme interventions (tonnes)	TBA
Results	New or upgraded floorspace built/upgraded to BREEAM excellent or very good at current standards (sq m)	101,000
<b>Impact</b>	<b>Net additional GVA (annual) (£m)</b>	<b>£190m</b>
<b>Impact</b>	<b>Net Reduction as result of interventions in expected OP CO<sub>2</sub> emissions (%)</b>	<b>TBA</b>
<b>Impact</b>	<b>Net additional employment</b>	<b>4,700</b>

## Evaluation Messages

4.147 The key messages emerging from recent evaluations are:

- Activities that seek to grow the economic base should be firmly rooted in an evidenced based assessment of market need and broader sectoral development (where appropriate).
- Some area-based initiatives have been successful in developing links between job creation and deprived communities (e.g. Merseyside and South Yorkshire). However, evidence suggests that even in these instances intervention is less successful – and requires far greater and more intensive resource – with people further from the labour market.
- Previous interventions, in particular through Objective 1, have not generally succeeded in delivering mainstream economic development activity into deprived areas. Existing strengths of ERDF intervention in enterprise development should be spatially targeted on areas of need.

## Final Beneficiaries

4.148 Business Development Agencies, financial services providers, public, private and voluntary/community sector bodies involved in local economic regeneration and schemes to increase the employability of local residents, other bodies in the public and voluntary/community sectors, public bodies and private firms incurring capital expenditure on capital development schemes.

## Target Beneficiaries

- 4.149 Residents (including prospective entrepreneurs) in target groups, SMEs and communities.

## Sources of Match Funding

- 4.150 There are a number of possible sources of match funding. These include the NWDA, LEGI, NRF and other public sector agencies.

## AA4-1. Stimulate Enterprise in Disadvantaged Communities

- 4.151 Support for a range of interventions that will contribute to an uplift in entrepreneurial culture and activity in deprived communities on two broad fronts:

- Targeting of people in disadvantaged areas
- A focus on underrepresented groups in enterprise: women, BME communities, people with disabilities, young people, older workers, and including key groups supported under the national ESF Programme (offenders, ex-offenders, asylum seekers and refugees)

- 4.152 The emphasis is on reducing worklessness and increasing economic participation through interventions that are flexible, people-centred and responsive to individual needs. This Action Area considers enterprise in its broadest sense and recognises the important economic role that social enterprise can play in disadvantaged communities.

## Rationale

- 4.153 The RES places strong emphasis on linking job creation to raising employment rates in particular spatial areas. Stimulating enterprise in disadvantaged communities is one source of getting people into work but there are wider motivations for support in this area. There is considerable latent economic potential in the region's disadvantaged communities but individuals face a host of constraints and barriers which limit the nature and scale of their involvement in the economy. Significant, appropriate and targeted intervention is needed to tackle these issues.

- 4.154 The main geographic focus of this Action Area will be the region's urban areas as this is where the great majority of worklessness is concentrated. However, there will be scope for some interventions in rural areas that complement the actions under the Rural Development Plan for England (RDPE).

- 4.155 This Action Area is distinct from AA1-1 as the primary objective of this Action Area is not to target on businesses with growth potential, rather to increase enterprise primarily as a route out of worklessness. This also includes support for the development of social enterprises. The emerging regional enterprise policy identifies a need to grow the number of social enterprise in the region, supporting and improving the (longer-term) sustainability of social enterprises and supporting the diversification into commercial income streams, particularly in relation to public procurement.

## Eligible Activities

- 4.156 Start ups in deprived areas are typically a riskier proposition than established businesses, and new enterprises in disadvantaged communities may call for particularly intensive initial support

and after care, although most of the services they need are those required by any start up. Supporting groups with diverse and specialist needs (many of which are deep rooted social problems, additional to direct business requirements) can be highly resource intensive. This will demand tailored intervention which is sensitive to the needs of the client group, and an awareness of the full range of complementary support available, for example through ESF type activity.

4.157 The focus of the Action Area will be on:

- Enterprise stimulation activity: this will help to build a stronger entrepreneurial culture.
- Expert support and counselling: to assist in the development of the business idea, business launch and ongoing support to secure sustainable growth of small and micro businesses.
- Outreach work: with disadvantaged individuals and groups, linking into mainstream providers via Business Link. Signposting: to expert forms of business advice and guidance, for example around specialist business finance, sector-specific support, ICT support and property advice.
- Specialist business advice: tailored to the specific needs of target disadvantaged individuals and groups.
- Financial support: special start-up financial support, where alternative sources of finance do not already exist, including micro-credit and VCLF instruments
- Social enterprise: working with pre-start, emergent and existing social enterprises to create a new social enterprise, where demand exists, building management capacities and supporting diversification into commercial income streams/trading to support, develop and enhance the sustainability and viability of social enterprises.
- In the context of this Action Area the start-up period is regarded as up to 36 months from the start of trading.

### **Delivery Arrangements**

4.158 The implementation of activity under this Action Area must be driven by the spatial targeting of resources. There should be a geographic focus on the region's main regeneration areas and delivery must link to policies and initiatives under the Sustainable Communities agenda, such as Neighbourhood Renewal, Housing Market Renewal and the Local Enterprise Growth Initiative (LEGI).

4.159 Strategic coordination of activity must be a joint effort between NWDA and the SRPs to ensure clear channels of delivery, avoidance of duplication and fit with the Business Link model. Ultimately, delivery of activity under this action area needs to be at the most appropriate level to ensure delivery to hard-to-reach groups.

4.160 The actions developed and supported should fit in with and be consistent with the regional Business Link model and the Business Support Simplification Process to avoid the danger of proliferation of business and enterprise support.

### **Environmental Sustainability**

- 4.161 Projects will only be supported that can demonstrate they have taken all practicable measures to reduce negative environmental impacts arising as a result of the project, in order to realise a better environmental performance among new start-ups in the North West. Therefore:
- The package of assistance to start-ups and entrepreneurs will be integrated with the types of environmental management assistance/training provided under Action Area 1-3, including support for new start-ups to minimise energy consumption and maximize resource efficiency
  - All buildings must conform to sustainable construction principles which will be incorporated in guidance via the NWDA Sustainable Buildings Policy, go beyond minimum building regulation standards for energy, waste and water resource use and achieve at least a 'very good' BREAM rating.

### **Equality and Diversity**

- 4.162 It is essential that all projects supported have suitable arrangements to ensure access to services for all groups and that there is no inadvertent discrimination. A clear overall focus of this Action Area is that there needs to be particular recognition given to developing enterprise amongst from under-represented groups.
- 4.163 The implications of the Gender Equality Duty is that there will need to be positive steps taken to ensure that enterprise is encouraged and supported amongst women under this activity area. This will include the need to ensure practical measures to access training and advice that are family friendly.

### **Sustainable Communities**

- 4.164 Action Area 4-1 will support the Sustainable Communities agenda and improve the growth and productivity of local economies by promotion of local enterprises. The interventions under this Action Area will contribute strongly to the promotion of equality and diversity by enabling wider sections of the community (women, BME communities, disabled people and the over 50s) to access enterprise opportunities. Enterprise can achieve important economic and social goals relating to equality and diversity. Action Area 1 will create opportunities for people to play an active role in the economy and society, by providing support for entrepreneurial activity in disadvantaged communities and creating greater personal opportunities for underrepresented groups.

## **AA4-2. Supporting Linkages to Key Employment Areas**

*This Action Area will assist those who are workless to access employment opportunities and link areas of regeneration need to economic opportunities, both in peripheral parts of the region and disadvantaged communities which are located in close proximity to areas of strong employment growth.*

*Linking areas of need with employment growth can help to broaden and sustain this growth and secure benefits for the region as a whole. But it also offers opportunities to improve access to*

*employment for residents in deprived communities and hence to support the Sustainable Communities agenda in these areas of worklessness.*

### **Rationale**

- 4.165 Parts of the North West face significant constraints relating to employment and transport. Although site development activity will make a significant contribution to addressing the lack of employment land, and therefore the lack of employment opportunities, problems persist on the demand side. Significant barriers exist which are preventing people from accessing new job opportunities, both in peripheral areas but also parts of the region that are located close to buoyant areas of employment growth. For example, in East Manchester which, despite the proximity of to the city centre, suffers from relatively poor connectivity.
- 4.166 This Action Area recognises the disparities in economic activity and employment rates spatially and links activities to stimulate the growth of the economic base with disadvantaged communities. If the creation of employment opportunities in these areas is to have an impact on local communities, there is a need for proactive job brokerage and related support to help people gain and retain work.
- 4.167 A number of areas within the region have performed strongly in recent years and now have relatively strong economies with good prospects for growth. These areas are already successful and this needs to be maintained for the benefit of the region as a whole. However, despite strong employment growth, these areas are often in close proximity to, or include, communities which continue to experience high worklessness and difficulties in accessing the opportunities being created. Other areas within the region have particular opportunities on which to build, including the development of a critical mass of businesses often linked to specific assets or existing sectoral concentrations.
- 4.168 A particular emphasis will be placed on integration with initiatives and activity to ensure that economic benefits and employment opportunities are deployed to reduce economic and social disparities in regeneration areas. Linkages to the NW Regional ESF programme will need to be especially strong as the ESF programme will deliver employment access, advice, guidance, and training related activities at Basic Skills, Level 1 and 2.

### **Eligible Activities**

- 4.169 The focus of the Action Area will be on:
- Job brokerage: using a wide range of intermediaries to meet local needs.
  - Local employment agreements and employment and recruitment practices: that maximise employment benefits from planned developments (during construction and at completed development) and existing major firms, and which challenge employers' attitudes and promote good practice in the recruitment of excluded groups.
  - Outreach provision to help excluded groups access employment opportunities and business support generated throughout the Programme
  - Low-carbon local transport schemes, tailored to individuals and linking people in disadvantaged areas to jobs using existing infrastructure and encouraging walking and cycling. This would include promotional activities to encourage higher use of public transport, personalised travel plans, support for public transport provision which is better

aligned to where people live and when they need it, bus corridors and involving local people in decision making.

- 4.170 There may be scope for inter-regional projects in this Action Area, which support the Regions for Economic Change Sustainable Urban Transport theme.
- 4.171 These activities are very closely integrated with interventions funded through OP4 AA4-3 and OP3 AA3-2 and should be developed as an integrated package, where appropriate.
- 4.172 Some area-based initiatives have been successful in developing links between job creation and deprived communities. However, evidence suggests that even in these instances intervention is less successful with people further from the labour market and the causes of this should be tackled as part of this Action Area.

### **Delivery Arrangements**

- 4.173 The sub regional action plans which are currently being refreshed will set out the relevant sub regional and local priorities in relation to this action area (note that these are not action plans as known in Objective 2 Programme but sub regional economic strategies for each of the five sub regions in the NW). There is a clear logic in focussing delivery at a local level via appropriate sub regional mechanisms, local authorities and/or voluntary sector organisations. Local Strategic Partnerships are well placed to be the key organisations for coordinating ERDF activity to ensure that it is implemented in line with local economic development policy, as set out in local employment plans, Local Enterprise Growth Initiative and other associated documents.
- 4.174 The successful delivery of the Action Area will require the integration of a range of ERDF and ESF interventions to ensure that people receive packages of support necessary for them to gain and maintain employment opportunities being created through OP4 AA4-3.

### **Environmental Sustainability**

- 4.175 The focus of this Action Area is on breaking down barriers to employment, including those related to transport. This Action Area contributes to environmental sustainability by inclusion of the promotion of low carbon public transport use and discouraging the extension of private car use. The focus will be on delivery of locally based transport solutions for and with excluded communities to ensure that local people can access employment opportunities created elsewhere in the NWOP.

### **Equality and Diversity**

- 4.176 It is essential that all projects supported have suitable arrangements to ensure access to services for all groups and that there is no inadvertent discrimination.

### **Sustainable Communities**

- 4.177 The actions under this Action Area will contribute strongly to Sustainable Communities Agenda by enabling wider sections of the community to access employment and promoting employment as a key element of economic and social inclusion for disadvantaged groups.

### **AA4-3. Supporting Employment Creation for Areas of Regeneration Need**

*Targeted, holistic programmes of employment creation in prioritised regeneration areas which face low employment rates. The interventions will need to be integrated with the strategies being implemented through the Sustainable Communities agenda in these areas.*

#### **Rationale**

- 4.178 The region has significant concentrations of worklessness – an estimated £3bn of the GVA gap is caused by the region's lower level of economic participation than the England average. There is a strong spatial concentration of workless people across the region, with 90% being concentrated in just 9 local authority districts, covering both urban and rural areas. As highlighted above, this is due to a mix of demand and supply factors - whilst some have weak employment bases and are remote from major employment areas (such as parts of East Lancashire and rural communities in Cumbria and Lancashire), others may be in closer proximity to major employment areas (such as the centres of Liverpool and Manchester) but still have limited employment opportunities within the immediate area.
- 4.179 A key aspect of the challenge which faces these areas is the combination of high worklessness and other aspects of deprivation which affect these communities, including poor housing and access to services, health inequalities and high crime. Part of the solution to the problems faced by these communities is the encouragement of employment creation (and enterprise development) within these areas. However, this needs to be part of a targeted and holistic approach to securing sustainable communities.

#### **Eligible Activities**

- 4.180 The main interventions which would be supported under this Action Area are ones which directly create employment opportunities for residents of target areas.
- 4.181 The focus of the Action Area will be on:
- Support for development of employment sites providing employment for residents of target areas, including environmental improvements, energy and resource use management and site specific IT/Broadband infrastructure which help to create an appropriate business environment and support the development of knowledge based industries at the local level
  - Brownfield land reclamation
  - Integrated projects for urban and rural regeneration with a specific focus on support for entrepreneurship, local employment generation and community economic development, including facilities which support social enterprise, managed workspace and common services for businesses in target areas
- 4.182 These actions will need to be closely integrated with the other domestic local strategies (such as LEGI and NRF) being pursued through the Sustainable Communities agenda.
- 4.183 There is the need for a strategic approach in terms of:
- A concentration of the available resource on the priority areas identified in the RES;

- The justification of the proposed interventions on the basis of market demand and the long term viability of managed workspace and related facilities;
- Delivery of a package of interventions (in conjunction with funding from other sources) which together will provide a good basis for a sustainable increase in employment locally.
- New approaches to implementing site development, often part of area based regeneration strategies, have emerged in recent years and should be promoted. Joint ventures and special purpose vehicles are now more common place, with a greater emphasis on balancing the risks and rewards between the public and private sectors.

4.184 There may be scope for a small number of inter-regional projects in this action area, provided the project has developed from the region's participation in a Fast Track network or inter-regional or trans-national networks of regional significance. Such projects should influence programme delivery.

#### **Delivery Arrangements**

4.185 As with other Action Areas within this priority, the approach is for the NWOP to set clear priorities and types of intervention to be supported, whilst SRPs commission others to deliver a package of actions (and hence outputs and outcomes) to support these. SRPs would therefore determine the spatial priorities at a sub-regional level. Delivery would typically occur at a local level, delivered through the appropriate delivery mechanisms which could include URCs, local authorities and the VCS. The Neighbourhood Renewal Strategies and Local Area Agreements which have been developed in the regeneration areas provide key strategic frameworks within which the investments funded through this particular Action Area will need to be closely integrated.

4.186 It will be beneficial for ERDF and ESF support to be coordinated to enable people in deprived communities to access jobs being created in employment growth areas.

#### **Environmental Sustainability**

4.187 The drive to support and sustain local employment can make a direct contribution to sustainability outcomes by reducing people's need to travel, thereby decreasing resource inputs and harmful CO<sub>2</sub> emissions. However, the drive to support and sustain employment creation in areas of opportunity must consider the implications of increased pressure on these areas. The emphasis will be on brownfield sites in line with UK policy. The approach set out in AA3.2 will also apply.

4.188 This Action Area is highly capital-intensive, and (as with all property construction funded by the NWOP), All buildings must conform to sustainable construction principles which will be incorporated in guidance via the NWDA Sustainable Buildings Policy, go beyond minimum building regulation standards for energy, waste and water resource use and achieve at least a 'very good' BREEM rating. The wider development of employment sites should be to a high environmental standard.

### **Equality and Diversity**

- 4.189 It is essential that all projects supported have suitable arrangements to ensure access to any employment created to all groups and that there is no inadvertent discrimination.
- 4.190 Any buildings and sites developed will need to be accessible and useable by all, including people with disabilities.

### **Sustainable Communities**

- 4.191 This Action Area will support the Sustainable Communities agenda and improve the growth and productivity of local economies by promotion of local enterprises and efforts to regenerate and increase the attractiveness of areas suffering from severe social, economic and environmental deprivation, thereby contributing to the Government's liveability agenda.

## **OP5: Technical Assistance**

### **Purpose of the Priority**

- 4.192 Funds available under the Technical Assistance Priority are intended for two main uses:
- First, use in the day-to-day management and administration of the OP. The Priority will finance NWOP management, monitoring, evaluation and communications. More specifically, it will finance:
    - The core strategy that will support delivery of the Programme
    - Programme management and control systems as appropriate
    - Programme publicity and promotion
    - Programme evaluations and feasibility studies
  - Second, sharing of best practice and partnership development.
- 4.193 The key outputs will include, among others, a Technical Assistance Strategy, a Communication Plan, Guidance documentation, cross cutting theme guidance documentation for Environmental sustainability and Equality & Diversity, development of CO<sub>2</sub> tool, development of website and content, required annual reports and evaluations.
- 4.194 In addition, technical assistance may be used to provide sector support for the voluntary and community sector to access, engage and participate with ERDF in the region.

### **Key Functions**

- 4.195 A core programme executive will be responsible for implementing and delivering the programme in compliance with the relevant EU or national regulatory provisions. Key roles will be to:
- Negotiate with UK Government Departments and the EU on key issues that require clarification
  - Develop, commission and appraise projects and oversee the project selection process

- Develop funding packages with partners
- Ensure compliance with EU competition, procurement and publicity requirements within the project sponsors and art 42 bodies (if used)
- Supporting the governance structure (i.e. PMC and its constituent committees/sub-groups)
- Provide general advice and guidance on the Programme, and advice on specific key themes
- Promote partnership working between Local Authorities, the higher and further education sectors, the voluntary and community sector and the private sector
- Manage administrative systems and record keeping
- Develop and promote best practice
- Monitor and evaluate the impact of projects/programmes
- Publicising success.

4.196 The implementing provisions chapter sets out in more detail the role of the programme executive as well as article 42 bodies. All TA activities will comply with national and EC guidance.

#### **Technical Assistance and Embedding the Cross-Cutting Themes**

4.197 Technical assistance will also be used to provide advice and guidance on project design, implementation and monitoring, awareness raising and knowledge sharing through CCT experts within the Programme Executive. This will be part of mainstream delivery of the Programme. The appointment of CCT expertise for environmental sustainability and equality & diversity will be completed prior to the programme's start to support delivery in the Programme. The CCTs will be embedded in advice and guidance documentation, support for project development and appraisal, monitoring and evaluation of both projects and the programme. Key early areas of work will include:

- Development of appropriate work/action plans
- Development of CO<sub>2</sub> tool (environmental sustainability)
- Organising awareness raising and training programmes for programme executive, the applicant community and the governance structures
- Developing case-study materials for use in guidance and publicity

4.198 In addition, appropriate CCT expertise will also be appointed to the Programme's governance structure.

#### **Technical Assistance and Communications**

4.199 A communications strategy will include a programme of awareness raising and promotion of success stories, utilising new media. The use of ICT and electronic media should be maximised in distribution of PMRC papers and minutes, project selection criteria and details of Programme performance. The importance of ensuring visibility of ERDF investments will be key to this plan.

### **Technical Assistance and Evaluation and On-going Review**

- 4.200 The NWOP will be subject to a rolling process of evaluation. There is now no regulatory requirement for a Mid-Term Evaluation, but the NWOP is committed to the principle of a mid term evaluation of progress to ensure that the NWOP remains fit for purpose. Partners may also wish to commission ad hoc evaluations. Evaluations will be carried out by experts or bodies, internal or external to the Programme governance structures.
- 4.201 Regular data collection from project applicants and delivery agents on agreed core and subsidiary indicators will be an important aspect of monitoring project and programme performance against identified objectives and targets. This information will be analysed and distilled into a progress report, which will be publicly available. Relevant indicators for the CCTs will be part of the programme's indicator framework.
- 4.202 This data will also provide a useful resource for evaluations, annual reports, and for any ad hoc reports to appropriate Programme committees. The information will help to identify aspects of the programme and particular projects that are performing well (as well as those that are not) and can be used to modify the NWOP as required.

### **Technical Assistance and Monitoring Systems**

- 4.203 Contractual agreement between the Programme and the delivery organisation will include criteria for monitoring of performance. Programme monitoring and evaluation systems will be used to:
- Collect data in a consistent manner
  - Provide management information
  - Monitor progress towards targets
  - Identify overlaps and gaps in delivery, and enforce quality standards
  - Provide data for reports.
- 4.204 This will involve:
- Identifying what data is required to monitor programme performance
  - Collecting and storing the data
  - Cleaning and analysing the data
  - Written progress reports
  - Onward transmission to DCLG and the EU.

### **Technical Assistance and Evaluation Systems**

- 4.205 This will include guidance on evaluation processes and timelines, with guidance notes setting out how to assess whether an evaluation of a project is required. This is likely to include criteria on project scale and risk factor. Large-scale and innovative, high-risk projects may require specific evaluations. The guidance should also include key terms of reference and how to set up the necessary management structures (e.g. project manager, role of steering committees etc).

- 4.206 Each evaluation should provide a number of recommendations for implementation. To promote transparency, the reports (or at least Executive Summary versions) should be made available on the NWOP website, with access to the main report if requested.

**Performance Monitoring Framework**

- 4.207 The NWOP contains a set of outputs, results and outcomes indicators that will be used to monitor the performance of individual projects, aggregated up to Priority and Programme level in order to measure performance across the programme. Baseline data and monitoring indicators will be developed, against which progress can be measured. These indicators/data can be modified if necessary, in light of any evaluation findings. Progress towards meeting all programme targets including environmental sustainability and equality/diversity targets should be reported on a regular basis.

**Financial resources allocated to OP5**

- 4.208 It is proposed that 4% of the ERDF resources will be allocated to this Priority. The development of a technical assistance is underway. This will include match funding arrangements for delivery and support functions and other activities such as publicity, monitoring and evaluation. There is currently no intention of operating a voluntary contribution scheme.

## 5. Cross-Cutting Themes

### Introduction

- 5.1 The Cross Cutting Themes will inform the North West ERDF programme from the start. Leadership will be given and demonstrated by the Programme Executive to reinforce the message that CCTs must be viewed as an integral part of the programme i.e. mainstreamed, and not seen as peripheral.
- 5.2 This Chapter outlines current thinking on the role of CCTs in the NWOP. It should therefore be regarded as 'work under development'. As a starting point it has benefited from the input and recommendations of a specially commissioned Task and Finish Group. The NWDA, in conjunction with partners in the region, will now take forward development of CCTs for the TAG and OPSC, and will produce the detailed CCT Implementation Plan<sup>49</sup>. The arrangements described below are therefore subject to further consultation and change.
- 5.3 The headline issues outlined in Chapter 2 for Environmental Sustainability and for Equality and Diversity will form the main areas of concentration for the CCTs and the starting point for the Implementation Plan. The two CCTs will be comprehensively mainstreamed throughout the programme to ensure delivery is consistent with the CCT aims. The Implementation Plan will also address how the following influence, impact on, and/or direct the CCTs:-
- EU ERDF and General Regulations
  - NSRF CCT stipulations e.g. para 42- reduction of UK carbon emissions
  - DCLG contractual requirements for RDA management of ERDF
  - SEA recommendations
  - Ecotec report (CCTs in the Northwest – Mainstreaming the Experience)
  - Links to relevant strategies e.g. RES; Sustainable Development Strategy; Climate Change Action Plan and Regional Equality and Diversity Strategy
  - Legal duties such as DDA, GED and others
- 5.4 The current NW Programmes have been actively implementing the CCTs during the programming period. A wealth of good practice exists and this will form an important strand of evidence for the CCTs in the 2007-13 programme periods. The region's agreed environmental, equality and diversity strategies, action plans and policies will also shape the CCTs in the NWOP. Recognition will be given to the different legislative environments in both CCT areas when finalising the implementation plan.
- 5.5 The CCT implementation Plan will cover all aspects of the programme, including leadership at the level of the PMC and other governance bodies in line with the regulations. There will be clear standards and targets for the CCTs at programme, priority and action area level. The aim will be to deliver improvements in activity both at project sponsor and final beneficiary levels. The

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<sup>49</sup> The CCT Implementation Plan will be a stand-alone document, and will not form part of the NWOP document submitted to DCLG.

implementation plan will be aligned to the wider quantification and outputs, results, and impact indicators. The monitoring and evaluation framework for the NWOP will include quantified output, results, and impacts for both CCTs, where relevant and practicable. These will include indicators related to BREEAM, decontaminated land, waste reduction, reduction in use of water, etc. In line with the overall approach to monitoring, these indicators will be either included in the NWOP or in the subsidiary list of indicators (see 5.58 onwards).

## Purpose of CCTs

5.6 The NWOP will contain two mandatory cross-cutting themes (CCTs):

- **Environmental sustainability.** Securing economic growth and increased competitiveness within environmental limits, in a low-carbon economy, recognising the economic benefits of resource efficiency, and enhancing the region's environmental capital. The region recognises what Gordon Brown told the UN in April 2006 i.e. that "economic growth, social justice and environmental care advance best when they all advance together, our economic objectives and our environmental objectives now increasingly reinforce each other". The Chancellor also, at the launch of the Stern Review on the economics of climate change, stressed that "in the 21<sup>st</sup> century our new objectives will be threefold – growth, full employment and environmental care". The CCT will be designed to respect these principles.
- **Equality and Diversity.** The EC defines this in terms of gender, but the UK NSRF takes a broader view. In the North West, this CCT will support the Regional Equality and Diversity Strategy (REDS)<sup>50</sup> through the promotion of equal opportunities for women, BME communities, disabled people and the over 50s. This will then lead to improved economic and employment participation rates for key disadvantaged communities, thereby promoting social and economic inclusion.

5.7 The NWOP will promote a process of continual learning and cultural change among strategic decision makers and practitioners in relation to CCTs, building on the experiences of the 2000-06 Programme period to further embed CCT issues as an integral part of mainstream delivery. It will also seek to change attitudes among the applicant and beneficiary community (typically SMEs), recognising that competitive advantage can be achieved through embracing new ways of working. Essentially, the purpose of CCTs in the NWOP is to ensure that:

- Programme design and delivery is environmentally sustainable and promotes equality and diversity (in line with best-practice)
- The economic benefits (i.e. the business case) of best-practice is recognised not only in terms of social and environmental impact; it can also help to increase business competitiveness through facilitating of innovation and new human resources management
- Current and likely future changes in legislation are reflected in the Programme (i.e. "future proofing").

## Importance of CCTs in the NWOP

5.8 Cross-cutting themes are integral to the NWOP and inform the whole programme:

- CCTs are included in the Programme's overall vision and objectives

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<sup>50</sup> North West Regional Equality and Diversity Strategy, North West Regional Assembly, 2005.

- Each Priority will contain specific environmental and equal opportunities objectives, indicators and quantified targets (where relevant to that priority)
- Key management and strategic decision making bodies will include relevant CCT resources<sup>51</sup>
- CCT specialist will be recruited to the support the Programme Executive
- The project application, development, appraisal, monitoring and evaluation process will include criteria on CCT integration

5.9 CCT issues are tackled horizontally within the OP (embedded across Priorities and Action Areas) and, where appropriate, vertically (including specific Action Areas and activities highlighting the distinctive issues on which specific attention needs to be focused). The Programme contains measurable indicators against which progress in meeting the aims of the CCTs (and the role of CCTs in meeting other programme targets) can be assessed.

### Evaluation Messages

5.10 The 2000-06 Merseyside O1 and the North West O2/O3 Programmes contained three CCTs: environmental sustainability; equal opportunities; and ICT. These CCTs were a core part of the programmes, which aimed to be exemplars of best practice in the CCT areas.

5.11 The 2000-06 programme had managers for each CCT. Their role was to help ensure that the overall programmes and interventions were exemplars of good practice, rather than simply ensuring that minimum regulatory and legislative standards were met. The CCT team therefore had a support and advisory role.

5.12 Recent evaluation of the performance of the current Merseyside O1 and North West O2 Programmes in relation to CCTs was carried out by Ecotec Consulting<sup>52</sup>. The report highlighted a number of positive impacts that the incorporation of CCTs had on the current Programmes:

- The inclusion of CCTs within the 2000-6 programme has helped to raise their profile and embed the themes into mainstream delivery. Consequently, the importance of CCTs is now well established and there is widespread support for the continued inclusion of CCTs in European funding programmes. *CCTs are an integral part of the NWOP and are embedded across the Programme's priorities and action areas, with specific objectives and targets.*
- There is now a greater recognition of the importance of addressing environmental and social issues within economic development Programmes, and the role of CCT managers and champions (on PMCs) has been important. *The current Programme will already have exposed deliverers to the principles of CCTs and required them to deliver the CCT outputs as sub-sets of their main outputs. Nevertheless, there will be a continued need for specialist resource to provide appropriate advice and support to projects.*
- The use of mainstreaming tools such as equality and environmental impact assessments and audits, which have helped promote equality and environmental 'proofing' of programme materials and processes. The challenge is to ensure that the foundations

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<sup>51</sup> For example, the NSRF states that Programmes may include a dedicated Equality Officer or Equal Opportunities Working Group to advise on equal opportunities issues and to commission specific investments to address these issues.

<sup>52</sup> ECOTEC, *CCTs in the North West: Mainstreaming the Experience*, GONW (2006)

already laid in the current programme are built upon in the next. *Advice and guidance will be developed for the NWOP during the statutory consultation period through the CCT Implementation Plan.*

- The development of advice and guidance materials to promote CCTs mainstreaming (such as CCT toolkits) has supported implementation of CCTs within projects and action plans of delivery agencies. *This will be continued in the NWOP.*
- The CCT champions system for the Governance system should continue. Their role should be one of ensuring that the agenda is not lost at strategic level, and of safeguarding the integration of the CCTs into the strategy and programme elements, rather than being seen as a “lobby group”
- Expertise in the CCTs are required – with the ‘host’ agency’s capacity to deliver which determines whether they need to recruit additional support regarding the CCTs.

5.13 There were, however, a number of difficulties that constrained the successful implementation of the CCTs:

- Separate administration arrangements hindered effective integration of CCTs, and worked against effective knowledge sharing. CCT managers were not well integrated into the main system of application, appraisal and monitoring. *CCT resources should be co-located within the Programme Secretariat, placing them in a much better position to actively influence early stage development of the project.*
- There was a lack of clarity around the naming, and therefore scope, of the CCTs themselves that has led to undesirable disparities between the different objectives within the region. The terms ‘environmental sustainability’ and ‘sustainable development’ have been used interchangeably, in spite of their different meanings, whilst the phrase ‘social inclusion’ has been more commonplace than ‘equal opportunities’. This has made implementation of best-practice and meaningful comparison between different Programmes problematic. *The OP is clear that environmental sustainability and Equality and Diversity are the two CCTs. The whole programme will adhere to the overall principles of sustainable development.*
- Administrative difficulties meant that CCTs were late coming on stream. This hindered the effectiveness of the integration of CCTs in project delivery, with the role of CCTs not ‘designed in’ from the outset of projects. *CCTs are being designed from the outset in the NWOP and should also be seen as a developmental vehicle which will see all beneficiaries embedding environmental sustainability and Equality and Diversity best practices as a result of ERDF interventions.*
- A key issue with the environmental sustainability CCT has been that key outputs have typically been difficult to quantify, and are therefore very difficult to evaluate against other Programme targets, such as employment and business outputs. *The NWOP will contain a small number of clearly quantifiable environmental outputs, results and outcomes indicators.*

## Role of CCTs in the 2007-13 programme

### Environmental Sustainability

#### *Context*

- 5.14 The quality of the natural environment is a key quality of life factor. Overall, the NWOP will support environmentally sustainable development, seek to positively improve the environment, and will find solutions to overcome any negative environmental impacts on sustained economic performance. Tackling environmental issues related to waste, energy, pollution and transport all present economic opportunities (and not just potential business costs). We should aim to opportunities for sustainable economic growth, eg low carbon technologies which will be worth €500bn to the world economy by 2050 according to Stern Report.
- 5.15 The vital role of an environmentally sustainable programme of economic investment to deliver a low carbon economy, well adjusted to unavoidable climate change will be placed at the centre of the Programme. The NWOP fully supports the aspirations and actions contained in the North West Climate Change Action Plan, launched in November 2006, which emphasises the need for carbon reduction to accompany increased competitiveness and economic growth as well as increased levels of prosperity and a better quality of life
- 5.16 The RES has mainstreamed environmental sustainability and, within NSRF, the focus on the environment is also explicit. The NWOP has embedded this dimension. The NWOP also contains specific focused areas of action on sustainable production and consumption issues as well as key areas where taking account of environmental sustainability will be especially important.
- 5.17 The programme will explicitly acknowledge the role of the CCT in ensuring that programme design and delivery are environmentally sustainable, and the SEA will play an important role in this respect (as will regionally agreed tools such as the Sustainability Checklist for Developments and the Integrated Appraisal Toolkit). The environmental impact of all investments will be assessed as part of the project appraisal process. Further work is underway to ensure that the appraisal system supports environmental sustainability within projects of high economic impact as part of the implementation plan.
- 5.18 Partners also consider it important to encourage ongoing CCT development during the lifetime of project, not just at the application stage, in order to embed best practice among final beneficiaries as well as applicants for ERDF. Projects whose outcomes lead to environmental best practice among final beneficiaries should and could be approved. The necessary support, monitoring and evaluation systems will be put in place to ensure the agreed activity takes place by project sponsors.

#### *Programme Design and Strategy Development*

- 5.19 **OP1:** The focus of OP1 is on changing the composition of the North West economy to adapt to a changing economic context. Environmental sustainability is an important element of this approach. Projects will only be supported that can demonstrate they have taken all practicable measures to reduce negative environmental impacts arising as a result of the project, in order to realise a better environmental performance among new starts (AA1-1), and existing businesses in key sectors (AA1-2) in the North West. Therefore:

- There will be explicit support for the exploitation of opportunities in the energy and environmental technologies sectors, such as the development of low-carbon energy generation technologies
  - The package of assistance to sectors and supply chains will be integrated with the types of environmental management assistance/training provided under Action Area 1-3, including support to minimise energy consumption and waste, and to improve resource efficiency.
  - All buildings must conform to sustainable construction principles which will be incorporated in guidance via the NWDA Sustainable Buildings Policy, go beyond minimum building regulation standards for energy, waste and water resource use and achieve at least a 'very good' BREEM rating.
  - Energy audits and Environmental Management Systems could also be provided through AA1-1 and AA1-2.
- 5.20 AA1-3 focuses exclusively on improving the sustainable production and consumption of resources in the region's business base and promoting the business opportunities of resource efficiency, including sustainable (green) procurement. The sector development Action Area (AA1-2) follows the RES in highlighting the opportunities for our energy and environmental technologies sectors.
- 5.21 **OP2:** Priority 2 focuses on productivity and competitiveness; but not at the expense of environmental sustainability objectives. The drive for improved competitiveness can directly and indirectly support sustainable outcomes by reducing resource inputs, exploiting less environmentally harmful methods of production and generating new R&D capacity to develop and exploit the commercial potential of future generations low impact technologies.
- 5.22 All buildings must conform to sustainable construction principles which will be incorporated in guidance via the NWDA Sustainable Buildings Policy, go beyond minimum building regulation standards for energy, waste and water resource use and achieve at least a 'very good' BREEM rating.
- 5.23 Projects will only be supported that can demonstrate they have taken all practicable measures to reduce negative environmental impacts arising as a result of the project. In particular, through new management techniques AA2-3 will help to promote a more sustainable stock of businesses in the North West.
- 5.24 **OP3:** This priority is designed to support sustainable growth in the region and requires a balance between economic growth and the corresponding pressure this can put on resources. The investment in regional gateways through Action Area 1 will have some potentially adverse environmental implications, such as increased air emissions as a result of greater road and air traffic and an increased demand for energy. The task for the region as a whole is to ensure that its overall approach to environmental sustainability delivers the change required. AA3-1 will therefore seek to mitigate against any negative environmental impacts by promoting access by low-carbon public transport wherever practicable and discouraging the extension of private car use.
- 5.25 AA3-2 will support the wider sustainability of business locations in the region by encouraging travel by public transport and discouraging the extension of private car use. One practical example of this under AA3-2 might be by not investing in major new sites and premises on motorway junctions, unless green transport plans and environmental measures are also in place.

All buildings must conform to sustainable construction principles which will be incorporated in guidance via the NWDA Sustainable Buildings Policy, go beyond minimum building regulation standards for energy, waste and water resource use and achieve at least a 'very good' BREEM rating.

- 5.26 Under AA3-3, actions that recognise built heritage assets and the improvement of the physical environment will enhance existing environmental resources. Although interventions to generate additional visitors to the region could increase carbon dioxide emissions from transport, the emphasis on the cultural offer of major towns and cities should ensure visitor development in those areas accessible by public transport and on bicycle/foot. Key tourist locations not currently well served by public transport should be supported through the implementation of green transport plans and possibly limited investment in public transport.
- 5.27 **OP4:** The focus of OP4 is primarily on the creation of more and better jobs and enterprise; however this will not be achieved at the expense of environmental sustainability objectives. The drive to support and sustain local employment can make a direct contribution to sustainability outcomes by decreasing resource inputs and harmful CO<sub>2</sub> emissions. However, the drive to support and sustain employment creation in areas of opportunity must consider the implications of increased pressure on these areas.
- 5.28 Projects will only be supported that can demonstrate they have taken all practicable measures to reduce negative environmental impacts arising as a result of the project, in order to realise a better environmental performance among new start-ups in the North West. Therefore, the package of assistance to start-ups and entrepreneurs will be integrated with the types of environmental management assistance/training provided under Action Area 1-3, including support for new start-ups to minimise energy consumption and maximize resource efficiency. The focus of AA4-2 on breaking down barriers to employment includes those related to transport. This Action Area contributes to environmental sustainability by inclusion of the promotion of low carbon public transport use and discouraging the extension of private car use.
- 5.29 Furthermore, under 4.3 all buildings must conform to sustainable construction principles which will be incorporated in guidance via the NWDA Sustainable Buildings Policy, go beyond minimum building regulation standards for energy, waste and water resource use and achieve at least a 'very good' BREEM rating. There may be a case for relaxing this requirement in the case of refurbishment of older buildings for which the costs of attaining a 'very good' or 'excellent' rating may be prohibitive. Other environmental sustainability measuring systems should also be taken into account utilising various tools such as the NW Sustainability Checklist for Developments.

#### *Strategic Environmental Appraisal*

- 5.30 Development of the NWOP is being undertaken in close conjunction with team of consultants (Ecodyn) undertaking a Strategic Environmental Assessment (SEA) of the NWOP. The purpose of the SEA is to:
- **Set the environmental context and objectives:** The report will establish the baseline information and decide on the scope.
  - **Develop and refine alternatives and assess effects:** The report will test the programme objectives against the SEA objectives to identify potential synergies and inconsistencies and develop strategic alternatives.

- **Monitor the significant effects** of implementing the Programme on the environment: The Report will devise the aims and methods for monitoring the effects of the programme and will help identify unforeseen effects of the programme.

5.31 The SEA considers the impacts that the OP might have on the natural environment and people within the region. The purpose of the SEA is to help make sure that the OP has as many positive effects as possible and that negative effects are avoided or reduced. This approach is consistent with the concept of sustainable development. The most widely used and recognised definition of Sustainable Development is that taken from the report 'Our Common Vision' produced by the World Commission On Environment and Development in 1987 (Brundtland Report):

*"Development that meets the needs of the present without compromising the ability of future generations to meet their own needs"*

5.32 The Government has also produced a definition of sustainable communities. Sustainable communities are:

*"Places where people want to live and work, now and in the future. They meet the diverse needs of existing and future residents, are sensitive to their environment, and contribute to a high quality of life. They are safe and inclusive, well planned, built and run, and offer equality of opportunity and good services for all."*

5.33 The SEA itself was subject to a twelve-week statutory consultation, and this took place alongside the statutory consultation on the NWOP. There has been a great effort to mainstream the environment within the NWOP and there appears to have been good communication between the NWOP authors and the SEA team to enable the various iterations of the NWOP to improve their "environmental credentials". Notwithstanding this, the overall message from the appraisal to date is that the NWOP will lead to slightly negative effects on the environment. This conclusion is supported by statutory SEA consultees.

5.34 Some of these negative effects could be reduced with improved mitigation measures, for example a requirement to use secondary materials in road building or refurbishment. However, there will be some activities the environmental effects of which cannot be fully or even partially mitigated through design or operational control. These activities will need help from elsewhere in the NWOP to reduce their effects.

## **Equality and Diversity**

### *Context*

5.35 The region has made great strides in recognising and valuing the diversity of its people, through development of the Regional Equality and Diversity Strategy - REDS (see Chapter 2). The diversity of the North West's people and communities is an economic as well as cultural and social asset. The region recognises this and the delivery of the Regional Equality and Diversity Strategy is one the key actions of the RES. Alignment with the REDS will promote a focus on promoting diversity as well as boosting economic participation rates for key disadvantage communities - some BME communities are still subject to discrimination and experience exclusion from the benefits of economic growth. This is reflected in low levels of skills, educational attainment, employment and entrepreneurship among certain communities in the North West.

This is an economic as well as a social concern. Poverty and lack of opportunity inhibits the region's potential growth. The region must continue to grow and strengthen its labour market.

*Programme Design and Strategy Development*

- 5.36 **OP1:** OP1 will deliver a larger and more durable base of business in the economy and create the new jobs that some communities badly need. The equality & diversity aspects of the Operational Programme are important here. Opportunities in new markets and products are often best exploited by new entrepreneurs and companies, often with new business models. These non-traditional developments can extend the reach of economic opportunities into priority groups of people such as BME communities, women, people with disabilities and those living in deprived communities. Support in each of the Action Areas will be required to consider how it can be configured to exploit this potential whilst maintaining its focus on improving the number of business capable of closing the productivity gap.
- 5.37 Under Action Areas AA1-1 and AA1-2 It will essential that all projects supported have suitable arrangements to ensure access to services for all under-represented groups and that there is no discrimination. The implications of the Gender Equality Duty is that there will need to positive steps taken to ensure that enterprise is encouraged and supported amongst women under AA1-1. Buildings will also comply with DDA regulations.
- 5.38 **OP2:** this Priority will deliver sustainable regeneration and higher living standards through long term economic growth, leading to new jobs among people from under-represented groups, as well as higher level technical and professional jobs.
- 5.39 Under each Action Area, it is essential that all projects supported have suitable arrangements to ensure access to services for all groups and that there is no inadvertent discrimination. Any support for graduates/undergraduate to work with SMEs (under AA2-1) will need to ensure support for access to premises for any people with disabilities. Under AA1-3, there needs to be particular recognition given to managers from under-represented groups, and the implications of the Gender Equality Duty is that there will need to positive steps taken to ensure that management and leadership development is encouraged and supported amongst women.
- 5.40 **OP3:** The factors which influence investment decisions should place strong importance on improving accessibility for local communities, thereby ensuring that local people benefit from new employment opportunities and reducing their need to travel. Equality and diversity issues around social and economic inclusion can also be addressed by helping people from underrepresented groups, for example minority ethnic communities, from worklessness into employment. Buildings will also comply with DDA regulations.
- 5.41 Under AA3-1 and AA3-2, any transport access improvements will need to be accessible and useable by all, particularly people with disabilities. Any visitor facilities improved under AA3-3 will need to be accessible to all (especially people with disabilities) and their use should be encouraged by groups who are under-represented as visitors/users.
- 5.42 **OP4:** Enterprise can achieve economic and social goals relating to equality and diversity. Action Area 4-1 will create opportunities for people to play an active role in the economy and society, by providing support for entrepreneurial activity (including social enterprise) in disadvantaged communities and creating greater personal opportunities for underrepresented groups. However, supporting groups with diverse and specialist needs (many of which are deep rooted social

problems, additional to direct business requirements) can be highly resource intensive. This will demand tailored intervention which is sensitive to the needs of the client group, and an awareness of the full range of complementary support available, for example by integrating ERDF intervention with ESF type activity.

- 5.43 It is essential that all projects supported have suitable arrangements to ensure access to services for all groups and that there is no inadvertent discrimination. Under AA4-1, there needs to be particular recognition given to developing enterprise among under-represented groups. The implications of the Gender Equality Duty is that there will need to be positive steps taken to ensure that enterprise is encouraged and supported amongst women under this activity area. This will include the need to ensure practical measures to access training and advice that are family friendly. Any buildings and sites developed under AA4-3 will need to be accessible and useable by all, particularly people with disabilities.

#### *Equality Impact Assessment*

- 5.44 An Equality Impact Assessment (EIA) has been undertaken on the Programme. The assessment is in line with the current and forthcoming national legal requirements to assess new policies and programmes for their relevance to the race, disability and gender equality duties and to ensure they help to:

- Eliminate Discrimination and Harassment
- Tackle disadvantage
- Promote equality of opportunity
- Promote good relations between different ethnic groups
- Promote positive attitudes towards disabled people
- Increase the participation of disabled people and other underrepresented groups in civic and community life.

- 5.45 The Structural Funds regulations also provide a key context, with article 16 of the Regulation 1083/2006, laying down general provisions for the funds, being particularly important with regard to the promotion of equality:

*"The Member States and the Commission shall ensure that equality between men and women and the integration of the gender perspective is promoted during the various stages of implementation of the Funds. The Member states and the Commission shall take appropriate steps to prevent any discrimination based on sex, racial or ethnic origin, religion or belief, disability, age or sexual orientation during the various stages of implementation of the Funds and, in particular, in the access to them. In particular, accessibility for disabled persons shall be one of the criteria to be observed in designing operations co-financed by the Funds and to be taken into account during the various stages of implementation."*

- 5.46 Another important influence, in terms of equality, is that of the European Social Agenda 2005-2010, a pillar of the Lisbon Growth and Jobs strategy, which focuses on promoting the social dimension of economic growth, including poverty, discrimination, inequality and fostering equal opportunities between men and women.

- 5.47 The Funds will also be delivered in line with the requirements of the Race Equality Duty, the Disability Duty, the Gender Equality Duty that comes into effect on 1 April 2007, DCLG's Disability Equality Scheme released on 4 December 2006, and The Employment Equality (Age) regulations 2006 as well as Article 16 of the objectives and general rules of assistance referred to above.
- 5.48 The purpose of the Equality Impact Assessment is to gather and review the evidence which will help to determine the likely impact of the programme on identified equality groups. Such evidence includes performance data on the equal opportunities CCT available under current NW Objective 1 and programmes; the CCT evaluation study undertaken on those programmes in August 2006, with its specific aim of making recommendations on the future treatment of the CCT agenda; and the relevant messages coming through the formal consultation on NWOP. The assessment is therefore undertaken alongside the NWOP preparation work so that this evidence can be used to inform and influence the development of the programme document. The EIA will then also consider how any negative effects on equality groups could be mitigated.
- 5.49 A first draft EIA was published on 6<sup>th</sup> March, and is currently being consulted upon by members of the CCT Implementation Group. The conclusions drawn from the EIA, whilst informing the NWOP, will also help the CCT working group, a subset of the NWOP Technical Advisory Group, prepare an implementation plan for taking forward the CCT agenda. Emerging recommendations are reflected in the subsequent sections of this Chapter.

## **Implementation and Delivery of CCTs**

### **Statutory Responsibilities**

- 5.50 Public Agencies that will play a key role in design, management and delivery of the OP (e.g. GONW, NWDA, NWRA, SRPs and LAs) already have to meet UK legal duties and standards in the promotion of equality and diversity and achievement of a high standard in environmental sustainability. Many organisations have achieved, or are working towards achievement of ISO 14001. Furthermore, all public authorities must comply with the Gender Equality Duty (GED), which comes into force in April 2007, which requires the promotion of gender equality and the elimination of gender discrimination. This requirement will also apply to all organisations that provide a public service under contract. Consequently, all public and private agencies involved in the NWOP, from governance through to delivery must demonstrate that their employment practices are in line with the GED and other statutory obligations in relation to equality and diversity.

### **Implementation and Delivery Principles**

- 5.51 Effective embedding of the CCTs within programme activities will require appropriate governance arrangements, project application/selection processes and monitoring, and appropriate specialist support. It will also require CCT resources to be deployed appropriately to foster integration of CCTs in strategic design, commissioning and delivery. Whilst many of the public agencies responsible for implementing the OP will have specialist in-house resources, it will still be necessary to fund some CCT resources via the Technical Assistance Priority to ensure the CCTs are fully embedded and mainstreamed within the programme, the applicant and beneficiary communities. The art 59 body will be recruiting relevant specialist staff, working with programme executive staff, applicants and the governance structure. Key principles are:

- Horizontal themes need to be 'designed into' the programmes to ensure mainstreaming takes place
- Documentation on the CCTs should be simple and brief, with a greater use of signposting to the variety of good materials available already on the CCTs, and electronic toolkits.
- The Technical Assistance Strategy will include the CCT component within the programme executive.

### **Governance**

5.52 Programme governance and management arrangements are currently under development. The Programme's governance structures will include relevant CCT resources and high levels of CCT expertise and support throughout. Key principles are:

- Expertise in the CCT agenda is required, and will be co-located with the Programme Executive.
- The upskilling of all Programme Executive staff in the implementation of CCTs is necessary to ensure that that support is mainstreamed, and overcome the problem of 'experts' moving on and leaving a gap in support.
- All those working on Programmes and projects should receive meaningful input on the CCTs. Newsletters, seminars and toolkits should be considered, as in the 2000-6 programmes.
- The Governance Structure should include CCT representation to ensure the integration of CCTs into the strategy and programme delivery elements. The representative(s) would need to ensure the engagement of different stakeholder groups, particularly those not well considered in the last programmes (e.g. disabilities, and transgender people): the gender duty requires consideration of the needs of women and men.

### **Project Application and Monitoring of Delivery**

#### *Project Application*

- 5.53 The integration of CCTs across the OP will be achieved by the inclusion of suitable criteria being applied consistently to all project applicants. Project applicants will be required to demonstrate how they will integrate the CCTs into their activities funded by the programme. The potential impact of all investments, whether or not they are specifically designed to tackle equality and diversity or environmental sustainability, will be assessed.
- 5.54 The application of criteria for environmental sustainability and equality and diversity will ensure that regulatory requirements are fulfilled across the programme and that only those investments that meet agreed standards will be approved.
- 5.55 The use of minimum standards, based on current UK legislation, will be established for types of activities, if appropriate. The CCT criteria are a mechanism for enhancing the quality of projects taken forward, not merely a checklist that must be ticked to secure investment. The use of grading applications to enable projects to demonstrate 'better practice' or 'best practice' may also be considered, as will the possibility of relating financial (or other benefit) incentives to encourage the application of higher standards in CCTs across the NWOP. As part of the CCT Implementation Plan relevant toolkits and guidance will be developed. Key principles are:

- The application stage should be a negotiated process which enables applicants to make realistic and helpful commitments to the integration of the CCTs into their projects. CCT elements must therefore be incorporated into the very early stages of planning for projects.
- There will be a need for specialist support post-appraisal and advice on project evaluation and monitoring
- Support should be provided to SMEs receiving support under the Programme.

#### *Monitoring of Delivery*

- 5.56 There will be a strong emphasis on reporting progress on the implementation of CCT at project and programme level, so that actual results become more visible. As with other aspects of project activities, underperformance in relation to CCTs could be subject to claw back in line with standard practice across the programme.

#### **Role of CCT Specialists**

- 5.57 All appropriate levels of the Programme governance structure (e.g. strategy design, commissioning of activity and monitoring of delivery) will need to be able to access CCT expertise. Relevant CCT officers will be recruited to the Programme Executive. The role will be to
- Provide an input to strategic decision making and investment frameworks
  - Support the project development process from early stage concept through appraisal and contract to ongoing evaluation and monitoring.
  - Develop appropriate support tools for the programme such as toolkits and workshops to assist project development. It is intended that there will be a single set of regionally agreed guidance/toolkits fit for purpose for the new Programme, linked to all stages of the project appraisal process. These will build on best practice from existing and other materials (for example, the regionally agreed Sustainability Checklist for Developments and Integrated Appraisal Toolkit) to ensure projects get professional and practical advice from acknowledged CCT sources.
  - Train others involved in appraisal, monitoring and support for projects.

#### **CCT Indicators and Targets**

- 5.58 For there to be a demonstrable impact on the ground, a robust approach to measuring NWOP performance in relation to both CCTs is required. The NWOP itself will contain a small number of key indicators and quantified targets relating to environmental sustainability and equality and diversity at the overall programme level and for each of the Programme Priorities, based on central CLG guidance. These will be monitored by the programme executive as part of the delivery of the programme.
- 5.59 In addition to this, a monitoring framework with secondary indicators is being developed to underpin delivery. This will include further output and results indicators to capture the full range of investments and impact of the NWOP. In terms of the environmental sustainability, indicators will include brownfield land, number of buildings meeting BREEAM standards (or relevant indicator from the NWDA's Sustainable Buildings' Policy which investments will have to comply with – this includes stepped reduction over time in CO<sub>2</sub>, waste and water) and a CO<sub>2</sub> emissions

monitoring tool. The latter is an innovative approach within the programme, but would include data from **all** projects in relation to areas such as increase in renewable energy, reductions in energy consumption and reduction in waste. The NWOP also contains the ability to invest directly in sustainable energy production in relation to sites and premises. The CO<sub>2</sub> tool is in development and will be agreed by the PMC or relevant sub committee.

- 5.60 Regarding equality and diversity, guidance will be provided to all applicants and the Programme executive. In terms of monitoring, where relevant, outputs will be broken down by gender in line with the regulations. This is already included in the output and results targets for the programme and its priorities. Further development is underway in relation to establishing indicators for BME, disabled and age groups – this will be led by the equality and diversity cross cutting theme officer.

## 6. Financial Allocations

€	2007	2008	2009	2010	2011	2012	2013	TOTAL
<b>Merseyside</b>	96,575,860	77,095,064	56,796,405	35,654,962	13,645,145	13,918,048	14,196,408	307,881,892
<b>NW</b>	60,244,235	61,449,120	62,678,103	63,931,665	65,210,298	66,514,504	67,844,794	447,872,719
<b>TOTAL</b>	156,820,095	138,544,184	119,474,508	99,586,627	78,855,443	80,432,552	82,041,202	755,754,611

	Community Funding (ERDF)	National Counterpart	Indicative Breakdown of National Counterpart		Total Funding	Co-financing Rate	For Information	
			National Public Funding	National Private Funding			EIB Contributions	Other Funding
<b>Priority 1</b>	204,895,648	204,895,648	194,650,866	10,244,782	409,791,296	50%		
<b>Priority 2</b>	204,895,648	204,895,648	194,650,866	10,244,782	409,791,296	50%		
<b>Priority 3</b>	156,606,158	156,606,158	140,945,542	15,660,616	313,212,316	50%		
<b>Priority 4</b>	159,126,972	159,126,972	151,170,623	7,956,349	318,253,944	50%		
<b>Priority 5</b>	30,230,185	30,230,185	30,230,185		60,460,370	50%		
<b>TOTAL</b>	755,754,611	755,754,611	711,648,082	44,106,529	1,511,509,222			

Table 6.2b Priority Axes Sources of Funding (€) - Merseyside								
	Community Funding (ERDF)	National Counterpart	Indicative Breakdown of National Counterpart		Total Funding	Co-financing Rate	For Information	
			National Public Funding	National Private Funding			EIB Contributions	Other Funding
<b>Priority 1</b>	61,576,378	61,576,378	58,497,559	3,078,819	123,152,756	50%		
<b>Priority 2</b>	61,576,378	61,576,378	58,497,559	3,078,819	123,152,756	50%		
<b>Priority 3</b>	93,903,977	93,903,977	84,513,579	9,390,398	187,807,954	50%		
<b>Priority 4</b>	78,509,883	78,509,883	74,584,389	3,925,494	157,019,766	50%		
<b>Priority 5</b>	12,315,276	12,315,276	12,315,276		24,630,552	50%		
<b>TOTAL</b>	307,881,892	307,881,892	288,408,362	19,473,530	615,763,784			

Table 6.2c Priority Axes Sources of Funding (€) - North West								
	Community Funding (ERDF)	National Counterpart	Indicative Breakdown of National Counterpart		Total Funding	Co-financing Rate	For Information	
			National Public Funding	National Private Funding			EIB Contributions	Other Funding
<b>Priority 1</b>	143,319,270	143,319,270	136,153,307	7,165,964	286,638,540	50%		
<b>Priority 2</b>	143,319,270	143,319,270	136,153,307	7,165,964	286,638,540	50%		
<b>Priority 3</b>	62,702,181	62,702,181	56,431,963	6,270,218	125,404,362	50%		
<b>Priority 4</b>	80,617,089	80,617,089	76,586,235	4,030,854	161,234,178	50%		
<b>Priority 5</b>	17,914,909	17,914,909	17,914,909		35,829,818	50%		
<b>TOTAL</b>	447,872,719	447,872,719	423,239,719	24,633,000	895,745,438			

<b>Table 6.3:</b>	<b>Coding of the form of financing dimension.</b>	<b>ERDF in area with transitional support €</b>	<b>ERDF in area without transitional support €</b>	<b>Total ERDF Support</b>
<b>Code</b>	<b>Form of financing</b>			
1	Non-refundable aid	277,093,703	376,213,084	653,306,787
2	Refundable aid ( <i>loan, interest subsidies, guarantee</i> )	6,157,638	14,331,927	20,489,565
3	Venture capital ( <i>public capital holding, venture capital fund</i> )	24,630,551	57,327,708	81,958,259
4	Other form of financing			
		<b>307,881,892</b>	<b>447,872,719</b>	<b>755,754,611</b>

<b>Table 6.4:</b>	<b>Coding of the territory dimension.</b>	<b>ERDF in area with transitional support €</b>	<b>ERDF in area without transitional support €</b>	<b>Total ERDF Support</b>
<b>Code</b>	<b>Territory</b>			
1	Urban centre			
2	Mountains			
3	Islands			
4	Sparsely populated areas			
5	Rural areas (not covered by 01-04)			
6	Former EU external borders			
7	Outermost region			
8	Cross-border cooperation area			
9	Transnational cooperation area			
10	Interregional cooperation area			
0	No application	<b>307,881,892</b>	<b>447,872,719</b>	<b>755,754,611</b>

## 7. Co-ordination

### Introduction

- 7.1 ERDF is one of four European Funds that the North West (and other regions) is able to utilise. The other funding streams are:
- European Social Fund (ESF)
  - European Agricultural Fund for Rural Development (EAFRD)
  - European Fisheries Fund (EFF)
  - In addition, the region is able to draw on European Investment Bank (EIB) funding.
- 7.2 It is an EU regulatory requirement (Article 9 General Regulation 1083/2006) that there should be complementarity and consistency between interventions financed by these funding streams. The NWOP must set clear demarcation criteria in order to avoid any unnecessary overlap and duplication of eligible activities. This demarcation is typically in relation to the types of investments and actions. However, there is also a spatial element, most notably between ERDF and EAFRD/EFF, each of which can potentially support the same types of activities in rural and coastal areas.
- 7.3 The NWOP must therefore demonstrate which activities will be funded by ERDF and which activities will be funded by other funds, and how the NWOP will complement other programmes.
- 7.4 The demarcation arrangements are complicated by the fact that there is no definitive list of eligible and non-eligible ERDF activities. The activities that are currently regarded as ineligible reflect guidance from the Commission, along with conventions established during previous Programmes. There needs to be a close working relationship between the NWDA and sub-regional delivery bodies for EAFRD, the ERDF programme executive and the ESF programme executive in GONW to ensure linkages in commissioning frameworks and potential double bidding by applicants are avoided.

### European Social Fund

- 7.5 Whilst there will be an ERDF Competitiveness OP in each UK (and indeed EU) region, there will be separate national ESF programmes for Skills and Employment (funded through ESF) co-ordinated in the UK by DWP. The England ESF Programme is being delivered at regional level via Regional ESF Plans. The Regional Framework for the North West of England 2007-2013 is the relevant plan for this region. Development of the NW Regional ESF Framework has been ongoing, following on from consultation on the national ESF Plan, which closed at the end of January 2007. The ESF Operational Plan for England has now been approved and the Regional ESF Framework is being finalised.
- 7.6 The primary purpose of ESF interventions is to tackle issues related to worklessness and economic inactivity, and to boost the skills of the existing workforce. ESF is the main EU source of financial support for efforts to develop employability and human resources. The vast majority

of UK ESF funding will be administered and spent through co-financing arrangements with (predominantly) the LSC and JobCentre Plus, although there is (limited) scope for additional co-financing organisations and direct commissioning of activities.

7.7 As with ERDF, the *Lisbon Agenda* sets the overall European policy framework under which the ESF Operational Programme for England has been developed. The key Lisbon goals of generating stronger, sustainable economic growth and creating more and better jobs have led to a focus of ESF activity upon:

- Attracting more people into employment, especially disadvantaged groups and the economically inactive; and
- Improving the skills of potential and current workers to improve individual progression and business competitiveness.

7.8 This focus is reflected in the two ESF Priorities contained in the UK National Strategic Framework and the draft England ESF Operational Plan:

- **Priority 1:** Extending Employment Opportunities; and
- **Priority 2:** Developing a Skilled and Adaptable Workforce.

7.9 All activities in the Regional ESF Framework must be framed under the Priorities contained in Operational Plan for England, but also be aligned with the six skills priorities for the North West which are set out in the RSP's Statement of Skills Priorities (and which are in effect a description of how key RES themes and actions relating to skills, employment and learning will be taken forward within the region). The Statement is also intended to provide the strategic context for the deployment of ESF spending on skills, employment and learning in the North West.

7.10 The ESF programme priorities for spend do not fully align with the aspirations of Regional Skills Partnerships (particularly around higher level skills) and will instead focus in the main (although not exclusively) on supporting the Government's Skills for Life strategy, which focuses on basic skills (i.e. up to NVQ Level 2), with a limited amount of funding at Level 3 and above.

7.11 It is essential that linkages between ESF and ERDF are developed, ensuring that the potential benefits arising from the complementary nature of interventions are realised. This includes the approach to strategic design, implementation and management. Linkages between ERDF and ESF will be particularly important as the ESF delivery through the CFOs will underpin activities in the ERDF programme. Also, because the NWOP has defined ESF type activities in AA1-2, if necessary for the satisfactory implementation of an ERDF project. Areas of duplication between ESF and ERDF must be avoided and learning must flow between the two programmes.

7.12 Key areas of integration between ESF Priority 1 and the NWOP include:

- Linking access to employment actions to the jobs being created, both in terms of sectors/occupations (and their skills requirements) and spatial areas;
- Improvements in transport accessibility and improved accessibility of high unemployment areas to areas of employment growth;
- Targeted, holistic programmes of employment creation in prioritised regeneration areas characterised by low employment rates;

- Support for enterprise in deprived areas and among disadvantaged groups, including social enterprise.

7.13 Key areas of integration between ESF Priority 2 and the NWOP include:

- Integration between ERDF and ESF funded workforce development activity;
- Linkages between the types of training and the employment growth (sectors/occupations, areas and locations) being fostered through the ERDF programme.

### **European Agricultural Fund for Rural Development (EAFRD)**

7.14 In June 2005, the European Agricultural Fund for Rural Development (EAFRD) was approved to replace the European Agricultural Guidance and Guarantee Fund (EAGGF) as funds for rural development under the second pillar of the Common Agricultural Policy (CAP) for the period 2007 – 2013. The available measures for funding have been divided between three main headings (or axes). There will also be a fourth, cross cutting (or implementation) axis under which the LEADER approach to bottom up locally led projects will be used to implement measures of the other axes.

7.15 The Rural Development Plan for England (RDPE) mirrors these axes, as in turn does the draft North West Regional Implementation Plan (RIP):

- Axis 1: Making agriculture and forestry more competitive and sustainable
- Axis 2: Enhancing the environment and countryside
- Axis 3: Enhancing opportunity in rural areas
- Axis 4: Leader Approach

7.16 The delivery of the RIP will be led by three key regional agencies: the Northwest Regional Development Agency (Axis I and III and LEADER approach); Natural England and the Forestry Commission (Axis II). The four themes will guide the activities within the RIP and have been used to help ensure that key regional priorities are included.

7.17 Sub-Regional Partners have been invited to identify and develop areas that are consistent with the regional priorities identified and are working together to develop the LEADER approach. Leader local action groups are currently being developed. The goal will be to demonstrate a true community-led approach to rural regeneration across all Axes. 5% of the total value of EAFRD in the England programme has to be delivered by the Leader method, but Leader can also be used to deliver activity in Axis I and III. For the Northwest, this will equate to approximately £17m of EAFRD which is to be delivered through this method.

7.18 NWOP resources will be available to support to the rural areas of the North West. This will include support for business development, support for disadvantaged rural communities, in particular in terms of addressing worklessness and access to employment opportunities. It is not enough, therefore, to simply assume that rural needs can be addressed through the RDPE Programme.

7.19 Much of the delivery in the North West RIP will be co-ordinated through the sub-regional partnerships and the NWDA, in the same way as envisaged for sub-regionally focused actions in

the OP. Given that the ERDF Programme will be integrated across urban and rural areas, guidance on demarcation will therefore be needed for SRPs. It is also a requirement of the Commission that demarcation between them is clearly set out.

- 7.20 The clearest potential for overlap between ERDF and EAFRD is Axis 3, given its emphasis on rural enterprise, accessibility to work and skills. Support for rural enterprise creation and development of micro-enterprises has a high potential for overlap with the ERDF OP Priority 1, Action Area 1, Developing New Enterprise. ERDF will not directly support agricultural and forestry activities. This largely removes any potential for overlap with Axis 1 and Axis 2 (as support under Axis 2 is targeted on farmers and forestry and environmental activity).
- 7.21 The NSRF states that in general, EAFRD should be focussed on supporting diversification of rural economies at the local level, including support for diversification by farmers into non-agricultural activities (i.e. leisure/tourism), stimulating enterprise and supporting existing micro-businesses, and improving skills and employment opportunities for low-paid rural workers.
- 7.22 ERDF is therefore mainly targeted on addressing rural issues as part of interventions that seek to boost wider sub-regional and regional economic competitiveness, for example:
- Developing the knowledge-based economy at a strategic level.
  - Providing support for supply chains
  - Supporting enterprise in rural areas (including social enterprises), and the establishment of high value-added businesses before major CAP reforms take hold
  - Enhancing competitiveness among SMEs.
  - Promoting resource efficiency among SMEs.
  - Building sustainable communities.
  - Conserving and enhancing heritage assets
  - Transport schemes to link areas of worklessness with Regional Strategic Sites and other areas of strong employment growth
  - Supporting rural tourism through the Regional Tourism Strategy

### **European Fisheries Fund**

- 7.23 The current Financial Instrument for Fisheries Guidance (FIFG) will become part of mainstream national activity under the Common Fisheries Policy, and is to be replaced by the European Fisheries Fund (EFF).
- 7.24 EFF seeks to promote a UK fishing sector that is sustainable and profitable in the long term, thereby supporting coastal communities dependent on the fishing industry and promoting social inclusion where this support cannot be provided elsewhere. The fund can be used to promote investment in innovation and technology, environmental best practice, developing efficient supply chains and in port infrastructure and operations.
- 7.25 The EFF has yet to be finalised, but it is expected to contain the following four priorities:

- Adaptation of the fishing fleet
- Investment in aquaculture
- Measures of common interest
- Sustainable development of coastal areas

7.26 As yet, the EFF's budget has not been decided and Defra is still considering how to deliver EFF in England.

7.27 **Complementarity with other Funds**

7.28 The use of resources from the European Regional Development Funds in England will need to be carefully managed, to prevent any overlap or duplication of funding, and to ensure complementarity and optimal value for money. It is essential that we avoid any double funding. Equally, we must avoid a situation in which a high quality project is unable to attract funding. This applies both to other domestic funding streams, and to the closely linked European funding streams<sup>53</sup>.

7.29 The following table summarises the priorities for the different European funding streams available in rural areas in England over the 2007-2013 Programming period:

ERDF	EAFRD	ESF	EFF
<p><b>For Convergence regions:</b></p> <p>To promote innovation and knowledge transfer</p> <p>To stimulate enterprise and business development</p> <p>To improve accessibility and connectivity</p> <p><b>For competitiveness and employment regions:</b></p> <p>To promote innovation and knowledge transfer</p>	<p>To build profitable, innovative and competitive farming, food and forestry sectors, that meet the needs of consumers and make a net positive contribution to the environment</p> <p>To improve the environment and countryside</p> <p>To enhance opportunity in rural areas, in a way that harnesses and builds upon environmental quality</p> <p>To mobilise the</p>	<p>Extending employment opportunities by tackling barriers to work faced by people who are unemployed or disadvantaged in the labour market</p> <p>Developing a skilled and adaptable workforce by training people who lack basic skills and good qualifications</p>	<p>To provide a long-term sustainable future for the fishing industry through promoting investment in innovation and technology</p> <p>To promote environmental best practice in the fisheries sector</p> <p>To tackle social exclusion and promote long-term prosperity in communities traditionally dependent on the fishing industry where this support cannot be provided</p>

<sup>53</sup> The EFF national plan, associated axes and activities at regional level have not yet been approved. Once approved, demarcation between EFF, EAFRD and ERDF will be added to this programme document. A notification will be made in accordance with procedures set out in Article 6 of the regulation (EC) 1974/2006.

<p>To stimulate enterprise and support successful business</p> <p>To ensure sustainable development, production and consumption</p> <p>To build sustainable communities</p>	<p>development potential of rural areas in a way that stimulates innovation to the benefit of the local area</p>		<p>elsewhere</p>
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**7.30 Complementarity and demarcation between ERDF, EAFRD and EFF**

- 7.31 England's Regional Development Agencies will deliver the ERDF, and the socio-economic elements of the RDPE (with the exception of the Regional Development Agency for London, which does not receive any EAFRD support).
- 7.32 The Regional Development Agencies will ensure coherence in the day to day management of the socio-economic support under the RDPE and the ERDF. They will ensure that work carried out at the regional level under the two funds is complementary, and robust project development and selection processes will ensure that any duplication is avoided. Administrative arrangements are in place to ensure complementarity and co-ordination, for example, common secretariats; exchange of personnel on regional management committees; exchange of information from databases. The RDAs will also be required to work closely with the Leader groups to ensure demarcation on the ground. These processes begin with the clear establishment of demarcation criteria at the regional level.
- 7.33 In terms of EFF and ERDF, there are two potential areas of overlap: first in relation to the EFF priority to tackle social exclusion in communities depending on the fishing industry and second, in terms of diversification of the local economy. Fishing is not one of the sectors/clusters defined in the NWOP in priority 1, but individual fishing related businesses could be supported from within priority 2, if they are were benefiting from support to introduce innovations and/or access to the R&D infrastructure. The EFF eligible areas are focussed on a small area of the North West only around the Lancashire and Cumbrian coast – there could be proposals for ERDF investments through priority 4 to assist the diversification of the local economy. Any proposed ERDF or EFF investment in the designated EFF area of the NW will be discussed by the NWDA, DEFRA and the MFA to ensure that there is no duplication of funding.
- 7.34 The table below sets out the way in which this will be delivered between EAFRD and ERDF in the North West region.

## North West Competitiveness Operational Programme 2007-2013

Table 7-1: Co-ordination between ERDF and EAFRD and EFF				
Operational Programme Priority	Field of Activity – (list of measures eligible under another Community support instrument)	Types of operations EAFRD will support	Types of operations EFF will support	Demarcation criteria for rural/coastal areas
OP1: Stimulating Enterprise and Supporting Growth in Target and Markets	<p>AA1.1: Mentoring: providing expert ongoing coaching, advice and counselling support to early stage entrepreneurs from experienced mentors with proven business track-record in national and international markets.</p> <p>Advice &amp; Guidance: a structured programme of enterprise support for entrepreneurs, alongside Business Link as the gateway to accessing other services. This support needs to be delivered to nationally recognised and accredited standards.</p> <p>Financial Support for New Starts: where a gap in the start-up finance market has been proven and evaluated against existing solutions additional forms of finance support could be supported. This would in the form of grants, loans or equity as defined within the regional investment framework. This will abide by the principles in table 3.3<sup>54</sup>.</p> <p>Specialist Business Premises: where failure in the market for specialist business premises can be proven gap-funding schemes to support private sector development and management could be supported. This might include incubation facilities and managed workspace, including highly flexible facilities for very nascent businesses.</p> <p>Development of and support for social enterprises that are likely to fulfil the high growth criteria through the above activities.</p> <p>This Action Area will also support innovative approaches to tackling issues related to cultural barriers to enterprise and the promotion of self-employment as a career option: promotional and marketing activities which raise the profile of enterprise to current employees, the unemployed and to students/learners (in FE/HE).</p>	<p>Diversification into non-agricultural activities: Support farm, beneficiary must be member of the farm household diversification - direct support to budding rural enterprises in the form of start up grants</p> <p>Support for micro businesses, employing less than 10, small scale investments in lagging districts or other areas showing indications of rural disadvantage</p>	<p>EFF will support fish processing, marketing and aquaculture, including premiums for young fishermen for purchase of first vessel. Such enterprise support under EFF covers enterprises employing up to 750 employees or recording a turnover of under €200 million.</p>	<p>ERDF will support enterprise and business start-up support in all parts of the region with the potential for high growth, except those engaged in agriculture, forestry, fishing and fish processing (which will be supported by EAFRD and EFF).</p> <p>ERDF will not support micro-enterprises unless these have the potential for high growth and are in priority sectors. Other rural SMEs (i.e. micro-enterprises, those not in sectors targeted by ERDF) will be supported through EAFRD. The EFF may provide premiums for young fishermen for the purchase of their first vessel.</p>
	<p>AA1.2: Centres of Excellence<sup>55</sup>: specialist premises, facilities and/or incubators which allow businesses, sector support, and R&amp;D excellence to</p>	<p>Training for farming and forestry businesses. Non accredited training level IV NVQ and specialist bespoke business sector training</p>	<p>Promotion of investment in innovation and technology for the fishing industry</p>	<p>ERDF will support higher value added activity in target regional sectors, including food, energy and environmental technologies; supply</p>

<sup>54</sup> This could include access to a range of instruments specifically designed to support micro enterprises and SMEs as part of the EIB/EIF JEREMIE initiative. The UK government is currently conducting an analysis of access to finance provision and a decision will be taken in 2007 about whether JEREMIE will apply in the UK.

<sup>55</sup> These interventions may support the development and delivery of the DTI technology support programmes through the new Technology Strategy Board (TSB).

**North West Competitiveness and Employment ERDF Operational Programme 2007-13**

	<p>collaborate (physically or virtually) – such as the national Bio-Manufacturing Centre funded under the Merseyside Objective 1 programme. Any incubation support should be linked to, and build on, the existing 20 incubators in the region. This will be a mix of capital and revenue investment.</p> <p>Sectorally focused business advice: specialist mentoring, advice and guidance consistent with the Business Link targeted service</p> <p>Supply-chain development: assisting groups of businesses to understand future market trends, exploit emerging opportunities and implement sector standards.</p> <p>Financial support (venture capital): in line with the start-up support in AA1-1 for start-ups.</p> <p>Networking: supporting collaboration between businesses with mutual interests or complementary expertise.</p> <p>Human capital investments relevant for the identified targeted sectors, especially related to leadership and specialist technical skills focused directly on increases in productivity in SMEs within the targeted sectors through flexible 'bite sized' opportunities in areas such as impact of globalisation, strategic planning, business management, organisational change, CSR and impact of climate change. This investment will be integral to an ERDF project within the action area and not freestanding ESF type provision (see 1.15).</p> <p>Promotion of trade opportunities, direct assistance to help more companies export and inward investment, after-care &amp; trade missions</p>	<p>and facilitation - non-mainstream services and learning opportunities i.e. those not provided by LSC and other mainstream providers.</p> <p>Co-operation between primary producers in agricultural &amp; forestry, e.g. clusters of activity – energy producers or processors etc</p> <p>Diversification into non-agricultural activities: Support farm, beneficiary must be member of the farm household diversification - direct support to budding rural enterprises in the form of start up grants</p> <p>Support for micro businesses, employ less than 10, small scale investments in lagging districts or other areas showing indications of rural disadvantage</p>	<p>Development of efficient supply chains in the fishing industry, with strong links between fishermen, growers, processors and customers</p>	<p>chain activities through established regional channels for sector development support. ERDF will not support primary producers or the fishing industry which is supported through EFF. The EFF may provide premiums for young fishermen for the purchase of their first vessel.</p> <p>ERDF will support integrated business support activities aimed at knowledge intensive and high growth non-retail SMEs in all parts of the region.</p> <p>SMEs in the agricultural, primary food processing and forestry industries, and rural SMEs in industries not identified as target sectors in the Operational Programme (i.e. biomedical, energy/environmental technologies; advanced engineering and materials; food &amp; drinks; digital &amp; creative; and business &amp; professional services) will be supported by EAFRD, which can also support bespoke and technical where this is not available through mainstream programmes (i.e. ESF, national funding).</p> <p>Fishing industry SMEs will be supported through EFF.</p> <p>ERDF will not support micro-enterprises unless these have the potential for high growth and are in priority sectors. Other rural SMEs (i.e. micro-enterprises, those not in sectors targeted by ERDF) will be supported through EAFRD</p> <p>ERDF will support infrastructure developments aimed at new and high technology clusters, excluding those in the agriculture/forestry/fishing sectors, which will be supported</p>
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**North West Competitiveness and Employment ERDF Operational Programme 2007-13**

				through EAFRD and EFF (fish processing).
	<p>AA1.3 Business resource and waste efficiency (BREW) support to SMEs including support for environmental audits, to improve business efficiency and reduce carbon footprint. Support for the development of low-carbon impact technologies relevant to North West businesses and commercial markets. Promotion and use of alternative energy sources, use of renewables and best practice in SMEs. Initiatives in support of sustainable procurement where this supports the programme's aspirational target of a low carbon economy Awareness raising: to future proof SMEs in relation to environmental legislation (EU directives and to domestic UK legislation) and support for business planning to develop business response; of the risks and opportunities presented by climate change (including the potential implications for different market and sectors) and support for business planning to develop business response</p>	<p>Provision of training and knowledge transfer activity aimed at the farming and forestry sector</p> <p>Support for woodland owners &amp; managers to improve capacity of woodland to provide environmental &amp; social benefits and yield renewable products. Adding value to agricultural and woodland products to enable economic return.</p> <p>Development of new products, processes and technologies, e.g. renewable energy, biomass.</p>	Promotion of environmental best practice in the fisheries sector	<p>ERDF may fund small scale actions demonstrated in renewable energy and biomass field if these cannot be funded by the EAFRD. EFF only will support the promotion of best environmental practice in the fisheries sector.</p> <p>ERDF will support CO2 reduction programmes and activities except agri-food and agri-forestry products for renewable energy, which will be supported through EAFRD. ERDF will also support environmental technology installation in SMEs, except for farms, which will be supported through EAFRD.</p> <p>Commercialisation of technologies related to renewable energies will be demarcated - small-scale commercialisation of renewable technologies for the benefit of rural SMEs will be funded through ERDF. This will not include any training activity. EAFRD will however be available to support training related to the exploitation of those technologies relating to land-use industries.</p>
OP2: Exploiting Innovation and Knowledge	<p>AA2.2: A gateway service offering information access and brokerage arrangements to help SMEs access and be aware of R&amp;D opportunities Support to SMEs to define their R&amp;D needs to help stimulate demand for R&amp;D, including working to stimulate greater commitment to investment in new product &amp; process development, and provision of facilities to support such R&amp;D transfer to SMEs Development of appropriate 'access to finance' and grant mechanisms to support R&amp;D, new product and process development and enhanced business performance processes Collaborative R&amp;D programmes between R&amp;D institutions and</p>	N/A	N/A	<p>ERDF will support the exploitation and commercialisation of knowledge technologies with no geographical limitations excluding knowledge transfer activity and commercialisation related to land-use technologies (farming and forestry sectors), and food supply.</p> <p>ERDF will support infrastructure for facilities to support innovation wherever most appropriate, including rural and coastal areas. Support for</p>

**North West Competitiveness and Employment ERDF Operational Programme 2007-13**

	<p>businesses developing new products and processes to improve business performance, including facilities where necessary</p> <p>Development of knowledge transfer mechanisms from business to business in order to harness non-HEI research expertise</p> <p>Delivery of improved links and placement schemes of graduates within SMEs to encourage knowledge transfer and innovation.</p>			<p>this activity will not be available through either EAFRD or EFF.</p> <p>ERDF will support integrated business support activities aimed at knowledge intensive and high growth non-retail SMEs in all parts of the region, except SMEs engaged in agricultural, primary food processing, fishing and forestry industries.</p>
	<p>AA2.2:</p> <p>Intensive diagnostic support to assist SMEs understand and articulate their innovation potential and requirements, including entrepreneurial and leadership capabilities to support this</p> <p>Brokerage assistance to help businesses seeking innovation and ICT support to select appropriate providers</p> <p>Development of appropriate 'access to finance' and grant mechanisms for businesses to access financial support, advice and intelligence from qualified, accredited specialist providers to implement innovation, new processes and products in their operations</p> <p>Provision of innovation &amp; ICT facilities and activities aimed at SMEs, including development of leadership and management capacity, to stimulate demand for innovation, technology and the efficient use of ICT in companies</p> <p>Promotion of trade opportunities, direct assistance to help more companies export and inward investment, after-care &amp; trade missions:</p>	<p>Diversification into non-agricultural activities: Support farm, beneficiary must be member of the farm household diversification - direct support to budding rural enterprises in the form of start up grants</p> <p>Support for micro businesses, employ less than 10, small scale investments in lagging districts or other areas showing indications of rural disadvantage</p>	<p>Promotion of investment in innovation and technology for the fishing industry</p>	<p>Innovation and R&amp;D, including research relating to land-based industries except investment in innovation and technology for the fishing industry which will be supported through EFF. EAFRD will not support research.</p> <p>ERDF will support infrastructure for facilities to support innovation wherever most appropriate, including rural and coastal areas. Support for this activity will not be available through either EAFRD or EFF.</p> <p>ERDF will support integrated business support activities aimed at knowledge intensive and high growth non-retail SMEs in all parts of the region, except SMEs engaged in agricultural, primary food processing, fishing and forestry industries.</p> <p>ERDF will not support micro-enterprises unless these have the potential for innovation, high growth and are in priority sectors. Other rural SMEs (i.e. micro-enterprises, those not in sectors targeted by ERDF) will be supported through EAFRD. EFF will support fish processing SME start-ups.</p>

**North West Competitiveness and Employment ERDF Operational Programme 2007-13**

				ERDF will support integrated innovation business support activities aimed at knowledge intensive and high growth non-retail SMEs in all parts of the region, except SMEs engaged in agricultural, primary food processing, fishing and forestry industries.
OP3: Creating the Conditions for Sustainable Growth	<p>AA3.1 New or improved surface access to air, sea ports and the city centre in Merseyside with an emphasis on sustainable public transport, walking and cycling, rail freight and, exceptionally, highways investment (Merseyside only)</p> <p>The development of public transport facilities in order to provide improved services to international visitors and workers accessing these employment locations; this includes rail links to the sub-region's major gateways, multimodal transport schemes and 'intelligent transport' systems (using ICT to control and manage infrastructure and to provide high quality, up to date information to travellers - allowing best use to be made of networks both for private and public transport, facilitating links between transport modes, and mitigating against adverse environmental impacts, of travel, reducing congestion and improving air quality) (Merseyside only)</p>	N/A	N/A	ERDF will support sustainable urban transport developments as set out in the OP.
	<p>AA3.2: Interventions that support the delivery of the Regional Strategic Sites, including the clearance of derelict land and treatment of contaminated land, provision of site servicing and related site infrastructure; Site-specific access into Regional Strategic Sites and site-specific public transport facilities where this is part of a sustainable transport strategy for the site; Activities that support the development of the high quality business environments, including premises, landscaping, public realm and gateway features, energy and resource use and management, including green infrastructure, and site specific IT/broadband infrastructure. Support for marketing and promotion of specific sites whose role is supporting innovation and cluster development.</p>	N/A	N/A	<p>ERDF will support a prioritised list of regional strategic sites, some of which may be in rural areas. EAFRD and EFF will not support these.</p> <p>ERDF will support energy cogeneration and CO2 reduction measures related to regional strategic sites.</p> <p>ERDF will not support general environmental protection measures, which will be supported through EAFRD and EFF as appropriate.</p>
	<p>AA3.3: Protection and enhancements of natural and cultural heritage assets, in</p>	Encouragement of tourism - small scale support. Promote heritage,	Protecting the marine, lake and	ERDF will invest in larger scale

**North West Competitiveness and Employment ERDF Operational Programme 2007-13**

	<p>line with regional strategic priorities as set out in the region's Tourism Strategy;</p> <p>Limited capital investment in <u>new</u> visitor or tourism facilities and attractions in the Merseyside phasing-in region, in line with sub-regional strategic priorities;</p> <p>Specific support for Liverpool 2008 Capital of Culture, including spreading the benefits regionally – this will be linked to the legacy activity post 2008, including the themed years (2009 environment and 2010 innovation)</p> <p>Promotion and marketing of natural and cultural heritage assets to promote sustainable tourism</p> <p>Green transport plans (see below) for accessing natural and cultural heritage sites to promote sustainable tourism, including limited investment in sustainable transport</p>	<p>wildlife, etc – green- activities.</p> <p>Small scale local initiatives relating to rural tourism, heritage and basic services</p> <p>Small scale local initiatives relating to rural heritage and basic services in remoter areas.</p>	<p>coastal environment to maintain its attractiveness, and protecting and capitalising on the natural and architectural heritage</p>	<p>projects (signature projects) in line with the Region's Tourism Strategy. Smaller scale projects in rural areas (i.e. not signature projects) will be funded through EAFRD. EFF will support the protection of marine, lake and coastal environment.</p>
<p>OP4: Growing and Accessing Employment</p>	<p>AA4.1:</p> <p>Enterprise stimulation activity: this will help to build a stronger entrepreneurial culture.</p> <p>Expert support and counselling: to assist in the development of the business idea, business launch and ongoing support to secure sustainable growth of small and micro businesses.</p> <p>Outreach work: with disadvantaged individuals and groups, linking into mainstream providers via Business Link.</p> <p>Signposting: to expert forms of business advice and guidance, for example around specialist business finance, sector-specific support, ICT support land and property advice.</p> <p>Specialist business advice: tailored to the specific needs of target disadvantaged individuals and groups.</p> <p>Financial support: special start-up financial support, where alternative sources of finance do not already exist, including micro-credit and VCLF instruments.</p> <p>Social enterprise: working with pre-start, emergent and existing social enterprises to create a new social enterprise, where demand exists, building management capacities and supporting diversification into commercial income streams/trading to support, develop and enhance the sustainability and viability of social enterprises.</p> <p>In the context of this Action Area the start-up period is regarded as up to 36 months from the start of trading.</p>	<p>Support for micro businesses, employ less than 10, small scale investments in lagging districts or other areas showing indications of rural disadvantage</p> <p>Basic services: small scale grants with emphasis on economic output, e.g. social enterprise, ICT etc</p>	<p>Tackling social exclusion and promoting long term prosperity in communities traditionally dependant on the fishing industry, where this cannot be provided elsewhere</p>	<p>ERDF will support integrated business support activities aimed generating more enterprises in areas (which are mainly urban in nature) of high worklessness and low enterprise, except SMEs engaged in agricultural, primary food processing, fishing and forestry industries.</p> <p>EAFRD will be concentrated in lagging districts or other areas showing indications of rural disadvantage. EFF will support coastal areas and fishing communities.</p>

**North West Competitiveness and Employment ERDF Operational Programme 2007-13**

<p>AA4.2: Job brokerage: using a wide range of intermediaries to meet local needs. Local employment agreements and employment and recruitment practices: that maximise employment benefits from planned developments (during construction and at completed development) and existing major firms, and which challenge employers' attitudes and promote good practice in the recruitment of excluded groups. Outreach provision to help excluded groups access employment opportunities and business support generated throughout the Programme Low-carbon local transport schemes, tailored to individuals and linking people in disadvantaged areas to jobs using existing infrastructure and encouraging walking and cycling. This would include promotional activities to encourage higher use of public transport, personalised travel plans, support for public transport provision which is better aligned to where people live and when they need it, bus corridors and involving local people in decision making.</p>	<p>Animateurs skills acquisition: Capacity building for very local rural partnerships</p>	<p>Tackling social exclusion and promoting long term prosperity in communities traditionally dependant on the fishing industry, where this cannot be provided elsewhere</p>	<p>ERDF will not support capacity building for local rural partnerships which will be supported via EAFRD. Coastal and fishing communities will be supported by ERDF only if support cannot be provided via the EFF.</p>
<p>AA4.3 Support for development of employment sites providing employment for residents of target areas, including environmental improvements, energy and resource use management and site specific IT/Broadband infrastructure which help to create an appropriate business environment and support the development of knowledge based industries at the local level  Brownfield land reclamation  Integrated projects for urban and rural regeneration with a specific focus on support for entrepreneurship, local employment generation and community economic development, including facilities which support social enterprise, managed workspace and common services for businesses in target areas</p>	<p>Access to farm &amp; forest land for management purposes. Water management, e.g. irrigation, drainage</p>	<p>N/A</p>	<p>ERDF will not support general environmental protection measures, which will be supported through EAFRD and EFF as appropriate.  ERDF will support energy cogeneration and CO2 reduction measures related to development of employment sites.</p>

## European Investment Bank Initiatives

7.35 The Commission and the EIB have set out proposals for instruments to support the implementation of the next programme period. DCLG are to give advice on whether, and how, to include provision for:

- **JASPER** (Joint Assistance in Supporting Projects in European Regions). This is a new service for authorities in the Member States covered by the Convergence Objective - especially those eligible for support under the Cohesion Fund. The service will help Member States to identify and prepare major projects for submission to the Commission. The service will be managed by EIB with a dedicated team of experts based in the Member States. Not relevant for the NWOP.
- **JEREMIE** (Joint European Resources for Micro to Medium Enterprises). This is a micro-financing facility within the EIB drawing on resources from both Structural Funds and the EIB. The objective would be to create a new source of capital for the kind of businesses (e.g. start-ups) that often have difficulty accessing finance.
  - The European Investment Fund (EIF) is to carry out a gap analysis and evaluation of venture capital instruments within the UK. Part of this will look at the need, or otherwise, for JEREMIE type instruments within the UK. The EIF will be conducting this exercise on a UK basis. Within England the Small Business Service (SBS) will liaise with the EIF direct and coordinate any input to the exercise from an England and English regions perspective. Regional partners should not contact the EIF direct.
  - The EIF are to start the gap analysis of financial provision in mid September 2006 and aim to finish and publish the analysis by December 2006. The conclusions of the analysis will be available but whatever the outcome it does not presuppose that the UK either will, or will not, decide to proceed with JEREMIE with the UK. A policy decision will be taken at the national level during 2007 as to whether JEREMIE implementation is necessary or desirable.
  - The NWOP will include venture capital as an eligible financial instrument under both OP1 and OP2, irrespective of the UK Government's decision on the use of JEREMIE. The Programme does not therefore contain any commitments to use JEREMIE; instead it refers in the Priorities chapter to the possibility of using JEREMIE should the UK Government approve its implementation.
- **JESSICA** (Joint European Support for Sustainable Investment in Cities Areas). This is an optional facility offering Member States and Managing Authorities the possibility to allocate funds from Operational Programmes to Urban Development Funds or Holding Funds. The NWOP and regional partners wish to examine the opportunity provided under Jessica in relation to the NWOP, before making a decision to its use as a delivery vehicle for ERDF.

Further guidance on all three are awaited from the UK government is expected.

## 8. Phasing-in of Merseyside

### Position of Merseyside in the NWOP

- 8.1 As part of the arrangements for the phasing in of former Objective One areas, the NWOP contains a ring-fenced ERDF (and ESF) allocation for Merseyside. The region therefore had the option of choosing between producing one integrated region-wide OP or producing two separate OPs (one for Merseyside and one for the rest of the region). A strategic decision was taken by regional partners, supported by partners in Merseyside, to produce a single integrated OP. The NWOP is therefore a truly regional programme with a single over-arching set of region-wide objectives. The Programme's Priorities and Action Areas and interventions will apply in Merseyside as they do elsewhere in the region, and OP3, Action Area 3-1 (Exploiting the Economic Potential of Major Gateways in Merseyside) is Merseyside-specific.
- 8.2 It is important to note that the former Merseyside Objective 1 area excludes the Borough of Halton, which is part of the Greater Merseyside partnership arrangements. The ring-fenced allocation therefore also excludes Halton. The Sub-Regional Action Plan for Merseyside developed by sub-regional partners and the sub-regional partnership body (The Mersey Partnership) both cover Halton.
- 8.3 The Programme therefore refers to Merseyside in relation to the ring-fenced allocation and Greater Merseyside in relation to sub regional partnership and strategy arrangements.

### Merseyside Ring-Fenced Allocation

#### Overview

- 8.4 The ring-fenced ERDF allocation for Merseyside is 308m euros (in current prices), which is far greater on a per capita basis than for the rest of the North West. Due to the higher level of funding (per head of population), the NWOP provides greater scope to tackle key sub-regional priorities in Merseyside and contains some indicative actions that are Merseyside-specific. These interventions are determined under the same Priority structure as for the rest of the North West.

#### Annual Profile of ERDF

- 8.5 For the overall Programme period, the level of ERDF available in Merseyside is much higher on a per capita basis than for the rest of North West. However, it is a regulatory requirement that for the final three years of the Programme (2011-13) the annual level of spending (per head of population) in Merseyside must be in line with that of the rest of the region. As part of this phasing-in process, the spending profile within Merseyside falls sharply year-on-year during the period 2007-10 (see Table 8-1), before remaining broadly constant during the final three years of the Programme.
- 8.6 Consequently, some €266m (85%) of the Merseyside allocation must be committed and spent by the end of 2010. Partners therefore face a challenge in ensuring that the overall pattern of spending in Merseyside matches this anticipated profile in line with the N+2 principle, which states that EU funds must be spent no later than two years after the year in which it is committed, unless the EC agrees to a relaxation of these regulations.

8.7 A key issue is around the likely absorption capacity of projects in Merseyside. There is clearly a risk of de-commitment, and this higher level of resources in the short term will not lend itself to longer term support programmes but to:

- One-off capital projects, so long as these are almost delivery ready at present;
- One-off revenue funded support;
- The completion of existing projects funded by the Objective One Programme.

#### **Use of Convergence Objective Flexibility**

8.8 Merseyside, as a phasing-in area, can use ring-fenced ERDF resources to fund Convergence Objective activities, so long as this agreed by UK Government and the EC, as set out in ERDF Regulations Article 5. A wider range of physical infrastructure activities are eligible for support under the Convergence Objective (art 4) than under the Competitiveness Objective. Action Area 3.1 would use this flexibility for targeted transport investments, focused on the economic gateways of Merseyside (Ports, Airport and City Centre) and predominantly on sustainable urban transport to support the safe and efficient movement of goods, services, and people within Merseyside.

#### **Allocation of Resources across the Programme**

8.9 There will be a slightly different allocation of resources in Merseyside compared to the rest of the region, with relatively more for OP3 and OP4, reflecting a greater need to tackle worklessness and employability issues. Merseyside Partners have recommended the following option for allocating resources across the NWOP Priorities:

- OP1 - 20%
- OP2 - 20%
- OP3 - 30.5%
- OP4 - 25.5%
- OP5: 4%.

8.10 This was a similar split to that suggested by the NWDA. Other responses were also put forward (HEIs preferred a 'competitiveness' option whilst VCS bodies preference was for a 'Sustainable Communities' option).

8.11 The proposed funding regime for the Merseyside phasing-in area are summarised in Table 8-1. The table is an abbreviated version of the full figures which are contained in appendix C-2 table.

Table 8-1: ERDF Allocation for NWOP						
Priority	%	€ms	£ms	Lisbon Earmarking		
<b>Merseyside</b>						
OP1: Stimulating Enterprise and Supporting Growth in Target Sectors and Markets	20.0%	€ 61.6	£42.7	100%	£42.7	
OP2: Exploiting Innovation and Knowledge	20.0%	€ 61.6	£42.7	100%	£42.7	
OP3: Creating the Conditions for Sustainable Growth	30.5%	€ 93.9	£65.1	10%	£6.5	
OP4: Growing and Accessing Employment	25.5%	€ 78.5	£54.4	75%	£40.8	
OP5: Technical Assistance	4.0%	€ 12.3	£8.5	100%	£8.5	
	<b>100%</b>	<b>€ 307.9</b>	<b>£213.4</b>		£141.2	<b>66%</b>

### Key Challenges and Opportunities in Greater Merseyside

- 8.12 The Greater Merseyside Action Plan, produced on behalf of Greater Merseyside partners by the Mersey Partnership, sets out those investment programmes that will contribute to the continued renaissance of the Greater Merseyside sub-region. It covers a three-year period from April 2006-09, highlighting how economic development spending will be delivered in the sub-region. The Action Plan contains 16 economic development priorities covering skills, employment, enterprise, innovation, physical infrastructure, inward investment, tourism, sustainable development, sustainable communities and health. Each priority contains a number of projects, aligned with RES Action Areas.
- 8.13 Greater Merseyside has GVA of £16.1 billion, 19% of the regional total, and a population of 1.5 million. The sub-region has concentrations in chemicals and public sector administration, and a developing services sector. The city of Liverpool is the major city and has 447,000 residents. The most significant features are the importance of the public sector in GVA, the low importance of manufacturing and the significance of financial and business services overall. In relative terms Greater Merseyside has an above regional average concentration of GVA and employment in the financial services sector, but its shares of GVA in business services are similar to the regional average and its employment share lower.
- 8.14 Greater Merseyside, and especially Liverpool, has enjoyed a marked turnaround in performance and prospects in recent years, and is currently one of the fastest growing parts of England. Growth in GVA, GVA per capita and employment are currently outpacing the regional and national averages, whilst the rate of new firm formation in 2004 was above that of the North West.
- 8.15 The Action Plan and the socioeconomic assessment contained within the OP demonstrate that Greater Merseyside contains a significant number of the region's key assets. However, on many key socio-economic indicators, Greater Merseyside still lags the rest of the region and has large areas of concentrated and long standing deprivation. Key opportunities and challenges are summarised below:

### Key Opportunities

- Strong concentrations of high added-value activity in internationally competitive sectors: life sciences; digital/media; advanced engineering (including automotive; chemicals; maritime; and tourism. Evidence of renewed private sector confidence.
- A strong commercial property market including high-quality strategic business locations including Liverpool city centre (which is benefiting from a £900m redevelopment of Paradise Street, the largest retail scheme in Europe), Wirral Docklands, Parkside, Prescot Business Park, Atlantic Gateway and Widnes Waterfront.
- Significant knowledge assets in life sciences and health research at Liverpool's three Universities, the Daresbury Science and Research Park, Liverpool Science Park, the National Bio-manufacturing Centre and the Liverpool School of Tropical Medicine.
- Key gateway for trade and people into the North through Mersey Ports and Liverpool John Lennon Airport. The Mersey Gateway construction project will further enhance connectivity to key national markets.
- Mersey Rail network and inter-city rail and motorway connections provide excellent local connectivity and links to the rest of the UK. Critical mass of cultural, sporting, heritage, leisure, natural environment and retail assets.
- European Capital of Culture 2008 status as a key catalyst for the region and UK.
- Key business tourism destination.
- Momentum from the previous Objective One Programme, including investment in physical assets such as the Kings Dock Arena

### Key Challenges

- High concentrations of economically inactive people (higher than any other English metropolitan area); worklessness remains some 6 percentage points above the North West average and ten percentage points above the UK average.
- Productivity performance remains poor. Average skill levels are lower than the North West and UK averages, and there are large concentrations of workers with low/no qualifications. Greater Merseyside would need another 52,000 people qualified at NVQ Level 4 to address the higher level skills gap with the UK average.
- Large concentrations of deprivation; Knowsley and Liverpool are in the three most deprived local authority wards in the UK, according to the 2004 IMD, and suffer from low economic inactivity and poor quality housing. Liverpool contains more than one-fifth of the most deprived Super Output Areas in England.
- In spite of recent good business start-up performance, business density remains low. The sub-region would need another 11,600 new businesses for the business stock (measure in terms of VAT registrations per 1,000 residents) to match the North West average.
- The sectoral composition of the economy needs to change much more quickly to exploit wider opportunities in fast-growing sectors.

## Merseyside-Specific Actions in the OP

- 8.16 Socio-economic analysis from the Merseyside Economic Review (2007) highlights the key policy agenda for Merseyside (key statistics are below). The predominant aim must be to accelerate the rate of growth of economic wealth, with an ambition over the next 15 to 20 years to equal or exceed the UK average. Analysis in the Merseyside Economic Review highlights the need to accelerate the business birth rate, particularly of firms operating in high growth markets and with high productivity rates. The Merseyside economy needs to bring into economic participation greater numbers of residents, and improvements are vital in the proportions of the population with both basic entry level skills and the higher level qualifications required by high growth high productivity firms.
- 8.17 Socio-economic analysis on benefit dependency, crime and Pathways impact points to the need for Merseyside to redouble efforts to address deep and often intergenerational areas of worklessness and invalidity. Finally, the Merseyside Economic Review points to the requirement for continued major public and private sector investment into developing a 21<sup>st</sup> century environment and connectivity system.
- 8.18 Merseyside's major connectivity assets the Ports of Liverpool and Liverpool John Lennon Airport have strategic plans in place which set out the agenda for expansion and economic growth as do the City Centre. We need to support these major ambitions, deliver on the enabling infrastructure including rail improvements, and alongside this contribute effectively to our responsibilities under the Climate Change Action Plan. Below are a series of tables which set out key socio-economic statistics for Merseyside to provide further information in relation to chapters 2 – 4.
- 8.19 Specifically in relation to proposed transport investments the focus will be on the priorities set out in the agreed Local Transport Plan, which emphasises the supporting role of transport in relation to economic development. The LTP covers all modes of transport and envisages a 'fully integrated safe transport network for Merseyside which supports economic and social regeneration'. Within the context of the NWOP, this means focusing on facilitating access to the labour market through a concentration on public transport, cycling and walking and, exceptionally, highways investments. It also means controlling congestion so that economic growth is not impeded. The LTP has agreed targets for the constraint of traffics growth of 9% overall and 7% in the city. The NWOP will support the LTP in two ways: first through targeted transport investments in relation to the major gateways (the Ports of Liverpool, the Airport and the City Centre) in action area 3.1 and through support for transport schemes which link deprived communities with employment opportunities for local people (action area 4.2).
- 8.20 As stated previously, the NWOP provides a region-wide framework and set of interventions. Consequently, any interventions eligible for funding in the wider region will be applicable in Merseyside. However, the level of resource available in Merseyside will enable some Merseyside-specific interventions to be implemented. These are described below:
- OP1, Action Area 1-2 (Regional Sectors) will also include support for key sectors in Merseyside identified in the SRAP, and which are not otherwise covered by the six RES target sectors (e.g. maritime and tourism).
- 8.21 As outlined above, some of the ring fenced ERDF allocation can be used to fund Convergence Objective activities. These activities can feature in the NWOP in Merseyside as follows:

- OP3, Action Area 3-1 (Exploiting the Economic Potential of Major Gateways in Merseyside) is a Merseyside-specific Action Area, which can include convergence objective activities such as spending on rail links to the sub-region's major gateways, multimodal transport schemes and 'intelligent transport' systems. Any transport infrastructure schemes must be aligned with the Merseyside Local Transport Plan (LTP), which is fully aligned with key Merseyside strategies
- 8.22 There are other infrastructure activities currently envisaged in the NWOP for which Merseyside's higher allocation of resources may foster a higher proportion of investment in capital projects:
- Tourism Facilities under OP3, AA3-3 (Region's Visitor Offer and Image)
  - Environmental improvement and public realm works under OP4, AA4-3 (Employment Creation in Areas of Regeneration Need)
- 8.23 Merseyside partners may wish to allocate ERDF to JESSICA projects. This initiative provides Member States and Managing Authorities with the option to transform ERDF into repayable and recyclable assistance for urban renewal and development.

### **Integration with ESF**

- 8.24 The need to align regional ESF activities with the NWOP has already been highlighted. In terms of developing the Regional ESF Framework, it will be important that full account is taken of the developing Liverpool/Merseyside City-Region Employment and Skills Strategy (CES), in developing ESF priorities to tackle skills/worklessness issues in the phasing-in area.
- 8.25 Given the regional allocations and a 60:40 split of Merseyside's allocation between ERDF and ESF (as contained in the National Strategic Reference Framework), partners in Merseyside will wish to ensure that the opportunity to spend up to 10% of the ERDF allocation on ESF type activity is retained, in line with Article 34.2, Regulation 1083/2006, in order that the higher-level skills shortages highlighted above (and which are a key priority in the CES) may be addressed.
- 8.26 Arrangements for management of the Merseyside ESF phasing-in allocation, and linkages with the ERDF Phasing-in Board, are currently being discussed by partners in the region and with DWP.

### **Governance and Delivery Arrangements in Merseyside**

#### **Governance**

- 8.27 Partners in Merseyside and the wider region have developed a set of 'agreed' principles concerning governance structures and management arrangements for the overall NWOP and the Merseyside ring-fenced allocation within it. At this stage, it is intended that a single Programme Monitoring/Regional Committee will be established which will have strategic responsibility for both the ERDF and ESF Programmes for the whole region. It is also intended that the PMC is supported by two governance bodies: a Phasing-In Board; and a Performance Management Board. These arrangements will need to be consistent with any implementing provisions agreed between UK Government and the EC (see the next chapter on implementing provisions).
- 8.28 Merseyside partners have expressed support for this proposal, and will work with regional partners to ensure that the arrangements for the management and governance of the

Programmes will reflect the specific needs of the Phasing-In region. There is substantial existing expertise in Merseyside gained during administration of the O1 Programme, and Merseyside partners wish this to be retained in the new Programme.

### Delivery

- 8.29 Decision-making may be delegated to the sub-regional level wherever practicable, particularly in those aspects of the NWOP where the fit to Single Programme investments may be less strong (e.g. sustainable communities, a key issue among partners in Merseyside).
- 8.30 In such circumstances, it would be intended that the Mersey Partnership (TMP) will be responsible for developing strategic investment proposals that are aligned with NWOP Priorities and the Merseyside SRAP. It is also envisaged that TMP would also take responsibility for commissioning activity and selecting projects in line with these strategic investment proposals.
- 8.31 It should be noted that these arrangements are subject to the Implementing provisions allowing such delegation as well as the agreement of the PMRC, the managing authority and the article 59 body.

### Socio-Economic Statistics: Merseyside

- 8.32 Below are a set of additional socio-economic statistics for the Merseyside phasing-in area.

**Table 8-2: Merseyside GVA Performance (Source: ONS)**

	Total GVA (£m)			% Change	
	1995	2003	2004	2003-2004	1995-2004
Merseyside	10,822	16,096	17,001	5.6%	57.1%
NW	67,114	96,828	102,366	5.7%	52.5%
UK	640,416	985,558	1,044,165	5.9%	63.0%

**Table 8-3: Merseyside Per Capita GVA Performance (Source: ONS)**

	Per Capita GVA (£)			% Change	
	1995	2003	2004	2003-2004	1995-2004
Merseyside	7,671	11,798	12,448	5.5%	62.3%
1.1 NW	9,829	14,230	14,994	5.4%	52.5%
UK	11,037	16,549	17,451	5.5%	58.1%

**Table 8-4: Merseyside Population Change – Mid Year Estimates 04-05 (Source: ONS)**

	2005	2004	Change 2004-2005	% Change 2004-2005
Merseyside	1,485,900	1,484,700	1,200	0.1
NW	6,846,200	6,827,200	19,000	0.3

**Table 8-5: Metropolitan Area Employment Rate - Working Age (%rate) (Source: ONS)**

	2004	2005	Change 2004-2005
Merseyside	68.1	68.2	0.1
NW	72.7	72.6	-0.1
GB	74.5	74.3	-0.2

**Table 8-6: Merseyside Unemployment – JSA Claimant Rates 2005 – 2006 (% of working age population)**

	2005	2006	Change
Merseyside	3.7	4.3	0.6
NW	2.5	2.9	0.3
GB	2.4	2.6	0.2

**Table 8-7: Population qualified to at least level 2, by age**

	16-19	20-24	25-29	30-39	40-49	50-retirement age
Merseyside	52.0%	68.2%	65.0%	55.1%	51.3%	38.8%
NW	55.2%	68.1%	69.0%	59.6%	54.4%	43.4%
England	58.0%	68.9%	67.9%	60.6%	55.9%	45.8%

**Table 8-8: Changes in Metropolitan areas VAT business stock, 2002-2006**

	2002	2003	2004	2005	2006	02/03	03/04	04/05	05/06	02/06
Greater Glasgow	32,385	32,370	32,620	32,920	33,425	-0.05%	0.77%	0.92%	1.53%	3.21%
Greater Manchester	61,360	61,655	62,405	63,095	64,340	0.48%	1.22%	1.11%	1.97%	4.86%
Inner London	134,025	134,795	137,730	140,225	142,525	0.57%	2.18%	1.81%	1.64%	6.34%
<b>Merseyside</b>	<b>24,845</b>	<b>24,925</b>	<b>25,545</b>	<b>26,050</b>	<b>26,655</b>	<b>0.32%</b>	<b>2.49%</b>	<b>1.98%</b>	<b>2.32%</b>	<b>7.29%</b>
South Yorkshire	25,040	25,200	25,805	26,255	26,625	0.64%	2.40%	1.74%	1.41%	6.33%
Tyne and Wear	16,855	17,095	17,485	17,750	18,145	1.42%	2.28%	1.52%	2.23%	7.65%
West Midlands	58,825	58,950	59,160	59,180	59,635	0.21%	0.36%	0.03%	0.77%	1.38%
West Yorkshire	50,320	50,460	51,535	52,260	53,185	0.28%	2.13%	1.41%	1.77%	5.69%

**Table 8-9: Usual method of travel to work**

	% of all those in employment living in area						
	Car	Motor-cycle	Bicycle	Bus / Coach	National Rail	Other Rail	Walk
Merseyside	75	*	*	11	4	*	8
<i>Northwest</i>	<i>77</i>	<i>1</i>	<i>2</i>	<i>7</i>	<i>2</i>	<i>*</i>	<i>10</i>
<i>England</i>	<i>71</i>	<i>1</i>	<i>3</i>	<i>7</i>	<i>5</i>	<i>2</i>	<i>10</i>

**Table 8-10: Estimated traffic flows for all motor vehicles by local authority: Million vehicle kilometres**

	Merseyside	North West	England
2004	8,827	56,548	428,660
2005	8,973	56,427	429,705
Change '04-'05	1.7%	-0.2%	0.2%

**Table 8-11: Local and regional estimates of Carbon emissions (CO<sub>2</sub>) 2004**

	Industry & Commercial CO <sub>2</sub> (Kt)	Domestic CO <sub>2</sub> (Kt)	Road transport CO <sub>2</sub> (Kt)	Land use change CO <sub>2</sub> (Kt)	Total CO <sub>2</sub> (Kt)	Popn. (000s)	Total CO <sub>2</sub> (tonnes) per capita	Domestic CO <sub>2</sub> (tonnes) per capita
UK Total	245,107	155,140	150,471	-1,942	548,777	58,785	9.34	2.64
NW	26,494	17,526	16,793	338	61,151	6,730	9.09	2.60
<i>Merseyside</i>	<i>4,620</i>	<i>3,725</i>	<i>2,469</i>	<i>33</i>	<i>10,846</i>	<i>1,480</i>	<i>7.33</i>	<i>2.52</i>

## **Chapter 9**

### **IMPLEMENTING PROVISIONS**

#### **CONTENTS**

##### **1. REGULATORY CONTEXT**

##### **2. MANAGING AUTHORITY CERTIFYING AUTHORITY, AUDIT AUTHORITY AND INTERMEDIATE BODIES**

Managing Authority: Roles and Functions

A 59(2) Intermediate Body: Roles and Functions

A 59(2) Intermediate Body: Organisation

Certifying Authority: Roles and Functions

Audit Authority: Roles and Functions

Management and Control: description of systems

##### **3. PARTNERSHIP AND COMMITTEE STRUCTURE**

General

Programme Monitoring Committee

Duties of the Programme Monitoring Committee

Sub-committees and working-groups of the PMC

##### **4. MANAGEMENT AND CONTROL SYSTEM**

Proportionality

Global Grants and A 42 Bodies

Selection of Operations

##### **5. COMPUTERISED EXCHANGE OF DATA**

##### **6. MONITORING ARRANGEMENTS AND SYSTEMS**

General

Annual reports and final reports

## **7. EVALUATION ARRANGEMENTS AND SYSTEMS**

Ex ante and Strategic Environmental Assessment; interim and ex post

## **8. FINANCIAL IMPLEMENTATION**

Financial contributions by the Funds

Differentiation of rates of contribution

Technical Assistance

Community budget commitments

De-commitments

## **9. FINANCIAL FLOWS AND PAYMENTS**

General

Financial Flows

Payments

Use of Euro and conversion rates

## **10. FINANCIAL MANAGEMENT AND CONTROL ARRANGEMENTS**

General

Organisation

Accounting Systems

Documentation

Audit

Irregularities and Financial Corrections

## **11. INFORMATION AND PUBLICITY**

## **12. SUPPLEMENTARY OBJECTIVES**

Sustainable Development

Gender equality and equal opportunities

Major projects

Complementarity with other Funds

European Social Fund

European Agricultural Fund for Rural Development

### **13. USE OF RESERVES**

National Performance Reserve

National Contingency Reserve

### **14. FINANCIAL ENGINEERING**

### **15. STATE AID**

# NORTH WEST ERDF REGIONAL COMPETITIVENESS AND EMPLOYMENT OPERATIONAL PROGRAMME - 2007/13

## **IMPLEMENTING PROVISIONS**

### **1. REGULATORY CONTEXT**

In accordance with the requirements of Article 37(1)(g) of Council Regulation (EC) No 1083/06 of 11 July 2006, this chapter sets out the implementation provisions for the North West European Regional Development Fund Regional Competitiveness and Employment Operational Programme (“the OP”).

These have been developed taking into account the requirements of Council Regulation (EC) No 1083/06, which lays down general provisions about the Structural Funds; Council Regulation (EC) No 1080/06, which lays down specific provisions about the types of activity that may be financed by the European Regional Development Fund; and Commission Regulation (EC) No 1828/2006, which sets out rules for the implementation of the Council Regulations.

The implementing provisions will be subject to revision where necessary to reflect any subsequent regulations adopted by the Council or the Commission concerning the ERDF. All articles quoted in the text are those of Council Regulation (EC) No. 1083/06, except where otherwise stated. In the event that the implementing provisions are found on any point to be inconsistent with any provision of the Structural Funds Regulations, the meaning or effect of the Regulations shall prevail.

### **2. MANAGING AUTHORITY, CERTIFYING AUTHORITY, AUDIT AUTHORITY, AND INTERMEDIATE BODIES**

#### **Managing Authority: Role and Functions**

A system of management and control of the implementation of the OP will be set up in accordance with Article 58.

The Managing Authority (MA), whose functions are set out in Article 60, is responsible for managing and implementing the OP in accordance with the principle of sound financial management and the requirements of the Structural Funds Regulations.

The MA for the OP is the Secretary of State for Communities and Local Government (SSCLG). The address is Eland House, Bressenden Place, London SW1E 5DU, England, United Kingdom. The functions of the MA not entrusted to an intermediate body will be carried out by officials of the Department of State headed by SSCLG (the Department for Communities and Local Government) who administer European policy and programmes, presently entitled European Policy and Programmes Division, under the responsibility of SSCLG.

#### **A 59(2) Intermediate Body: Roles and Functions**

Article 59(2) authorises the Member State to designate one or more intermediate bodies to carry out some or all of the tasks of the managing or certifying authority under the responsibility of that authority. [ The Secretary of State, for the UK Government, proposes to designate a single intermediate body (hereafter referred to as the A 59(2) body) for the OP. The A 59(2) body is the Northwest Regional Development Agency, which is a regional development agency established and regulated by the Regional Development Agencies Act 1998.

The tasks of the MA to be entrusted to the A 59(2) body are, subject to the reservation of specified functions for performance by the MA (as set out on page 7), all of the functions specified in Article 60, namely:

- (a) ensuring that operations are selected for funding in accordance with the criteria applicable to the OP and that they comply with applicable Community and national rules for the whole of their implementation period;
- (b) verifying that the co-financed products and services are delivered and that the expenditure declared by the beneficiaries for operations has actually been incurred and complies with Community and national rules; verifications on-the-spot of individual operations may be carried out on a sample basis in accordance with the detailed rules to be adopted by the Commission in accordance with the procedure referred to in Article 103(3);
- (c) ensuring that there is a system for recording and storing in computerised form accounting records for each operation under the OP and that the data on implementation necessary for financial management, monitoring, verifications, audits and evaluation are collected;
- (d) ensuring that beneficiaries and other bodies involved in the implementation of operations maintain either a separate accounting system or an adequate accounting code for all transactions relating to the operation without prejudice to national accounting rules;
- (e) ensuring that the evaluations of OPs referred to in Article 48(3) are carried out in accordance with Article 47;
- (f) setting up procedures to ensure that all documents regarding expenditure and audits required to ensure an adequate audit trail are held in accordance with the requirements of Article 90;
- (g) ensuring that the certifying authority receives all necessary information on the procedures and verifications carried out in relation to expenditure for the purpose of certification;

- (h) guiding the work of the monitoring committee and providing It with the documents required to permit the quality of the implementation of the OP to be monitored in the light of its specific goals
- (i) drawing up and, after approval by the monitoring committee, submitting to the Commission the annual and final reports on implementation;
- (j) ensuring compliance with the information and publicity requirements laid down in Article 69;
- (k) providing the Commission with information to allow it to appraise major projects.

The A 59(2) body will be responsible for providing a secretariat function to make administrative arrangements for the performance of the MA tasks and to assist the PMC. The A 59(2) body will carry out MA tasks in accordance with the management and control system established under Article 58 and guidance and directions issued by the MA. The MA will provide suitable training to the A 59(2) body. The A 59(2) body will also be responsible for ensuring that revenue generating projects are supported in accordance with Art 55.

Concerns about the performance of functions by the A 59(2) body, whether relating to the standard of performance or other matters, may be addressed in various ways. The MA will be empowered to issue directions relating to the exercise of the MA functions. Directions may require functions to be exercised in a specified manner or place restrictions on the way in which they are carried out.

The Secretary of State, for the UK Government, may withdraw the A 59(2) body's designation as an intermediate body, taking back full responsibility for the performance of MA tasks, or may vary the allocation of tasks (taking back or changing the scope of specified tasks). The Secretary of State may entrust tasks to a different body designated under Article 59(2). The Secretary of State will consult the A 59(2) body before deciding to take such steps and will inform the Commission of the action that has been taken.

The UK Government will ensure that the system of management and control and all other management and control documents, which govern the relationship between the MA and the A 59(2) body, are amended as appropriate to reflect any changes to the role of the A 59(2) body and that the Commission is notified of the amendments.

The MA will consult the A 59(2) body before issuing directions and guidance on matters relating to the performance of intermediate body functions.

The MA tasks not entrusted to the A 59(2) body (reserved by the Member State for performance by the MA) are tasks that can only be carried out by a national authority or on an inter-regional (England only) basis, particularly because they involve the coordination of matters requiring uniform practice for OPs or communication at national level with the Commission.

The reserved tasks include:

- i. providing guidance and instruction, as appropriate, on the interpretation of the rules and criteria contained in the Structural Funds Regulations and in documents issued by the Commission over the programming period in relation to the ERDF;
- ii. providing the contractual terms on which ERDF support is to be given, including, where relevant, state aid advice;
- iii. determining and issuing national eligibility rules;
- iv. providing guidance and instruction, as appropriate, on the management and control framework, accountancy rules to be followed by grant beneficiaries and others involved in with the implementation of operations, systems to be used for the maintenance of accounts and the other records, information and publicity requirements, including monitoring, and any other matters relating to the management and of the OP as necessary;
- v. establishing written standards and procedures for verifications undertaken by the A 59(2) body in compliance with Article 13.2 of Commission Regulation 1828/2006, and ensuring that the A 59(2) body keeps records for each verification, stating the work performed, the date and the results of the verification, and the measures taken in respect of the irregularities detected thereby, and obtaining assurance that the monitoring and verification activities are adequately carried out in accordance with that Regulation;
- vi. prescribing the information to be provided to the Certifying Authority in relation to expenditure verification and verification procedures, the form in which this information is to be provided and how frequently it is to be provided;
- vii. appointing the Chair of the Programme Monitoring Committee (PMC) and being a member of the PMC;
- viii. receiving evaluations, annual and final implementation reports and submitting them to the Commission;
- ix. assisting as necessary with policy and technical support for the appraisal of major projects and the notification required for appraisal by the Commission;
- x. laying down and operating a mechanism for the payment of ERDF resources;
- xi. ensuring that where, in the exercise of functions entrusted to it as an intermediate body, the A59(2) body has awarded grant for one of its own projects, resulting in the RDA becoming the final beneficiary, ensuring that

the A59(2) body takes such steps to cease, suspend, reduce or recover ERDF funding as it would be expected to take if the grant beneficiary were a separate third party.

A description of the systems covering in particular the organisation and procedures of the MA, Certifying Authority and the A 59(2) body as well as the Audit Authority will be submitted in accordance with Article 71 using Annex XII to Commission Regulation 1828/2006.

### **A 59(2) Intermediate Body: Organisation**

The A 59(2) body will make its own administrative arrangements for the performance of the MA tasks, taking account of guidance issued by the MA. The principle of separation of functions will be adhered to in accordance with Article 58(b). In managing the OP, the A 59(2) body will be required to have due regard to potential conflicts of interest and a procedure for ensuring that they are avoided. The procedure will be detailed in the management and control system which will be submitted to the Commission in accordance with Article 71 of Council Regulation 1083/2006 and Article 21 of Commission Regulation 1828/2006 using the model template set out in Annex XII to Commission Regulation 1828/2006.

The A 59(2) Body may exercise the functions entrusted to it by awarding funding to itself, as final beneficiary. The principle of separation of functions, in accordance with Article 58, will be adhered at each stage of the procedure as in the case of any other applicant for funding.

### **Certifying Authority: Role and Functions**

The Certifying Authority (CA) for the OP is the Secretary of State for Communities and Local Government. The address is Eland House, Bressenden Place, London SW1E 5DU, England, United Kingdom. The functions of the CA will be carried out by officials of the Department of State headed by SSCLG (the Department for Communities and Local Government), who work in the Department's Finance Directorate. These administrative arrangements for the performance of the CA tasks will ensure that the principle of separation of functions is adhered to in accordance with Article 58(b).

The CA is responsible for certifying the accuracy of statements of expenditure and applications for payment presented to the Commission in accordance with the procedures set out in Article 78. The specific tasks of the CA are as follows:

- a) drawing up and submitting to the Commission certified statements of expenditure and applications for payment;
- b) certifying that:
  - i) the statement of expenditure is accurate, results from reliable accounting systems and is based on verifiable supporting documents;
  - ii) the expenditure declared complies with applicable Community and national rules and has been incurred in respect of operations selected

for funding in accordance with the criteria applicable to the OP and complying with Community and National rules;

- c) ensuring for the purposes of certification that it has received adequate information from the MA on the procedures and verifications carried in relation to expenditure included in statements of expenditure;
- d) taking account for certification purposes of the results of all audits carried out by or under the responsibility of the Audit Authority;
- e) maintaining accounting records in computerised form of expenditure declared to the Commission;
- f) keeping an account of amounts recoverable and of amounts withdrawn following cancellation of all or part of the contribution for an operation. Amounts recovered will be repaid to the general budget of the EU, prior to closure of the OP by deducting them from the next statement of expenditure.

### **Audit Authority: Roles and Functions**

The Audit Authority (AA) for the OP is the Secretary of State for Communities and Local Government. The address is Eland House, Bressenden Place, London SW1E 5DU, England, United Kingdom. The functions of the AA will be carried out by officials of the Department of State headed by SSCLG (the Department for Communities and Local Government) who audit the public expenditure of the Department under the responsibility of SSCLG and who work in a separate unit within the Department's finance directorate from those performing CA tasks. The functional independence of the audit services will ensure that the principle of separation of functions is adhered to in accordance with Article 58(b).

The AA is responsible for verifying the effective functioning of the management and control system. The specific tasks of the AA are as follows:

- a) ensuring that audits are carried out to verify the effective functioning of the management and control system of the OP;
- b) ensuring audits are carried out on operations on the basis of an appropriate sample to verify expenditure declared;
- c) presenting to the Commission within 9 months of the approval of the OP an audit strategy covering the bodies who will perform the audits referred to under points a) and b), the method to be used, the sampling method for audits on operations and the indicative planning of audits to ensure that the main bodies are audited and that audits are spread evenly throughout the programming period; [note: where a common system applies to several OPs, a single audit strategy may be submitted];
- d) by 31 December each year from 2008 to 2015:

- i) submitting to the Commission an annual control report setting out the findings of audits carried out during the previous 12 month period ending on 30 June of the year concerned in accordance with the audit strategy of the OP and reporting any shortcomings found in the systems for management and control of the programme. The first report to be submitted by 31 December 2008 will cover the period from 1 January 2007 to 30 June 2008. The information concerning the audits carried out after 1 July 2015 will be included in the final control report supporting the closure declaration referred to in point (e);
- ii) issuing an opinion, on the basis of the controls and audits that have been carried out under its responsibility, as to whether the management and control system functions effectively, so as to provide a reasonable assurance that statements of expenditure presented to the Commission are correct and as a consequence reasonable assurances that the underlying transactions are legal and regular.
- iii) submitting, where applicable under Article 88, a declaration for partial closure assessing the legality and regularity of the expenditure concerned;

[ Note: when a common system applies to several OPs, the information referred to in point (i) may be grouped in a single report, and the opinion and declaration issued under points (ii) and (iii) may cover all the OPs concerned ];

- e) submitting to the Commission at the latest by 31 March 2017 a closure declaration assessing the validity of the application for payment of the final balance and the legality and regularity of the underlying transactions covered by the final statement of expenditure, which will be supported by a final control report.

Where audits and controls are carried out by a body other than the AA, the AA will ensure that such bodies have the necessary functional independence from the Article 59(2) body. The AA may choose to employ private sector auditors to carry out system and operation audits under its responsibility.

### **Management and Control: description of systems**

The AA will be responsible for drawing up the report and the opinion referred to in Article 71(2), describing and assessing the management and control systems and giving an opinion on their compliance with Article 58 to 62.

## **3. PARTNERSHIP AND COMMITTEE STRUCTURE**

### **General**

The OP has been developed and will be implemented in accordance with the principles of partnership set out in Article 11 and national rules and practice. The partnership principle will be operated throughout the lifetime of the OP.

The Secretary of State, for the UK Government, has organised a partnership to cover the preparation of the OP with a wide variety of national, regional and local authorities and bodies, which are competent to contribute towards the aims, objectives and contents of the OP. Competent authorities and bodies include:

- (a) regional, local, urban and other public authorities;
- (b) economic and social partners;
- (c) any other suitable bodies representing civil society, environmental partners, non-governmental organisations;
- (d) bodies responsible for promoting equality between men and women.

### **Programme Monitoring Committee (PMC)**

In accordance with Article 63, the Member State will set up a PMC within three months from the date of the notification to the Member State of the Commission decision approving the OP. The membership and role of the PMC will reflect the strategic nature of the prescribed tasks of the PMC set out in Article 65.

Reflecting the principle of partnership, the membership of the PMC will be drawn from representatives of the bodies of the regional partnership organised under Article 11. It will, therefore, reflect national, regional, local and sectoral interests in the OP, and will aim to be balanced in terms of gender. On its own initiative, or at the request of the PMC, the Commission may participate in an advisory capacity. Where the European Investment Bank or the European Investment Fund are contributing to the OP, they may be represented in an advisory capacity.

The MA will have a representative as a member of the PMC. A particular role of the MA representative will be to advise and guide the PMC on compliance with the regulatory requirements in delivering the OP and on any other aspects of implementing the programme.

The MA representative will also have a role in informing the PMC about relevant Government Policy and in reporting to Ministers as appropriate on how the strategy, priorities and activities of the OP are contributing to wider Government policies.

The chairperson of the PMC will be the Regional Director of the Government Office for North West (GONW).

The Chair will approve all PMC minutes and papers before they are distributed to the PMC members for agreement.

### **Duties of the Programme Monitoring Committee**

The PMC will draw up and agree its own Rules of Procedure. These procedures will be publicised and made available on the programme website. The MA will

issue guidance to Article 59(2) bodies on governance issues, including drawing up rules of procedure. The MA representative, as a member of the PMC, will have a role in ensuring that the rules of procedure are robust, are designed to ensure delivery and contain all appropriate checks and balances.

At its first meeting the PMC will approve detailed provision for the proper and efficient discharge of the duties assigned to it, including, the frequency of its meetings and procedures to deal with conflicts of interest. This will be contained within the PMC's Rules of Procedure. The PMC will satisfy itself as to the effectiveness and the quality of the implementation of the OP. To this end the PMC will carry out the tasks set out in Article 65.

The MA will approve the rules of procedure in accordance with Article 63(2).

### **Sub-committees and working groups of the PMC**

Reflecting its agreed terms of reference and rules of procedure, the PMC may at any time set up such sub-committees or working groups or other groups as it thinks appropriate to enable it to fulfil its responsibilities (e.g. geographically, sectorally or thematically based). The PMC may delegate any of its tasks to a sub-committee or working group. The membership of sub-committees and groups will be agreed by the PMC, reflecting the partnership principle set out in Article 11. The terms of reference and rules of regional sub-committees and groups will be approved by the PMC in accordance with Article 63(2). The use of sub-committees does not absolve the PMC from its responsibility for the proper performance of its tasks as set out in Article 65.

## **4. MANAGEMENT AND CONTROL SYSTEM**

The Secretary of State, for the UK Government, will establish management and control arrangements for the OP in accordance with Article 58.

This will ensure that Community funds are used efficiently and correctly and that assistance is managed in accordance with all applicable Community rules and in accordance with the principles of sound financial management. The detailed requirements set out in the Structural Funds Regulations will be observed throughout the period of the OP. The Secretary of State will consult the A 59(2) body about the details of the management and control system, which will meet the requirements of Article 58. The AA will assess the system and give an opinion on compliance with Articles 58, 59 and 60 prior to its submission to the Commission in accordance with Article 71.

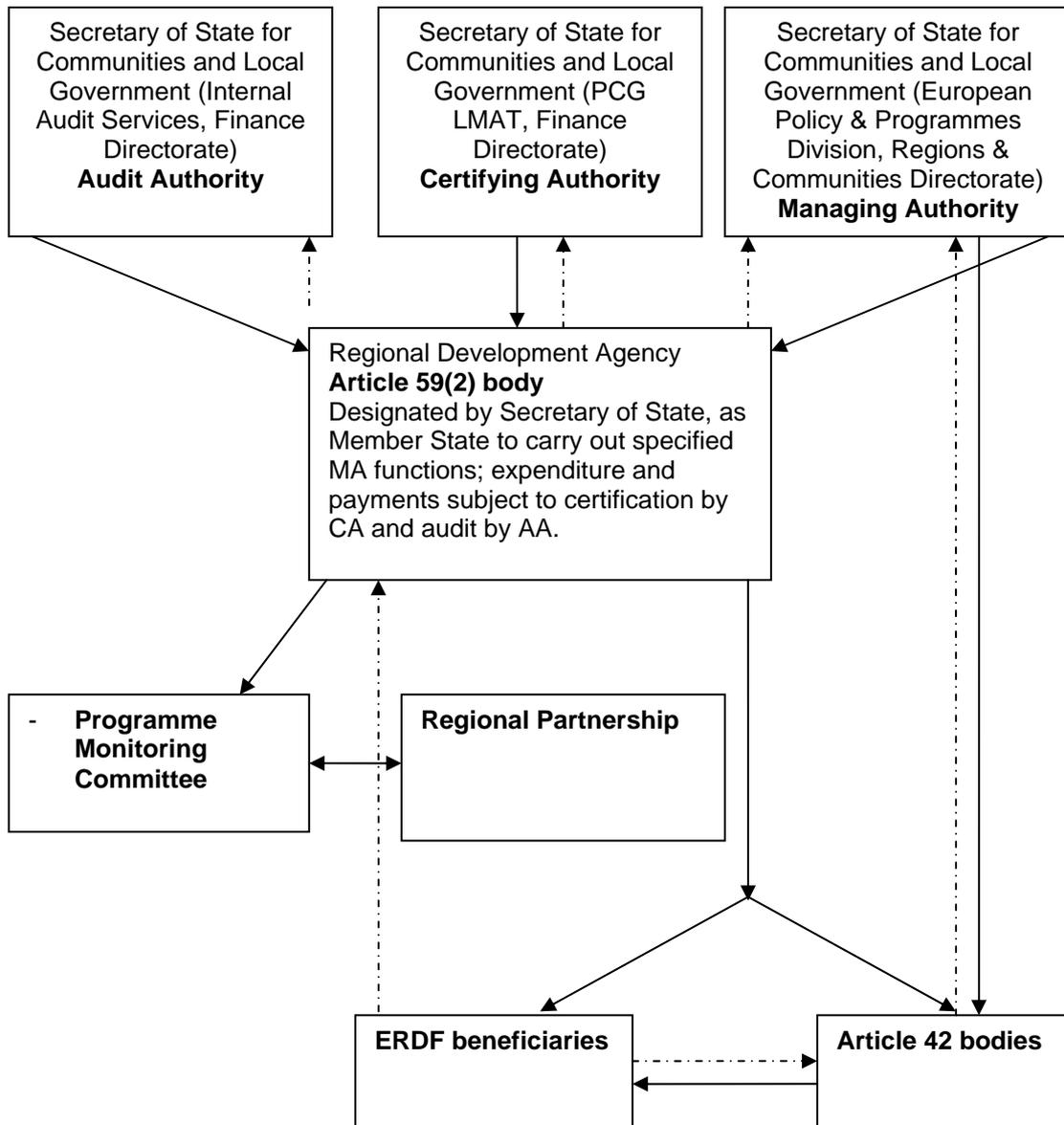
The organisation structures for ensuring sound management and control are set out below.

Diagram 1 illustrates the structure at a global level.

Diagram 2 illustrates the separation of functions with the Department for Communities and Local Government.

Diagram 3 illustrates the separation of functions with the Regional Development Agency.

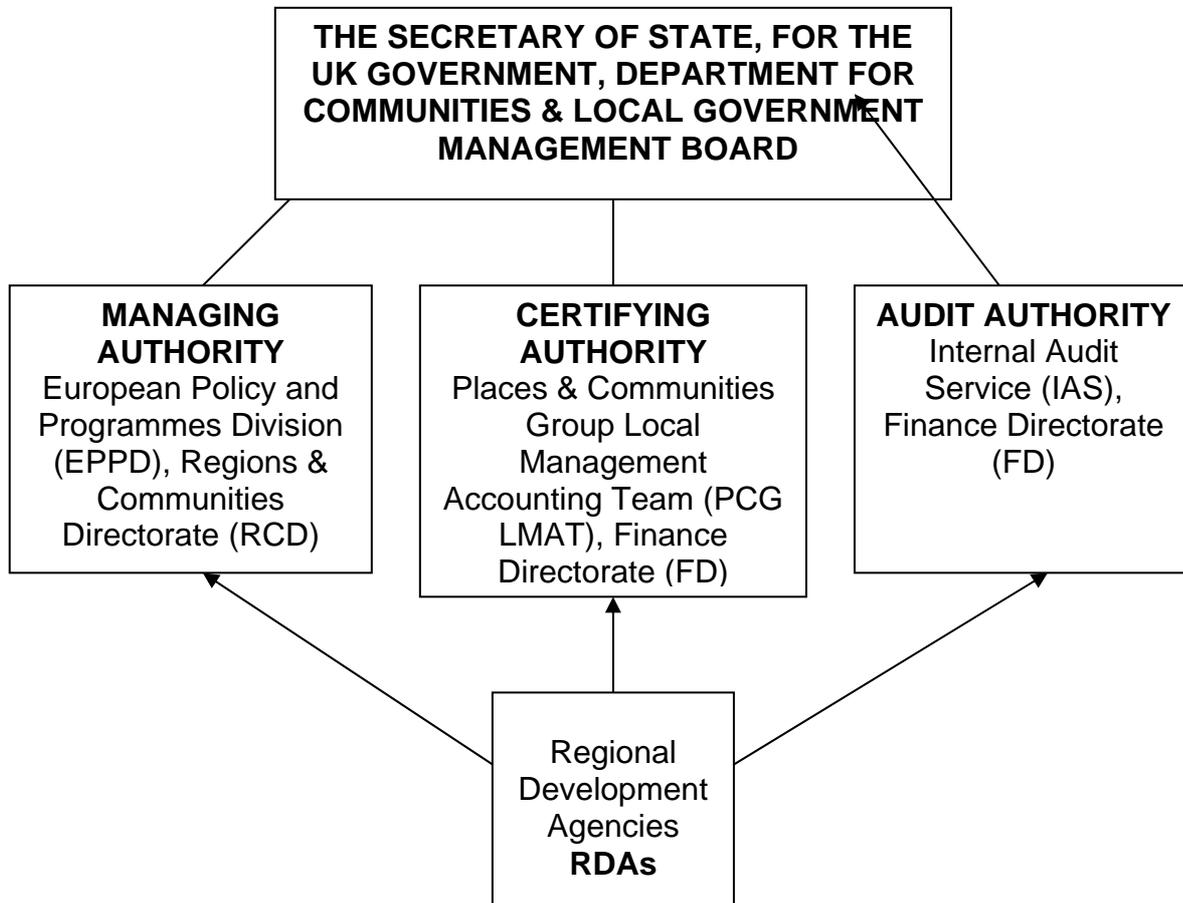
**Diagram 1 - Global Management and Control System for ERDF Convergence and Regional Competitiveness Programmes in England.**



**The direction of the solid arrow denotes the direction of management and control. The dotted arrows denote the direction of accountability.**

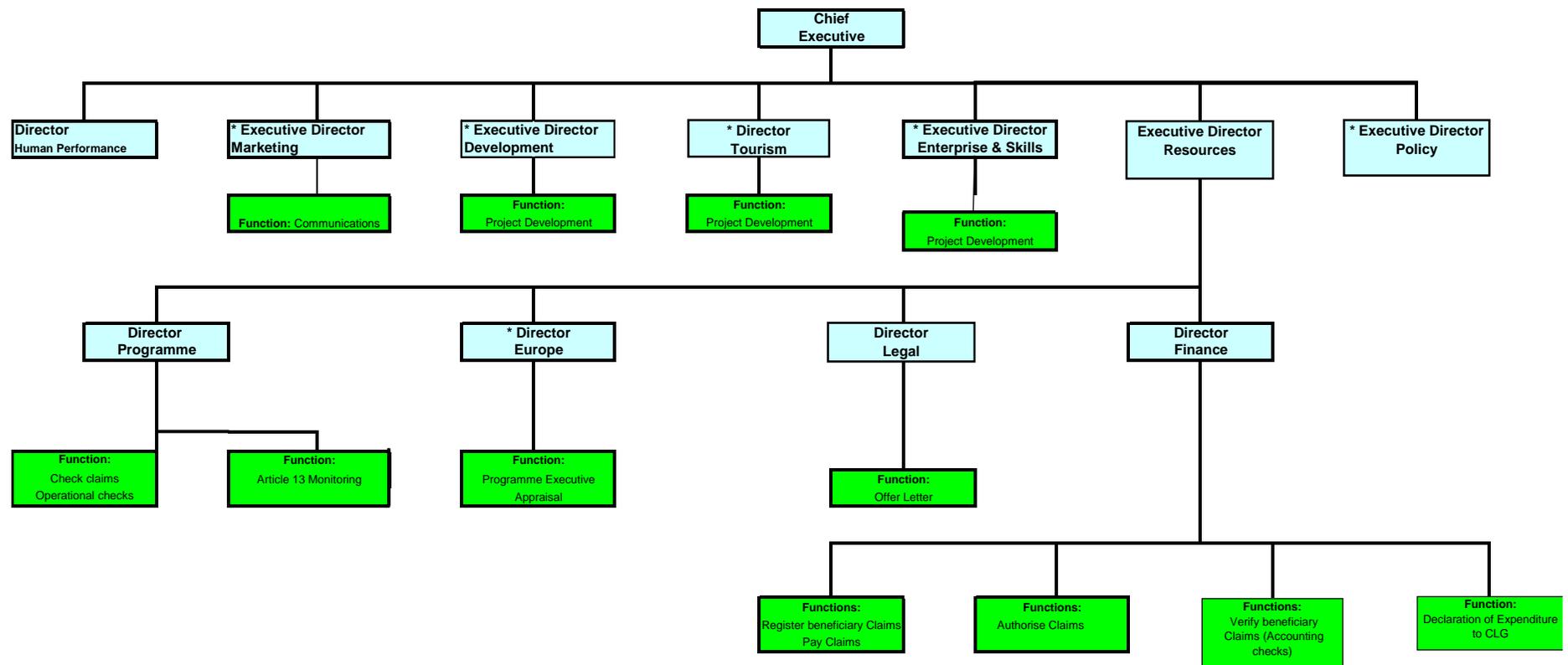
**Diagram 2 - Separation of functions with the Department for Communities and Local Government**

**(The direction of the arrows denotes reporting lines)**



**Diagram 3 - Separation of functions within the Northwest Regional Development Agency.**

**ERDF Programme 2007-2013  
Separation Of Functions Overview**



\* indicates NWDA directorates which are potentially final beneficiaries of ERDF Grant.  
ERDF claims will be checked twice - from a project perspective and from a financial eligibility perspective

## **Proportionality**

The proportional control arrangements set down in Article 74 will not apply to the OP.

## **Global Grants**

The Member State or the MA may entrust the management and implementation of a part of an OP to one or more intermediate bodies (A 42 bodies), designated by the Member State or the MA, including local authorities, regional development bodies or non-governmental organisations, in accordance with the provisions of an agreement concluded between the Member State or the MA and that body.

The Secretary of State, for the UK Government, does not have any intention, at present, to designate any A 42 body for the OP. Such a designation will be without prejudice to the financial responsibility of the MA and of the Member State.

The MA may consider designating an A 42 body on its own initiative, but would not make a designation without first consulting the A 59(2) body. Otherwise, a body will be considered by the MA for designation under Article 42 on the recommendation of the A 59(2) body and the PMC. If the A 59(2) body wishes to recommend any such designation, it will first:

(a) assess the following matters for each body or organisation proposed for the management of a global grant:

its solvency;

its competence in selecting and monitoring operations of the types to be covered by the global grant;

the robustness of its management and control arrangements and its competence in financial and administrative management;

(b) propose text for the agreement to be concluded by the MA with each A 42 body, making the designation and detailing the matters specified in Article 43 (which include the types of operation covered by the global grant; the outcomes and outputs to be achieved by the global grant; and management and financial controls set within the overall management and control system for the OP).

In considering whether to designate a body under Article 42, the MA will take account of all such matters and the guarantees about solvency and competence provided by the body or organisation itself to demonstrate compliance with Article 42(2).

The MA will provide reasons for a decision not to designate a body or organisation proposed for the management of a global grant.

If the MA decides to designate a body under Article 42, it will conclude an agreement with that body. The provisions of the agreement will detail the matters specified in Article 43. They will be finalised after full consideration of the text prepared by the A 59(2) body and after consultation with the A 59(2) body about any points that arise from that text or any other matters arising. The MA may revoke the designation of an A 42 body according to the terms of the agreement.

As the designation of an A 42 body is the responsibility of the MA, it will not involve any sub-delegation of responsibility by the A 59(2) body. The functions entrusted to the A 59(2) body for the delivery of the OP will exclude functions relating to operations so far as they are entrusted to a body under Article 42.

Instead, the A 59(2) body will exercise some or all of the tasks of the MA in relation to global grants, which will be detailed in the Article 42 agreement and will relate, in particular, to monitoring, evaluating and ensuring financial control of the global grant. For these purposes, it may be appropriate for the A 59(2) body to record and regulate administrative matters relating to its conduct of MA tasks by provisions in the Article 42 agreement or in a separate agreement, and in particular to make clear that the A 42 bodies will report to the MA via the A 59 body (see diagram 1 above). The A 59(2) body cannot become an A 42 body, as conflict of interest.

The selection of projects under the global grant will be made through an advisory group, comprising the appropriate regional and local partners.

If any designations are made under Article 42, the bodies most likely to be designated include universities and local authorities, which already have an appropriate range of public responsibilities or functions, and are likely to be competent for designation.

### **Selection of operations for ERDF support**

The PMC is responsible for considering and approving the criteria for selecting the operations financed under the OP. The A 59(2) body will be responsible for putting forward proposals to the PMC for selection criteria. The role of the PMC is outlined in section 3 of these Implementing Provisions.

On behalf of the PMC, the A 59(2) body may set out an Investment Framework which sets the activities and operations that the PMC have agreed they wish to see delivered under the OP. The Investment Framework must be approved by the PMC. It may identify bodies or organisations that it believes are competent to deliver operations in line with the framework. Any framework will comply with Public Procurement Regulations (which implement EC public procurement directives), so far as they are applicable.

The procedure for selecting operations may take a variety of forms. For example:

Open bidding: where an open invitation is published for applications for the support of operations that meet a specified priority or objective of the OP;

Limited bidding: where a limited number of project sponsors is identified and invited to bid for the support of operations or sets of targets or outputs that meet a specified priority or objective of the OP;

Non-competitive selection: where a single project sponsor (or perhaps two or more) is either selected as appearing to be the only suitable and capable vehicle for delivering a specific operation or set of programme targets or outputs and invited to submit an application for financial assistance; or applies for financial assistance on its own initiative for the support of an operation or a set of targets or outputs that appears to meet a priority or objective of the OP.

The MA, in deciding in broad terms the nature and scope of the criteria and processes for the selection and appraisal of projects, and the A 59(2) body in putting forward proposals to the PMC for such criteria, will ensure that all processes and criteria take full account of the need to secure compliance with the requirements of the Public Procurement Regulations (which implement EC Public Procurement Directives) or the need for suitable competitive tendering where the Regulations do not apply.

Once the criteria and investment strategy have been adopted by the PMC, the A 59(2) body will be responsible for managing the processes of developing operations, appraising proposals for operations, and making recommendations to the PMC or its appropriate sub-committees or groups.

## **5. COMPUTERISED EXCHANGE OF DATA**

The MA, in collaboration with the A 59(2) body, will develop and maintain appropriate data exchange systems to support the provision of information to the Commission and the efficient and effective management of the OP. The MA will ensure that the system allows data to be exchanged electronically with the system used by the Commission. The system will be accessible for use by the MA, the Article 59(2) body, the CA and the AA. The system will record and monitor operation outputs and the results of monitoring, verifications and audits undertaken in relation to programme operations. Such systems will be in place for the OP before the MA makes the first interim application for payment.

## **6. MONITORING ARRANGEMENTS AND SYSTEMS**

### **General**

The Secretary of State, for the UK Government, will ensure that the management and control system for the OP sets up an efficient system for monitoring the programme and individual operations supported by the programme, and requires the MA and the PMC to ensure the quality of the implementation of the programme.

Monitoring tasks of the MA both in relation to the OP as a whole and to individual operations will be carried out by the A 59(2) body, which will work with the PMC. In order to assist the PMC to discharge the tasks set out in Article 65, the A 59(2)

body will provide updates on the progress of the OP in meeting its targets. Within this update, the A 59(2) body will specifically identify the progress of projects where the A 59(2) body is a beneficiary. Monitoring of operations where the A 59(2) body is a beneficiary will be sample checked and verified by an external body. If, as planned by the UK Government, the A 59(2) body is a regional development agency, the external body will be the National Audit Office, which will undertake this work as part of its annual external financial audit.

Monitoring by the MA and the A 59(2) body under Article 60(b) will be carried out in accordance with Article 13 of Commission Regulation 1828/2006. In the case of A 42 bodies, they will be required to monitor projects which they support. The A 59(2) body will be responsible for quality assuring and verifying the monitoring activity of any A 42 body.

Monitoring will be conducted by reference to the financial indicators and the indicators referred to in Article 37(1)(c) which are specified for the OP and set out in the Indicators section of the programme.

Monitoring will also cover the effectiveness of financial controls and compliance with the Structural Funds Regulations and national rules that regulate matters of finance or propriety. Monitoring will be conducted in line with any guidance or instructions issued by the Commission. The A 59(2) body will also have regard to guidance issued by the MA concerning monitoring and the performance of verification function set out in Article 60(b).

### **Annual reports and final reports**

In accordance with Article 67(1), by 30 June 2008 and by 30 June in each subsequent year the MA will send the Commission an annual report. The MA will send the Commission a final report on the implementation of the OP by 31 March 2017.

Each report will be examined and approved in plenary by the PMC before it is sent to the Commission. The Managing Authority will review the report before it is sent to the Commission.

The reports will contain the information set out in Article 67(2).

In accordance with Article 68, every year, when the annual report on implementation referred to in Article 67 is submitted, the Commission and the MA will examine the progress in implementing the OP, the principal results achieved over the previous year, the financial implementation and other factors with a view to improving implementation.

The operation of the management and control system raised in the last annual control report, referred to in Article 62(1)(d)(i), may also be examined.

## **7. EVALUATION ARRANGEMENTS AND SYSTEMS**

The Secretary of State, for the UK Government, will carry out evaluations in relation to the OP in accordance with Articles 47 and 48, and the MA will have a role under Article 60(e) in ensuring that evaluations are carried out.

An *ex ante* evaluation for the OP has been carried out in accordance with Article 48(2) by an independent consultant. Alongside the *ex ante* evaluation, a Strategic Environmental Assessment was carried out in accordance with the requirements of Directive 2001/42/EC, also by an independent consultant. Both documents are annexed to the OP.

In accordance with Article 48(3), during the programme period, the Secretary of State, for the UK Government, will carry out evaluations linked to the monitoring of the OP, in particular where that monitoring reveals a significant departure from the goals initially set or where proposals are made for the revision of OPs, as referred to in Article 33. The results will be sent to the PMC and to the Commission.

The Commission may carry out strategic evaluations. Under Article 49(2) the Commission may carry out, on its own initiative and in partnership with the UK Government evaluations linked to the monitoring of the OP where monitoring has revealed a significant departure from the goals initially set. The results will be sent to the PMC.

In accordance with Article 49(3), the Commission will carry out an *ex post* evaluation for each objective in close co-operation with the Secretary of State, for the UK Government, and the MA. The *ex post* evaluation will cover the elements required by Article 49(3). It will be carried out by independent assessors and will be completed not later than three years after the end of the programming period.

## **8. FINANCIAL IMPLEMENTATION**

### **Financial contributions by the Funds**

Article 34 provides that operational programmes shall receive financing from only one Fund, save as otherwise provided in paragraph 3 (which is not relevant for the UK). Accordingly, the OP will receive funding only from the European Regional Development Fund.

This programme will be seeking to use the derogation set out in Article 34(2), whereby the ERDF and the ESF may finance, in a complementary manner and subject to a limit of 10% of community funding for each priority axis of an operational programme, actions falling within the scope of assistance from the other fund, provided that they are necessary for the satisfactory implementation of the operation and are directly linked to it.

This derogation will be applied to priority axis 1.2 and will not otherwise apply.

The MA will carry out an ongoing assessment of risk that the OP will fail to meet its financial and other targets, in particular the N+2 spend targets, as will the A 59(2) body, in line with guidance issued by the MA.

The MA will require regular updates from the A 59(2) body, increasing in frequency towards the end of the year, on the progress of the OP in meeting its N+2 targets. In consultation with the A 59(2) body, it will take the necessary course of action where the achievement of these targets is under threat.

At project level, risk will be assessed on the track record of the applicant, the nature of the project, the amount of the ERDF intervention and the total cost of the operation. It will take into account the opinion of the A 59(2) body's appraisal, payment and inspection unit who have knowledge of both the projects and beneficiaries.

### **Differentiation of rates of contribution**

In accordance with Article 53(1), the contribution from the Fund at the level of the OP will be calculated with reference to:

- (a) total eligible expenditure including public and private expenditure; or
- (b) public eligible expenditure

and will be subject to the ceilings set out in Annex III to Council Regulation 1083/2006.

The ERDF contribution for the OP will be subject to a maximum of 50% of the total eligible cost of the OP. Co-financing of support given by the ERDF will come from both a variety of public and private sources and both will be reflected within the OP Financial Table.

It will be a requirement of the OP that the provision of co-financing for operations is secured prior to the issue of the formal approval of the operation.

### **Technical Assistance**

Under Article 46 the Fund may, at the initiative of the Secretary of State, for the UK Government, finance the preparatory, management, monitoring, evaluation, information and control activities of the OP, together with activities to reinforce the administrative capacity for implementing the Fund within the limit of 4% of the total amount allocated for the OP (the limit for the Convergence and Regional competitiveness and employment objectives). As a matter of best practice, co-financing of Technical Assistance operations will be secured prior to formal approval of the individual operation.

The PMC will be invited to approve a plan for the use of Technical Assistance during the lifetime of the OP. This will be sent to the Commission for information. The Technical Assistance plan will be kept under review and may be changed, subject to the agreement of the PMC. However, the amount allocated will not exceed the 4% limit set down in Article 46.

## **Community budget commitments**

Article 75 provides that the Community budget commitments in respect of operational programmes shall be effected annually for each Fund and objective during the period between 1 January 2007 and 31 December 2013. The first budget commitment shall be made before the adoption by the Commission of the decision approving the OP. Each subsequent commitment shall be made, as a general rule, by 30 April each year.

## **De-commitments**

Provisions and procedures relating to de-commitment are laid down in Articles 93, 94, 95 and 96.

## **9. FINANCIAL FLOWS AND PAYMENTS**

### **General**

In setting up the system for managing and controlling the payment and expenditure of the ERDF contribution, the Secretary of State, as Member State, will: (a) observe all relevant requirements of the Structural Funds Regulations and these Implementing Provisions; (b) apply the standards of management and control generally applicable to the handling and expenditure of UK public funds; and (c) follow such general guidance and instructions as the UK Government and the Commission may provide from time to time on the management of European Community funds. The MA and the CA will operate the system according to the same requirements and standards, and the A 59(2) body and all A 42 bodies will be required to do so, so far as relevant.

### **Financial Flows**

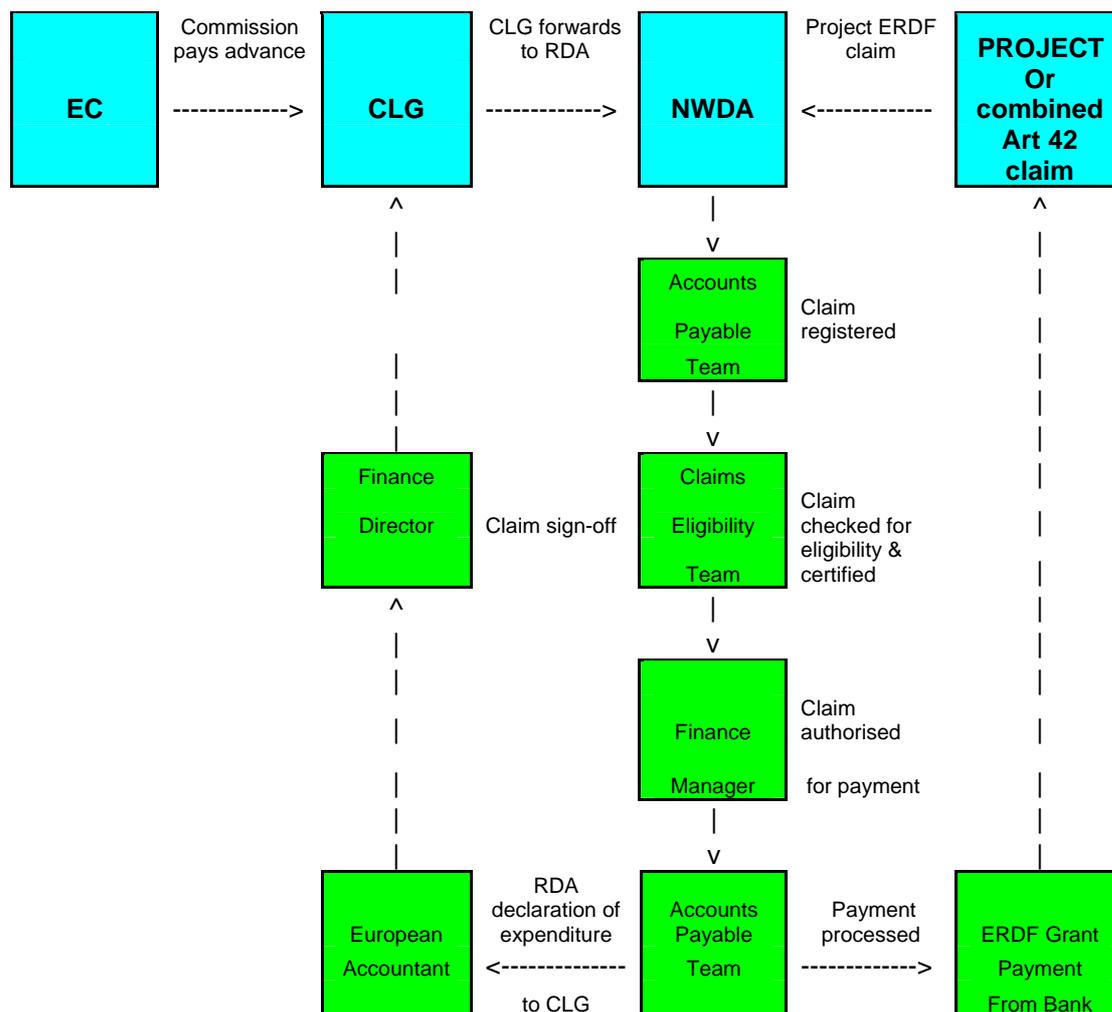
Financial flows will operate in accordance with the Structural Funds Regulations and the following procedures:

The A 59(2) body will be responsible for making offers of ERDF grant to persons responsible for selected operations, except operations supported by global grants. A 42 bodies will be responsible for making offers of ERDF grants to persons responsible for global grant operations. Offers of ERDF support will require grant recipients to comply with EC and national rules on eligibility of expenditure and with the requirements of the Public Procurement Regulations (which implement EC Directives on public procurement) or the need for suitable competitive tendering where the Directives do not apply. Operations and A 42 bodies will make declarations of interim claims expenditure to the A 59(2) body. The A 59(2) body will be responsible for verifying the validity of declared expenditure against the offer of grant and the eligibility conditions and other conditions set out in the grant offer. Global grant operations will make declarations of interim claims expenditure to the A 42 body, which will verify them before incorporating them within a global declaration to the A 59(2) body.

The A 59(2) body will make payments for operations and to A 42 bodies subject to verifying declarations of eligible expenditure. No amount will be deducted or

withheld; no charges will be levied; and no steps will be taken that have the effect of reducing indirectly the amounts that beneficiaries receive.

## Financial flows overview for 2007-13 ERDF OPs



In any instances where the A 59(2) body is a direct applicant for ERDF support (i.e. wishes to use ERDF resources to support an operation for which it is directly responsible), it will use a separate unit within its organisation to act as the grant recipient or project sponsor, except where Technical Assistance is being used to support the programme management tasks. This unit will not have any responsibilities in relation to the management and control of the OP. It will be functionally independent from the unit undertaking MA functions and will be required to maintain such functional independence. It will be accountable for the expenditure of the grant to the unit undertaking MA functions as though it were a separate organisation.

The A 59(2) body will submit to the CA declarations of interim expenditure. These declarations will cover the aggregate of eligible payments claimed by operations, including global grant applications. Submissions will usually be made quarterly and will be accompanied by all the necessary supporting information required to demonstrate the eligibility of expenditure under the Structural Funds Regulations, national eligibility rules, UK financial management requirements and any additional requirements of the CA. The submissions will be copied to the MA.

The submission from the A 59(2) body will be signed by a senior manager of the A 59(2) body, who will be distinct and independent from any unit of the A 59(2) body acting as a beneficiary of ERDF support.

The CA will draw up and submit to the Commission certificates of expenditure and applications for payment, in accordance with Article 78 and in the form prescribed in Annex X to Commission Regulation 1828/2006. The CA will review all information received from the MA and the A 59(2) body under Article 61(c) (concerning procedures and verifications carried out in relation to expenditure) and from the AA under Article 61(d) (results of audits, including the annual control report). It will carry out such checks as it thinks are necessary and appropriate to satisfy itself as to the eligibility of expenditure claimed.

### **Payments**

Payments from the Commission will take the form of: pre-financing; interim payments; and payments of the final balance. Payments will be made to the UK Government and received in a Treasury Account at the Bank of England. The MA will be authorised to draw down amounts from the account for the financing of the OP.

The UK Government will make appropriate arrangements to ensure that sufficient funds are available to enable the MA to meet the A 59(2) body's declarations of eligible expenditure in advance of receiving interim payments from the Commission. Such arrangements will comply with UK Government Accounting and Budgeting requirements.

### **Use of Euro and conversion rates**

In accordance with Article 81, all Statements of Expenditure and applications to the Commission for payment will be made in euros. Annual and final implementation reports will use the euro to report on expenditure. Amounts of expenditure incurred in sterling, in delivering operations, will be converted into euros using the monthly accounting exchange rate of the EC in the month during which the expenditure was registered in the accounts of the CA. This rate will be published electronically by the Commission each month.

## **10. FINANCIAL MANAGEMENT AND CONTROL ARRANGEMENTS**

### **General provisions**

Responsibility for providing an effective system of management and control of the OP lies with the Member State. The management and control system will comply with the requirements of Article 58 and will be subject to the reporting requirements laid down in Article 71.

### **Organisation**

The A 59(2) body will ensure that there is an appropriate separation of functions within its organisation between the units which are responsible for the functions of the MA falling within the following broad categories:

- appraising operations and issuing and varying offers of ERDF grant;
- verification of payment claims and monitoring operations; and
- financial matters, including making payments for operations and submitting declarations of expenditure to the CA.

The MA and CA will ensure that this separation of functions within the A 59(2) body is maintained throughout the lifetime of the OP.

### **Accounting Systems**

In order to facilitate the verification of expenditure by Community and national authorities, the MA, in exercising the function in Article 60(c), will ensure that all bodies involved in the management and implementation of the OP maintain either a separate accounting system or an adequate accounting codification capable of providing detailed and complete summaries of all transactions involving Community assistance.

### **Documentation**

The MA and the A 59(2) body will ensure that the requirements of Article 90 regarding the keeping of available documents are complied with.

### **Audit**

Besides being subject to the activities of the AA, audit by the Commission and audit by the European Court of Auditors, the financial control and management system will be subject to audit by the UK domestic audit authorities (the National Audit Office)

### **Irregularities and financial corrections**

The management and control system of the OP and steps taken by the MA to ensure that it is properly adhered to by all bodies concerned in the management and control of the programme will guard against irregularities while securing that any that do occur are detected, investigated and corrected. The A 59(2) body will have a primary role in the detection, investigation and correction of irregularities (particularly by virtue of its responsibility for monitoring and verification), and will be responsible for recovering grant in appropriate cases.

The Secretary of State, as Member State, will be responsible under Article 98 for investigating irregularities and making financial corrections. The A 59(2) body will notify the MA about irregularities and steps taken or proposed to resolve them. The MA will notify irregularities to the Department for Business Enterprise and Regulatory Reform (BERR), which is the central co-ordinating Department for the Member State with respect to the Structural Funds programmes.

BERR, acting for the Member State, will communicate with the Commission about irregularities and corrections.

The MA will report to the AA any cases involving fraud. BERR will report them to the Commission's OLAF service.

The MA will ensure that the A 59(2) body fulfils its responsibilities for the prevention, detection and investigation of irregularities and that it acts on reports prepared by the AA on any suspicion of irregularity.

## **11. INFORMATION AND PUBLICITY**

The MA and the A 59(2) body will ensure that information and publicity measures conform to the provisions of Article 69 of Council Regulation 1083/2006 and Articles 2 to 10 of Commission Regulation 1828/2006, to ensure the full visibility of the funds throughout the programming area.

Publicity forms an integral part of the programme strategy and the MA will work with the A 59(2) body to ensure that the benefits of the ERDF is communicated to the wider public.

Innovative publicity activities and campaigns using print, broadcast and creative media will help the Managing Authority to clearly promote and position the ERDF brand. These activities will be developed proactively and implemented in collaboration with the European Commission in Brussels, the Representation Office in London and Information relays and networks in the UK, which will ensure the visibility and transparency of the funds at a local, regional and national level.

Potential project sponsors and final beneficiaries/fund recipients will be informed of funding opportunities and also the publicity requirements linked to receiving ERDF funding during the programming period.

To this end, the A 59(2) body will draw up a budgeted communication plan, which must be agreed by the PMC and submitted through the MA to the Commission within four months of the adoption of the OP.

The Communication plan will set out:

- the objectives of the plan and the target groups;
- activities in support of publicity and information including events, seminars and project launches, for potential applicants, partners and the wider public
- bodies or persons responsible for the implementation of the plan;
- the budget for implementing the plan; and
- evaluation frameworks for the plan.

The A 59(2) body will report on progress in implementing the plan (including examples of publicity activities) to the PMC and also in the annual implementation report. The communication plan will be easily accessible and will be published on the A 59(2) body's website.

Information will be provided by the A 59(2) body to potential beneficiaries in accordance with Article 5 of Commission Regulation 1828/2006, including the publicity and information measures that they are required to undertake to comply with Articles 8 and 9 of that Regulation.

Project sponsors will be required to observe the publicity elements of Commission Regulation 1828/2006, especially with regard to signage, including billboards, plaques and promotional material.

Funding for publicity and communications will be provided through the Technical Assistance budget for the OP. The financial table for the OP will specify the amounts dedicated to the Technical Assistance Priority Axis.

## **12. SUPPLEMENTARY OBJECTIVES**

### **Sustainable Development**

The OP will promote the objectives of sustainable development as required by Article 17.

These objectives have been reflected in the programme strategy and objectives. The programme has been subject of a Strategic Environmental Assessment as required under Directive 2001/42/EC.

The Managing Authority will, in accordance with Article 10 of (EC) Directive 2001/42/EC, monitor the significant environmental effects of the OP in order, inter alia, to identify unforeseen adverse effects and be in a position to undertake appropriate remedial action. This monitoring will be undertaken at three levels:-

First, the Environmental Report has suggested a selection of tracking indicators that can be used to monitor the environmental performance of the area. The Managing Authority will monitor against these indicators, where appropriate, to determine changes that occur and potential relationships with programme activities. As stated in the SEA, data for the majority of these indicators can be obtained from readily available sources. Performance against these indicators will be reported in the Annual Implementation Reports.

Secondly, the effectiveness of mainstreaming Environmental Sustainability as a Cross Cutting Theme will be assessed through the relevant Priority level indicators. Progress against the Priority level indicators will be reported in the Annual Implementation Reports and discussed at meetings of the PMC.

Thirdly, the Environmental Report proposes checking criteria to appraise the appropriateness of individual supported activities where they would result in a physical development. These criteria will be used, where appropriate, at project development stage so that potential adverse effects of supported activities are appropriately managed. Projects that have significant negative effects that can not be mitigated and outweigh positive benefits will not be supported by the OP.

Procedures will be in place to detect any project with a potentially negative effect on Natura 2000 sites and other sites designated for nature conservation. These will be scrutinized by the A 59(2) body in consultation with the Competent Environmental Authorities to ensure that no activities will be supported that will cause damage to designated sites. The appraisal process will also cover opportunities to strengthen the environmental aspects of projects and the guidance that is being developed will advise on how this is to be done and how it will be monitored.

The MA, PMC, A 59(2) body and all A 42 bodies will be required to implement the OP having regard to the objectives of sustainable development. In particular, the selection criteria for operations, outputs and indicators will take account of the need to protect and promote environmental sustainability. This will also involve assessing the impact of operations on these objectives, on appraisal and during the course of project monitoring and evaluation.

### **Gender equality and equal opportunities**

The OP will promote the objectives of equal opportunities and non-discrimination on the basis of race, ethnic origin, religion or belief, disability age or sexual orientation, as required by Article 16.

These objectives have been reflected in the programme strategy and priorities. The programme has been subject to an Equality Impact Screening as required by UK legislation, which are in Annex A to the OP.

The MA, the PMC, the A 59(2) body and all A 42 bodies will be required to implement the OP having regard to the objectives of equal opportunities and non-discrimination. This will involve assessing the impact of operations on these objectives, on appraisal and during the course of project monitoring and evaluation.

### **Major projects**

Financial assistance may be given under the OP for the support of major projects. A major project is defined in Article 39 as an operation:

- which comprises an series of works, activities or services intended in itself to accomplish an indivisible task of a precise economic or technical nature;
- which has clearly identified goals; and
- whose total cost exceeds €25 million in the case of the environment and €50 million in other fields.

When the A 59(2) body appraises a major project, it will inform the Commission before deciding to approve support under the OP and provide the information necessary for appraisal of the project by the Commission as set out in Article 40 using Annex XXI to Commission Regulation 1828/2006).

### **Complementarity with the European Social Fund**

The MA and A 59(2) body will work with the MA for the national ESF programme (the Department for Work and Pensions) to ensure effective co-ordination of decisions taken in the implementation of the OP and the national ESF programme.

The A 59(2) body will be responsible for advising the PMC on what co-ordination with the ESF programme is necessary for meeting the objectives of the OP. The A 59(2) body will put in place appropriate communication and liaison arrangements with the MA for the ESF programme. The A 59(2) body and regional partners will consider whether a joint ERDF and ESF monitoring committee to aid co-ordination would benefit the OP.

The PMC may at any time meet jointly with any committee or group set up by the MA of the national ESF programme to discuss matters of mutual interest and to ensure effective co-ordination.

### **Complementarity with the European Agricultural Fund for Rural Development and the European Fisheries Fund**

The MA and A 59(2) body will work with the MA for the EAFRD and EFF programmes (the Department for Environment, Food and Rural Affairs) to ensure effective co-ordination of decisions taken in the implementation of the OP and the national EAFRD and EFF programmes.

The A 59(2) body will be responsible for advising the PMC what co-ordination with the EAFRD and EFF programmes is necessary for meeting the objectives of the OP. The A 59(2) body will put in place appropriate communication and liaison arrangements with the MA for the EAFRD and EFF programmes.

The PMC may at any time meet jointly with any committee or group set up by the MA of the EAFRD and EFF programmes to discuss matters of mutual interest and to ensure effective co-ordination.

## **13. USE OF RESERVES**

### **National Performance Reserve**

A Member State may establish a National Performance Reserve for each of the Convergence or Regional Competitiveness objectives, consisting 3% of its total allocation for each objective. The UK Government has decided not to operate a national performance reserve for the OP.

### **National Contingency Reserve**

A Member State may reserve an amount of 1% of the annual Convergence allocation and 3% of the annual Regional Competitiveness allocation to cover unforeseen local or sectoral crises linked to economic and social restructuring. The UK Government has decided not to operate a National Contingency Reserve for the OP.

## **14. FINANCIAL ENGINEERING**

In accordance with Article 44 of 1083/06, the ERDF may be used to co-finance financial engineering schemes for enterprises, primarily small and medium enterprises. The A 59(2) body will ensure that financial engineering operations supported by the ERDF are set up and implemented in compliance with Articles 43, 44 and 45 of Commission Regulation 1828/06.

Any proposal to set up financial engineering instruments will have to be agreed by the MA.

## **15. STATE AID**

Any public support under this programme must comply with the procedural and material rules applicable at the point in time when the public support is granted. The Member State, and in particular the MA of each OP, is fully responsible for compliance of the Structural Funds operations within the programme with the EC state aid rules.

The Member State, the MA and the A 59(2) body are responsible for ensuring that operations and activities supported under the OP are compatible with the common market.