

Programmes Review of European Regional Development Fund in the South West - Convergence Programme

Final Report to the ERDF Convergence
PMC Evaluation Sub-Group

October 2010

Executive Summary

Recommendations

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

Programme strategy

1. The rationale and objectives of the strategy were valid at the time they were developed and continue to be valid. We do not recommend significant changes despite the upheaval in the economic and political context, but this will need to be considered in light of the outcome of the Comprehensive Spending Review. The strategy of the programme should remain focused on restructuring the Cornwall and Isles of Scilly economy to address its low productivity, reliance on low value added sectors and peripherality.
2. That the PMC should re-confirm in the review of the Operational Programme the ultimate objectives of the programme in relation to supporting the transition to the low carbon economy. Priority should be given to investments in the low carbon economy along with those supporting the restructuring of the business base if the programme faces a fall in available resources as a result of cuts in match-funding.
3. That the PMC addresses weaknesses arising from the level of detail in the Operational Programme, by providing greater detail and guidance on:
 - definition of high-growth and high-value businesses and sectors
 - managing a balance between the focus on support for high value businesses and also a need to increase productivity across all sectors
 - including output indicators for TA and including an impact indicator for reduction in carbon emissions.

Performance

4. That the PMC undertakes a review by the end of October 2010 of the risks to project and programme delivery of changes in match-funding availability. This should assess all contracted, endorsed and commissioned projects and assess the risk to each of changes in match-funding. It was also suggested by the PMC at its July 2010 meeting that this should include a considered review of the degree to which projects have maximised opportunities for integration with ESF and addressing this where opportunities can be capitalised upon.
 5. That the PMC gives continued consideration to increasing the intervention rate to address the future match funding risks.
 6. That the PMC should ensure that output and result targets are proportionate to the amount of funding being contracted (where this is appropriate) to ensure value for money and to achieve overall targets across the priority axes and programme.
 7. That the PMC informs the Task and Finish group reviewing PA2 with the findings from this evaluation as a matter of urgency and that the groups' findings are then given serious consideration in terms of both headroom and the impact that has achieved to date by business support activities as evidenced by our survey of supported businesses.
 8. That the PMC should put contingency plans in place to account for the potential under or over commitment within PA3 depending on the outcome of the Major Projects Appraisal of NGA.
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9. That the PMC should give further consideration to ensuring a greater contribution of, and benefits to the third sector from the Programme.

10. That the PMC should again review PMC and sub-group representation in terms of their gender profiles and undertake action to redress the balance as a matter of priority.

Targets

11. Target O03 (number of environmental goods and services enterprises assisted) should be reduced by 25% and Target RO7 Gross jobs in environmental sectors should be reduced by 50%, but both should be kept as stretching targets. These reductions are suggested as both appear to have been set too high at the outset and are very unlikely to be achievable.

12. Workspace targets should be reviewed using up to date evidence in the form of an Employment Land Study to ensure that the amount identified is not excessive for current and projected demand.

13. Specific targets should be reviewed to ensure the Programme is fully capturing all that has been delivered particularly within PA2, PA4 and BREEAM targets.

14. The target of 10% businesses supported to be owned by under-represented groups should have its remit extended to include residents from disadvantaged areas as measured through the Index of Multiple Deprivation, 2007 (which is in keeping with the Competitiveness definition of under-represented groups).

Management and administration

15. That the PMC considers the roll-out of SWRDA's zero carbon methodology in the appraisal process. The PMC should consider the resource implications of applying the methodology and how the difference the programme makes can be measured without burdening project delivery partners.

16. That the PMC undertakes a review to speed up the commissioning process. Where match funding is available from the RDA, a more streamlined approach is required and there may be the potential to get outside organisations (e.g. local authorities) to provide more support with project development which would also help address the RDA capacity issue.

17. That the programme management team should review the relationship between commissioning and appraisal to ensure that it is as time and cost effective and efficient for applicants and commissioning and appraisal staff.

18. That the PMC adopts the recommendations made in Chapter 6 to improve monitoring and the collation of performance management data:

- Technical Assistance –
 - Output targets should be set and monitored annually, to include: establishing monitoring databases; evaluation reports; publication/ dissemination of information and guidance; meetings; and publicity and communications events (the latter are already identified within the AIRs)
 - Result targets are set where appropriate against the output targets. These should be changes in behaviour, capacity and performance as a result of the activity that delivers the outputs
 - TA spend is monitored and reported against the strands of TA activity in the OP e.g. developmental, management information, evaluation, partnership and communication (with defined sub categories as appropriate)
 - Equalities and Diversity CCT - the programme must monitor and report achievements annually against the equalities and diversity targets in the OPs (including the target for
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50% of PMC and sub-committee members to be women). Additionally, the long list of programme equalities indicators should be reviewed to provide a shorter list of core, SMART indicators which all projects are monitored against, to enable consistent monitoring of performance across the programme

- Environmental CCT - the long list of environmental performance indicators in the monitoring strategy should be reviewed to provide a shorter list of core, SMART indicators which all projects are monitored against, to enable consistent monitoring of performance across the programmes.
- Spatial activity: It must be possible to report output and result achievements for the spatial priority (SIF) areas in both programmes.

19. That the PMC adopts the recommendations made in Chapter 6 to improve monitoring and the collation of performance management data to aid value for money assessments. The details of the recommendations are provided in the chapter.

20. That the PMC considers how the programme can more effectively communicate its objectives and work. Articulating the Programmes' role and their ability to deliver will become increasingly important in a more challenging funding environment. The programme needs to be able to demonstrate to a wide range of stakeholders from the public and private sectors the difference it is making and how it can support local and sub-regional priorities.

Strategic Added Value

21. In the face of match funding cuts the PMCs need to take a strong leadership role in identifying and lobbying potential new (and continuing) funding partners and ensuring they have a good understanding of the value added by the programmes in order to secure future resources. This will need to include evidencing the impact and outcomes of the ERDF programmes in supporting local and sub-regional policy objectives.

22. That the PMC ensures continued effective communication of the objectives of the programmes and the impacts at local and sub-regional levels in order to engage new funding partners.

23. The ERDF programmes should continue to explore opportunities for closer joint working between ERDF and ESF in funding projects where this is appropriate.

Source: SQW Consulting

Introduction and scope

2. This report is one of two following the Programmes Review of the European Regional Development Fund (ERDF) Programmes in the South West. The report focuses on the review of the ERDF Convergence Programme, but also brings in analysis and findings from the review of the ERDF Competitiveness and Employment (Competitiveness) Programme where issues are similar across both Programmes. There is a companion report concerning the ERDF Competitiveness Programme.
3. The 2010 review was commissioned by the Programme Monitoring Committee (PMC) so that it could receive a report on progress of the Programme to date, and consider whether any changes were necessary to further improve the impact of the Programme during its second half. This review is not a formal mid-term evaluation; such evaluations are not a requirement of the 2007-2013 ERDF Programmes. However, it provides the PMC with a useful working document for the remainder of the Programme period and could inform any ex-ante evaluation that the Managing Authority carries out. The PMC will consider this report

alongside a paper setting out its response to the recommendations, which will include any agreed actions of change.

4. Table 1 further summarises the purpose of this review below:

Table 1 : Purpose of the review	
	Assess the success to date of the South West Convergence and Competitiveness European Regional Development Fund Programmes in delivering outputs, results and impacts (by axis) and assess whether the ERDF Programmes are on course to reach the targets set for outputs, results and impacts.
	Review the progress made on the cross cutting themes.
	Assess whether the rationale and focus of the Programmes continues to be relevant to EU cohesion policy.
	Assess whether any changed economic factors or recent EU, UK Government policy developments or regional and local strategies suggest a change in the programme strategy.
	Identify which factor(s) (environmental, system or other), have or are likely to impede achievement of target outputs, results and impacts.
	Assess how effective and efficient the governance and management arrangements have been and if they remain the most effective to ensure delivery of objectives.
	Assess risks to delivery of objectives and review options for improvement in performance or mitigation.
	Make recommendations regarding administrative systems, project selection, development and delivery to ensure the most effective delivery of OP targets.
	Make recommendations regarding monitoring and evaluation systems and content to enable the ERDF Programmes Strategic Evaluation in 2015 to be fit for purpose.

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

5. The scope of the review incorporates reviewing performance to date and the impact of the changing economic and constitutional context going forward. The Programme’s strategy is reviewed, but its overall mission may need to be further reviewed by the PMC, particularly after the Comprehensive Spending Review, as the deliverability of the strategy becomes less certain.
6. The Convergence Programme for Cornwall and the Isles of Scilly succeeds the original Objective One Programme, which operated between 2001 and 2006. The Convergence Programme has been allocated a total of €458.1 million for the period of 2007-2013. This is complemented by €196 million of Convergence ESF funding to support learning and skills related activities. Throughout the report, ‘the Programme’ refers to the ERDF Convergence Programme unless otherwise stated.
7. The Programme’s overall objective is: *To establish the momentum for transforming the economy to a high value added economy where knowledge, environment and quality of life underpin sustainable economic growth.*
8. The Programme’s strategy is built on five priority axes:

Table 2: Priority Axes	
Priority Axis 1	Innovation and Research and Development. The aim is for Cornwall and the Isles of Scilly to compete as a centre for creativity, innovation and research and development.
Priority Axis 2	Enterprise and Investment. The aim is to restructure the economy towards higher value added businesses, more productive businesses across the business base, and to address the low-

	earnings/ low-skilled nature of the economy.
Priority Axis 3	Transformational Infrastructure. Developing a small number of major investments is identified as being crucial to the successful step-change in economic performance. In particular the focus is on improving the connectivity between local business and national and international knowledge and trading networks.
Priority Axis 4	Unlocking the Economic Potential of Place. The aim is to develop in a sustainable manner, the capacity of key towns and locations to accommodate new investment critical to the development of a knowledge based and higher value added economy.
Priority Axis 5	Technical Assistance. Partnership working, developmental work, publicity, monitoring and evaluation are critical to the success of the Programme. Priority Axes.

Source: SQW Consulting

9. There are two cross cutting themes in the Programme: Environmental Sustainability, and Equality and Diversity.

Convergence programme strategy

10. Cornwall and the Isles of Scilly were awarded Convergence funding due to the economy continuing to lag behind the rest of Europe (as measured in GVA terms) despite the support provided by the previous Objective One programme. The strategy was grounded in and developed from *Strategy and Action* (the economic development strategy for Cornwall and the Isles of Scilly, 2007 – 2021)¹. The Programme and its objectives have been designed to provide the conditions to facilitate a restructuring of the economic base encouraging the growth of high value businesses to reduce the dependence on low value added sectors and improve productivity across all businesses. The Programme responds to a number of policies and strategies at the European level and at the national level; also taking account of the rising priority being given to tackling climate change and the reform and simplification of public-sector support for business.
11. It is important to note that during the Programme period to date, there has been a significant change in local administrative arrangements with the vesting of Cornwall Council in April 2009. This has resulted in a more strategic approach from the new unitary authority, working with the Council of the Isles of Scilly.
12. The strategy of the Programme is logical at a strategic level, although there are weaknesses in the targeting framework including: Priority Axis 1 which does not include a result indicator for increase in R&D investment as a result of programme activity and Priority Axis 2 which does not include a result indicator for the increase in value of exporting as a result of the programme. In addition there are no formal outputs or results specified for PA5 concerning Technical Assistance and with regard to the environmental Sustainability Cross Cutting theme (CCT), an impact target should be included relating to the reduction of carbon emissions reflecting the Programme's intention to move the Cornwall and the Isles of Scilly towards a low carbon economy.
13. Stakeholders on the whole considered the Programme strategy was correct to meet the needs and address the challenges within Cornwall and the Isles of Scilly. They recognised the need to address the local economy's current reliance on low value added sectors and drive forward

¹ <http://www.economicforum.org.uk/economic-development-strategy.htm>

the low carbon economy capitalising upon the locational advantages of the area, particularly with regards to marine energy.

14. We have identified some ambiguities within the Programme's Operational Programme. First, the lack of a definition of high-growth and high-value businesses and sectors (which has been addressed on a practical basis through project selection criteria developed by the Programme team on project selection criteria) and second, a lack of clarity concerning the focus on support for high value businesses and also the identified need to increase productivity across all sectors and how this should be realised in practice. In addition, there is a need for clearer guidance concerning how the Programme should work alongside other programmes, particularly the ESF programme, given their different foci and remit.
15. Overall, we consider that the rationale of the Programme was valid at the time it was developed. It was intentionally ambitious in aiming to restructure the economy and move Cornwall and the Isles of Scilly away from its dependency on low value added sectors and towards a low carbon economy, which we consider was required to address the area's GVA gap with the rest of the UK (and Europe). In being ambitious, however, delivering the Programme's targets was always likely to be challenging.

Continuing relevance of the programme strategy

16. The wider context has changed significantly since the Programme was launched – from a period of economic growth to a sharp recession and uncertain economic outlook, severe public spending cuts and potential institutional changes that will affect the delivery and management of the programme. The Programme will face a fall in available public match-funding of at least 25% over the next four years, particularly with the lack of future funding available from the RDA Single Programme. Few areas of the Programme's strategy will be unaffected, with the national business support programme very vulnerable.
17. The majority of the stakeholders consulted did not want to see a major change to the Programme's strategy in light of changes in the socio-economic and political context. Most stakeholders felt that the 'mission' of the Programme continues to be valid, and restructuring of the economy is a long term goal which should not be put off course by the recession which is likely to have a cyclical, rather than structural impact. However, several of those consulted considered that the targets were unachievable and rather than missing opportunities by sticking rigidly to a narrow definition of high value or spreading resources too thinly by taking away the high value focus, there should be a greater degree of flexibility to enable the overall outcomes to be reached. This could include looking at businesses growth potential (regardless of whether they are high value added or not) and providing increased support to micro-businesses.
18. Stakeholders expressed strong support to maintain the Programme's strategic focus on moving Cornwall and the Isles of Scilly to a low carbon agenda. It was explicitly stated by the PMC in July 2010 that the ambition should be to achieve a *low* carbon economy through both specific low carbon focused projects (vertical integration) and by reducing the environmental consequences of all projects (horizontal integration), rather than a *lower* carbon economy which just focuses on minimising the environmental impacts of activity.

19. The potential for the ERDF intervention rate to be increased is being investigated. However, this is unlikely to make a vast difference or cover the estimated minimum 25% public sector match funding reduction as the Programme already has a high intervention rate (of 68%) and the maximum this could be negotiated to is 75%.
20. At this point, our view is that there is no strong justification to change the overall direction and thrust of the Programme's strategy. We do not consider that greater flexibility should be introduced by reducing the focus on high value added sectors as this is the central tenet of the strategy and may result in the overall aim of restructuring the economic base not being achieved. However, the Programme is not solely aimed at maximising high value businesses; it also includes the aim of increasing productivity across all sectors which allows companies across the board to be supported.
21. Delivery will be challenging going forward and as the ERDF Convergence Programme is very much concerned with providing the conditions to support economic growth and greater productivity, there is a potential risk that initial investment in infrastructure will go ahead, but future revenue projects which the capital investment is expected to catalyse (and which are likely to achieve output/result/impact targets and Lisbon compliance) may not be realised. This situation needs to be kept under review by the PMC particularly until the announcement of the Comprehensive Spending Review, but maintained thereafter.

Programme performance

22. As at May 2010, 60 projects (excluding Technical Assistance) had been contracted to deliver activity within the Convergence Programme. Of these projects, 13 were complete as of 31st March 2010 with the rest of the contracted projects scheduled to complete between 2010 and 2015. The average (mean) ERDF cost of the contracted projects to May 2010 was just over £2.7m, which is relatively high and in line with the programme's strategy to focus its investment where it is most needed and is likely to achieve the best results.
23. The current financial position is set out in Table 3.

Table 3: ERDF Headline Financial data to May 2010, Total

	Allocation Total £	Total Contracted £	Total Endorsed £	Total commissioned £	Total contracted, endorsed & commissioned £	Total Spend £	Spend as % of allocation
PA1	93,808,113	61,941,215	10,963,090	8,347,591	81,251,896	10,680,666	11%
PA2	116,138,826	31,049,234	7,469,638	36,178,136	74,697,008	10,127,392	9%
PA3	93,808,113	36,573,867	3,763,854	58,041,000	98,378,721	17,805,286	19%
PA4	89,345,186	34,805,438	6,537,675	60,916,134	102,259,247	6,239,914	7%
TA	16,081,736	11,545,824			11,545,824	2,102,938	13%
TOTAL	409,181,974	175,915,578	28,734,257	163,482,861	368,132,696	46,956,190	11%

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

24. Within the ERDF Convergence Programme, the maximum ERDF intervention rate permitted across the Programme is 68%, but this varies between axes from 75% to 61%. The achieved overall Programme intervention rate to May 2010 is 65%. Match funding will be a significant risk going forward, and with varying rates between axes it will continue to be essential to constantly monitor the situation to understand the impact of more contracting/spend in particular axes on the overall intervention rate.
25. A critical requirement for the Programme is that it delivers the required proportion of activities that are Lisbon compliant as specified by the EC. Achievement to date is 65% across the Programme (with no data available by axis or project) compared with an 80% target (OP) although the EU regulatory requirement is 60%. The May 2010 Performance Report states that *'It is anticipated that the greater proportion of investments for the rest of the Programme would be Lisbon compliant'*. As the largest Priority Axis (PA) spend to date is through PA3 which largely supports major infrastructure projects, this assertion is accepted as the Programme is still investing in capacity building activities which are expected to then facilitate the Lisbon compliant interventions. However, with the current and likely future challenges for delivery, which may be exacerbated for more Lisbon compliant revenue activities and the varied Lisbon requirements across the axes, it will be important that PMC closely monitors the achievement of Lisbon compliance across the Programme.
26. The Programme still has a long way to go to achieve its targets, although this is perhaps unsurprising given that only 33 projects have spent ERDF funds to May 2010. There are two output indicators and three result indicators that have yet to be set targets under the existing projects contracted suggesting that the right projects to meet these outputs and results have not yet got to the contracted stage. Further, there are 12 output indicators and seven results indicators that do not yet show any achievements against target – this suggests that performance has so far been quite limited. We assessed the reasonableness of the targets under Chapter 5 and consider that these should be achievable over the Programme period, in 'normal' economic circumstances. However, the current economic and institutional uncertainty means it is difficult to predict whether targets are likely to be achieved in the future.
27. There are particular issues within specific Priority Axes which require close monitoring by the PMC. PA1 (Innovation and Research and Development) has contracted a disproportionately low amount of target outputs compared with amount of ERDF investment contracted. However, this is due to the PA being front-loaded with capital investment to provide the conditions in which revenue focused and higher output-generating projects can come forward. It will be challenging for future contracted projects to make up the 'shortfall', but this has been a deliberate strategic decision by the PMC. These conditions need to be in place to enable future restructuring of the Cornwall and the Isles of Scilly although it is possible that this may take longer to achieve than the Programme period.
28. PA2 - Enterprise and Business - has considerable headroom, but there is a review currently underway to investigate performance to date and identify opportunities for increased contracting and spend. Continued support to business through this PA will be crucial in the current climate and going forward. A potential issue has been raised concerning the high

workspace target within PA2 which may be excessive. An employment land study is currently underway, the results of which should be used to inform any decision requiring an amendment to the target if it was considered to have been set at too high a level.

29. PA3 (Transformational Infrastructure) is progressing well but has a significant dependence on one project – Next Generation Access (broadband) which is currently being considered through the EU’s Major Projects Appraisal. It is recommended that the PMC develops contingency plans in case the project is not successful, but also if the project is successful, the PA will be over-committed and consideration will need to be given as to how other investments planned within the PA should be prioritised.
30. PA4 - Unlocking the Economic Potential of Place – has made some progress, but this is mainly preparatory work with only one project achieving outputs. A review is also underway concerning performance within the Strategic Investment Frameworks (SIFs) which have been put in place to take forward this PA to ensure that these are of a strategic and transformational nature commensurate with the requirements of the Programme.
31. Cross cutting themes (CCTs) are becoming embedded, with Environmental Sustainability more so than Equality & Diversity. Specifically with regard to environment, the ERDF programmes have invested in projects to:
 - improve the environmental performance of buildings
 - improve the resource efficiency of business
 - build the research and innovation base in the EGS sector across the region
 - support the adoption of environmental technologies through innovation and enterprise support
 - build the capacity of the Environmental Goods and Services sector across the region e.g. through networking and innovation networks.
32. Both programmes are also actively exploring opportunities for investment in domestic energy efficiency and micro-generation, with £18.5m of ERDF funded activity commissioned by the Convergence programme.
33. There is evidence that a lot of activity has been undertaken to embed the Equality and Diversity CCT in the Programme with a competent team in place and an expert, dedicated advisory group championing the need to embed equality and diversity requirements into the Programme. However, in the main, stakeholders considered the CCT was better embedded than in previous programmes, but still ultimately an ‘add-on’ to the project appraisal and monitoring process, having much less weight than the environment CCT and to some degree considered an unnecessary burden for applicants/beneficiaries.
34. Target outputs for the Environment CCT should ensure that they capture all environmental activity undertaken. For example, premises built to BREEAM “excellent” rating or equivalent should also include premises converted, particularly as this is a more environmentally sustainable solution; projects which comprise buildings that meet the rating should be able to count multiple outputs; and the term ‘or equivalent’ should always be used

in output definitions to allow for infrastructure/land activities which meet the equivalent CEEQUAL rating. Finally further thought needs to be given as to how the target will be assessed as this is phrased in percentage terms. For example, output 008 requires 90% of all new premises to be constructed to BREEAM excellent standard or equivalent, but there is no output recording the total number of premises constructed so it is not possible to assess progress towards achieving the target.

35. The equality and diversity target of 10% businesses supported to be owned by under represented groups should be retained with the remit of under represented groups extended to include residents from disadvantaged communities as with the Competitiveness Programme.

Impact and value for money

36. The main impact of the ERDF Convergence Programme to date has been the benefits that have been secured by businesses that have received business assistance under Priority Axes 1 and 2. A survey of businesses that have benefitted from ERDF business support activity suggests GVA impacts to March 2010 of £1.7m across the Convergence area assuming zero persistence to the benefits. The majority of benefits are expected to come from future business assists, also assuming zero persistence to the benefits. The pre and post-March 2010 GVA benefits are around half (at £95.3m) of the net additional GVA target of £185m in the OP for PA1 and PA2 combined. Other GVA benefits may also come forward from activity under PA1 and 2, and PA3 and 4, although we have been unable to quantify the impacts as there has been limited delivery to March 2010. However, notwithstanding other impacts, these findings are of serious concern specifically regarding the importance of business support, not only in terms of achieving the Programme's targets, but ultimately its objectives. It appears that, to date, businesses are not increasing their productivity to the levels expected. There is a Task and Finish group reviewing the delivery of business support and this group should be informed of the findings of this Review in order to help further investigation of this study. With the future of Business Link being in question, and the importance of business support to improving productivity, addressing this issue is of paramount importance in ensuring the future success of the Programme.
37. It is not possible to assess the wider impacts of the programme given the relatively modest achievements of outputs and results. However, to aid future assessments, the review has considered the reasonableness of the performance targets at the time they were developed. This has found that the targets are achievable based on unit spend comparisons and the majority appear reasonable although some (particularly for PA2) will be challenging.
38. To help the partnership to consider other potential impacts, we have undertaken a sense test of the impact targets in the performance framework. This suggests that the Programme can achieve the majority of impact targets, although they are challenging. Future achievement will depend on the availability of match-funding and delivery of the priorities progressing as planned.
39. The value for money of the Programme has been assessed through the *Three E's* of economy, efficiency and effectiveness. Economy refers to ensuring that activities are delivered at

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

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

40. *Efficiency* refers to whether the benefits or outcomes exceeded the intervention costs. The business survey results suggest poor value for money regarding achievements to date, but good value for money with regards to future expected outputs and impacts.

41. *Effectiveness* is concerned with the assessment of the extent to which the Programme's objectives have been met in terms of targets, milestones and expectations. It is difficult to assess effectiveness as the Programme is still at an early stage of delivery and therefore it is difficult to assess the full impacts of delivery. However, the nature of the ERDF Convergence Programme is very much concerned with putting in place the conditions to support the transformation of the economy and it can be judged as effective in terms of moving in the right direction. The projects being commissioned and those delivering on the ground are capitalising upon opportunities within high value sectors such as marine energy with projects such as Wave Hub and PRIMaRE; providing business support to high growth businesses and helping businesses across all sectors increase their productivity (Coaching for High Growth and SW MAS); putting in place the infrastructure to address peripherality and reducing the distance to market (Newquay Airport and the potential Next Generation Access project); and supporting regeneration and realise economic potential in centres through the spatially focused Strategic Investment Frameworks that have been established. However, the only quantitative measure we have is the business survey which shows that achieved and predicted impact is not in line with the targets for the Programme and if the trajectory identified is followed, the Programme will not achieve its objectives with regards to increased productivity and employment and GVA growth resulting from business support.

Management and administration arrangements

42. Processes appear to be compliant with EU Regulations (although only a headline review has been undertaken). Processes are similar within the ERDF Convergence and Competitiveness programmes although some elements are tailored to the specific requirements of each Programme. The management and administration structures in place are appropriate for the scale and scope of the Programmes.

43. The PMC is highly regarded by stakeholders; it has engaged a broad spectrum of partners and its meetings are business like and constructive. Private sector engagement is generally recognised as being particularly successful. There is evidence of a mature and effective partnership between Cornwall and the Isles of Scilly local authorities, the private and third sectors and sub-regional and regional agencies. With the current uncertainties surrounding the Programme's future management, it is essential that any future intermediate body recognises

and capitalises upon the strong local partnership that exists and ensures that this is involved in future governance arrangements.

44. Concerns were expressed by some consultees that the overall structure is overly administrative and bureaucratic – but our view is that it is reasonable for a Programme of this scale, and measures such as setting up time-limited Task & Finish groups to undertake specific reviews, where concerns have been raised, are an effective and appropriate response.
45. Projects are commissioned rather than assessed via an open-bidding process. We consider this an appropriate approach, but stakeholders expressed concerns about the length of time the process took. After further investigation we identified that delays largely occurred at the project development stage (that is, between commissioning and appraisal) suggesting that more support may be required. However, we do suggest that SWRDA should review the relationship between commissioning and appraisal to ensure maximum efficiency is being achieved.
46. In addition, the overall application process was considered (by stakeholders) to be cumbersome, particularly where the RDA Single Pot is a source of match funds due to the implementation of different decision making processes and governance procedures. Clearly there is a need to ensure processes are as efficient as possible, especially where the same organisation has administrative responsibility for both funding streams.
47. The RDA's capacity was also raised as an issue, particularly in relation to the appraisal and contract approval stages, which is a serious concern with cost-efficiency savings being introduced immediately. Once contracted, the project management and monitoring processes are considered to be well managed. However, we are aware that more attention needs to be devoted to the project monitoring and management processes to ensure that any delays in spend and activity are addressed earlier. The Competitiveness Programme is developing a more rigorous approach to monitoring which will be rolled out across both Programmes.
48. CCTs are progressing well with environmental sustainability more embedded than Equality & Diversity, but it is difficult to assess absolute performance by both CCTs as monitoring data is not consistently collected or readily available.
49. Communications is having a positive impact on the Programme ensuring that successes are well disseminated, partners provided with support and guidance and beneficiaries aware of the EC's publicity requirements for ERDF funding. This largely consists of media engagement, events, newsletters, social networking, a website and partner and business briefings.

Strategic added value and partnership working

50. Strategic added value and partnership working have been assessed across the ERDF Convergence Programme. The purpose of the PMC is to provide strategic leadership and linkage across the ERDF and ESF programmes. The Convergence PMC is highly regarded, the independent chair was praised by stakeholders and the PMC sub-groups (Endorsement Advisory Group, Partnership Delivery Board and CCT advisory groups) are considered effective and doing a lot of work 'behind the scenes'.

51. The Programme exerts positive influence in terms of maximising partners' investment; although this will become more important given the expected challenge to finding match funding in the future. There is potential for better communication of the strategic leadership, role and value added by the PMC to the wider stakeholder community. The PMC will need to provide significant strategic leadership in the future in addressing the likely need for match funding. Effective communication to, and lobbying of potential match funders will be essential to ensure that they understand the impact and outcomes of the Programme in supporting local and sub-regional policy objectives.
52. Networking is an important aspect of both the management of the Programme and the activity that they are delivering. There is scope to improve networking opportunities for the wider programme stakeholders, particularly for delivery partners. Given the Coalition Government's emphasis on private sector growth as a key component of recovery from recession, the engagement of the private sector as a key stakeholder and partner in the management and delivery of the two programmes becomes increasingly important in the latter part of the two programmes and the current successful engagement with businesses needs to be sustained.
53. There are structures in place for collaboration between the Convergence and Competitiveness and Employment programmes; and there are shared processes and ways of working. A number of projects are funded by both programmes; but stakeholders commented that there were limited opportunities for cross-programme working.
54. A joint mapping study has been carried out which identifies linkages between the ERDF and ESF programmes and with RDPE. Stakeholders suggest that alignment between ERDF and ESF has improved over the course of the ERDF programmes. The ESF framework refreshes has improved alignment. Joint PMCs have been effective at promoting joint working at the strategic level, but this is not often translated to the project level. There is scope for better joint working, but this is sometimes hampered by the commissioning approach of ERDF and the competitive bidding approach of ESF.

Risk assessment

55. The ERDF Convergence Programme has an ambitious strategy of reversing market failure to achieve a more broad based economy reducing the current dependence on low value added sectors. This has inherent risks which have been increased through changes in the socio-economic circumstances associated with the recession and the current and future introduction of unprecedented public sector funding cuts. Below is an overview risk assessment for the Programme going forward:

Table 4: Risk assessment of the delivery of the Convergence Programmes

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

Risk	Probability	Impact	Mitigating action	Action recommended	Red/Amber/Green assessment
			maximise private sector & other sources of public sector (e.g. LAs)	appropriate sources of match	
Failure to progress Next Generation Access impacting on the success of the Programme & spend in P3. If it does go ahead the PA will be over-commissioned requiring other investment to be lost	MEDIUM	HIGH	Working closely with EC concerning Major Project Procedure appraisal	Continue working with EC and develop contingency plan PMC and/or its sub-groups need to scenario plan for potential different outcomes for PA3	
Changes to national and regional funding and delivery organisations e.g. Business Link, RFA, DfT	HIGH	HIGH	Ongoing partnership discussions to determine minimising impact on Programme delivery	Ensure key stakeholders involved in discussions ensuring most positive outcomes with feedback to and support from the partnership	
Change in managing agent for the Programme with abolition of RDA by March 2012	HIGH	MEDIUM	Ongoing partnership discussions to determine minimising impact on Programme delivery	Continue discussions, ensure long lead in time & smooth transition to ensure minimal impact on project development, delivery & management	
Delay to Programme delivery if reviews of P2 & P4 become contracted	MEDIUM	HIGH	Formal groups established reporting back to PMC, clear collective desire to resolve matters	Continuing commitment to resolve issues quickly – set target for both reviews to be completed & recommended way forward in place by end of 2010	
Economic downturn affecting private sector ability to invest in workspace	MEDIUM	HIGH	Maximum use of flexible intervention rates/investigate local asset backed vehicle/encourage businesses to access full range of support available through the Programme	Continue investigations and maximise positive publicity involving private sector to ensure all potential businesses aware of support & appreciate benefits it can bring	

Risk	Probability	Impact	Mitigating action	Action recommended	Red/Amber/Green assessment
SWRDA Capacity proves a constraint on delivery in terms of increasing time periods for appraisal and contracting	MEDIUM	HIGH		Implement recommendations from this review and maximise dovetailing and streamlining of processes wherever possible	

Source: SQW Consulting

1: Introduction

Introduction

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

Purpose of the review

- 1.4 The 2010 review was commissioned by the Programme Monitoring Committee (PMC) so that it could receive a report on progress of the Programme to date, and consider whether any changes were necessary to further improve the impact of the Programme during its second half. This review is not a formal mid-term evaluation; such evaluations are not a requirement of the 2007-2013 ERDF Programmes. However, it provides the PMC with a useful working document for the remainder of the Programme period and could inform any ex-ante evaluation that the Managing Authority carries out. The PMC will consider this report alongside a paper setting out its response to the recommendations, which will include any agreed actions of change.
- 1.5 The purpose of the review was set out in the project specification and repeated in the figure below².
- 1.6 The review has considered the focus, spend, activities, management and delivery and of the ERDF programmes over the period to March 2010, and makes recommendations that may be required to improve the working of the programmes. The review has also considered the impacts of business support activities and considered prospects for the programmes to deliver other economic impacts as far as the evidence allows. The review has included as assessment

² South West Convergence and Competitiveness 2010 Programme Review: Consultancy Brief, SWRDA, March 2010

of the Strategic Added Value of the PMCs, identified examples of good practice and considered evidence of the value for money of the programmes.

Table 1-1: Purpose of the review

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

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

Scope and approach to the review

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

- The review does not challenge the overall programme missions and strategies. However, it considers the rationale for the programmes in the light of changing circumstances insofar as this may have implications for the programmes' operational priorities and practices. Particularly relevant are the significant changes in political and macro-economic conditions that have occurred since the OPs were approved and the consequent tightening of public finances.
- The review is focused on the programme level and does not carry out detailed project reviews other than the seven case studies which are part of the approach.
- The review does not draw on non South West European programmes as benchmarks or for assessing the relative Value for Money of the ERDF programmes in the South West, because of the different contexts in which they operate.
- During the Programmes Review period, two concurrent mini-reviews have been underway of two of the Priority Axes 2 and 4 of the ERDF Convergence Programme by local partners. These are concerned with: Priority Axis 2 – review of the business support landscape; and Priority Axis 4 - a review of projects identified in the Strategic Investment Frameworks. This review does not incorporate the results of these reviews, which are still ongoing, but dialogue has been maintained between

SQW and SWRDA concerning their progress and findings have been taken into account where appropriate and relevant to this review. These reviews are more focused on the content and delivery of specific projects, and it is likely that these reviews will be finalised some time after the Programmes Review is completed. Therefore these are likely to build in the findings from the latter.

- 1.8 The approach to undertaking this review was set out in the agreed Project Initiation Document (PID) and is summarised in Annex A to this report.

Status of this report

- 1.9 This is the final report incorporating comments from the evaluation sub-group.

Report Structure

- 1.10 The structure of the rest of this report is set out in the following paragraphs, which include a summary of the content of each of the chapters.
- 1.11 Chapter 2 sets out an assessment of the **programme strategy**. This chapter is specific to the Convergence programme. This critiques the rationale, objectives and strategy of the programme and presents a programme level logic model.
- 1.12 Chapter 3 provides an assessment of **changes in conditions** since the programme was launched. This chapter is largely common to both the Competitiveness and Convergence reports. The chapter provides an assessment of macro-economic conditions and an update to baseline conditions. It also considers changes in the UK and European policy context including anticipated changes to public finances.
- 1.13 Chapter 4 presents an assessment of the **programme performance**. This chapter is specific to the Convergence programme. It presents a review of programme finances and gross outputs and results to March 2010. Performance by Priority Axis is assessed along with the implementation of Cross-Cutting Themes. The chapter then considers the implications for the future delivery of the programme.
- 1.14 Chapter 5 assesses evidence of the **impact and value-for-money** of the programme and Priority Axes. This chapter is specific to the Convergence programme. This includes an assessment of the reasonableness of the performance targets at the time they were set and in light of changing conditions. It then presents an assessment of the impact of business support activities supported by the programme and considers prospects for achieving the economic impacts in the programme performance framework.
- 1.15 Chapter 6 is an assessment of the **effectiveness of management and administration arrangements**. This chapter is common to both the Competitiveness and Convergence reports. This begins with an overview of the management arrangements, and makes an assessment of the effectiveness of the strategic management arrangements.
- 1.16 Chapter 7 assesses **Strategic Added Value (SAV) and partnership working**. This chapter is common to both the Competitiveness and Convergence reports. This includes an

assessment of SAV against the three categories of strategic leadership, networking and influence/leverage. Partnership working across the Competitiveness and Convergence programmes, and between the ERDF and ESF programmes is also considered.

- 1.17 Chapter 8 sets out the **recommendations** from the review. This chapter is specific to the Convergence programme. Recommendations are made in respect of programme strategy, programme performance, management and administration arrangements and partnership working.
- 1.18 The assessment of progress with regards to the Cross Cutting Themes of Environmental Sustainability and Equality and Diversity is integrated into the above sections rather than considered on a stand alone basis due to their very nature. Specific analysis and considerations of achievements are provided in Chapter 4, whilst Chapter 6 details how they are implemented and embedded within the Programme.
- 1.19 The supporting annexes to the report include the detail used to undertake this review:
- Annex A summarises the methodology
 - Annex B presents the research tools
 - Annex C shows the stakeholders consulted as part of the review
 - Annex D sets out a review of European policy developments
 - Annex E sets out a review of policy developments in the UK up until May 2010 (developments since May 2010 are in the main body of the report)
 - Annex F sets out an update of the baseline conditions
 - Annex G presents the findings from the project case studies
 - Annex H presents the findings of analysis undertaken of the reasonableness of the programme's output, result and impact targets, at the time they were set.

2: Assessment of the Convergence programme strategy

Introduction

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

Development of programme and strategy

- 2.2 Cornwall and the Isles of Scilly were awarded Convergence funding due to the economy continuing to lag behind the rest of Europe (as measured in GVA terms) despite the support provided by the previous Objective One programme.
- 2.3 The strategy of the Convergence Programme is set out in the Operational Programme for 2007-13 (OP)³. The OP was produced under the guidance of the Post 2006 Co-ordination Group, and supported by considerable stakeholder consultation involving Task and Finish Groups, conferences and workshops. The strategy was grounded in and developed from *Strategy and Action* (the economic development strategy for Cornwall and the Isles of Scilly, 2007 – 2021)⁴. The OP was the result of two years work and took on board the views of partners, including the official consultation process in early 2007 on the draft OP. The OP was submitted to the European Commission in March 2007 and the programme adopted by the Commission on 13 December 2007.
- 2.4 SWRDA took the lead in establishing governance and administrative arrangements. A shadow PMC (which took on a dual role for both the ERDF and ESF Convergence Programmes) was established which met five times during 2007 and a shadow Partnership Delivery Board was put in place, which was responsible for the day-to-day delivery of the Programme including key investment decisions and delivery methods. This group met six times during 2007. In addition, the cross-programme (Convergence and Competitiveness) Environmental Advisory Group was established to oversee the adoption and delivery of the Cross Cutting theme (CCT). The pre-existing Equalities Advisory Group continued to play an overseeing role for the CCT, but it was agreed that this would be reviewed once the Equality and Diversity (E&D) CCT advisor was recruited in 2008.
- 2.5 The inaugural meeting of the PMC took place in January 2008 where the Convergence Programme was formally launched. The sub-groups of the PMC were soon established – the Partnership Delivery Board, the Endorsement Advisory Group (EAG) and the Advisory Groups for the Cross-Cutting Themes (CCTs), which support both ERDF programmes in the

³ Cornwall and Isles of Scilly Convergence Operational Programme, 2007-13

⁴ <http://www.economicforum.org.uk/economic-development-strategy.htm>

South West. A number of programme documents were agreed by the PMC in 2008 and work started on developing processes to embed the CCTs in programme delivery. The commissioning approach made good progress in 2008 with a wide range of investments commissioned. Developmental work also began on the Priority One higher education and business support frameworks and the Strategic Investment Frameworks (SIFs) in Camborne/Pool/Redruth, St Austell and the Clay Country, Bodmin and Newquay. Fourteen projects were contracted, and just under £1m ERDF funds spent in 2008.

- 2.6 The following year saw around £27 million of ERDF spend and a further 31 projects contracted. The second annual communication event took place in February 2009. There was also an expansion in the commissioning process with a number of investment projects approved for ERDF support. Increased delivery was seen on the ground with projects achieving outputs and results.

Programme strategy – rationale and objectives

- 2.7 This section sets out the rationale for the Convergence strategy as described in the OP. A thorough analysis of the policy context and socio-economic evidence base informed the development of the OP and its rationale. This section does not repeat the detail of the analysis in the OP, but identifies the key issues of most significance in respect of the policy drivers and the socio-economic challenges that the programme was designed to address.

Policy drivers

- 2.8 The Programme and its objectives have been designed to respond to a number of policies and strategies. At the European level, these include the objectives for Cohesion Policy, the Lisbon Agenda to make Europe the world's most dynamic and competitive knowledge-based economy, the sustainable development Gothenburg Agenda, and the European Commission's Community Strategic Guidelines.
- 2.9 At the national level, the strategy was designed to align with the UK's priorities for Structural Funds Programmes between 2007-13, as described in the National Strategic Reference Framework:
- promoting innovation and knowledge transfer
 - stimulating enterprise and supporting successful business
 - building sustainable communities
 - ensuring sustainable development, production and consumption.
- 2.10 Nationally, the development of the programme also took account of the rising priority being given to tackling climate change and the reform and simplification of public-sector support to business. Moreover, the programme is designed to contribute towards regional and sub-regional strategies, such as the South West Regional Economic Strategy; the emerging spatial strategy in the draft Regional Spatial Strategy, and the South West Cohesion Framework. The responsibility given to Regional Development Agencies including SWRDA to deliver

ERDF programmes was seen as an opportunity to strengthen alignment with the RES and ensure strategic fit with domestic funds, in particular the RDA funds.

- 2.11 The OP made the case that the Convergence strategy was aligned with all of these policy drivers, particularly responding to policy drivers to increase innovation and enterprise, support the knowledge economy and respond to the challenges and opportunities of climate change.
- 2.12 The programme was also intended to build on the previous Objective 1 programme for Cornwall and the Isles of Scilly.

Table 2-1: Summary of Objective 1 programme and key findings from mid term evaluation
<p>The Objective 1 Programme for the South West, 2000-2006</p> <p>The precursor to the Convergence Programme, the Objective 1 Programme sought to create “a prosperous Cornwall and Scilly where all people and communities share in an improving quality of life.” The Programme’s key objectives centred on:</p> <ul style="list-style-type: none"> • increasing absolute prosperity through addressing the underlying causal problems • the low level of GDP per head • creating sustainable communities • capitalising on the economic opportunities created by the distinctiveness of Cornwall and Scilly. <p>To this end, a total planned spend of €498.9 million was structured around a framework of five priority axes:</p> <ul style="list-style-type: none"> • SME and Micro Business Support (total planned expenditure of €190.939m including €47.575m from ERDF funding) • Strategic Investments (€133.721m including €44.564m from ERDF) • Developing People (€115.045m including €4.817m from ERDF) • Community Economic Development and Rural Structural Adjustment (€146.112m including €25.896m from ERDF) • Regional Distinctiveness (€117.450m including €8.597m from ERDF). <p>In addition, there were three cross-cutting themes focusing on Environmental Sustainability, Equal Opportunities, and Information and Communications Technology (ICT).</p> <p>The Mid-Term Evaluation of the Objective One Programme</p> <p>Conducted by ECOTEC Research and Consulting Limited in 2003, this recorded the following key conclusions and recommendations:</p> <ul style="list-style-type: none"> • roughly half of the structural fund resources available had been committed, with the highest commitment levels seen for Priorities 1, 3 and 5 • around 20 per cent of the available resources had been expended • net additional jobs equated to 662FTE (3.2% of target), and net additional GDP was £9.5m (2.2% of target). The highest levels of projected results against targets were under Priority 1, although projects results and impacts generally ran well behind spending commitments. <p>Project quality was generally deemed to be good, being well-managed and planned, and awareness levels were good amongst the stakeholders and projects of the CCT themes. The PMC was fit for purpose but was not a very effective way of discussing strategic issues and possibly needed a slimming in membership numbers. There were perceived to be high additional costs to promoters of the application process and greater attention needed to be paid to the programme’s publicity.</p>

Source: SQW Consulting

Socio-economic conditions

- 2.13 The OP contains a detailed review of the socio-economic conditions in the Convergence programme area at the time the strategy was developed. In particular, the programme has been designed to respond to five key challenges and maximise the potential of three opportunities, and these challenges and opportunities are summarised in the table below:

Table 2-2: Challenges and Opportunities	
Challenges	Opportunities
<ul style="list-style-type: none"> • accelerating the growth of those sectors and businesses characterised by high value added products and services • improving productivity levels across the business bas • building business capability to innovate and use knowledge as the key competitive asset • addressing the effects of peripherality and distance from markets • securing growth in a responsible manner. 	<ul style="list-style-type: none"> • a significant group of small, highly innovative companies with the potential to grow, across all sectors, and at a scale which is relevant to the economy • the success of the Combined Universities in Cornwall and the potential of digital infrastructure to provide new economic opportunities • global trade, knowledge networks and the changing dynamics of collaborative ventures and accessing markets.

Source: Cornwall and Isles of Scilly Convergence Operational Programme 2007-13

- 2.14 The OP reports that although economic output growth (as measured by Gross Value Added) in Cornwall and the Isles of Scilly had expanded at a far greater rate since 2000 than the regional and national economy, GVA levels per head had been consistently below the UK and South West average. The most marked increase in GVA per head was in Carrick and North Cornwall with Carrick being the only Cornish district with GVA per head above 80% of the national average. Caradon, Kerrier and Penwith all had very low GVA per head figures - below 65% of the national average.
- 2.15 The OP states that the low levels of productivity are due to a number of factors: low levels of capital; industrial structure (over reliance on lower value added sectors including the public sector and an under-representation of high value added sectors); ownership, employment and skills; and distance from markets. The population is forecast to grow which the OP identifies will increase greater local service employment; this could reinforce the low wage economy, but will also increase expenditure and the potential for business growth.
- 2.16 The least productive areas are based in the west of Cornwall demonstrating the increasing impact of peripherality. Productivity varies considerably across sectors, but the OP suggests that there is a need to maintain a balance rather than prioritise any particular sectors whilst looking to broaden the economic base where lower value sector dominate and improve the productivity within lower value sectors. Interestingly the OP confirms that the strategy is not sector specific nor should EU investment only support high value added sectors as follows: *‘The analysis illustrates that concentrating solely on new and high value added sectors will not be sufficient to address the low GVA pc in Cornwall and the Isles of Scilly. It also confirms that a strategy based on a limited number of sectors will not be sufficient, on its own, to close the gap with national economic performance’*.⁵
- 2.17 Employment is significant in several of the region’s priority sectors particularly tourism; environmental goods and services; marine; food and drink; and creative industries. The OP recognises that several of these are characterised by lower than average wages hence the requirement to increase competitiveness and productivity to move away from a low wage economy.

⁵ OP, p24

- 2.18 The OP also identifies real opportunities in terms of new and emerging sectors – particularly environmental technologies and renewable energy - in which Cornwall and the Isles of Scilly has a locational advantage. There is a need to capitalise upon these opportunities as well as others such as digital and media and increasing research development. Small clusters, niches, networks, and collaboration are suggested as suitable support approaches to accompany sectoral development. Performance in Knowledge Based Economy (KBE) sectors is considered the ‘*key to future competitiveness*’ (in the OP) but Cornwall and the Isles of Scilly is very under-represented in knowledge based employment and in linked occupations which is considered a serious weakness. However, the area has increased its R&D potential recently with development such as the Peninsula Medical School and the Combined Universities in Cornwall (CUC) which should provide a strong foundation for the development of the KBE.
- 2.19 Small and micro businesses dominate the business base with 85% of businesses employing ten or less people. This is slightly higher than national and regional averages, and the proportion of large businesses is much lower. Overall the business base is fairly healthy with a reasonable number of businesses, substantial number of self-employed people and a relatively healthy start-up rate which the OP reflects is common in areas dominated by tourism and agriculture. The challenge is to transform the structure of the business base to one featuring a greater proportion of higher value sectors.
- 2.20 Cornwall and the Isles of Scilly are reported to have extensive broadband coverage supporting new start ups and enabling home-working. However, the OP identifies real challenges related to its peripheral nature as the highest speeds (related to new technologies) can only be achieved in close proximity to the exchange – 51% of phone lines lie beyond the required point to benefit and update work may not be considered economically viable in deep rural areas. A medium term review of ICT infrastructure provision in the area is considered essential.
- 2.21 The OP considers that current provision of employment space acts as a constraint on growth and there is identified demand for high quality accommodation of a range of types and sizes. Pressure on the capacity of the existing transport network is a key challenge and Newquay Cornwall Airport is likely to play a critical role in connecting the economy and Cornwall.
- 2.22 Despite recent population growth, Cornwall and the Isles of Scilly experiences out-migration of younger people. Population growth is set to continue, mainly by older people moving into the area, which has implications for the economy and local services in terms of the ageing society. Some 40% of the workforce has low levels of qualifications and are consequently vulnerable to labour market changes.
- 2.23 Finally, the OP recognises the integral importance of the natural environment to the economy of Cornwall and isles of Scilly both in terms of economic contribution, through tourism and quality of life leading to in-migration, and also recognising the challenges that must be overcome to achieve sustainable development. Environmental sustainability measures are essential to protect the environment and capitalise upon its assets.
- 2.24 A summary of the socio-economic strengths, weaknesses, opportunities and threats identified in the OP are summarised in the table overleaf:

Table 2-3: Socio-economic SWOT as identified in the OP	
<p><u>Strengths</u></p> <p>Strong and long established enterprise culture</p> <p>Some strong sectoral performance</p> <p>Emerging niche specialist companies and sectors</p> <p>HEI / Knowledge Base – Combined Universities in Cornwall, Peninsula Medical School</p> <p>Broadband take up and awareness</p> <p>Strong Cornwall brand, increasingly linked to quality</p> <p>Wide recognition of quality of life and a strong cultural identity</p> <p>Outstanding coastal, natural, and managed environment, including the Isles of Scilly</p> <p>More positive external image increasingly based on quality</p>	<p><u>Weaknesses</u></p> <p>Peripherality and poor external connectivity</p> <p>Low level of innovation, product and process development</p> <p>Low levels of business investment contributing to low productivity</p> <p>Structural bias towards low-value added and seasonal economic activity</p> <p>Limited higher value added service sector economy, and consequent lack of graduate and higher skilled jobs</p> <p>Social, economic and environmental conditions in Camborne, Pool, and Redruth</p> <p>Comparatively weaker skills base of the workforce and persistent recruitment and skills shortages</p> <p>High levels of worklessness and pockets of severe deprivation</p> <p>Poor transport connectivity between key centres, including public transport</p> <p>Limited provision and quality of business premises (property market failure)</p>
<p><u>Opportunities</u></p> <p>The potential for SMEs in certain sectors to take advantage of growing markets</p> <p>Opportunities arising from more widespread broadband and ICT adoption and application resulting in new business opportunities</p> <p>Capitalising on Newquay Cornwall Airport and its catalytic effect</p> <p>Responding to business and product opportunities arising from concerns about and responses to climate change</p> <p>Exploiting new and growing tourism markets based on quality</p> <p>Opportunities around HEI growth and potential for spin out companies and business collaboration</p> <p>Increasing markets and opportunities in the creative and cultural industries</p> <p>Increasing interest in regional and distinctive brands</p>	<p><u>Threats</u></p> <p>Globalisation of trade, and potential effect on certain sectors, such as manufacturing</p> <p>Climate change and the need for transition to a low carbon economy, as reflected in the Stern Review</p> <p>Increasing energy prices and uncertainty of supply</p> <p>Competitive pressures on and restructuring of industries such as china clay, agriculture, fishing, and tourism</p> <p>South East growth attracts higher skilled and highly qualified people</p> <p>Outdated infrastructure constrains growth</p>

Source: SQW Consulting (based on the OP)

Programme strategic and operational objectives

2.25 The objectives of the programme are built on the socio-economic evidence base and the work undertaken for the development of the Cornwall and Isles of Scilly Economic Development Strategy, *Strategy and Action 2007-21*. The OP states that there is a need to build on work achieved through the Objective One Programme to restructure the economy and particularly create more jobs in high value sectors where there are longer term prospects for growth. It also recognises the need to maximise the potential of those industries and sectors where Cornwall and the Isles of Scilly has comparative, competitive advantage and the potential for growth sectors to prosper. The OP mirrors the Lisbon agenda in recognising that *better* jobs are needed as well as *more* jobs; that is, there is a need to focus on they type of jobs and new starts being supported as well as the numbers if economic restructuring is to occur. The OP is

clear in reaffirming that improving productivity, supported by innovation, creativity, knowledge and skills, is important across all sectors, not just high value KBE sectors.

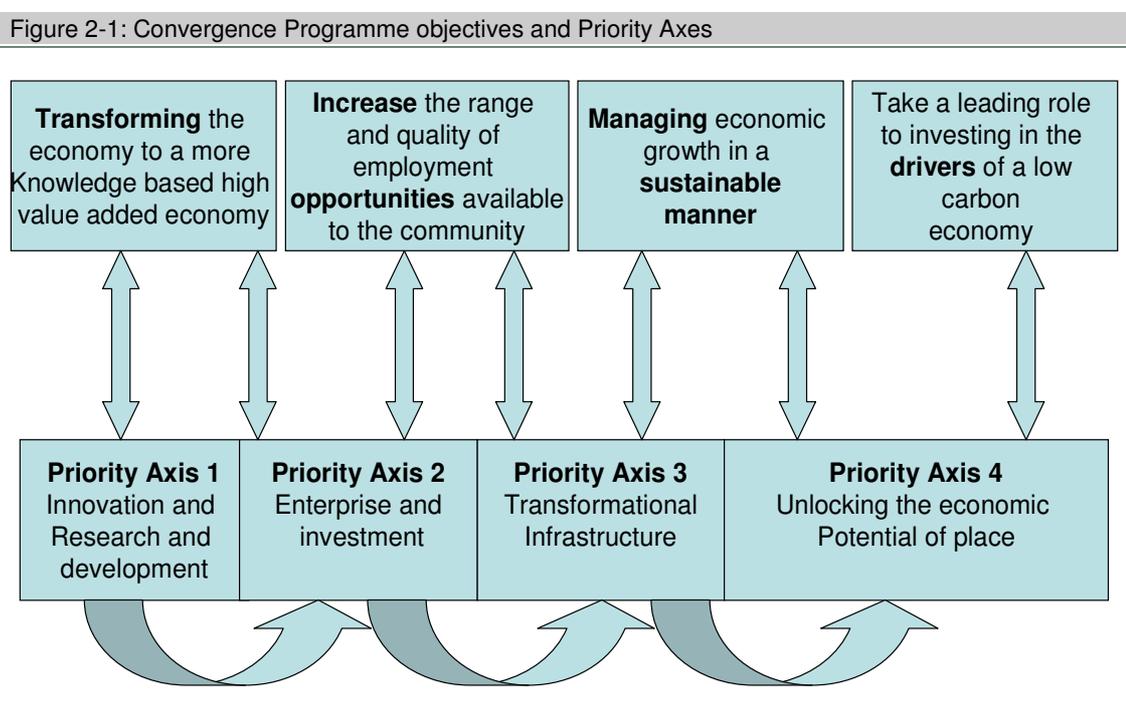
2.26 The objective of the programme was therefore defined as:

To establish the momentum for transforming the economy to a high value added economy where knowledge, environment and quality of life underpin sustainable economic growth.

2.27 To achieve this, the programme has four operational objectives:

- transforming the economy to a more knowledge based, high value added economy with a broader range of sectors, and a reduced dependence on low paid jobs
- increasing the range and quality of employment opportunities available to the community
- managing economic growth in a sustainable manner
- taking a leading role in investing in the drivers of a low carbon economy, including increased carbon literacy, overcoming market failure and accelerating technological change.

2.28 The Programme has four key priority axes through which it will deliver the above objectives and overall aim. These are depicted below in Figure 2-1:



Source: SQW Consulting (derived from the Cornwall and Isles of Scilly Convergence Operational Programme 2007-13)

Programme Financial Allocations

2.29 The programme has been allocated €458.057 million of ERDF funding which will be matched equally by resources from the UK⁶. The table below presents the financial allocations of the programme by intervention theme (Priority Axis (PA)). Details on the PAs are provided in the next section.

	ERDF (€)	UK (€)	Total (€)
Priority Axis 1 – Innovation and research & development	105,013,000	35,004,000	140,017,000
Priority Axis 2 – Enterprise and investment	130,011,000	54,504,000	184,515,000
Priority Axis 3 – Transforming infrastructure	105,013,000	52,507,000	157,520,000
Priority Axis 4 – Unlocking the economic potential of place	100,017,000	63,344,000	163,361,000
Technical Assistance	18,003,000	6,000,000	24,003,000
TOTAL	458,057,000	211,359,000	669,416,000

Source: SQW Consulting analysis of Operational Programme

2.30 The programme has an ERDF intervention rate of 68%. The match funding can include private sector funding but the majority of the match-funding is expected to come from the public sector. The financial resources can be spent until 31 December 2015, with all resources to be contracted with projects by 31 December 2013.

Priority Axes and Cross-Cutting Themes

2.31 To meet the strategic and operational objectives of the programme, the strategy of the Convergence programme consists of the four previously identified Priority Axes (PAs) and two Cross-Cutting Themes (CCTs). The following section provides an overview of each PA and the CCTs. Key features of the PA are provided in Table 2-5 later in the section.

Priority Axis 1: Innovation and Research and Development (total funds €140m, 75% ERDF)

2.32 The aim of PA1 is to enable Cornwall and the Isles of Scilly to compete as a centre for creativity, innovation and research and development. The priority is intended to identify and develop areas where specialist areas of expertise and knowledge can be established, capable of attracting investment and talented people building on established businesses and sectoral strengths.

2.33 The strategic objectives of the priority are to:

- **Increase the intellectual capital** through investments in the knowledge infrastructure and research capacity in higher education ; increasing and when necessary supporting

⁶ The Operational Programme states that the UK match-funding is by each Priority Axis

business investment in research and development and increasing HE/business collaboration.

- **Improve the productivity** of companies through **increasing the rate of innovation** and the economic benefits arising from the pull through and **exploitation of knowledge** (research and development and other intellectual assets) including product and process improvements. **Building understanding of drivers of innovation and** using these to lever increased innovative behaviour by companies.
- Increase the number of **high value added** and **innovative new start** businesses.

2.34 The OP included four types of intervention under PA1: stimulating research and development to build intellectual capital; support ideas, innovation and knowledge linking companies to universities; innovation and incubation; growth of the environmental goods and services sector.

2.35 Activities under this Priority will focus on quality not quantity, with the emphasis on helping companies to access the highest quality business advice and expertise.

2.36 These objectives will be achieved through actions which will assist over 1,500 businesses to improve their performance, network or introduce new products, support the creation of 210 new enterprises leading to 1,653 net additional jobs and £57.8 m of net additional value added.

2.37 Across the Programme, it is required by Structural Fund regulations that at least 60% of Convergence funding focuses on categories of expenditure which contribute to the Lisbon Agenda. However, the OP commits Cornwall and the Isles of Scilly to achieving 80% Lisbon compliant expenditure as stakeholders considered it was important to achieve as high a degree of Lisbon compliance as possible to ensure that the Programme's objectives are met⁷. Within PA1 it is anticipated that 100% of expenditure will support activities which are Lisbon compliant.

Priority Axis 2: Enterprise and Investment (total funds €185m, 71% ERDF)

2.38 The aim of PA2 is to restructure the economy towards higher value added businesses, more productive businesses across the business base, and to address the low-earnings/ low-skilled nature of the economy.

2.39 The strategic objectives of the priority are to:

- increase the **proportion** of businesses and employment in **high value added business activities**
- increase the **quality of new starts** through further developing the enterprise culture and supporting high growth and high value added new starts

⁷ A critical requirement for the Programme is that it delivers the required proportion of activities that are Lisbon compliant as specified by the EC. These are the activities which will provide the results and impacts required for Cornwall and the Scilly Isles to strengthen and restructure its economic base.

- increase the **productivity of business** through the provision of high quality support services in key areas including internationalisation and investment support
 - increase the scale of **investment and re-investment** by the private sector.
- 2.40 PA2 is expected to fund four types of activity: targeted business support to enable high-growth businesses to start and grow; business support to raise exporting; raising the environmental performance of businesses; and services to improve the performance and competitiveness of environmental goods and services businesses. The OP states that the programme will not support generic new start and business support, but will focus on high growth businesses, companies in high value added sectors, and those requiring a highly skilled workforce. Priority will be given to the high value / high growth sectors, clusters and niches identified in the Regional Economic Strategy and those outlined in the economic analysis supporting the Operational Programme.
- 2.41 Activities under PA2 are expected to assist 4,900 businesses to improve their performance, support the creation of 700 new enterprises and generate other outputs, leading to impacts of over 3,600 net additional jobs and over £125m net additional value added.
- 2.42 Within PA2, it is expected that 87% of expenditure will support Lisbon compliant activities.

Priority Axis 3: Transformational Infrastructure (total funds €158m – 67% ERDF)

- 2.43 Developing a small number of major investments is identified as being crucial to the successful step-change in economic performance. In particular the focus is on **improving the connectivity** between local business and national and international knowledge and trading networks.
- 2.44 These new developments are linked to Priority Axes 1 and 2, and include:
- establishing **Newquay Cornwall Airport** as a commercially viable airport
 - developing **digital infrastructure** with higher speeds and bandwidths
 - providing further investment in **knowledge infrastructure and Combined Universities in Cornwall (CUC)**.
- 2.45 These objectives will be achieved through major investment which will result in 20,000 businesses benefiting from the use of new or upgraded infrastructure create and safeguard 6,000 jobs, help 6000 businesses to improve their GVA performance which will £140m gross increase in GVA. This will lead to 2,835 net additional jobs and £99.2m of net additional value added.
- 2.46 75% of expenditure within PA3 should support Lisbon compliant activities.

Priority Axis 4: Unlocking the economic potential of place (total funds €163m, 61% ERDF)

- 2.47 The strategic objective of PA4 is to develop in a sustainable manner, the capacity of key towns and locations to accommodate new investment critical to the development of a **knowledge based and higher value added economy**. The Convergence Programme will

support the modernisation of the business infrastructure in locations with the potential to **secure significant new investment and** which can add to the process of **transforming the economy**. The spatial focus for PA4 is as follows:

- Locations subject to major regeneration changes and requiring long term and significant support to address specific economic challenges are: **Camborne, Pool, and Redruth**; and **St. Austell and the Clay Country**.
- Other locations requiring limited and specific interventions to unlock significant opportunities include: **Truro, Falmouth/ Penryn, Newquay, Bodmin and Penzance/ Isles of Scilly**.

2.48 Activities under PA4 will develop more than 58 Hectares of land (including 10 Hectares previously developed) and create an additional 60,000 Metres Square of floorspace developing 40 redundant and 20 historical buildings in the process. This will bring an additional £131.3 million in GVA and create or safeguard 6,000 jobs. The projects will also help lever £157 million of private sector funding.

2.49 Across PA4 60% of funds will focus on Lisbon compliant activities.

Priority Axis 5: Technical Assistance (total funds €24m, 68% ERDF)

2.50 The Technical Assistance (TA) priority funds activities to support the **effective management and administration of the programme**.

2.51 The funding can be accessed by national, regional, and local authorities, bodies or individuals, including economic and social partners, who are preparing or involved in the implementation of the programme. The OP identifies that TA resources can be used for five types of activity: programme development and capacity building; provision of management information; evaluation; partnership working; and communications.

Equality and Diversity Cross-Cutting Theme

2.52 The OP sets out that to achieve the full economic growth targets of the region, all members of society need to be able to contribute their full economic potential. The Equalities and Diversity CCT seeks to ensure that all members of the eligible programme area are able to benefit and access the support proposed under the programme and do not face discrimination or barriers to their participation.

2.53 The Equality and Diversity CCT has not been allocated specific funding but is intended to be embedded throughout the programme. The objectives of the CCT are to:

- increase the take-up of quality training and employment by under-represented groups
- increase the number of people in under-represented groups accessing training and employment
- ensure that business support is inclusive and responsive to the needs of all communities and under-represented groups

- increase the participation of people from under-represented groups in the management and implementation structures of the programme
 - increase the number of people from under-represented groups owning their own business.
- 2.54 In the context of the programme, under-represented groups are defined as people from a black and minority ethnic (BME) background, people with a disability, residents of disadvantaged communities, and women owned businesses.
- 2.55 The OP includes a number of proposals to support the implementation of the Equality and Diversity CCT through the PAs and in the management of the programme. They include ensuring that projects target under-represented groups and explicitly take account of the barriers these groups face. Further details are provided in the following section on outputs and impacts.

Environment Cross-Cutting Theme

- 2.56 The high quality of the natural environment is one of the key assets of Cornwall and the Isles of Scilly, generating considerable benefits for residents and an important driver for economic growth. The OP recognises the potential for the region to build on its strengths in the Environmental Goods and Services (EGS) sector and benefit economically from the transition to a low carbon economy.
- 2.57 Consequently, the OP includes the ambition for the programme to be a pilot for a low carbon approach to regional development and to invest in the drivers of a low carbon economy. The programme also wishes to show that economic growth can be secured within environmental limits to bring prosperity to the region.
- 2.58 The environment CCT is integrated throughout the programme (horizontal integration) and the OP states that the Convergence Programme will address the CCT in line with the Government's sustainable development strategy by recognising:
- the potential impact of economic regeneration on the environment
 - the potential economic benefit that the environment can bring.
- 2.59 The Convergence Programme will build on the platform developed by Objective One and support the region's aim to ensure economic growth within environmental limits by:
- encouraging the sustainable use and management of resources into all types of business development and support
 - exploiting the R&D potential of the CUC partnership to trigger eco-innovation for a lower carbon-economy
 - growing the environmental goods and services sector.

- 2.60 The OP states that the programme will make a major commitment to reducing carbon emissions and ensuring that programme investment directly supports projects that demonstrate best practice in reducing energy and resource use and that help to deliver the culture change necessary to deliver long term regional carbon reductions and a low carbon economy. The OP also includes the intention to invest in three drivers of a low carbon economy: increasing carbon literacy, especially within businesses; overcoming market failures; and accelerating technological change.
- 2.61 The Convergence Programme will invest therefore in a portfolio of projects that will include the reduction of greenhouse gas emissions compared with conventional approaches and projects with the potential for the technological change necessary for a low carbon economy.
- 2.62 Although the environment CCT has not been allocated specific funding as per the Priority Axes, as set out in Table 2-5, there is a notional allocation of funds to strands of activity within each Priority Axis that have an environmental focus. These funds contribute to aims for horizontal integration within the programme and also vertical integration through projects seeking to stimulate the development of the EGS sector.

Table 2-5: Summary of Convergence Programme Priority Axes

	Priority Axis 1: Innovation and Research and Development	Priority Axis 2: Enterprise and Investment	Priority Axis 3: Transformational Infrastructure	Priority Axis 4: Unlocking the Economic Potential of Place	Priority Axis 5: Technical Assistance
Focus	The aim is to compete as a centre for creativity, innovation and research and development. This includes attracting investment and talented people, and building upon established business and sectoral strengths.	The aim is to restructure the economy towards higher value added businesses, more productive businesses across the business base, and to address the low-earnings/ low-skilled nature of the economy.	The aims is to develop a small number of major investments identified as being crucial to the successful step-change in economic performance.	The aim is to develop in a sustainable manner, the capacity of key towns and locations to accommodate new investment critical to the development of a knowledge based and higher value added economy.	Partnership working, developmental work, publicity, monitoring and evaluation are critical to the success of the Programme. All of these areas fall under the Technical Assistance Priority Axis.
Inputs (millions)	EU: €105 National: €35 Total: €140	EU: €130 National: €54.5 Total: €184.5	EU: €105 National: €52.5 Total: €157.5	EU: €100 National: €63.3 Total: €163.3	EU: €18 National: €6 Total: €24
Output targets	1,540 businesses assisted to improve their performance (incl. various subsets of business types) 6 research and innovation centres supported 90% of premises constructed/upgraded to at least the BREEAM standard of excellent or equivalent (incubators etc)	4,900 businesses assisted to improve their performance (incl. various subsets of business types) 80% of premises built achieving BREEAM "excellent" rating 93,000 sq metres of new or up-graded premises/facilities	2 major investment projects 90% of premises built achieving BREEAM "excellent" rating	60,000 sq metres of floorspace 58 hectares of land for development 40 redundant buildings developed for new economic use 20 historic buildings / sites developed for new economic use 7 sustainable Integrated Development Strategies Prepared 80% of premises built achieving BREEAM "excellent" rating	n/a

	Priority Axis 1: Innovation and Research and Development	Priority Axis 2: Enterprise and Investment	Priority Axis 3: Transformational Infrastructure	Priority Axis 4: Unlocking the Economic Potential of Place	Priority Axis 5: Technical Assistance
Results targets	2,187 gross new jobs created (incl. 560 in environmental sectors) 837 jobs safeguarded 140 patents granted and other IPRs and other IPR devices 700 additional firms involved in business/cluster networks 1,956 SMEs launching new or improved products £76.5m gross increase in GVA	£360m private sector investment arising from support 4,410 companies using ICT (new and upgraded) 5,474 jobs created (incl. 700 in environmental sectors) 3,413 jobs safeguarded £191.6m gross increase in GVA	10,000 businesses using new infrastructure 10,000 businesses benefiting from up-graded ICT infrastructure 6,000 businesses with improved performance 4,000 jobs created 2,000 jobs safeguarded £140m gross increase in GVA	3,751 jobs created 2,517 jobs safeguarded £157m private sector investment £131.3m gross increase in GVA	n/a
Impact targets	£29.3m net additional safeguarded GVA £57.8m net additional GVA 1,653 net additional employment	£126.7m net additional GVA 3,621 net additional employment	£70m net additional safeguarded GVA £99.2m net additional GVA 2,835 net additional employment	£86.8m net additional GVA 2,481 net additional employment	n/a
Issues of interest	Activities under this Priority will focus on quality not quantity, with the emphasis on helping companies to access the highest quality business advice and expertise.	Focus is on the process of transforming the economy, and as such will not fund generic new start and business support. The focus will be on high growth businesses, firms in high value added sectors, firms in sectors with potential to significantly add more value. Priority will be given to sectors/ clusters identified in the RES and those outlined in the economic analysis supporting the OP.	Investment to focus on Newquay Cornwall Airport, digital infrastructure, and knowledge infrastructure at CUC.	Locations subject to major regeneration changes and requiring long term support are: Camborne, Pool, and Redruth; and St. Austell and the Clay Country. Other locations requiring limited and specific interventions include: Truro, Falmouth/ Penryn, Newquay, Bodmin and Penzance/ Isles of Scilly.	Technical Assistance may be accessed by national, regional, and local authorities, bodies or individuals, including economic and social partners, who are preparing or involved in the implementation of the programme.

Source: SQW Consulting (derived from the Cornwall and Isles of Scilly Operational Programme 2007-13)

Output, result and impact targets

Priority Axes

- 2.63 The performance framework for the programme consists of outputs, results and impacts. Outputs are the gross direct result of activity supported by the programme. Results are the gross outcomes of the activity supported by the programme. Impacts are the net difference the programme will make, over and above what would have happened without the programme.
- 2.64 The full programme targets are shown in Chapter 3. They include:
- 6,400 businesses assisted to improve their performance (of which 630 will be environmental technologies and renewable energy businesses)
 - 15,400 gross jobs created and a further 8,700 safeguarded
 - net impacts of 10,600 additional jobs, £370.5m of additional economic output (value added) and £99.3m of additional economic output safeguarded.
- 2.65 The OP does not include performance indicators for PA4 Technical Assistance.
- 2.66 The OP states that outputs and results can be reported beyond 2013, for example, eligible jobs created are those created within five years of the initial investment. Beyond this, we have been unable to ascertain the eligible period for claiming each output, result and impact indicator.

Equality and Diversity CCT

- 2.67 The OP includes three performance indicators for the Equality and Diversity CCT, the first two of which relate specifically to Priority Axes 1 and 2 as these are concerned with businesses assisted. The third relates to the governance of the Programme rather than project activity.
- 2.68 They are:
- number of persons from under represented groups (people from a black and ethnic minority background and people with a disability) assisted in starting a business
 - 10% of all persons assisted
 - number of women assisted in starting a business
 - 40% of all persons assisted
 - proportion of Programme Committee and sub-committee members who are women
 - 50% of all Committee members
- 2.69 The programme has developed separate indicators to help monitor the implementation of the CCT, these are explored in Chapters 4 and 7.

Environment CCT

- 2.70 The main programme performance framework includes the following output and result indicators relevant to the environment CCT:
- O03 - Number of environmental goods and services energy enterprises assisted (subset of businesses assisted) – Priority Axes 1 and 2
 - 007 – Proportion of premises constructed/upgraded to at least BREEAM standard of excellent or equivalent (incubators etc) – Priority Axis 1
 - O10 - Number of businesses advised improved environmental performance (subset of businesses assisted) – Priority Axis 2
 - 013 – Premises built achieving BREEAM ‘excellent’ rating (workspace) – Priority Axes 2 and 4
 - R07 - Gross jobs created in environmental sectors (Priority Axes 1 and 2).
- 2.71 The programme has developed other indicative performance measures for the environment CCT, which are explored in Chapter 3.

Links between the Competitiveness and Convergence Programmes

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

Coordination with European Social Fund

- 2.74 Alongside the ERDF resources for the Convergence programme area there is €153m European Social Fund (ESF) funding to invest in learning and skills. Approximately £50m is available to tackle barriers to employment, and £80m to improve the skills of the local workforce 2007-13.
- 2.75 The overall strategic objective of the European Social Fund (ESF) programme is to support sustainable economic growth and social inclusion in England by contributing to policies to increase the employment rate and to develop a skilled and adaptable workforce. This

objective translates into six priorities, three for the Regional Competitiveness and Employment Objective and three for the Convergence Objective.

2.76 The programme priorities for the Convergence area are as follows:

- Priority 4 : Worklessness – tackling barriers to employment
- Priority 5: Workforce Skills – improving the skills of the local workforce. This priority includes activity to support higher education in Cornwall
- Priority 6: Technical Assistance – technical assistance to aid the delivery of the Programme.

2.77 Activities funded via ESF will include management and leadership training for companies with less than 50 employees, training to address skills shortages, and up-skilling of the workforce. This ESF funded activity is intended to complement ERDF PA2 in particular where support will be provided to help business growth. The Priority 5 focus on higher levels skills will be essential in moving towards a more knowledge based economy and also the focus on supporting research should be significant in attracting knowledge capital and thus attracting more inward investors.

2.78 The OP also considers that there will be close links between the support available under ESF Priority 5 aimed at improving the skills of disadvantaged groups and the Convergence ERDF Programme’s Priority Axes 2 and 4 where increasing the skills of the local labour market will be essential to support business growth.

2.79 There are also two cross cutting themes:

- equal opportunities and gender equality; and
- sustainable development.

2.80 The Convergence ESF Framework sets out how ESF spending can support employment and skills priorities in the Convergence area, in the context of the agreed ESF Operational Programme for England.

2.81 The ESF division of the Department for Work and Pensions is the Managing Authority for the ESF Convergence Programme, supported by Government Office for the South West. As co-financing organisations who match ESF convergence investment with mainstream investment, Jobcentre Plus and the Skills Funding Agency manage programmes of employment activity. The Regional Skills Partnerships have played an important part in developing regional ESF Frameworks which will ensure regional ESF complements other regional priorities. Any legally constituted organisation or partnership (not individuals) in Cornwall and the Isles of Scilly that wishes to operate an eligible scheme may apply. All of the ESF Convergence Programme will meet the Lisbon agenda as will 80% of ERDF Convergence resourced activity.

2.82 The ESF Framework for Convergence has been recently refreshed.

Local Government Reorganisation

- 2.83 Whilst not part of the Convergence Strategy, it is important to point out that during the Programme period to date, there has been a significant change in local administrative arrangements with the vesting of Cornwall Council in April 2009 to replace the previous six local authority districts plus the former County Council. This has had implications in terms of governance – at PMC and sub-group levels – and may in the future influence strategic direction as with one local authority, rather than seven, decisions should be increasingly strategic.

Critique of programme strategy

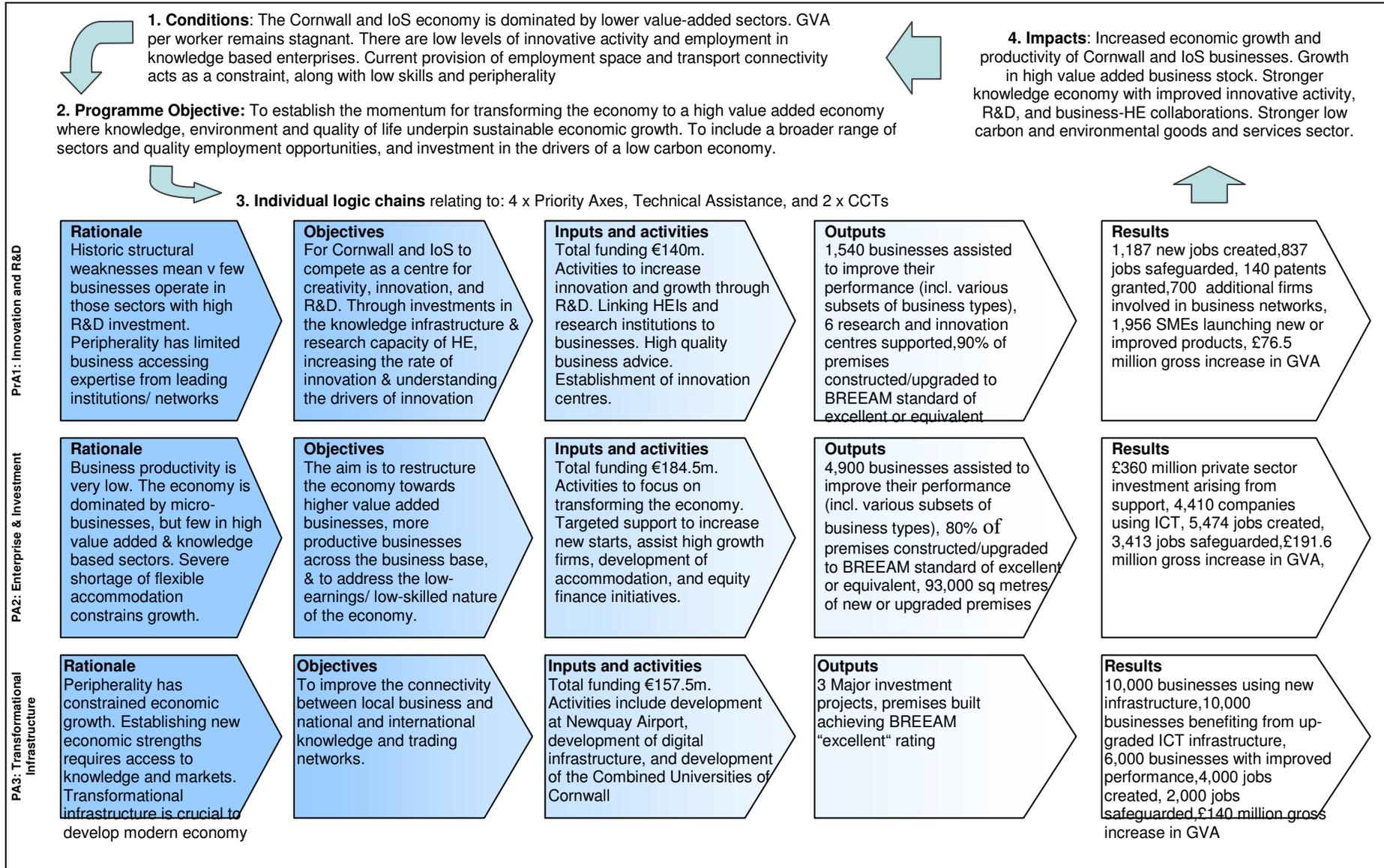
- 2.84 The section provides a critique of the Programme strategy at the time at which it was written, it does not include the impact of the recession and whether the strategy is appropriate for current conditions which is covered later in this Chapter following the update of baseline conditions.
- 2.85 The rationale for awarding ERDF Convergence funding to Cornwall and the Isles of Scilly, was that its economic performance was lagging behind the average for Europe and therefore support was required to improve the conditions for growth and development. As previously discussed, the reasons for its poor economic performance were summarised in the OP as low productivity related to low levels of capital, industrial structure and ownership (low value added sectors and a high proportion of micro businesses), low skills and the distance from markets. The socio-economic analysis is sound and we accord with the assessment of the factors influencing the poor economic performance of the area.
- 2.86 Overall the OP provides a sound assessment of the rationale for the Programme, and for intervention supported by Convergence structural funds due to the very weak economic performance meaning that the sub-region still lagged behind the EU average despite a substantial Objective One programme. The strategy is supported by clear objectives which support the overall strategic aim *'To establish the momentum for transforming the economy to a high value added economy where knowledge, environment and quality of life underpin sustainable economic growth'*.
- 2.87 The Programme strategy takes an ambitious stance of aiming to restructure the economy to maximise growth in high value added businesses within environmental limits, but also maximising the potential of environmental assets to move to a low carbon economy. In order to achieve this ambition, the Programme's priorities and intended projects to support these priorities are established to both provide the conditions to enable transformation of the economy and directly support high value businesses to grow and sustain this growth into the future.
- 2.88 The OP states that in order to develop a more successful and sustainable economy, three key characteristics are required: a business base with more economic activity in higher value sectors; a greater proportion of employment in higher paid jobs where the workforce is highly skilled; and attractive towns and quality economic infrastructure to attract and retain

investment. It is these three characteristics which the Programme is trying to achieve through the Priority Axes and the activities supported by them

2.89 Public sector intervention in economic development like the Convergence programme must always be justified to address market failures. A market failure is where the allocation of goods and services by the market is not efficient from the perspective of society as a whole. The OP does not explicitly identify the market failures that justify the ERDF Convergence intervention, but for Cornwall and the Isles of Scilly, they can be summarised as:

- The need to encourage and stimulate investment in innovation, R&D, technologies (including environmental technologies), exporting and collaborative networks to generate positive outcomes for the region that individual businesses would not otherwise generate. In economic theory, these benefits are called positive spillovers.
- To minimise the negative impacts on society from climate change and carbon dioxide emissions including through improving the environmental performance of businesses (so-called negative externalities).
- To overcome coordination failures in the private sector to collaborate as they often lack the effective mechanisms to develop working relationships (so-called coordination failures).
- To overcome information failures in the private sector about the risks of starting a new business and investing in enterprise, innovation, R&D and exporting (so-called information failures).
- To protect and enhance the environment to ensure there is an optimum supply for society. Without public sector intervention, the private sector is likely to under-invest in the environment as it is a public good.
- To support a more equitable society through investing in the most deprived communities and poorer performing local economies and supporting the participation of all members of society in the economy. This includes through infrastructure provision which the private sector will not provide.
- To enable businesses and Cornwall and the Isles of Scilly to obtain access to markets which is currently difficult due to distance and infrastructure challenges.

2.90 The strategy of the programme can be summarised in a logic model framework. Logic models describe the theory, assumptions and evidence underlying the rationale for a programme. The logic model for the Convergence programme, as described in the OP, is shown overleaf. This shows the rationale for the programme at the time it was developed ('conditions'), the programme objectives, and then individual logic chains for each PA and the CCTs, and lastly the expected impacts of the programme.



<p>PA4: Unlocking Economic Potential of Place</p>	<p>Rationale Place is fundamental to the development of a knowledge based and higher value added economy. Attractive places to live and work attract the necessary people and businesses.</p>	<p>Objectives To develop in a sustainable manner, the capacity of key towns and locations to accommodate new investment. Including modernisation of the business infrastructure.</p>	<p>Inputs and activities Total funding €157.5m. Accelerate regeneration of Camborne, Pool, and Redruth; and St. Austell and the Clay Country. Realise place potential of Truro, Falmouth/Penryn, Newquay, Bodmin & Penzance/Isles of Scilly</p>	<p>Outputs 60,000 Sq metres of floorspace, 58 hectares of land for development, 60 redundant/historic buildings developed for new economic use, 7 Sustainable Integrated Development Strategies prepared, 80% premises built achieving BREEAM "excellent" rating</p>	<p>Results 3,751 Jobs created, 2,515 jobs safeguarded, £157 million of private sector investment, £131.3 million gross increase in GVA</p>
<p>Technical Assistance</p>	<p>Rationale Partnership working, development work, publicity, monitoring and evaluation are critical. Partners have high expectations as to the quality of ERDF investments</p>	<p>Objectives To support the development of ERDF investments</p>	<p>Inputs and activities Total funding €24m. Activities include capacity building, partnerships, communications, monitoring and evaluation</p>	<p>Outputs No formal outputs specified in the Operational Programme. Outputs should include monitoring databases, evaluation reports, information and guidance, and meetings</p>	<p>Results No formal outcomes specified in the Operational Programme. Outcomes should include greater knowledge, awareness and understanding about the programme and its performance, stronger partnership working with collaborative organisations</p>
<p>CCT - Environment</p>	<p>Rationale Continuing economic growth must be secured within the environmental limits of Cornwall and IoS. This requires decoupling economic growth from carbon emissions</p>	<p>Objectives To maintain and enhance the high quality environment & ensure natural resources are used in a sustainable way. Reduce carbon emissions through supporting carbon literacy, and technological change</p>	<p>Inputs and activities Activities to raise business awareness of environmental issues and regulation, drive R&D in low-carbon techs, and support the development of low carbon goods and service sector</p>	<p>Outputs No formal outputs specified in the Operational Programme. Outputs should include businesses assisted to improve environmental performance, sq metres of new floorspace meeting BREEAM excellence standards</p>	<p>Results No formal outcomes specified in the Operational Programme. Outcomes should include new environmental goods and services businesses started, new jobs in environmental goods and services sector</p>
<p>CCT - Equalities</p>	<p>Rationale For the Cornwall and IoS growth targets to be achieved, all members of society need to be able to contribute to their full potential</p>	<p>Objectives To support individuals from under-represented groups to own their own business, take-up employment, and participate in management and implementation structures of the programme</p>	<p>Inputs and activities Ensure support to a wide range of companies – not just male dominated, ensure marketing is inclusive, target activities at women and under-represented groups, and ensure facilities are fully accessible.</p>	<p>Outputs 10% of persons assisted from under-represented groups, 40% of all start-up assists are women, 50% of Programme Committee and sub-committee members to be women</p>	<p>Results No formal outcomes specified in the Operational Programme. Outcomes should include new businesses by women and under-represented groups</p>

2.92 The facets of the logic model framework are:

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

2.93 The strategy of the programme is logical at a strategic level. However, we have identified some weaknesses in the logic framework:

- PA1 – logic framework does not include a result indicator for increase in R&D investment as a result of programme (this is not an indicator available within the basket of ERDF indicators used by the programme)⁸. This is considered important to evidence the increased R&D capacity that greater investment will provide.
- PA2 – logic framework does not include a result indicator for increase in value of exporting as a result of the programme, which again is considered an important element to capture to demonstrate the impact of the Programme (this is not an indicator available within the basket of ERDF indicators used by the programme).
- There are no formal outputs or results specified for PA5 Technical Assistance. Not only does this mean that performance cannot be measured, but also assessing the soundness of objectives and activities is impossible without intended results and impacts. We suggest from our logic chain depicted overleaf that outputs should be collected in relation to the following to provide a better indication of the effectiveness of TA funding:
 - monitoring databases
 - evaluation reports

⁸ OffPAT, Technical Note of Combined Indicators for RDA Single Budget and ERDF Programme 2007-13, Version 3, June 2009

- information and guidance
 - meetings
 - publicity and communications achievements (these are already identified within the Annual Implementation Reports).
- With regards to the CCTs, an impact target should be included relating to the reduction of carbon emissions as a result of the Programme reflecting its intention to support Cornwall and the Isles of Scilly in moving towards a low carbon economy.
- 2.94 To inform this critique, we have taken account of the views of strategic stakeholders to inform, but not dictate our view which remains independent and objective. Stakeholders on the whole considered the strategy was correct to meet the needs and address the challenges within Cornwall and the Isles of Scilly. There was a general appreciation of the difference in focus from Objective One, with Convergence being much more focussed on moving the economy to a higher value base. In addition there was a recognised need to drive forward the low carbon economy capitalising upon the locational advantages of the area, particularly with regards to marine energy. Consultees generally had a good understanding of the overall Convergence strategy and its objectives, but considered that those ‘outside’ the Programme probably did not have as clear an understanding of what the Programme was trying to achieve, which was ascribed to communication challenges. It was noted by some that there may be some more deliberate misunderstanding of the Programme due to equity concerns in that the Programme is focusing particularly on high value businesses rather than the entire business community. This probably links to the legacy of Objective One – many expressed concerns about a general culture of grant dependency and the expectation of continued public funding to support businesses.
- 2.95 The Programme has a significant capital outlay and related to the above, stakeholders consulted stated that confusion may have arisen in the communication of objectives due to the fact that significant infrastructure ‘Objective One type’ investments continue to be made specifically to support HE under PA1. The case was made that essential infrastructure is required before innovation activities can be undertaken, but there are no target infrastructure outputs under PA1. This is more an issue of the translation of strategy and objectives into projects and their performance which we return to in Chapter 3. This also creates a potential concern for the future, in that the increased public spending constraint which will have an impact on the availability of match may result in some revenue funding projects not coming forward meaning the Programme remains unbalanced. This issue is addressed further in Chapter 4.
- 2.96 Stakeholders also queried whether linkages with ESF were being maximised in order to ensure that the ERDF Programme is being adequately supported by, and supporting high level skills provision through ESF. The development of a higher skilled labour force is essential to support the aims of the Convergence Programme and without this element being adequately supported by both Programmes, its strategic objectives may be difficult to achieve.

- 2.97 Stakeholders considered that there were real opportunities in Cornwall and the Isles of Scilly to move towards a low carbon economy, but reported that this was the least well understood element of the Programme with delivery partners, in particular, not being clear on what constitutes a low carbon project. The vertical (low carbon projects) and horizontal (application of the environment CCT to all projects) integration that the Programme intends to achieve was also poorly understood.
- 2.98 As evaluators, we would also point to weaknesses in the level of detail in the OP on:
- The definition of the high-growth and high-value businesses and sectors that the programme intends to support. This was highlighted by stakeholders and whilst it is intended that the Programme is sector blind there needs to be a clearer understanding of what these terms mean for individual businesses. In practical terms, we understand that this is being resolved through project selection criteria developed by the Programme team, but it remains a weakness within the OP.
 - Potential confusion concerning a focus on support for high value businesses, and a clear statement that specific sectors are not the only ones requiring support, but that there is a need to increase productivity across all sectors. Whilst the two are not mutually exclusive, the Programme is not clear in how it will achieve the latter of these two aims.
 - How the programme will work alongside other programmes, including the ESF programme, given the relatively narrow focus of the Convergence programme on business and enterprise. This is particularly important for the areas for which Strategic Investment Frameworks are being developed within PA4.
 - The strengths in the Environmental Goods and Services sector that the programme intends to build on.
- 2.99 The level of transformation is ambitious, particularly as the business base within Cornwall and the Isles of Scilly is characteristic of a rural and peripheral area. Changing this to an economy more typical of a larger urban economy will be challenging, which is acknowledged by the Programme's focus on changing the underlying conditions that will support economic growth (such as infrastructure and R&D) as well as providing direct support to businesses.
- 2.100 Overall, the rationale of the programme appears to be valid at the time it was developed and in the next Chapter we review how conditions have changed since the Programme started and whether the strategy remains appropriate.

Key findings

- 2.101 This Chapter concludes with a brief reflection on its key findings. We have not included recommendations as the next Chapter 3 continues to discuss the Programme strategy and its appropriateness for the current socio-economic conditions in Cornwall and the Isles of Scilly.

Table 2-6: Key findings

The €458 million Convergence programme operates across Cornwall and the Isles of Scilly. The programme was officially launched in January 2008.

The strategic objective of the programme is to establish the momentum for transforming the economy to a high value added economy where knowledge, environment and quality of life underpin sustainable economic growth.

The programme was designed to address the following socio-economic challenges – transform the economy from one which is dependent on low value added sectors to a broader economic base through support for high value added businesses, raising productivity across all sectors, maximising sustainable growth and addressing peripherality and distance from markets. It was also designed to maximise the potential of industries where Cornwall and the Isles of Scilly has comparative, competitive advantage such as marine energy and environmental technologies.

The strategy of the programme rests around intervention in innovation, research and development; enterprise and investment; transformational infrastructure; and place based regeneration to maximise the economic potential of place.

The rationale of the programme at the time it was developed was valid and evidenced.

3: Changes in underlying contextual conditions and assessment of programme strategy

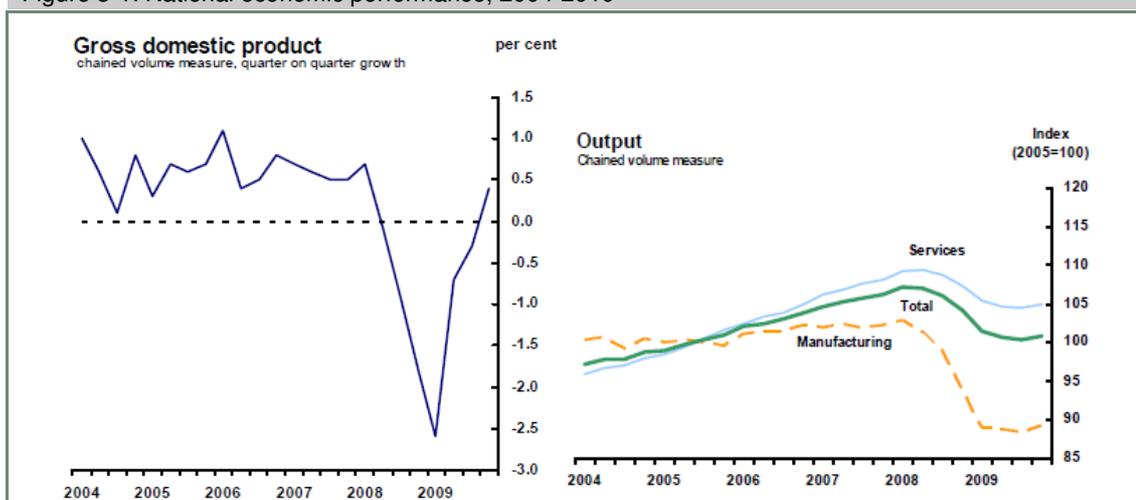
- 3.1 We now briefly review the changes in socio-economic conditions, at the macro and then more local level, since the time at which the OP was developed.

Socio-economic conditions

Macro-economic conditions

- 3.2 The recent UK recession, which started in mid 2008, has had profound impacts on the business climate and consumer confidence. The UK officially entered recession in the last three months of 2008, as GDP fell by 1.5% following a 0.6% drop in the previous quarter (thus two consecutive quarters of negative growth).⁹ The figure below shows the changes in national economic conditions, as set out in the Office of National Statistics Q4 2009 Statistical Bulletin.

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



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

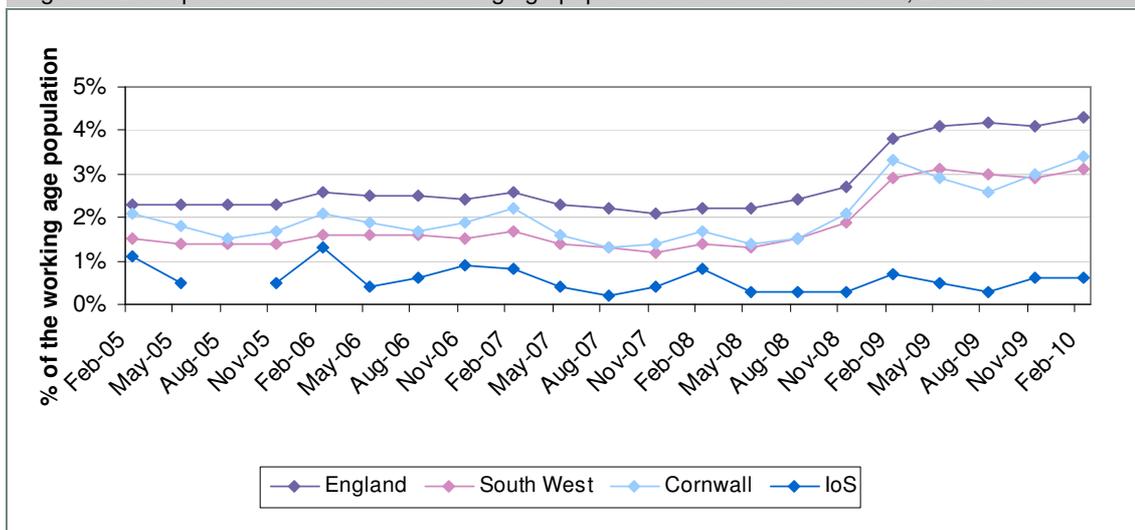
- 3.3 The figure shows a sharp fall in GDP until the first quarter of 2010 and a significant shrinking in output, particularly in the manufacturing sector but in all areas of the economy.
- 3.4 SWRDA's *Regional Economic Profile: Recession Profile*¹⁰ set out that the region's output and employment expectations started to drop at the same time as the UK as a whole and the effects of the recession have spread from the northern arc of the region throughout the peninsula including Cornwall and the Isles of Scilly.
- 3.5 One of the major impacts of the recession has been an increase in unemployment, which is more notable in Cornwall than the Isles of Scilly. The figure below shows the proportion of

⁹ BBC, 2009, *UK in recession as economy slides*, <http://news.bbc.co.uk/1/hi/business/7846266.stm>

¹⁰ SWRDA, 2009, *Regional Economic Profile: Recession Special*

the working age population claiming Job Seekers Allowance (JSA) between February 2005 and February 2010 by area.

Figure 3-2: Proportion of the resident working age population on the claimant count, 2005-2010:

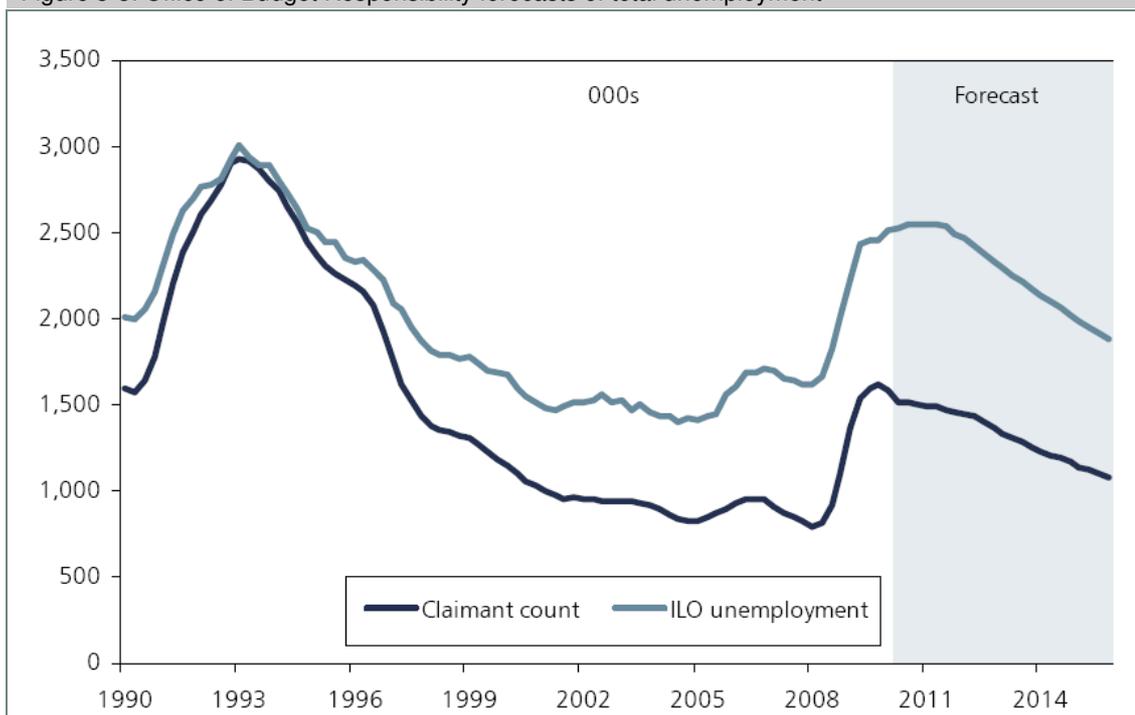


Notes: Data for Isles of Scilly missing for August 2005 to avoid disclosure.
 Source: Claimant Count. Accessed via Nomis

- 3.6 Although *Regional Economic Profile: Recession Profile*¹¹ reported that the effects of the recession have spread from the northern arc of the South West throughout the Peninsula, variation in the level of unemployment has been pronounced across different parts of the region.
- 3.7 Unemployment in the South West remained fairly constant until mid 2008, before increasing from November 2008. Cornwall has experienced a more fluctuating trend than the South West in general. While 3.4% of working age residents in Cornwall were claiming JSA by February 2010, which is approximately in line with recipients across the South West, the proportion of claimants remained 1.2 percentage points below the level of claimants in England. In contrast to the trend shown across comparator areas, Isles of Scilly has not seen an increase in JSA claimants between February 2005 and February 2010.
- 3.8 The Office of Budget Responsibility (OBR), which was formed in May 2010 to make an independent assessment of the public finances and the economy for each Budget and Pre-Budget Report, has recently released forecasts on its expectation for unemployment in the next few years.

¹¹ SWRDA, 2009, *Regional Economic Profile: Recession Special*

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



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

- 3.9 The figure shows the total number of unemployed falling slowly from 2010, with around 500,000 fewer JSA claimants by 2015. In the next five years, the OBR forecasts that total employment will rise from 28.89m at the end of 2010/11 to 30.23m at the end of 2015/16, an increase of 1.34m. However, within this public sector employment is forecast to fall from 5.53m at the end of 2010/11, to 4.92m at the end of 2015/16, a shrinking of 610,000 workers or 11%. This is potentially significant for the region and especially for the western area and other parts of the region which have a relatively high proportion of public sector.
- 3.10 In light of the policy decisions taken at the June 2010 Budget, which we explore later in this section, the OBR predicts that UK will recover from the negative growth in GDP of 5% in 2009/10, with growth of 1.2% in 2010/11, 2.3% in 2011/12, 2.8% in 2012/13 and 2.9% in 2013/14¹². The growth is expected to be driven by the private economy, although business investment is not expected to return to pre-recession patterns until 2013 and output per worker is expected to increase slowly. The OBR does see opportunity in the export market, particularly the emerging Asia market, due to the higher profits available from the past depreciation of sterling. However, overall, the OBR forecasts difficult economic conditions ahead.

Update to baseline conditions

- 3.11 Alongside the analysis of changes in macro-economic conditions and the impacts of the recession, an assessment has been undertaken of changes in baseline conditions in the Convergence programme area since 2005, the base year for much of the socio-economic analysis in the OP. A full review of the baseline conditions update is provided at Annex F.

¹² Office of Budget Responsibility, June 2010, Budget 2010: The economy and public finances – supplementary material

- 3.12 The baseline conditions review has considered changes in key socio-economic and environmental indicators, including by the former Cornwall districts where data is available. Unfortunately it is not possible to see the full implications of the recession in the baseline conditions update, as data are mostly only available up to 2008 or before.
- 3.13 Key findings of the review, and the implications for the programme strategy, are considered in the table below.

Table 3-1: Key messages from update to baseline conditions	
Indicator (source)	Baseline conditions update
Economic activity (Annual Population Survey)	Economic activity rate for Cornwall marginally increased from 2005 and 2008. By 2008 this exceeded the average for England. Caradon had the highest economic activity rate in 2005 and in 2008 with an increase in between. Kerrier was the lowest in both years and fell in between. Programme strategy needs to support continued high activity rate.
FTE workers – employees and self-employed (Econ-I)	The number of FTE workers in the Convergence area increased at a far greater rate than the South West between 2005 and 2008, but there is still a significant gap in the level with Cornwall and the Isles of Scilly at 68% and the South West 73%. Programme needs to continue addressing the gap and sustain previous activity.
FTE workers by sector (Econ-I)	Public admin, education & health; distribution, hotels and restaurants and banking, finance and insurance remain the largest sectors in Cornwall and the Isles of Scilly. 2005-08, growth of around 14% in energy and water (but from a very low base), agriculture and fishing 7% (but again a low base) and banking and finance 7% . Over same period, sharp falls in employment in manufacturing (-4%) and construction (-8%). Focus on high value sectors important to broaden the economic base.
FTE workers in RES priority sectors (Econ-I)	Largest priority sectors in Cornwall and the Isles of Scilly in 2008 remained food & drink (by a substantial proportion) and leisure & tourism, but these sectors grew slowly 2005-08. Strongest growth 2005-08 was in the ICT sector (50%) and marine (20%), but these were from a very low base. It is of concern that there were falls of over 10% in advanced manufacturing and biotechnology although these again were from a very low base. Focus on high value sectors important to broaden the economic base.
Occupational structure (Annual Population Survey)	Overall the occupation structure is very similar to that of the South West and England. Across Cornwall and the Isles of Scilly, growth in percent of workers employed in higher skilled occupational groups 2005-08 and negative growth in lower skilled occupational groups. This will have an impact on a lower wage economy, importance of higher skills needs should be recognised in strategy.
Median earnings (Annual Survey of Hours and Earnings)	Data only available for Cornwall from 2008 and Isles of Scilly from 2009. In 2009, average earnings across workplaces in Cornwall and Isles of Scilly were lower than in England, with median weekly earnings of £402.90 and £257.40 respectively. Earnings in Isles of Scilly workplaces were particularly low; £145.50 lower than the median South West weekly wage, and £196.40 less than the average across England. Focus on broadening economic base to include higher value sectors should help increase average wages.
Productivity - GVA per FTE worker (Econ-I)	The pattern of change in GVA per FTE worker in Cornwall has been roughly in line with the South West, but still lower GVA per FTE worker than the South West, and the gap has widened to £10,000 per FTE worker in 2008. According to <i>UK Recession Scenarios: Impact on SWE Sectors and Places</i> ¹³ Cornwall was forecasted to be the least badly hit of all the South West counties in terms of GVA – with a relatively small fall in GVA of between 0.2% and 1.7% in 2009, before a return to growth in 2010.

¹³ Experian, 2009, *UK Recession Scenarios: Impact on SWE Sectors & Places*

Indicator (source)	Baseline conditions update
	Strategy should further consider increasing productivity across all sectors as well as broadening base to include more that are high value.
Business units (including self-employed) (Econ-I)	<p>Across region, number of units in banking, finance increased by 15% 2005-08, with growth also of +30% in public admin, education and health units.</p> <p>The sectoral makeup of the business base in Cornwall varies substantially from the rest of the South West. A much smaller proportion of units in the banking, finance and insurance sectors (9.3% compared to 18.9% in 2008), and a greater proportion in agriculture (15.5% of business units in Cornwall compared to 9.8% in the South West) and construction (21.6% compared to 17.7%) sectors.</p> <p>Focus on high value sectors important to broaden the economic base.</p>
Employment in knowledge-based industries (Annual Business Inquiry)	<p>Cornwall and the Isles of Scilly are lagging behind England and the South West - less than 12% of all employment in the knowledge-based industries.</p> <p>North Cornwall, Caradon and the Isles of Scilly are lagging particularly far behind, with 6.6%, 5.2% and 4.8% of employment in the knowledge-based industries. All three areas have seen the proportion of employment in the knowledge-based industries fall between 2006 and 2008, which is causing them to fall further behind.</p> <p>Focus on skills and providing conditions to enable KBE industries to grow.</p>
Innovation – patent applications (Eurostat)	<p>Data are only available for 2005 and 2006.</p> <p>In 2005 and 2006, Cornwall and Isles of Scilly had less than half the number of patent applications and high-tech patent applications to the EPO per million inhabitants than in the South West. But, Cornwall and Isles of Scilly is the only NUTS 2 area in the South West to have increased the number of patent applications between 2005 and 2006.</p> <p>The strategy should continue to support innovation.</p>
Innovation – R&D expenditure (Eurostat)	<p>Total R&D expenditure as a proportion of GDP in Cornwall and the Isles of Scilly and the South West fell marginally between 2005 and 2007.</p> <p>Levels of R&D expenditure in Cornwall and Isles of Scilly remained substantially lower than in comparator areas, at 0.19% of GDP in 2007.</p> <p>The strategy should maximise support for R&D.</p>
Skills (Annual Population Survey)	<p>Proportion of the working age population with NVQ4+ increased by 4.7% between 2005 & 2007, but then fell back to 25.5% of the working age population in 2008. In the same period, proportion of the working age population with no qualifications increased. This is contrary to trends across the South West and nationally.</p> <p>The strategy should continue to work with ESF to ensure skills at all levels are increased.</p>
Carbon emissions per capita (Department of Energy and Climate Change)	<p>The area with the highest level of per capita carbon dioxide emissions (Restormel) reduced its carbon emissions by the most between 2005 and 2007.</p> <p>Three of the pre-2009 Cornwall districts (Caradon, Carrick and Kerrier) and the Isles of Scilly had lower levels of per capita carbon dioxide emissions than the South West and UK.</p> <p>The strategy should continue to promote commitment to low carbon.</p>
Unemployment by group (Nomis)	<p>Across the region, women do not appear to have been considerably worse (or less badly hit) by the recession than men. But notable variation within Cornwall - the number of women claiming benefits in Carrick increased by 104% between May 2005 and February 2010, while the number of men on the claimant count increased by 54%. Other districts, including Restormel and Caradon experienced a greater proportional increase in the number of men on the claimant count than women. However, there may be unseen impacts on women due to, for example, increased numbers going part-time and working reduced hours (and therefore earning less income).</p> <p>Residents aged 18-24 appear to have been worse hit by the recession than the general working age population (and over 50s subgroup).</p> <p>18-24 year olds on the claimant count in Cornwall increased by 130% between 2005 and 2010, compared to an increase of 92% in the total number of claimants. Restormel particularly badly hit with an increase of 181% 18-24 year old claimants.</p> <p>However, overall young people in Cornwall appear to have been less hit by the recession than across the rest of the region. While the number of 18-24 year old claimants has increased by 130% since May 2005, the number of 18-24 year old claimants in the South</p>

Indicator (source)	Baseline conditions update
	West has increased by 153%. No significant implications for the strategy
Claiming all out of work benefits (Department for Work and Pensions)	The rate of increase in claimants of out of work benefits was higher in the South West than in the Convergence area, particularly for males. The total claimant increase between 2005 and 2009 for all claimants was 58% for Cornwall (0% for Isles of Scilly) whilst the SW figure was 101% and England 77%. No significant implications for the strategy.

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

Policy developments

3.14 This section presents key findings from a review undertaken of changes in the policy and political context since the programme was launched in 2007. The review has focused on four areas

- A focused review of key developments in the UK policy landscape up until May 2010. This part of the review has considered policies of the former labour government, including strategic responses to the recession and the national reform of business support.
- A brief review of local policy developments following from the creation of the new unitary Cornwall Council.
- Key announcements of the new coalition government since it was formed in May 2010.
- Developments at a European level, including changes in Cohesion Policy in response to the recession, the post-Lisbon Agenda and the Europe 2020 agenda.

3.15 The full review of changes at a European level is provided in Annex D and of changes in the UK policy landscape up until May 2010 in Annex E.

UK policy developments to May 2010

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

	Policy driver	Implication for programme
Programme-wide	Expansion of vocational element in education, including through Apprenticeship system. Support for higher skills, to support growth of knowledge economy, raise productivity and competitiveness.	The programme is not seeking to directly support training and skills development. Reinforces requirement for the programme to work closely alongside ESF and other labour market initiatives.
PA1 – Innovation, Research and Development	Knowledge intensive and technology based sectors supported in strategies, including: <ul style="list-style-type: none"> • science and technology • low carbon technologies • advanced manufacturing • life sciences and pharmaceuticals. 	Good alignment between objectives of programme and policy drivers for innovation and knowledge. Implicitly there is a good alignment between the sector priorities nationally and the high-growth and high value added businesses that the programme aims to support. However, question as to whether the

	Policy driver	Implication for programme
	<p>Innovation through product, process, technology and organisational developments strongly supported in strategies.</p> <p>Technology and knowledge transfer between higher education and business supported and stronger partnership working between universities and businesses.</p> <p>Policy driver to implement digital revolution to raise competitiveness, including tackling geographical disparities.</p>	<p>programme should have a more explicit sector strategy, in identifying sectors it wishes to prioritise.</p>
PA2 – Enterprise and Investment	<p>Public sector funded business support reformed into 32 products (as of June 2010) under Solutions for Business banner.</p> <p>Business Link to act as portal for information, advice and guidance.</p>	<p>Business support review was underway at time of preparing OP and the programme acknowledged the need to align with the Solutions for Business product range.</p> <p>National reforms require close working between programme and Business Link network.</p> <p>Important that the programme adds value to business support available through Solutions to Business, through enhancing and extending offer and focusing on higher end products e.g. internalisation and exporting.</p>
PA3 – Transformational infrastructure	<p>Policy driver to implement digital revolution to raise competitiveness, including tackling geographical disparities.</p>	<p>Support for major proposal for Next Generation Broadband.</p>
PA4 – Unlocking the economic potential of place	<p>Support for developing a culture of enterprise, which is relevant to PA4 as well as other priorities.</p> <p>No specific policy drivers in urban enterprise to support deprived and disadvantaged communities.</p>	<p>No major implication for programme strategy, other than reinforcing need to support development of a culture of enterprise in deprived areas.</p>
Environment CCT/ low carbon	<p>New carbon dioxide emission targets set for 18% reduction on 2008 levels by 2020.</p> <p>Target set for 15% of primary energy to come from renewable sources.</p> <p>Fund established for R&D of low carbon technologies.</p> <p>Transition to low carbon economy strongly supported, to help tackle climate change and to generate economic growth and wealth.</p> <p>Low carbon industrial future supported, including need for business to achieve greater energy and resource efficiency and investing in low carbon infrastructure.</p>	<p>Strong alignment with objectives and activities of programme, with opportunities for the programme to be a pace setter in supporting the transition to a low carbon economy.</p> <p>Strengthens environmental dimension to the programme strategy.</p> <p>May make the case for further investment in low carbon technologies and renewable energy.</p> <p>No major change in programme strategy required.</p>
Equality & Diversity	<p>Increased legislation at that national level including Equality (Sexual Orientation) Act.</p>	<p>Supports E&D aims although not covered directly in targets.</p>

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

Changes in the local institutional and policy context in Cornwall

- 3.17 In April 2009 the new unitary authority Cornwall Council was vested replacing the previous six district councils and the previous County Council. This means that within the Convergence area, there are now just two local authorities – Cornwall is one of the largest within the UK and the Isles of Scilly the smallest. The new Cornwall Council has recently issued its White Paper on the economy which builds on and develops the previous *Strategy*

and Action¹⁴ (the economic development strategy for Cornwall and the Isles of Scilly) but does not replace this as the White Paper only covers Cornwall and is a Council, rather than partnership owned document.

- 3.18 The OP built on the socio-economic evidence base which was constructed for the production of *Strategy and Action* and therefore the two are mutually supporting and reinforcing. Its overall aim is 'to achieve sustainable prosperity with opportunity for all in Cornwall and the Isles of Scilly'. It has four guiding principles, replicated below, which demonstrate this. These are:
- to establish Cornwall and the Isles of Scilly as a knowledge economy and society
 - to ensure sustainability
 - to remove economic and social disadvantage, foster cultural confidence and improve the well-being of people
 - to establish Cornwall and the Isles of Scilly as a place for wealth creators and entrepreneurs and to improve economic value across all sectors.
- 3.19 In policy terms, there is a good alignment of the Cornwall economic Green and White papers with the Convergence programme, with their shared objectives for greater innovation, research and enterprise and support for the low carbon economy. Likewise, the emphasis on improving Cornwall's connectivity through the development of physical infrastructure and next generation broadband ties in with the transformational infrastructure PA3 of the Convergence programme.
- 3.20 The Green and White papers both suggest a greater role for Cornwall Council in the Convergence Programme now that it has become a unitary authority.

UK policy developments since May 2010

- 3.21 The coalition government was formed in mid May 2010. A key objective of the government is to cancel out the national debt over the course of the next five years. The strategic direction of economic development policy of relevance to the Convergence programme remains uncertain, with a fuller picture not expected until after the Spending Review in October 2010. Key announcements were made in the emergency budget of 22 June 2010 which signalled significant cuts in public spending and provides the framework for government spending in the medium term. Key headlines of the budget are summarised below.

¹⁴ Strategy and Action, the economic development strategy for Cornwall and the Isles of Scilly, 2007-2021. <http://www.economicforum.org.uk/economic-development-strategy.htm>

Table 3-3: Key headlines of June 2010 Budget	
Theme	Detail
Economic outlook	GDP forecast to grow by 1.2 per cent in 2010 and 2.3 per cent in 2011, rising to 2.7 to 2.9 per cent in the later years of plan period to 2015/16.
Public sector spending	A total consolidation in government finances of £128 billion per year by 2015/ 16, of which £99 billion per year comes from public sector spending cuts.
Enterprise	<p>A reduction in the main rate of corporation tax from 28 per cent to 24 per cent over four years.</p> <p>Reduction in the small profits rate (formerly small companies rate) to 20 per cent.</p> <p>Reversal in employer National Insurance Contributions (NIC) increase.</p> <p>Launch of a new three-year scheme that will exempt new businesses from up to £5,000 of employer NIC for each of the first ten employees. South West will be eligible for the new scheme.</p> <p>Expansion of the Enterprise Finance Guarantee (EFG), which supports lending to viable small businesses.</p> <p>Creation of new Enterprise Capital Fund, to provide an extra £37.5 million in equity finance.</p> <p>Green Paper on barriers to the supply of business finance.</p>
Low carbon economy	<p>Proposal to create a Green Investment Bank to help the UK meet the low-carbon investment challenge, to be reviewed as part of Spending Review.</p> <p>Launch of a Green Deal for households to help individuals invest in home energy efficiency improvements.</p> <p>Review of Carbon Price Levy.</p>
Regional government	<p>Options to be explored for possible abolition of Regional Development Agencies, with the government supporting the creation of local enterprise partnerships instead (abolition of RDAs in 2011 since confirmed).</p> <p>Establishment of a £1bn Regional Growth Fund in England 2011/12 and 2012/13.</p>

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

- 3.22 The Budget included an additional £32 billion a year of public sector spending cuts by 2014-15, on top of the cuts previously announced by the former Labour government. The government has protected health and international development from the cuts, with other government departments and their agencies facing a cut in budget of 25% in real terms over four years.
- 3.23 SWRDA has been the largest match-funder of the ERDF programmes in the South West and is responsible under delegated authority for the management and administration of the programmes. The government has announced that SWRDA and the other RDAs will be abolished in 2011/12. In place of the existing arrangement of RDAs, the government has recommended Local Enterprise Partnerships (LEPs) based around cities and natural economic areas, led by local authorities but with significant private sector engagement. The LEPs will help coordinate investment in transport, housing, skills, regeneration and other areas of economic development. SWRDA could become a LEP if supported by local authorities and business, although the expectation is that LEPs will be sub-regional in focus.
- 3.24 It seems reasonable to assume that there will be an enhanced role for local authorities in economic development. The government has stated its intension to devolve budgets from Whitehall and the regional level to local government. The implications for the Convergence

programme are unclear but this could lead to an increased expectation of match funding from Cornwall Council in particular.

- 3.25 The Budget contains opportunities for the Convergence programme as well. They include the £1bn Regional Growth Fund from 2011/12, which is intended to support projects that can demonstrate private sector funding leverage and the delivery of jobs and growth; new and expanded financial schemes to support businesses to grow; and the proposal to form a Green Investment Bank to tackle the low carbon investment needs of the UK, with initial thoughts that it should focus in its initial phase on proven energy efficiency projects¹⁵. It is also worth noting that the public sector spending cuts are expected to largely fall on current expenditure. There may be opportunities to secure capital match-funding, which the programme should be alive to. However, with a large capital element, it is important to take into account the time that large physical investment projects can take to implement and the fact that the revenue stream is often required to realise the ERDF Convergence outputs, particularly those which meet the requirements of the Lisbon agenda.
- 3.26 Cuts in the RDA budget and its possible demise will have implications for Business Link. This in-turn will have a significant implication for both programmes in terms of the administration of business support products which will need further consideration once revised or new arrangements are determined.

European policy developments

- 3.27 The Structural Funds for 2007-13 were designed to be more flexible to local and regional needs than the previous programme period. The EU strategic direction for Cohesion Policy is summarised in the Community strategic guidelines on economic, social and territorial cohesion, 2007-2013¹⁶. The guidelines emphasise a number of key principles for programmes, including the Lisbon agenda and pursuing the objective of sustainable development and synergy between its economic, social and environmental dimensions.
- 3.28 The most significant development in environmental policy at a European level has been the agreement in law of the EU climate and energy package. The package has a series of climate and energy targets to be met by 2020 (known as the 20-20-20 targets), including a reduction in EU greenhouse gas (GHG) emissions of at least 20% below 1990 levels, 20% of EU energy consumption to come from renewable resources and a 20% reduction in primary energy use compared with projected levels, to be achieved by improving energy efficiency¹⁷. The targets on renewable energy and energy efficiency should provide a renewed emphasis on these areas in the Structural Funds programmes, something reinforced by the changes to Cohesion Policy rules that allow 4% of programme budgets to be invested in energy efficiency and renewable energies in the residential sector, which the South West ERDF programmes are actively exploring.
- 3.29 At an economic level, the European Commission responded to the recession through implementing the European Economic Recovery Plan (EERP). The plan included the flexibility for Structural Fund programmes to be revised to take account of changing

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

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

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

circumstances, including revising targets where there is evidence to do so. The EERP was implemented in part through the expansion in the lending activity of the European Investment Bank (EIB). There is an expectation that the EIB will become more integrated in Cohesion Policy in the future as the expansion in Europe may require more support to be available to some member states through financial instruments than grant aid. Currently access to EIB funds is available through two financial instruments - JEREMIE (based on access to finance for SMEs) and JESSICA (for sustainable urban development)¹⁸. The scope of JESSICA was significantly enlarged as part of the EERP to allow expenditure on energy efficiency and renewable energy in the domestic residential sector.

- 3.30 The future of regional policy and Cohesion Policy is currently being considered by the European Commission¹⁹, alongside a review of the EU budget. As part of this, work has started on the successor to the Lisbon Agenda, so-called Europe 2020. At the heart of the proposed new strategy are five “headline targets”, including that 3% of the EU's GDP should be invested in Research and Development and the "20/20/20" climate/energy targets should be met. Recent proposals have also explicitly noted that, “economic, social and territorial cohesion will remain at the heart of the Europe 2020...”²⁰. The targets are currently being debated, but the expectation is that there will be a renewed emphasis on cohesion and climate change. To underpin the targets, a number of flagship initiatives have been proposed, which emphasise innovation, education, resource efficiency, low carbon industrial strategy, skills and job mobility and tackling poverty. The new 2020 agenda is still emerging and as its implications become clearer, it will be advantageous for the Programme to align with the new agenda.

Continuing relevance of programme strategy

- 3.31 The previous sections have explored key changes in the political and economic context since the programme was launched. This wider context has changed significantly since the programme was launched – from a period of economic growth to a sharp recession and uncertain economic outlook, severe public spending cuts, local government reorganisation and potential institutional changes that may affect the delivery and management of the programme.
- 3.32 The economic outlook remains uncertain and potentially volatile. Unemployment is forecast to rise then fall, but business growth is expected to be slow in the immediate period. Cornwall and the Isles of Scilly appear to have weathered the recession well although those areas with lower economic activity rates and higher unemployment, such as the former districts of Kerrier and Restormel, appear to have suffered more than most meaning that the performance gap between these areas and others is worsening. The continued low employment in knowledge based industries is of some concern although restructuring of the economy cannot happen overnight and the time lag in the publication of official data must be borne in mind. The impacts of the recession are yet to be seen, as 2008 is the latest year for much of the data; also a substantial amount of the data is available only at the new Cornwall

¹⁸ For further details of the main funding mechanisms please see:
http://ec.europa.eu/regional_policy/funds/2007/jjj/index_en.htm

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

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

Council level meaning spatial differences cannot be identified and for some metrics, there is no data available for the Isles of Scilly. Data for 2009 may see additional impacts of the recession across the area.

- 3.33 The programme will face a fall in available public match-funding of at least 25% over the next four years. Government departmental expenditure limits will not be decided until the Spending Review in October 2010. That is likely to hasten a further round of policy decisions on how the public spending cuts will be met and will also have implications for an economy with a fairly high dependence on public sector employment. Already there have been cuts announced on higher education spending, labour market initiatives, SWRDA's Single Programme budget for 2010/11 and local government settlements. Few areas of the programme's strategy will be unaffected, with the national business support programme vulnerable and major infrastructure projects potentially affected by sweeping cuts at the Department for Transport. The budget also announced changes to the regional tier of government, with the abolition of SWRDA planned for 2011.
- 3.34 The changed socio-economic and political context raises potential questions about the deliverability of the programme's strategy going forward. We pose these questions here, but consider that these cannot be answered until we have undertaken the full assessment of performance and impact and therefore return to these later in the report. The key questions include:
- Should the programme support more mainstream business support activity?
 - Should the programme focus greater effort on improving the resilience of existing businesses?
 - Should the programme invest in new areas not currently within the strategy, such as labour market initiatives, skills development and infrastructure? Any such changes will need alignment with the Convergence ESF programme.
 - Can the targets be achieved with at least 25% less match-funding?
 - Can other sources of match funding be found to enable the delivery of the original targets e.g. local authority assets?
 - Is the recession a cyclical 'distraction' which should not interfere with activities aiming to restructure the economic and industrial base over the long term?
- 3.35 At one level, the review of policy developments at a European level and in the UK up until May 2010 showed a strong alignment between the programme's rationale and strategy and emerging policy priorities. Climate change has risen up the policy agenda since 2007, supporting the aspirations of the programme. The programme could also consider the suitability of financial instruments at a European and UK level, such as JESSICA or JEREMIE to support the strategy, although several stakeholders did not consider there was much potential value to be gained in taking forward such instruments within the Convergence area.

- 3.36 The majority of the stakeholders we consulted considered that the overall focus of the Programme remained valid and many considered that retaining a focus on broadening the economic base by concentrating support on high value businesses would actually help the sub-region to emerge from the recession in a stronger position. However, several of those consulted also considered that targets were unachievable and rather than missing opportunities (including to address need) by sticking rigidly to a narrow definition of high growth or spreading resources too thinly by taking away the high growth focus, there should be a greater degree of flexibility to enable the overall outcomes to be reached. This could include looking at businesses growth potential (regardless of whether they are high value added or not) and providing increased support to micro businesses, which form the majority of the business base. To a degree this is already happening within Priority Axis 2 which sets out to improve productivity across all businesses, as well as encouraging the growth of high value-added sectors. For this reason, it is sensible not to adopt a more sector specific strategy.
- 3.37 Match funding was recognised as a real threat and at the Convergence PMC meeting in May 2010 it was agreed that the potential for the ERDF intervention rate to be increased should be investigated. However, this will mean a reduction in the overall size of the programme and will not cover the gap caused by the estimated 25% match funding reduction as the Convergence Programme already has a high intervention rate, 68%, and the maximum this can be increased to is 75%.
- 3.38 Stakeholders expressed a real commitment to maintain the aim of moving Cornwall and the Isles of Scilly towards a low carbon economy. It was explicitly stated at the July 2010 PMC that the focus should be on achieving a *low* rather than *lower* carbon economy in which projects are supported that directly address and support the agenda as well as reducing the environmental impact of all activity supported. The South West was the first designated Low Carbon area in the UK and the locational advantages for Cornwall and the isles of Scilly particularly with regards to marine technology support this intention.
- 3.39 An assessment of the appropriateness of the Convergence strategy for the current socio-economic situation needs to be calibrated with an understanding of performance to date before we can make any firm recommendations concerning whether the strategy should be changed for the remainder of the Programme. Therefore we will return to this later in the report. However at this point, we can state that there does not seem to be any justification to change the overall strategy for the Programme. However, the ERDF Convergence PMC will need to continually monitor the situation, particularly the balance across the Programme in relation to Lisbon compliance as it is possible that a situation could arise in which non-Lisbon outputs (e.g. infrastructure) are easier to attain than those specifically addressing the Lisbon agenda (such as innovation) with a result that the Programme, as a whole, does not meet its Lisbon targets.

Key messages

Table 3-4: Key messages

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

The full impacts of the recession have not fed through to official data. The evidence suggests that the immediate economic outlook may be volatile. Cornwall and the Isles of Scilly appear to have weathered the recession well, but those areas with weakest economic performance have been adversely affected.

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

The government has announced its intention to abolish RDAs. This is a major risk to the programme as SWRDA is the majority match-funder and responsible for overseeing the day-to-day delivery of the programme. Changes in Business Link arrangements are also likely to have a significant impact.

The overall strategic direction of the Programme remains valid, but delivery will be more challenging than at the time it was written particularly due to risks around match funding. In addition, there needs to be a continued focus on improving productivity across *all* sectors whilst continuing to promote the growth of high-value added businesses to broaden the economic base. The PMC will need to continually monitor achievement across the Programme and particularly the balance of achieving match and Lisbon compliance due to the differing targets across the Priority Axes.

There is strong support to retain the focus on moving Cornwall and the isles of Scilly towards a *low* rather than *lower* carbon economy.

However, the programme needs to be flexible to respond to the changing circumstances and new opportunities as they arise, which may require adjustments to the programme strategy. This will require continual monitoring by the PMC, particularly following the Comprehensive Spending Review.

Source: SQW Consulting

4: Assessment of programme performance

Introduction

- 4.1 This section provides an overview of the performance of the Convergence Programme to date covering finances, outputs and results; impacts are addressed in the following chapter.
- 4.2 The analysis of finances, outputs and results at a programme and Priority Axis (PA) level is based on a review undertaken by SQW of programme performance management data. The first analysis of the programme management data to quarter 1 of 2010 was undertaken early in April 2010 and updated in May 2010 to take account of developments in the project commissioning and contracting process. We have not updated finances or output and result achievements for the second quarter of 2010, as the data has not been available within the timeframe of preparing the report. The analysis of the performance management data has had to draw together various sources of data. Going forward, it is vitally important that the performance management data is captured in one place and that it is accurate at the time. We will return to this in our recommendations for the future Monitoring and Evaluation Framework.

Profile of projects

- 4.3 As of May 2010, 60 projects (excluding Technical Assistance) had been contracted to deliver activity within the Convergence Programme. Of these projects, 13 were complete as of 31st March 2010 with the rest of the contracted projects scheduled to complete between 2010 and 2015. The average (mean) ERDF cost of the contracted projects to May 2010 was just over £2.7m, which is relatively high and in line with the programme's strategy to focus its investment where it is most needed and is likely to have the biggest impact. The highest spending project to date has been the Newquay Airport Infrastructure and Airport Development Package which has spent £7.1 million of its £10.8 million allocation. Of the 60 projects contracted, 33 had begun to spend as of May 2010 with 10 of these projects already spending more than £1 million.
- 4.4 Excluding the overarching spatial and thematic frameworks, 11 projects had been endorsed by May 2010 and a further 80 projects commissioned. The Frameworks, which cover approximately 75% of the total value of the Programme budget are as follows:
- Priority 2: Workspace SIF, Grants for Business Investment
 - Priority 3: Combined Universities Cornwall
 - Priority 4: Bodmin SIF, Camborne/Pool/Redruth SIF and CPO, Falmouth and Penryn SIF, Newquay SIF, Penzance and Isle of Scilly SIF, St Austell SIF, Truro SIF.

4.5 During 2010, there has been a significant amount of activity with a further 17 projects contracted this year, compared with the 43 that had been contracted to the end of 2009²¹.

Programme finances

4.6 The Convergence Programme has an ERDF allocation of €458,057,000 which is equivalent to £409,181,974 using the exchange rate of 0.8933 (as at April 2010).

4.7 Before commencing the analysis of the priority axes, the current financial position is set out in Tables 4-1 and 4-2.

Table 4-1: ERDF Headline Financial data to May 2010, Total.

	Allocation Total £	Total Contracted £	Total Endorsed £	Total commissioned £	Total contracted, endorsed & commissioned £	Total Spend £	Spend as % of allocation
PA1	93,808,113	61,941,215	10,963,090	8,347,591	81,251,896	10,680,666	11%
PA2	116,138,826	31,049,234	7,469,638	36,178,136	74,697,008	10,127,392	9%
PA3	93,808,113	36,573,867	3,763,854	58,041,000	98,378,721	17,805,286	19%
PA4	89,345,186	34,805,438	6,537,675	60,916,134	102,259,247	6,239,914	7%
TA	16,081,736	11,545,824			11,545,824	2,102,938	13%
TOTAL	409,181,974	175,915,578	28,734,257	163,482,861	368,132,696	46,956,19	11%

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

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

	Allocated Total £	Contracted as % of allocation	Endorsed as % of allocation	Contracted & endorsed as % of allocation	Commissioned as % of allocation	Contracted, endorsed & commissioned as % of allocation
PRIORITY AXIS 1	93,808,113	66%	12%	78%	9%	87%
PRIORITY AXIS 2	116,138,826	27%	6%	33%	31%	64%
PRIORITY AXIS 3	93,808,113	39%	4%	43%	62%	105%
PRIORITY AXIS 4	89,345,186	39%	7%	46%	68%	114%
TECHNICAL ASSISTANCE	16,081,736	72%	0%	72%	0%	72%
PROGRAMME TOTAL	409,181,974	43%	7%	50%	40%	90%

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

²¹ Number of contracted projects in 2009 according to the 2009 Annual Implementation Report

Contracted, endorsed, commissioned and spend

4.8 In headline terms to May 2010:

- 43% of the Convergence Programme budget, or £175.9m has been contracted
- 11% of the full Programme budget has been spent, a total of £46.78m
- 7% (£28.73m) of the Programme budget has been endorsed
- a further 40% (£163.48m) of the Programme has been commissioned.

4.9 The programme does not have targets for financial expenditure by year. The N+2 target effectively acts as a financial target and the programme exceeded its N+2 target for 2009. In financial terms, we would expect the programme to have a bell shaped profile over time, with the amount of expenditure increasing year on year to peak around 2012 or 2013. We suggest that by the end of 2009 cumulative expenditure should have reached around 12.5% (5% in 2008 and 7.5% in 2009). Against this measure, programme spend (of 11%) is slightly behind schedule.

Match funding

4.10 Within the Convergence Programme, the maximum ERDF intervention rate across the Programme is 68%, but this varies between axes from 75% to 61%. The achieved Programme intervention rate to May 2010 is 65%. Match funding will be a significant risk going forward, and with varying rates between axes it will continue to be important to constantly monitor this to understand the impact of more contracting/spend in particular axes has on the overall intervention rate. Currently the intervention rate for spent activity is above target for Technical Assistance and PA4, but in terms of contracted, this is below the rate for all PAs.

4.11 In terms of sources, information provided in the ERDF Performance Report April 2010, detailed the following split of funding within the Convergence Programme as follows:

Table 4-3: Sources of funding	
Funding source	Proportion (amount)
ERDF	62.5% (£149.5m)
SWRDA	16% (£38.48m)
Private	10% (£23.94m)
Local Authority	4.5% (£11.1m)
Other public	7% (£16.95m)

Source: Convergence PMC Paper May 2010/4a – ERDF Performance Report April 2010

4.12 Clearly there is a significant amount of reliance on match funding from SWRDA which is of a concern with recent government announcements concerning public sector funding cuts and the potential abolition of all Regional Development Agencies. Local authority contributions are fairly small in comparison as is other public which includes contributions from central government departments (such as DECC for Wave Hub). The private sector proportion of 10% is encouraging particularly as this has been achieved within a recession and it is hoped

this can be sustained and possibly increased as the public sector contribution will undoubtedly fall. Match funding by source is not recorded alongside other performance management data in Performance theatre which should be rectified.

Lisbon Agenda Compliance

- 4.13 A critical requirement for the Programme is that it delivers the required proportion of activities that are Lisbon compliant as specified by the EC. Achievement to date is 65% across the Programme (with no data available by axis or project). The May 2010 Performance Report states that *'It is anticipated that the greater proportion of investments for the rest of the Programme would be Lisbon compliant'*. As the largest PA spend to date is through PA3 which largely supports major infrastructure projects, this assertion is accepted as the Programme is still investing in capacity building activities which are expected to then facilitate the Lisbon compliant interventions.
- 4.14 The requirement for Lisbon compliant activities varies by axis it is 100% for PA1, 87% for PA2, 75% PA3 and 60% PA4. Again as with match funding, this variation between axes will require careful management and monitoring and a constant strategic overview taken with regards to grant decision making to ensure that the overall Lisbon compliance target can be met.
- 4.15 An assessment of the categories of intervention across the priority axes and those which are Lisbon compliant shows that the more infrastructure focused projects are not Lisbon compliant and therefore there is a risk associated with funding these rather than the innovation and knowledge economy focused activities, whilst recognising that many of the latter are dependent on the infrastructure being in place.
- 4.16 With the current and likely future challenges for delivery and the varied Lisbon requirements across the axes, it will be important that PMC closely monitors the achievement of Lisbon compliance across the Programme.

Headroom

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

	Headroom						
	Allocated Total £	Allocation minus contracted, £	As % of allocation	Allocation minus contracted + endorsed, £	As % of allocation	Allocation minus contracted, endorsed & commissioned, £	As % of allocation
PA1	93,808,113	31,866,898	34%	20,903,808	22%	12,556,217	13%
PA2	116,138,826	85,089,592	73%	77,619,954	67%	41,441,818	36%
PA3	93,808,113	57,234,246	61%	53,470,392	57%	-4,570,608	-5%

	Headroom						
	Allocated Total £	Allocation minus contracted, £	As % of allocation	Allocation minus contracted + endorsed, £	As % of allocation	Allocation minus contracted, endorsed & commissioned, £	As % of allocation
PA4:	89,345,186	54,539,748	61%	48,002,073	54%	12,914,061	-14%
PA5/TA	16,081,736	4,535,912	28%	4,535,912	28%	4,535,912	28%
TOTAL	409,181,974	233,266,396	57%	204,532,139	50%	41,049,278	10%

4.18 The table shows that of the programme allocation, and once contracted expenditure has been subtracted, this leaves just over £233m remaining (57%). Once contracted and endorsed expenditure is subtracted, this leaves £204.5m of the programme allocation remaining (50%). This of course assumes that the contracted and endorsed expenditure is spent in full and there must be some doubts about this given the tightening of public finances discussed in chapter 3. The last two columns show the headroom once commissioned expenditure is also considered. This would leave only 10% of the programme allocation available.

Programme gross outputs and results

4.19 The table below presents gross output and result achievements to March 2010 for the programme as a whole:

Indicator	Total Axis Targets	Achieved	% Target Achieved
O01 - Number of businesses assisted to improve their performance	6,440	624	9.7%
O02 - Number of new business assisted (Subset of businesses assisted)	210	4	1.9%
O03 - Number of environmental goods and services enterprises assisted (subset of business assisted)	280	0	0.0%
O04 - No of firms involved in collaborative research & development projects (subset of businesses assisted)	280	0	0.0%
O05 - Number of business within the region engaged in new collaboration with UK knowledge base (subset of business assisted)	280	0	0.0%
O06 - Number of research and innovation centres supported	6	0	0.0%

*Programmes Review of European Regional Development Fund in the South West - Convergence Programme
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Indicator	Total Axis Targets	Achieved	% Target Achieved
O07 - Proportion of premises constructed/upgraded to at least the BREEAM standard of excellent or equivalent (incubators etc)	90%	0	N/A ²²
O08 - Number of new business assisted (subset of businesses assisted)	700	63	9.0%
O09 - Environmental goods and services enterprises assisted (subset of businesses assisted)	350	6	1.7%
O10 - Businesses advised on improved environmental performance (subset of businesses assisted)	1,400	12	0.9%
O11 - Businesses engaged in new knowledge base collaborations (subset of businesses assisted)	210	0	0.0%
O12 - Premises built achieving BREEAM "excellent " rating	80%	0	0.0%
O13 - Square metres of new or up-graded premises/facilities	93,000	743	0.8%
O14 - Major investment projects	2	0	0.0%
O15 - Premises built achieving BREEAM "excellent " rating or equivalent	80%	0	N/A
O16 - Square metres of floorspace (m2)	60,000	1,801	3.0%
O17 - Hectares of land for development	58	0	0.7%
O18 - Previously developed land prepared / developed (subset of land for development)	10	0	0.0%
O19 - Redundant buildings developed for new economic use	40	0	0.0%
O20 - Historic buildings / sites developed for new economic use	20	0	0.0%
O21 - Sustainable Integrated Development Strategies Prepared	7	0	0.0%
O22 - Projects achieving BREEAM "excellent" rating or equivalent	80%	1	N/A
R01 - Gross new jobs created	2,187	0	1.1%
R02 - Gross jobs safeguarded	837	0	0.0%
R03 - No of patents granted and other IPRs and other IPR devices	140	0	0.0%

²² In all output tables, we have not assessed success in meeting proportions of premises and projects that meet BREEAM standard of excellent or equivalent as we do not have the total numbers from which to assess proportions

Indicator	Total Axis Targets	Achieved	% Target Achieved
R04 - Number of additional firms involved in business/cluster networks	700	5	0.7%
R05 - No of SMEs launching new or improved products	1,956	0	0.0%
R06 - Gross increase in GVA	539,400,800	2,793,618	0.5%
R07 - Gross jobs created in environmental sectors (subset of job created)	560	0	0.0%
R08 - Private sector investment arising from support	360,000,000	0	0.0%
R09 - Number of companies using ICT (new and upgraded)	4,410		0.0%
R10 - Number of jobs created	13,225	87	0.7%
R11 - Number of jobs safeguarded	7,930	15	0.2%
R12 - Gross jobs created in environmental sectors1	700	0	0.0%
R13 - Number of additional firms involved in business/cluster networks (subset of businesses assisted)	1,050	29	2.8%
R14 - Number of businesses using new infrastructure	10,000	0	0.0%
R15 - Number of businesses benefiting from up-graded ICT infrastructure	10,000	0	0.0%
R16 - Number of businesses with improved performance (GVA)	6,000	0	0.0%
R17 - Private sector investment £m	157	4	2.8%

4.20 Specific achievements to March 2010 have included:

- 624 businesses have received support to improve their performance of which 67 have been new businesses
- 2,500 square metres of floorspace has been developed or renovated
- 87 gross jobs have been created and 15 safeguarded
- £2.8 million gross increase in GVA
- 4 million of private sector investment won.

4.21 Table 4-5 shows that the programme still has a long way to go to achieve its targets, although this is perhaps unsurprising given that only 33 projects have spent ERDF funds to May 2010. There are two output indicators and three result indicators that have yet to be set targets under the existing projects contracted suggesting that the right projects to meet these outputs and results have not yet got to the contracted stage. Further, there are 12 output indicators and

seven results indicators that do not yet show any achievements against target – this suggests that performance has so far been quite limited.

- 4.22 A number of the targets relate to specific PAs, which is explored in the following section. We are aware that there has been an expansion in project delivery in recent months, with outputs and results expected that are not captured in the data to March 2010. However, the programme is behind where it expected to be at this stage in the achievement of outputs and results. Given that there were limited achievements in 2009 and the first quarter of 2010, the outputs and results will need to come forward in the remaining three quarters.

Performance by Priority Axis

Priority Axis 1: Innovation and Research and Development

Introduction

- 4.23 PA1 is at the cornerstone of the Programme strategy in that it aims to ensure the growth and development of high growth and value added businesses and as such restructure the economy away from one based on lower value added sectors by building on the strengths of existing sectors and developing new markets.

Financial performance

- 4.24 PA1 was allocated a total of £93,808,113 through the OP which is notionally split across the four strands as identified in Table 4-6. Of the full allocation, so far 11% has been spent, 66% contracted, 12% endorsed and 9% commissioned leaving 13% headroom (as a proportion of the total allocation) or £12,556,217.

Table 4-6: Priority 1 Thematic Strand Activity

PRIORITY AXIS 1	ERDF Allocation € (low)	ERDF Allocation € (high)	Range in OP	Number of Projects contracted	Amount Contracted £	Amount Defrayed £
Stimulating research and development	21,002,600	42,005,200	20-40%	3	8,497,948	2,701,124
Supporting ideas, innovation & knowledge	15,751,950	31,503,900	15-30%	3	1,624,899	49,323
Innovation & incubation	21,002,600	36,754,550	20-35%	1	8,969,368	6,175,219
Environmental goods & services	10,501,300	26,253,250	10-25%	3	42,849,000	1,755,000
Axis 1 allocated total £	93,808,113				61,941,215	10,680,666

Source: SWRDA Monitoring Data and SQW analysis

- 4.25 Despite being the strand that has the lowest ERDF allocation, Environmental Goods and Services has contracted by far the most funding (£42.8 million). This exceeds its maximum notional allocation by 63% therefore reducing the amount available within for activities within the other three strands. The substantial amount contracted is largely due to two major projects: Wave Hub (development and delivery costs) and the recently contracted

Environment and Sustainability Institute although only £1.76 million of the strand in total had been spent by May 2010.

- 4.26 The Stimulating Research and Development strand has a significant amount of headroom available to be contracted under this strand. Just over a quarter of the amount contracted in this strand has been spent. The strand that focuses on Supporting Ideas, Innovation and Knowledge has contracted the least (three projects at a cost of £1.6 million) and only £49,323 of that has been defrayed. The Innovation and Incubation strand has the highest amount of actual spend with £6.2 million defrayed out of £9 million contracted.
- 4.27 At the midpoint of the Programme, headroom of only £12.5m (for the whole PA) is positive. However, with only 11% of the full allocation spent, there is a considerable lag between commissioning and spend. This relates to when the projects were initially commissioned (many were very recent so spend will not show for some time) and also the project development period which can be lengthy. However, providing match is secure (and not withdrawn) for each of the projects endorsed (which together with contracted represent 78% of the allocation) then it is possible to be fairly confident that PA1 will achieve its full spend by the end of the Programme period.

Achievement of outputs and results

- 4.28 The table below shows the output and result achievements of projects under PA1 to March 2010 and presents the profile of target outputs and results by contracted projects. We have applied a 20% optimism bias to the output and result forecasts of the contracted and endorsed projects, reflecting the tendency for output and result forecasts to be over-estimated. This is a judgement for analysis purposes only and not a finding of this review. Prior to the adjustment, the contracted projects have a disproportionately low number of target outputs and therefore others, yet to be contracted, will be required to deliver a much larger amount to achieve the overall targets for PA1. Taking optimism bias into account, a more concerning picture is shown as the targets have already been reduced through the application of this.
- 4.29 Target outputs are high for businesses assisted and new jobs created particularly as a substantial proportion of funding has been invested in infrastructure. In addition, target results around patents and launching new products are particularly high. It is of particular concern that the Environmental goods and services strand is 'overspent' yet does not appear to have achieved any outputs. Also only 26% of the target output - O03 - Number of environmental goods and services enterprises assisted (subset of business assisted) has been contracted.
- 4.30 If the Programme was to continue along a trajectory from previous performance, it could be construed that PA1 is very unlikely to achieve its overall targets due to the disproportionately low number of outputs that have been contracted against ERDF investment to date. However, progress is likely to be 'lumpy' over time due to the nature of the projects being commissioned during the early stage of the Programme. Strategic decisions have been taken by the PMC and implemented by its sub-groups to front-load the capital investment which will provide the conditions to enable future revenue investment which should achieve disproportionately higher outputs.. As such, the Programme (within 'normal' circumstances) could be considered to be on course to achieve the overall results and impacts intended to realise the Programme's objectives. However, in the current economic climate, there is a

potential threat that the front-loaded activity will be achieved, but the revenue focused, output/result/impact creating activity may then not be achieved due to the difficulties of achieving match funding.

- 4.31 We cannot forecast exactly what will happen due to the current economic uncertainty, but consider the overall strategy going forward is correct – regardless of economic circumstances, the economy of Cornwall and the Isles of Scilly cannot be restructured without the appropriate infrastructure in place. We appreciate that targets can only be amended on the basis of inaccuracy in their original setting, rather than due to achieved or expected performance and therefore do not recommend that these are amended. However, the PMC needs to monitor activity in PA1 closely due to its fundamental importance to the achievement of the Programme’s overall strategy and justification may need to be provided to the EC in the future as to why targets within PA1 have not been achieved.

Table 4-7: Priority Axis 1 Outputs Target v Actual

Indicator	PA Target	Achieved	% target achieved	Contracted	% of target contracted	Contracted outputs with 20% optimism bias	% of PA target contracted with optimism bias	Remaining target not contracted
O01 - Number of businesses assisted to improve their performance	1,540	5	2	210	14%	168	11%	1330
O02 - Number of new business assisted (Subset of businesses assisted)	210	4	19	21	10%	19	9%	189
O03 - Number of environmental goods and services enterprises assisted (subset of business assisted)	280	0	0	72	26%	58	21%	208
O04 - No of firms involved in collaborative research & development projects (subset of businesses assisted)	280	0	0	26	9%	21	8%	254
O05 - Number of business within the region engaged in new collaboration with UK knowledge base (subset of business assisted)	280	0	0	44	16%	35	13%	236
O06 - Number of research and innovation centres supported	6	0	0	3	50%	2	33%	3
O07 - Proportion of premises constructed/upgraded to at least the BREEAM standard of excellent or equivalent (incubators etc)	90%	0	0	1	N/A	1	N/A	N/A
R01 - Gross new jobs created	2,187	0	0	875	40%	700	32%	1312
R02 - Gross jobs safeguarded	837	0	0	29	3%	23	3%	808
R03 - No of patents granted and other IPRs and other IPR devices	140	0	0	10	7%	8	6%	130

Indicator	PA Target	Achieved	% target achieved	Contracted	% of target contracted	Contracted outputs with 20% optimism bias	% of PA target contracted with optimism bias	Remaining target not contracted
R04 - Number of additional firms involved in business/cluster networks	700	5	5	92	13%	74	11%	608
R05 - No of SMEs launching new or improved products	1,956	0	0	75	4%	60	3%	1881
R06 - Gross increase in GVA	76,500,400	0		41,620,643		33,296,514	44%	34,879,757

Source: SWRDA Monitoring Data and SQW analysis

Assessment of delivery to date

4.32 PA1 has contracted 10 projects to date which focus on supporting research and innovation and developing industries particularly focused on environmental technologies and renewable energy which could develop a major new industry in Cornwall and the Isles of Scilly. The table below provides brief summaries of some of the projects supported:

Table 4-8: Priority Axis 1 Example Projects

- Knowledge Escalator – the project will encourage businesses and HEIs to collaborate and work more closely together. It is part of the initiative to support business growth and stimulate new enterprise.
- PRIMaRE – the investment in the Peninsula Research Institute for Marine Renewable Energy will establish a leading edge regional research facility and equipment asset pool available for all marine energy stakeholders in the region, research support for marine energy renewable energy construction, collaborate with the emerging business cluster and includes a dedicated technology transfer team to work with businesses to support job creation.
- Pool Innovation Centre – the centre will provide business start up support and high quality workspace to help promote growth in the area.
- European Centre for Environment & Human Health – the investment will contribute towards research on the two title themes and how they interlink.

Source: <http://www.convergencecornwall.com/downloads/publications/159.pdf>

4.33 The Wave Hub project, for which SWRDA is the applicant, is seen as a real opportunity to enhance the science and knowledge base of the South West and to create a new industry and job opportunities supporting all four of the OP’s objectives. The following summary describes the project and highlights how it meets the Programme’s objectives, particularly those of PA1.

Table 4-9: Wave Hub Example

History of Development

The Wave Hub is a groundbreaking renewable energy project to create the UK’s first offshore facility to demonstrate the operation of a variety of wave energy generation devices.

Many different devices are being developed in the UK and elsewhere to generate electricity from wave power. After the devices have been tested as prototypes elsewhere, the Wave Hub provides an area of sea with grid connection and planning consent where arrays of devices can be operated over several years.

Current Status –Spend and Outputs

The Development Phase of the project is now complete. The total development costs were £2.34 million. Of this, £1.755 million was from the Convergence Programme allocation of £1.95 million and the remaining £585,000 was from total match funding of £650,000 from SWRDA and DECC/DBIS. The under-spend is attributed to contingency funds that are added to project costs because of the weather which can have a significant impact on activity carried out at sea. The Construction phase has been awarded total funding of £ 33.9m. This consists of £18m Convergence funding, £9.51 m from BIS/DECC and £6.39m from SWRDA. As of May 2010 none of the ERDF funding had been drawn down but the project is on track to complete by Autumn of 2010.

Potential Results and Impacts

Overall Wave Hub is expected to create 548 jobs in the region and will bring in an additional £23.6 million of GVA. These results are yet to be delivered. In addition, the project impacts will include the following:

- create a new industry and job opportunities in Cornwall and the Isles of Scilly and the South West, expanding on the existing marine and engineering industries that are present in the region and creating opportunities for inward investment
- enhance the science and the knowledge base in Cornwall and the Isles of Scilly and the South West, expanding on the existing marine and engineering industries that are present in the region
- provide opportunities for Cornwall & Isles of Scilly firms and academic institutions to develop new skills and business opportunities.
- enhance Cornwall & the Isles of Scilly, the SW and the UK’s reputation in renewable energy and marine energy.

Good Practice and Lessons

History of Development

The Wave Hub is a groundbreaking renewable energy project to create the UK's first offshore facility to demonstrate the operation of a variety of wave energy generation devices.

Many different devices are being developed in the UK and elsewhere to generate electricity from wave power. After the devices have been tested as prototypes elsewhere, the Wave Hub provides an area of sea with grid connection and planning consent where arrays of devices can be operated over several years.

The project, so far, appears to be well managed and well delivered. A strong project team that have had the dedicated time and resource to work on the project has been crucial to overcome many challenges, such as the weather and legal challenges, to deliver this substantial project. However, the project is still at an early stage and its implementation and effectiveness cannot yet be assessed.

Key lessons from developing this flagship project have been identified as the need for top class technical expertise, and communication between all the funders, stakeholders and experts involved at all stages of the process.

Source: SQW Consulting

- 4.34 Due to the importance of PA1 to the success of the Programme and risks associated with delivery, it has been kept under close review by the Convergence PMC and its sub-groups. According to the 2009 AIR, the innovation agenda was kept under review, partly due to the uncertainty of match funding for some Higher Education proposals and partly because new opportunities had arisen that warranted further investigation, particularly around the newly designated Ecotown in the Clay Area (also within the P4 St Austell and the Clay country Strategic Investment Framework) and potentially at the Goonhilly telecommunication hub. Three task and finish groups have been established to address these opportunities along with a potential Proof of Concept fund, all of which are making good progress (further detail is provided in Chapter 6).
- 4.35 A large proportion of the activities funded through PA1 have focused on the provision of HE and R&D infrastructure which will facilitate rather than directly achieve linkages between Higher Education and business – the recently contracted £22.89m Environmental Sustainability Institute is a key example. In response to concern about the amount of resources from PA1 being devoted towards capital projects that will house R&D and innovation activities, rather than directly supporting the specific activities themselves an enterprise programme is being developed by SWRDA which will be supported by both ERDF and ESF providing a good example of integration between the two programmes and showing how each can support the objectives of the other.
- 4.36 Overall the axis is behind where it should be in terms of achieving both spend and outputs; also those projects which have been contracted, have disproportionately low target outputs meaning other smaller projects will have to contribute much large numbers. This suggests that either targets have been incorrectly set or the 'right' projects have not come forward to meet them.

Priority Axis 2: Enterprise and Investment

Introduction

- 4.37 PA2 Enterprise and Investment aims to support the growth of businesses with a particular focus on high value added businesses and developing high value added sectors with growth potential.

Financial performance

4.38 PA2 was allocated a total of £116,138,826 (based on the April 2010 sterling/Euro exchange rate) through the OP which is notionally split across the six strands as identified in Table 4-10. Of the full allocation, only 9% has been spent to date, 27% contracted, 6% endorsed and 31% commissioned leaving 36% headroom (as a proportion of the total allocation) or £41,441,818.

Table 4-10: Priority Axis 2 Thematic Strand Activity						
PRIORITY AXIS 2	ERDF Allocation € (low)	ERDF Allocation € (high)	Range in OP	Number of Projects contracted	Amount Contracted £	Amount Defrayed £
New enterprise	13,001,100	19,501,650	10-15%	1	2,044,495	305,079
High Growth companies	19,501,650	26,002,200	15-20%	8	9,197,319	1,722,461
Targeted business support	26,002,200	39,003,300	20-30%	6	10,859,711	3,608,673
Business infrastructure	39,003,300	58,504,950	30-45%	5	5,214,091	527,553
Access to finance	13,001,100	19,501,650	10-15%	1	3,750,000	3,750,000
Environmental goods and services	13,001,100	19,501,650	10-15%	3	1,401,091	213,625
Axis 2 Total					31,049,234	10,127,392

Source: SWRDA Monitoring Data and SQW analysis

4.39 PA2 is lagging behind the other axes in terms of spend and projects under development (contracted, endorsed or commissioned) with a concerning 36% headroom.

Achievement of outputs and results

4.40 Targets overall appear challenging especially the number of businesses to be assisted and the large amount of workspace to be constructed. As previously we have applied a 20% optimism bias across all targets. However, given that only 27% of the axis allocation has been contracted, the achievement of certain outputs and results is very positive. If the projects that have been contracted to date meet their targets, then 44% of the target number of business assists for the axis will be met. Further, the axis has also already achieved more than one quarter of this target. Performance is less good for other targets, the number of companies using ICT is behind where it should be in terms of target results contracted, which can be accounted for by the lack of spend within the digital strand, but overall as the table shows, good headway is being made.

Indicator	Total Axis Targets	Achieved	% Target Achieved	Total Contracted Projects Target	% of PA target outputs contracted	Contracted projects target with 20% optimism bias	% of PA target contracted with optimism bias	Remaining target not contracted
O01 - Number of businesses assisted to improve their performance	4,900	619	13%	2151	44%	1,721	35%	2749
O08 - Number of new business assisted (subset of businesses assisted)	700	63	9%	250	36%	200	29%	450
O09 - Environmental goods and services enterprises assisted (subset of businesses assisted)	350	6	2%	44	13%	35	10%	306
O10 - Businesses advised on improved environmental performance (subset of businesses assisted)	1,400	12	1%	128	9%	102	7%	1272
O11 - Businesses engaged in new knowledge base collaborations (subset of businesses assisted)	210	0	0%	51	24%	41	20%	159
O12 - Premises built achieving BREEAM "excellent " rating	80%	0	0%	3	N/A	2	N/A	N/A
O13 - Square metres of new or up-graded premises/facilities	93,000	743	1%	9256	10%	7,405	8%	83744
R06 - Gross increase in GVA	191,600,000	2,355,000	1%	42,155,789	22%	33,724,631	18%	149444211
R08 - Private sector investment arising from support	360,000,000	0	0%	13,059,299	4%	10,447,439	3%	346940701
R09 - Number of companies using ICT (new and upgraded)	4,410	0	0%	40	1%	32	1%	4370
R10 - Number of jobs created	5,474	25	0%	1592	29%	1,274	23%	3882
R11 - Number of jobs safeguarded	3,413	0	0%	508	15%	406	12%	2905
R12 - Gross jobs created in environmental sectors	700	0	0%	26	4%	21	3%	674

Source: SWRDA Monitoring Data and SQW analysis

Overall assessment of performance to date and future performance

4.41 The below table provides a summary of projects that are currently supported through the programme:

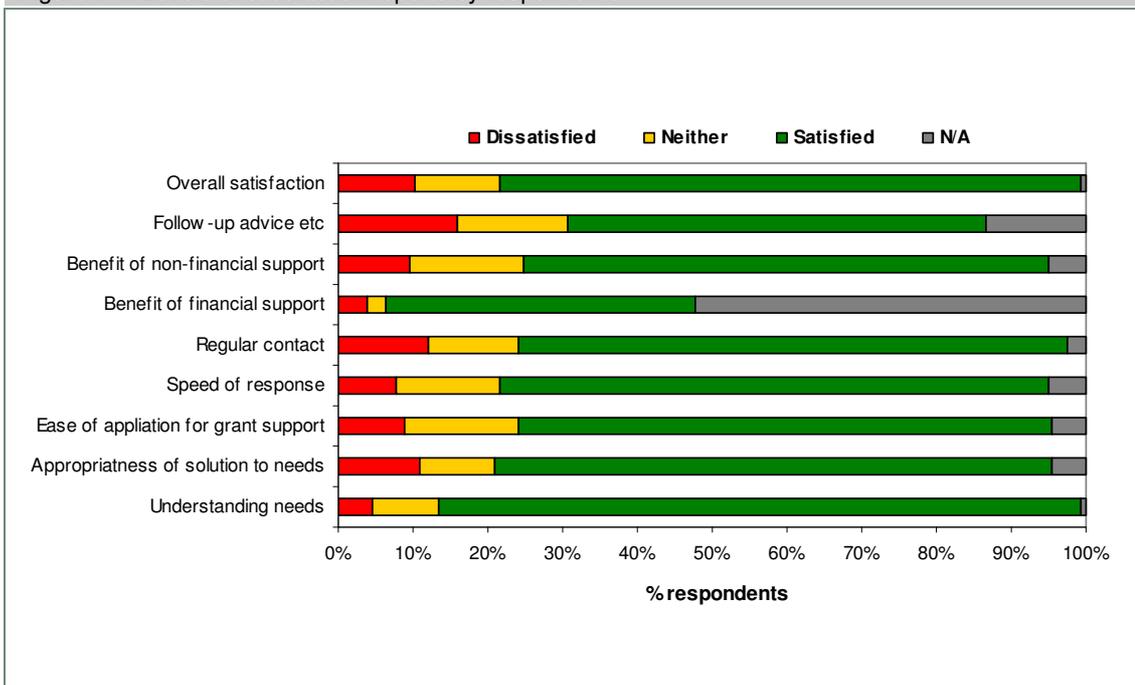
Table 4-12: Priority 2 Example Projects

- Cornish Crabbers - Cornish Crabbers is a boat building company based in North Cornwall. With the funding it receives it will purchase the premises it is currently working in to invest in production equipment, the investment helps maintain and expand a Cornish business.
- Westland Helicopters Ltd - Convergence Programme funding has helped Newquay Airport to attract global helicopter firm Augusta Westland to Cornwall. The training organisation will run a helicopter flight training programme for up to 50 students a year, employing 30 highly skilled staff.
- Spinnaker International Ltd - the investment will help fund additional office and industrial accommodation at this Cornish company with the expansions set to improve business growth in the region.
- Envision Phase 3 – the Envision Phase 3 project which is now complete, had helped businesses to improve their resource efficiency through audits, training and mentoring support. In addition to the environmental benefits, improved resource efficiency will help to improve business productivity and competitiveness.
- SWMAS – The South West Manufacturing Service has received Convergence Programme funding to support SMEs, providing them with guidance on how to improve productivity and performance.

Source: SQW Consulting

4.42 The table below, taken from the beneficiary survey carried out as part of this review, reveals very high levels of satisfaction with the business support services provided. There were also particularly good responses concerning questions regarding understanding needs and the appropriateness of solutions to needs, although beneficiaries most welcomed financial advice. This is unsurprising within a recession, but also caution needs to be taken in providing access to finance due to concerns around grant dependency within Cornwall and the Isles of Scilly which was raised by several stakeholders during the consultations.

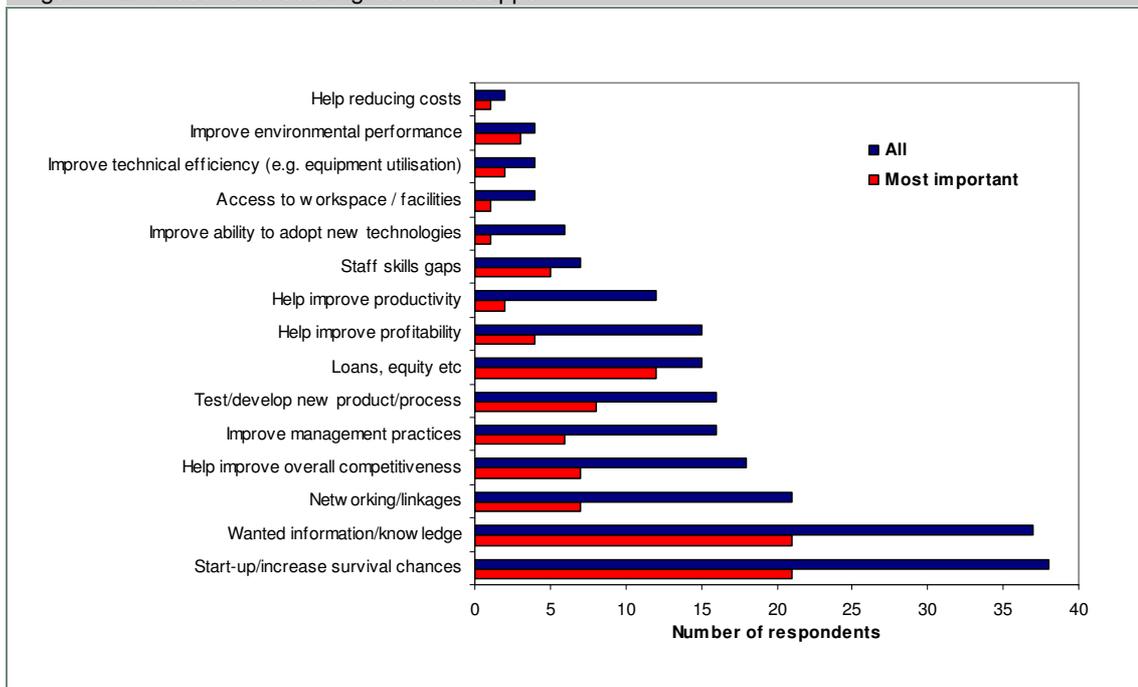
Figure 4-1: Levels of satisfaction reports by respondents



Source: SQW Consulting (derived from A survey)

4.43 The survey also questioned beneficiaries on the issue that had prompted their interest in accessing support. The results are shown in Figure 4-2 reveal that the most important issues were start up/survival (unsurprisingly) and wanting information/knowledge, whilst helping to reduce costs and improving environmental performance considered of least importance. However, it is important to acknowledge that this finding could have been influenced by the sample which excluded Envision and the SW Manufacturing Advisory Service.

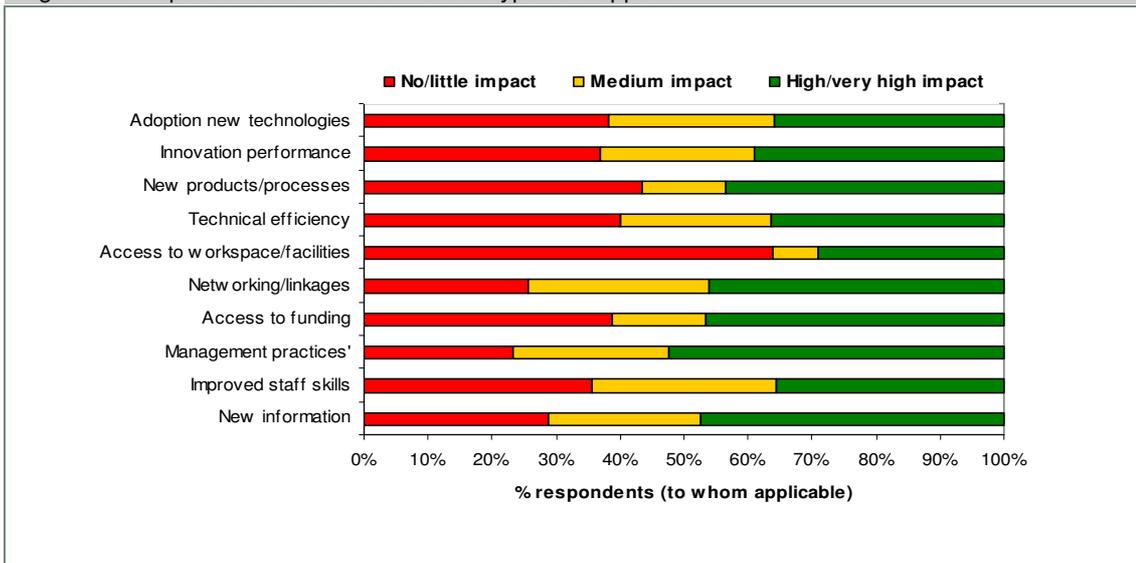
Figure 4-2: Reasons for seeking business support



Source: SQW Consulting (derived from Qa survey)

4.44 The following chart shows the impact that respondents considered different types of support had on their business. Those with high or very high impact were management practices, new information, networking and access to funding whilst access to workspace/facilities was considered to have least impact. This is a very interesting finding due to the amount of PA2 which is allocated for workspace projects; particularly as a large approximately half of consultees had voiced concern regarding the high workspace targets within the Programme. It should be noted that the EC representative has also voiced concerns about the large workspace target within PA2.

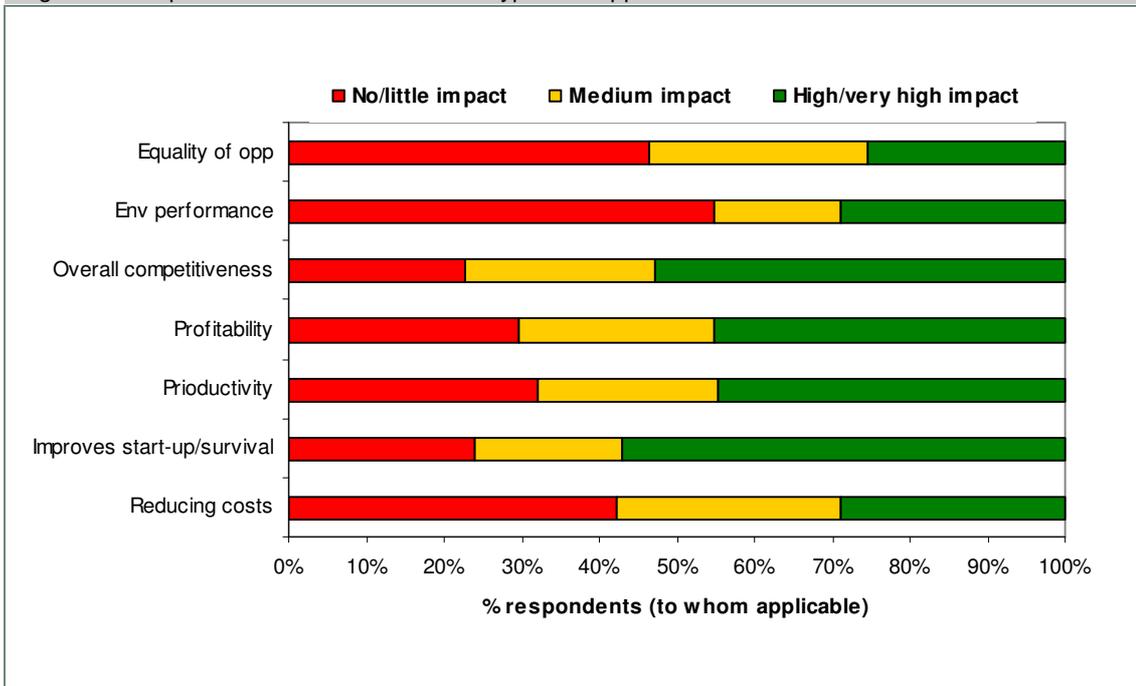
Figure 4-3: Impact on businesses of various types of support



Source: SQW Consulting (derived from Qa survey)

4.45 The final chart below summarises the areas of business in which support is felt to have had most impact. The areas with most positive responses were improving start-ups and overall competitiveness which is encouraging whilst the areas in which support was considered to have least impact were reducing costs, environmental performance and equality of opportunity. This is of concern for the CCTs and suggests that more thought needs to be given to how these are managed and delivered.

Figure 4-4: Impact on businesses of various types of support



Source: SQW Consulting (derived from Qa survey)

4.46 These results are positive in terms of the business support being provided and will be helpful in determining priorities for the future. There is an ongoing review of PA2 which was initiated by concerns about the proliferation of business support providers ‘chasing’ a limited number of high value, high growth companies; the large amount of workspace and the need to

ensure that the projects being contracted within the axis are fit for purpose. The review Steering Group will use the results from this Programme review to inform future priorities for the delivery of business support on the ground.

- 4.47 A detailed issue raised by the majority of consultees and discussed in depth at the delivery partners' workshop was the 15 hours of business support required to claim an output. Many considered this amount of support excessive and that it encouraged 'perverse behaviour' in terms of providers chasing businesses and arranging additional meetings etc to reach the 15 hours required. Having investigated this issue further, we have found it difficult to appreciate these concerns as the 15 hours support that should be given to a single businesses is over the lifetime of the project (generally between one and three years) and as an intensive service, this does not seem excessive. This is a matter of detail for the strategic review, but has been raised here due to the widespread concern. We consider this is actually more a matter of communication between SWRDA and delivery partners/stakeholders than a genuine concern going forward.
- 4.48 The PA2 review is also concerned with the target amount of workspace planned through the workspace SIF which was established in early 2009. Several consultees were concerned that this target was unachievable and exceeded requirements. The beneficiary survey appears to support these views. In addition delivery has been difficult, which is unsurprising considering the prevailing economic conditions. We cannot suggest if the target should be revised, or by how much without the evidence of an up to date employment land review which robustly assesses supply and demand. We are aware that Cornwall Council has commissioned such a study and providing the results are available on time, it should be used to form an argument to the PMC, and ultimately the EC to change this target if it was considered to have been overly ambitious at the outset.
- 4.49 In conclusion, PA2 is having a positive impact, but is facing several challenges. The 36% headroom is significant and if the workspace target is to be reduced, then more headroom could be created. During our analysis we considered the potential to vire some of the funding from PA2 to another Priority Axis (possibly PA3 due to its potential over-commitment). However, we agree with the views of the PMC voiced at its extraordinary meeting of July 2010 that virement should be a strategic rather than performance-related decision. There is an ongoing review into performance within PA2 and it has a higher Lisbon content than PA3 meaning that if funding was vired, the Programme could become in danger of not meeting the overall Lisbon target. Finally, in a reduced public funding environment and with the potential of double-dip recession, businesses need as much support as can be provided to ensure that they remain competitive.
- 4.50 However, the achievement of targets within PA2 is likely to prove challenging, particularly as the workspace target appears to have been over-estimated. The situation is also further complicated by likely changes in national business support arrangements which at the very least are likely to cause some uncertainty in the short-term. Therefore, we suggest that targets and funding proportions between Priority Axes remain as they are, but that the PMC maintains a close watching brief on the PA2 review and progress with commissioning, endorsing and contracting within PA2 and considers all options for maximising contracting and spend.

Priority Axis 3: Transformational infrastructure

Introduction

4.51 PA3 Transformational infrastructure aims to improve the underlying conditions to improve economic growth and competitiveness through the provision of transport and ICT infrastructure to counter the barriers that peripherality place on the economy of the Cornwall and the Isles of Scilly, and infrastructure investments associated with the Combined Universities of Cornwall to support the development the research and knowledge base.

Financial performance

4.52 A total of £93,808,113 was allocated to PA3 which is notionally split across three strands as identified in Table 4-13. This priority has no headroom with 19% of the full allocation spent (£17,805,286), 39% contracted, 4% endorsed and 62 % commissioned – totalling 105% of the full allocation.

Table 4-13: Priority 3 Thematic Strand Activity

PRIORITY AXIS 3	ERDF Allocation € (low)	ERDF Allocation € (high)	Range in OP	Number of Projects contracted	Amount Contracted to March £	Amount Defrayed £
Newquay International airport	21,002,600	42,005,200	20-40%	1	10,777,500	7,106,210
Digital infrastructure	31,503,900	52,506,500	30-50%	1	630,000	478,407
Knowledge infrastructure	31,503,900	52,506,500	30-50%	8	25,166,367	10,220,670
Axis 3 Total					36,573,867	17,805,286

Source: SWRDA Monitoring Data and SQW analysis

4.53 Of the three strands within PA3, knowledge infrastructure and digital infrastructure should make up the majority of the activity, with projects relating to Newquay Airport accounting for the remaining 20-40% of the allocation. The majority of projects (8) have so far been contracted under the knowledge infrastructure theme (Combined Universities in Cornwall) which having contracted £25,166,367 is approaching the lower limit of its allocation; £10.2 million of this has been defrayed so far. One project has been contracted under the Newquay Airport strand which has been allocated £10.8 million, approximately half of the lower end of the allocation range; £7.1 million has been spent. Only one project has been contracted under the Digital Infrastructure strand with a value of £630,000 from a total allocation of £52.5 million although the majority of this has been commissioned.

Achievement of outputs and results

4.54 Targets are fairly straightforward and appear achievable providing the intended projects are awarded funding and can start delivering within time. Again we have applied an optimism bias of 20%. Targets are lower than with other axes and may take longer to achieve as PA3 is more concerned with major investment projects and physical build investments. The resulting beneficiary businesses from the projects have yet to be targeted from any of the projects

contracted, but the other axis outputs and results should be met if the contracted projects deliver.

- 4.55 The only projects that have achieved results so far are Higher Education Penwith and enhancing the knowledge base of Cornwall which have delivered 60 jobs and an additional £438,618 of GVA.

Table 4-14: Priority Axis 3 Outputs and Results Target v Actual

Indicator	Total Axis Targets	Achieved	% Target Achieved	Total Contracted Projects Target	% of target outputs contracted	Contracted projects target with 20% optimism bias	% of PA target contracted with optimism bias	Remaining target not contracted
O14 - Major investment projects	2	0	0%	1	50%	1	40%	2
O15 - Premises built achieving BREEAM "excellent " rating or equivalent	90%	0	0%	3	N/A	2	N/A	1
R06 - Gross increase in GVA	140,000,000	438,618	0%	50,372,500	36%	402,9800	29%	139,561,382
R10 - Number of jobs created	4,000	60	2%	594	15%	475	12%	3,940
R11 - Number of jobs safeguarded	2,000	0	0%	205	10%	164	8%	2,000
R14 - Number of businesses using new infrastructure	10,000	0	0%	0	0%	0	0%	10,000
R15 - Number of businesses benefiting from up-graded ICT infrastructure	10,000	0	0%	0	0%	0	0%	10,000
R16 - Number of businesses with improved performance (GVA)	6,000	0	0%	0	0%	0	0%	6,000

Source: SWRDA Monitoring Data and SQW analysis

Overall assessment of performance to date and future performance

4.56 Projects within PA3 are largely concerned with major infrastructure investments. There is no headroom, in fact the PA is ‘over-commissioned’; however, the Next Generation Access (Broadband) project (£50m ERDF of a £150.5m project) is a significant risk as it covers a significant proportion of PA3’s spend (and outputs) and is currently going through Major Projects Appraisal by EC in relation to state aid. No contingency plans are in place in case should this project is unsuccessful. There is no match issue as all match is privately sourced. A summary of the projects within PA3 is provided below:

Table 4-15: Priority Axis 3 Example Projects

- Newquay Airport Hangars Development – Newquay Airport has been identified as a key mechanism of improving growth in the Cornish economy and as such activity at the airport is seen as a key strand for investment, the Hangars development will refurbish the existing hangar and construct another to help maximise business opportunities at the airport.
- Enhancing the Creative Knowledge Base of Cornwall - the Convergence Programme is supporting the construction of a new Performance Centre which will accommodate additional students and provide facilities for further courses following the merger of University College Falmouth and Dartington College of Arts. The investment will be used to provide new, specialist buildings including multi-purpose studios and performance venues for theatre, choreography and music at the Tremough Campus.
- HE Education Expansion Penwith - part of the CUC programme, Truro and Penwith College are leading the expansion of HE expansion in Penwith, the ERDF and SWRDA investment of £6 million will contribute to new buildings for HE and FE provision and the refurbishment of some existing buildings.
- Infrastructure Design and Sustainability - this strategy, supported by Convergence investment, will create and implement the work to implement the masterplan for CUC’s Tremough campus.
- Finding a Digital Infrastructure Investor for Cornwall – the Convergence funding for this major project will cover the development phase of the digital infrastructure programme for Cornwall/IoS.

Source: <http://www.convergencecornwall.com/downloads/publications/159.pdf>

4.57 Other projects in this Priority are concerned with providing the infrastructure to support Higher Education specifically through the Combined Universities Cornwall and below is a brief synopsis of progress:

Table 4-16: CUC Case study

History of Development

The CUC partner institutions have developed a number of proposals for consideration by the Convergence funding partnership under both ESF and ERDF programmes. The role of the CUC Central Team is to provide overarching support for the formulation of these proposals and for other CUC activities.

The CUC Partnership sought the interim funding for the Central Team when its Objective One funding came to an end in April 2008. The team was required to support the completion of CUC Convergence funding proposals and maintain the momentum of CUC developed under Objective One. The Interim funding supported the Central team’s work until a proposal for longer term funding was prepared. Following the CUC Partnership Review completed in May 2008 the Phase 3 funding proposal was prepared intended to support a more streamlined team focusing on executive support and co-ordination, business support and PR & communications.

Current Status –Spend and Outputs

In total the two projects have been allocated more than £2.2 million of ERDF funding The interim funding project is now complete and £302,418 of the £345,216 allocation was spent. The Phase 3 project, which is still in the early stages of delivery and is not due to complete until 2013, has been allocated £1,858,335 of which it had spent just over £149,000 by May 2010.

The individual CUC projects have a wide range of output and result targets. Although little progress has been made in achieving the output targets to date, according to the consultations, there is confidence that the projects will achieve them during the programme timelines.

Potential Results and Impacts

The CUC partnership as a whole has no defined target outputs or results although these do exist for its constituent projects. A previous evaluation of CUC's economic impact²³ described CUC as a partnership, funding stream and an initiative which seeks to:

- provide a significant increase in the range of Higher Education provision available in Cornwall to underpin the development of a knowledge based economy
- widen participation in Higher Education in Cornwall
- develop capacity for research and innovation
- bring about sustainable step change in the development of Cornwall by enabling CUC partners to play a more prominent part in supporting the growth of the Cornish Economy
- create 4,000 student places by 2010.

Good Practice and Lessons

The CUC, as a delivery model of HE in rural setting and as a partnership, is recognised as an example of good practice, both nationally and internationally. It is seen to encourage joint-up working by the regional HEIs but most importantly, embedding higher education and skills development in the people and businesses of Cornwall.

In terms of lessons learnt, there have not been major issues in project delivery. However, there have been some delays in moving the projects quickly from proposal to contracted activities due to the CUC partner institutions being slow in grasping the economic focus of the Convergence programme although this is improving and the Central team will be instrumental in ensuring partners have a good understanding of the programme.

Source: SQW Consulting

- 4.58 According to the 2009 AIR, there were concerns in 2009 concerning the likely achievement of investment within the knowledge infrastructure strand. It was therefore agreed that there should be a review of the HE Investment Framework which had been agreed in 2008. Due to the linkages between them, it was agreed that this review should be undertaken alongside the review of the PA1 Investment Framework which was due to take place in early 2010. This resulted in the development of the enterprise strategy (yet to be commissioned) which is currently being worked up as detailed in the section concerning PA1.
- 4.59 Future performance within this Axis will depend very much on whether the Next Generation Access (NGA) project is allocated funding. This would take up a significant amount of spend within this Axis and ultimately have a significant impact on the economy of Cornwall and the Isles of Scilly in terms of bringing people closer to the market. However, if unsuccessful, there are no contingency plans to address the vast shortfall that this will leave. In addition, it is important that CUC moves towards delivery and ensures that a more forward facing economic restructuring approach which better fits the Programme's objectives is adopted by its partners and through their project proposals. If the NGA project is successful, then Priority Axis 3 will be over-committed and if there is evidence that the target amount of workspace is excessive, then viring of funding from PA2 to PA3 should be considered. The decision on NGA is anticipated to be resolved soon, but in the meantime it is considered that the PMC should develop contingency plans for both scenarios identifying potential additional projects that could be commissioned to address the shortfall if the project is unsuccessful and identifying which currently commissioned projects are less of a priority should the project go ahead and the Axis result in being over-committed.

²³ Roger Tym and Partners (2008). South West RDA Evaluation of the economic impact of the Combined Universities of Cornwall.

Priority Axis 4: Unlocking the economic potential of place

Introduction

4.60 PA4 Unlocking the economic potential of place is concerned with maximising the potential of key centres through a holistic approach to place making and regeneration within a sustainable manner. Two levels of regeneration are identified which are:

- integrated place regeneration – locations requiring long term and significant support to address specific economic challenges: Camborne, Pool and Redruth; and St Austell and the Clay Country
- realising place potential - locations which require specific interventions to support planned sustainable economic growth: Truro, Falmouth/Penryn, Newquay, Bodmin, Penzance and the Isles of Scilly.

Financial performance

4.61 PA4 was allocated a total of £89,345,186 which is split across the two strands as identified in Table 4-17. This priority has no headroom with 7% of the full allocation spent (£6,239,914), 39% contracted, 7% endorsed and 46% commissioned – totalling 114% of the full allocation.

Table 4-17: Priority 4 Thematic Strand Activity

PRIORITY AXIS 4	ERDF Allocation € (low)	ERDF Allocation € (high)	Range in OP	Number of Projects contracted	Amount Contracted to March £	Amount Defrayed £
Integrated place regeneration - CPR, St Austell & Clay Country	40,006,800	60,010,200	40-60%	6	20,236,403	1,065,267
Building place potential - Truro, Falmouth/Penryn, Newquay, Bodmin, Penzance/loS	30,005,100	50,008,500	30-50%	12	13,859,034	5,174,648
Axis 4 Total					34,805,438	6,239,915

Source: SWRDA Monitoring Data and SQW analysis

4.62 The final thematic strands concentrate on the potential of place dividing the geography between; Camborne, Pool and Redruth; St Austell and the Clay country (contracted more than £20m across six projects, but spent just over £1m) and Truro, Falmouth/Penryn, Newquay, Bodmin, Penzance and the Isles of Scilly (contracted 12 projects and spent £5.1m).

Achievement of outputs and results

4.63 Target outputs and results appear particularly challenging within this axis as there is a significant amount of capital build envisaged which will take time to be delivered. As with other PAs, a 20% optimism bias has been applied to target outputs and results.

4.64 Priority Axis 4 has contacted 39% of its allocation in terms of spend, but outputs and results are not proportionate. As with PA1, this will have implications for future delivery when the

public sector match environment is less benign. The axis is largely being delivered through Strategic Investment Frameworks which accounts for the proportion contracted but not yet spent – projects within these SIFs should come forward quickly once agreed as they do not have to go through the full commissioning and appraisal process.

- 4.65 One project – Watson Marlow is complete and is responsible for all of the outputs and results delivered in the table below.

Table 4-18: Priority Axis 4 Outputs and Results Target v Actual

Indicator	Total Axis Targets	Achieved	% Target Achieved	Total Contracted Projects Target	% of target outputs contracted	Total contracted projects target with 20% optimism bias	% of PA target contracted with optimism bias	Remaining target not contracted
O16 - Square metres of floorspace (m2)	60,000	1,801	3%	13,380	22%	10,704	18%	58199
O17 - Hectares of land for development	58	0	0%	2	3%	2	3%	58
O18 - Previously developed land prepared / developed (subset of land for development)	10	0	0%	2	19%	2	20%	10
O19 - Redundant buildings developed for new economic use	40	0	0%	2	5%	2	5%	40
O20 - Historic buildings / sites developed for new economic use	20	0	0%	0	0%	0	0%	20
O21 - Sustainable Integrated Development Strategies Prepared	7	0	0%	0	0%	0	0%	7
O22 - Projects achieving BREEAM "excellent" rating or equivalent	80	1	1%	4	5%	3	4%	79
R06 - Gross increase in GVA	131,300,400	0	0%	16,670,002	13%	13,336,001	10%	131300400
R10 - Number of jobs created	3,751	2	0%	60	2%	48	1%	3749
R11 - Number of jobs safeguarded	2,517	15	1%	115	5%	92	4%	2502

Source: SWRDA Monitoring Data and SQW analysis

Overall assessment of performance to date and future performance

4.66 PA4 is characterised by spatially focused SIFs aiming to achieve regeneration and maximise the economic potential of centres through mainly physical investment projects. SIF plans have all been developed and delivery teams are in place, but inevitably projects on the ground will take longer to deliver. Projects supported within this PA comprise both the revenue resourced SIF teams responsible for taking forward plans and supporting the development and delivery of projects, and the resourcing of capital projects themselves. A summary is provided below:

Table 4-19: Priority Axis 4 Examples

<ul style="list-style-type: none"> • Goonyean Yard - the investment in Goonyean Yard Industrial units will help provide industrial units of high quality in St Stephen. They will be available for new and growing companies to rent, providing industrial accommodation for firms at a reasonable price encouraging new business in the area. • The Elms – the Elms project will build a voluntary, community and social enterprise hub for Cornwall in Redruth, providing a focal point for community activity and third sector development. • CPR Transport Infrastructure - the transport infrastructure for Camborne, Poole and Redruth will invest in the entire process of road construction – from design to construction to help better connect the area and make parts of it more accessible, opening some land for commercial use. • The Dairy Knights Warehouse - the Dairy Knights building is an iconic and historic building in Penzance, the project will re-integrate the building in to the local economy by turning it in to high quality office space. • Caterlink Manufacturing Initiative – funding from the Convergence Programme will go towards the construction of two buildings which will between them provide 2,800 sq. m of manufacturing, storage and office space allowing Caterlink to move to one site – improving productivity and allowing the business to expand.

Source: <http://www.convergencecornwall.com/downloads/publications/159.pdf>

4.67 Below is an example of a project funded by this PA, which has achieved all of its outputs showing how individual projects can progress quickly and efficiently within the context of the broader SIF process.

Table 4-20: Watson Marlow Ltd – Project Faster

History of Development
<p>Watson-Marlow Bredel Ltd is an innovative engineering company specialising in the design, manufacture and distribution of products for the pump industry with particular reference to the medical industry. Watson Marlow is one of the largest employers in Falmouth with 174 staff and an annual turnover of £20m producing a high value added product using skilled labour and state of the art technology and materials.</p> <p>The company was looking to expand its operation in the UK and construct a new unit for the increased production of peristaltic pumps and tubing as its current facility was close to its maximum production capacity. The company is principally an engineering manufacturer, specialising in the supply of pumps and components.</p> <p>Watson-Marlow Bredel used EU Convergence investment funding to help plug the cost/value gap produced by the construction of a 1,800m² building with clean room facilities that helped to facilitate the expansion of the company, safeguarding and creating jobs in the region. The building was completed in December 2009 and operations within the new production unit have begun.</p>
Current Status –Spend and Outputs
<p>As stated above, the project is now complete The Convergence funding for the project totalled £768,787.26, which was 100% of the allocation. SWRDA promised a 30% match on the Convergence funding and £256,242 was provided in line with this. This meant that 30% of the eligible costs of the project were met. The project ran 0.5% over budget and these costs were met by Watson Marlow. In terms of outputs the identified land has been developed and a Production Unit including clean room of 1801sqm now occupies the site. The building was the first industrial Unit in Cornwall to be built to BREEAM Excellent standards. In this respect the project has met all of its targets with regards to outputs.</p>

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Potential Results and Impacts

Looking at results, the 15 jobs that were targeted to be safeguarded have been retained and two additional jobs have been created against the target of 8 set. The project is still on target to create more jobs as business develops and it is anticipated that the project will meet this target in the future.

Additional business turnover will be, in addition to new jobs created, the other method by which the project will create additional GVA locally and in the region. It is difficult, at this early stage to measure the difference that the project has had in this respect as there are not yet any annual figures to compare. However, there is a level of optimism that the anticipated business demand exists.

Good Practice and Lessons

Project Faster has been a straightforward project – essentially it is a construction project and this has gone well. The contracted builders delivered in advance of schedule and the project was very close to budget. The relationship between public and private sector has also been smooth although some initial difficulties in understanding the language and requirements of the funding process were identified.

If there were any challenges in the development and delivery of the project they were in ensuring that the front end was kept in line in terms of funding and planning permissions and making sure that the project was not delayed by having everything in order. The project is an example of good practice because of the efficient and straightforward manner in which the project was approached and delivered and it will have clear benefits for the local economy.

The successful delivery of this project can be attributed to the effort that went in to planning and assessing the risks involved before the project began – this reduced risks on the critical elements of the delivery. One lesson to be taken from the project from the private sector side was around the structure and terminology used in public sector funding.

- 4.68 There is real potential for the third sector to contribute to the ERDF Convergence Programme in terms of project development and in providing potential sources of match funding, particularly within PA4. There are some 25,000 – 30,000 groups in this category in the region and together their turnover is more than that in agriculture with employment similarly higher. The main view provided by stakeholders, which we concur with, is that the potential of the sector to do more is great and it should be able to be achieved this with ERDF Convergence Support yet the current European programmes has not been of great assistance so far. The focus on high value may have had an impact, but there should be opportunities going forward through the Big Society focus of the Coalition Government.
- 4.69 PA4 SIF frameworks and constituent projects have not progressed as quickly as anticipated, not least because they largely consist of capital build projects which will have been affected by the recession. Earlier this year a review of the SIFs within PA4 was initiated due to concerns that projects within the SIFs did not represent strategic and coherent interventions that will support one another and achieve the overall objectives of the Convergence Programme. The review is underway and results from this exercise will be fed to the PMC in September.

Priority Axis 5 - Technical Assistance

Introduction

- 4.70 The TA budget supports the management and administration of the programme. A review of the effectiveness of management and administration arrangements is provided in Chapter 6. This section considers the spend and achievements of the TA priority.

Financial expenditure

- 4.71 £16,081,736 has been approved for TA, which represents 3.9% of the full ERDF Programme approval figure of £409,181,974. This is below the acceptable amount for the administration of EU structural funds.
- 4.72 To date £11,545,824 has been contracted, which represents 72% of the full amount approved. Therefore there is £4,535,912 headroom. £3,506,053 match has been secured to date from SWRDA and Cornwall Council.
- 4.73 The following provides a summary of the contracted TA across its constituent projects and the amount of ERDF spend to date:

Table 4-21: TA financial profile

Projects	ERDF Contracted £	Spend £ (May 2010)
Convergence Partnership Office	1,138,610	252,818
Convergence Scoping and Development Fund	722,127	49,163
Set up costs of the EU Convergence Programme	591,799	532,619
EU Convergence Technical Assistance	7,212,126	1,266,890
Convergence Support Team (Cornwall Council)	853,500	1,449
Evaluation Programme	1,027,662	0
TOTAL ERDF	11,545,824	2,102,938
Match	3,506,053	639,271
TOTAL	15,051,877	2,742,209

Source: SQW Consulting

Outputs and results

- 4.74 There are no outputs or results for the TA priority within the programme performance framework. However, the 2009 AIR reports on progress against four activity outputs in relation to communications, which is replicated below:

Table 4-22: Performance against communications plan, 2009

Indicators	2009 performance (and cumulative where appropriate)
Report to the PMC	
Reports to PDG on progress with communication	Jan/Apr/July/Oct/Nov
Reports to Joint PMC on progress with communication	Feb/May/Sept/Dec
Input into Annual Implementation Report	February
Communication products	
Media updates	36 (75)
Communication updates Convergence newsletters	37 (83)
Publications	12 (35)
Website	2009 Annual conference and Convergence progress Convergence Business Support available on website Reprints of pocket prompt – Convergence at a glance – available from website
Update (established November 2008)	
Presentation to key economic and business for a	
Communication networks	
UK communication networks	DWP regional publicity network – 18/19 May DWP publicity strategy group – 28 April, 8 Dec
EU communications networks	INFORM – 15/16 June and 1/2 December

Source: Convergence AIR, 2009

Performance of Cross Cutting themes

- 4.75 Due to the cross programme (Convergence and Competitiveness) nature of the cross cutting themes, their performance in both programme areas is considered in this section.

Environment Cross-Cutting Theme and Low Carbon

Introduction

- 4.76 Both programmes are seeking to support environmental sustainability through horizontal and vertical integration. Horizontal integration relates to embedding the principles of environmental sustainability throughout the work of both programmes. The extent to which this is happening is considered in the Management and Administration chapter.
- 4.77 This section is concerned with vertical integration – the implementation of the CCT through the delivery of activities within each programme and progress against the low carbon objectives that the programmes have.

4.78 Both programmes have objectives to invest in the drivers of a low carbon economy and manage growth in a sustainable manner. Environmental sustainability activity focuses around the three key areas:

- ensuring the environmental intensity of all investments are appropriately managed, through mitigating negative impacts and exploiting positive impacts (this issue is considered also in the Management and Administration chapter)
- ensuring that the programmes continue to explore opportunities to invest in activities that deliver *actual* rather than *relative* environmental improvements
- ensuring that the programmes continue to support the development of environmental goods and services businesses and technologies.

Financial expenditure

4.79 The environmental CCT does not have a specific budget allocation, although resources are reserved to support the embedding of the CCT through the TA budgets and both programmes have indicative allocations for environmental activities under most of the remaining priority axes – to support innovation and knowledge (PA1 in both programmes), building enterprise through business support (PA2) and for environmental activities in the SIF areas (PA3 in Competitiveness and PA4 in Convergence). Together, this represents a considerable amount of potential funding to support the low carbon objectives and the environment CCT.

4.80 Progress in contracting expenditure under the environmental strands of activity has been mixed. Good progress has been made under PA1 in Convergence but current allocations are low under PA2. For Competitiveness, it is not possible to undertake analysis by strand, as projects have not been allocated against the environmental strands of activity under priority axes 1, 2 and 3.

Outputs and results

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

Table 4-23: Indicators and targets for environmental sustainability	
Competitiveness	Convergence
Number of environmental technologies and renewable energy enterprises assisted (subset of businesses assisted)	No of environment & services sector businesses assisted (including environmental technologies)
n/a	Proportion of buildings to a minimum BREEAM 'excellent' standard or equivalent
n/a	No of buildings refurbished/ improved/ adapted for productive use
n/a	Previously developed land prepared/developed
n/a	No of businesses and buildings with embedded renewable energy and energy produced

Competitiveness	Convergence
n/a	Redundant buildings developed for new economic use
Number of SMEs advised or assisted to improve their environmental performance (subset of businesses assisted)	Businesses assisted to improve their environmental performance, including savings made
Gross jobs created in environmental sectors	Gross jobs created in environmental sectors

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

- 4.82 Achievements against these indicators to March 2010 have been relatively low in both programmes, as with other output and result indicators for both programmes. Of perhaps greater concern are the forecasts for some outputs and results related to revenue based activity as they are not in proportion to contracted expenditure, particularly in the Convergence programme. Forecasts for the physical/ place based related environmental indicators in the Convergence programme (e.g. buildings and land) are stronger.
- 4.83 However, with regards to meeting BREEAM excellent, only one project has reached this standard and no individual premises. As the targets for the relevant outputs and results are proportions of the total (number of premises or projects), it will not be possible to assess the degree to which these have been achieved until later in the Programme and without knowing the total number of premises that have been constructed or projects completed. This needs to be addressed by the monitoring team.
- 4.84 This means that both programmes are not buying sufficient numbers of some of the environmental outputs and results in the projects they are contracting. For example:
- the forecast of the number of EGS businesses/ enterprises assisted is low under PA1 and PA2 of the Convergence programme (it is reasonable under PA1 and PA2 of the Competitiveness programme)
 - the forecast of the number of businesses advised to improve environmental performance is low under PA2 of the Convergence programme(although contracted forecasts under PA2 of the Competitiveness programme is good)
 - the forecast of the number of SMEs assisted to improve environmental performance is low under PA3 of the Competitiveness programme (although limited resources have been contracted for this PA)
 - the result target for the number of jobs created in environmental sectors is low under PA2 of the Convergence programme and under PA1 and PA2 of the Competitiveness programme.
- 4.85 This raises issues about the ability of the programmes to meet their environmental related output and result targets and any adverse impacts on the wider environmental objectives of both programmes.
- 4.86 It is also important to ensure that all environmental outputs that can be captured are being so. For example, Target O22 refers to projects achieving BREEAM “excellent” rating or equivalent. Within these projects there could be several buildings reaching the standard yet this would only count as one output. Similarly, with regards to premises built to BREEAM

“excellent” rating, this should also include the conversion of buildings which is a more environmentally sustainable than new build. Finally all such outputs should refer to BREEAM “excellent” rating or equivalent to allow for infrastructure and land projects which may have a CEEQUAL rating.

Assessment of delivery to date

4.87 Both programmes have invested in projects that support the environmental objectives. A random selection of projects supporting the environmental objectives are provided in the table below.

Table 4-24: Examples of projects to support environmental sustainability
Wave Hub in the Convergence programme
The Environment and Sustainability Institute in the Convergence programme
Improve Your Resource Efficiency – a project in both ERDF programmes
PRIMaRE – supported by both ERDF programmes
Envision Phase 3 – both programmes
iNET – Competitiveness programme

Source: SQW Consulting

4.88 The ERDF programmes have invested in projects to:

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

4.89 Both programmes are also actively exploring opportunities for investment in domestic energy efficiency and micro-generation, with the potential for £18.5m of ERDF under the Convergence programme and £4m under the Competitiveness programme.

4.90 ERDF in the South West has made positive strides to support the low carbon agenda. However, our review has identified tensions amongst stakeholders in the ultimate objectives of both programmes relating to environmental sustainability. At the core of the tension is whether the programmes are seeking to make *absolute* environmental improvements or *relative* environmental improvements. The key metric is change in Green House Gas (GHG) Emissions.

4.91 Amongst the stakeholders we interviewed, there are champions of environmental sustainability that believe the programmes should be delivering an absolute change in environmental improvements. For these stakeholders, the activities of the programmes to improve relative performance, for example through improving the environmental resource efficiency of business, do not go far enough. They support the programmes taking investment

decisions to deliver absolute savings (e.g. prioritising reusing existing buildings instead of developing new facilities). One stakeholder described the tension as economic verse environmental success. Other stakeholders interpret the objectives of the programmes as seeking to deliver a net reduction in GHG emissions, recognising that some projects will have a negative impact and some projects will have a positive impact.

- 4.92 The environmental AIRs for both programmes report that there have been challenges in embedding a high regard to environmental sustainability within some of the more revenue focused investments such as business support activity, and in identifying the environmental impacts of investments within discrete geographical areas. Some stakeholders reported concerns that the environmental aspirations of the ERDF programmes are being diluted at the delivery level.
- 4.93 The Environmental Advisory Group also reports that there have been difficulties in capturing environmental indicators and impacts at an investment level. Consequently, a new monitoring strategy was implemented in late 2009, containing a set of environmental performance indicators for both programmes, including the environmental related outputs and results from the main performance frameworks (the indicators discussed above). The strategy also includes monitoring at an investment level where appropriate and exploring the potential to use SWRDA's new zero carbon methodology. It is of concern that monitoring data is not currently adequately captured, collated or publicised. The introduction of a new strategy should help, but fundamentally, more stringent monitoring conditions need to be introduced (that is relating claim payment to meeting conditions and providing adequate information in progress reports) as without these, the situation will not be resolved.
- 4.94 The net zero-carbon methodology has been launched by SWRDA to assess the impact of all investments supported by the Agency with a total financial value, including RDA investment, of more than £1million, unless the project is significantly carbon generating or saving. The assessment will be undertaken at appraisal and at the end of each project/ programme. Ultimately, SWRDA's aim is to have a net zero carbon annual investment portfolio by 2013. The Environmental Advisory Group has piloted the methodology on Competitiveness and Convergence projects and estimated the carbon impacts of each. The key issue for the ERDF programmes is that the methodology focuses on relative emission savings, not absolute/ total emission reduction. It is also inevitable that including additional requirements at the appraisal stage are likely to have capacity implications for the appraisal teams in SWRDA and may further lengthen the process. This is investigated further in Chapter 6.
- 4.95 In relation to existing environmental output and result targets, a number of stakeholders said the targets are too high given the base of EGS businesses in the Convergence area and in the Western Peninsula in the Competitiveness area. We consider any changes to environmental targets in the next chapter.
- 4.96 The assessment of the implementation of environmental sustainability has raised a number of issues for the PMCs to consider. Of most importance is gaining agreement on whether the programmes are seeking absolute or relative environmental improvements. Our own view is that the programmes are best placed to achieve relative improvements. The programme could utilise the zero-carbon methodology for investments above £1m at the appraisal stage. We are concerned about the resources that will be needed to do this and the resources required to

measure carbon impacts at the end of the projects/ investments. The environmental programme indicators should be reviewed to ensure that each indicator is SMART – Specific, Measurable, Aligned, Realistic and Time-bound.

Equality and Diversity Cross Cutting Theme

Introduction

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

Financial expenditure

- 4.99 As with the environmental CCT, the Equality and Diversity CCT does not have a specific budget allocation, although resources are reserved to support the embedding of the CCT through the TA budgets including specific requirements for Communications as detailed further in Chapter 6.
- 4.100 There are no specific Priority Axes or strands within the Programmes that directly address equality and diversity although there are particular projects such as Intensive Start Up Support (within Convergence) and projects within the spatially focused SIFs in both programmes that aim to achieve regeneration and will provide people in deprived communities with a greater opportunity to access employment. Broader priorities associated with addressing peripherality in the Convergence Programme such as improvements to Newquay Airport, Next Generation Broadband and the Penzance-Isles of Scilly Route Link will improve access to opportunities for all. The Western Peninsula targets in the Competitiveness programme are intended to address disparities between different parts of the area. However, it is not possible to attribute a financial value to the elements of these projects which focus on achieving equality and diversity outcomes.

Outputs and results

- 4.101 Both of the Programmes' OPs include limited targets for the CCT which are shown below in Table 4-25.

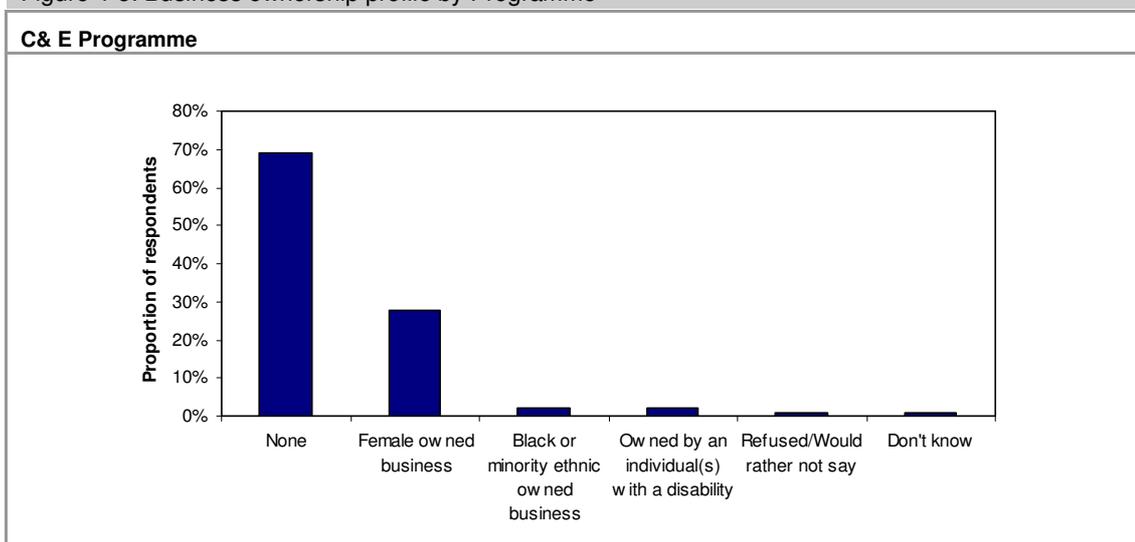
Table 4-25: Indicators and targets for equality and diversity

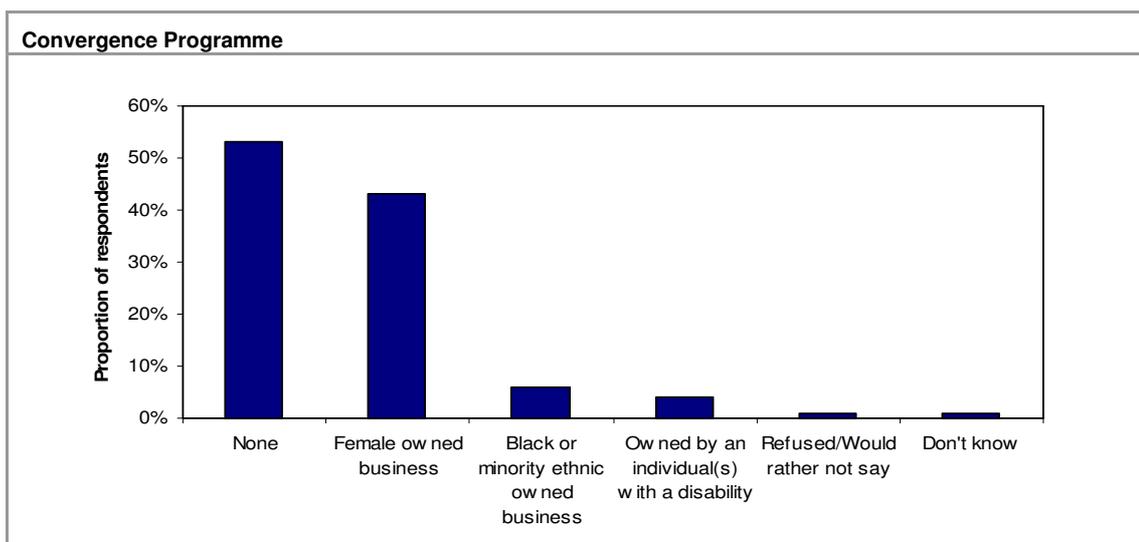
Competitiveness		Convergence	
No of persons from under-represented groups (people from a BME background or with a disability & residents of disadvantaged communities) assisted in starting a business	20% of all persons assisted	No of persons from under-represented groups (people from a BME background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

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

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

Figure 4-5: Business ownership profile by Programme





Source: SQW Consulting (derived from Qa survey)

- 4.104 This reveals that from the sample of respondents over 40% of the businesses within the Convergence area were owned by women with around 4% BME owners and 3% owned by people with a disability. For the Competitiveness Programme, results were less positive showing less than 30% of respondents were from female owned businesses and around 2% of owners were either from BME backgrounds or had a disability. These results illustrate that the targets are not being met (with the exception of women owned businesses in Convergence) and further work is needed to move towards these targets particularly within the Competitiveness Programme.
- 4.105 The Convergence Programme does not include residents from disadvantaged communities within the under-represented groups' definition although these are included for the Competitiveness programme. In order to encourage greater support for business start ups by people from the disadvantaged communities within Cornwall and the Isles of Scilly, it would be sensible to extend the remit of under-represented groups to include residents from these areas.
- 4.106 Progress against the above reveals that neither PMC (nor their sub-groups) has yet met the target gender balance. Following a survey of all groups, a report was presented to the PMCs in 2009 highlighting the gender balance following which all organisations represented within the governance structure have been asked to review their nominees. However, we understand from the CCT team that there has been little change in the gender profile of either PMC or any of the sub-groups as a result of the exercise. PMC representation is a Programme target and further work should be undertaken to balance representation as a matter of priority.
- 4.107 Equality requirements are built into the commissioning and appraisal process with requirements for all projects to undertaken Equality Impact Assessments (EIAs), and the use of a Social Sustainability Toolkit as part of the appraisal process. Properly implemented, the Toolkit should result in accessible buildings constructed to a higher accessibility specification than basic Disability Discrimination Act and Building Regulations Part M legislative standards.

Overall assessment of performance

- 4.108 There is evidence that a lot of activity has been undertaken to embed the Equality and Diversity CCT in both programmes with a competent team in place and an expert, dedicated advisory group championing the need to build equality and diversity into the Programme. However, stakeholders (from both Programmes) considered that the CCT was better embedded than in previous programmes, but still ultimately represented an ‘add-on’ to the project appraisal and monitoring process, having much less weight than the environment CCT and to some degree considered an unnecessary burden for applicants/beneficiaries.
- 4.109 The lack of clear evidence and reporting on success/or otherwise to date will not help these concerns which seem more related to an overall mindset rather than any real difficulties in meeting equality and diversity objectives and requirements. However, the lengthy list of indicators which has been developed for use by beneficiaries (but not collated within the consolidated Performance Theatre) does appear to place an onerous burden on projects and we suggest could be simplified to include the key elements the Programme needs to capture. We are aware that projects select the appropriate indicators from this list to be used for their own monitoring which clearly reduces the burden placed on them, but this will then lead to difficulties in consistent tracking of performance against indicators across the Programme. We consider that the full list should be reviewed to provide a shorter list of core indicators which all projects are monitored against, although there is likely to be some ‘optional’ indicators that will be more relevant to say capital, rather than revenue projects for example.
- 4.110 The CCT appears to be much better embedded at the commissioning and appraisal stages than it is within the overall monitoring process which means that projects have to meet certain standards to obtain funding, but there is then no evidence as to whether standards are met within delivery. The proposed Equality Monitoring Strategy and increased rigour within monitoring processes should go some way towards developing and regularly updating a robust evidence base. In conclusion, we consider there is clear evidence that equality and diversity requirements are becoming embedded within the Programme but we cannot quantify performance to date due to the lack of robust evidence.

Assessment of overall Programme performance and implications for future delivery

- 4.111 Overall the Programme started spending relatively quickly and has achieved a number of outputs across all priority axes, it achieved N+2 in 2009 and has achieved the EU regulatory target for Lisbon compliance, but not that set for the Programme. Performance to date is promising, but behind schedule (particularly in relation to the achievements of outputs against spend) and as the Programme enters an increased delivery period it is essential that the achievement of outputs is increased. Whilst the Programme shares many administrative processes with the Competitiveness Programme, we have not identified any examples of spillover in performance between the two probably due to their different remit and geographical focus.
- 4.112 The spend profile is positive, and there are no concerns with achieving N+2 to date particularly as the EC is likely to amend the formula in June/July . This would mean a retrospective removal of the 2009 target, reduction of 2010 target but increase in all targets

from 2011 onwards. This is likely to put real pressure on the future of the Programme particularly as match funding availability becomes more challenging due to public sector funding cuts. This pressure will be increased if only the minimum target for 2010 is met and therefore it is essential that the delivery of all contracted projects is accelerated as far as possible.

- 4.113 Related to the above, match funding is a real threat to the overall delivery and success of the Programme. In Chapter 3 we suggested that the availability of public sector match is likely to be reduced by 25%. This is particularly pertinent considering over 60% of match to date has been sourced from SWRDA, which along with the other English RDAs will be abolished in 2011. The PMC is considering increasing the intervention rate to around 72% (maximum permitted by the EC is 75%) which would mean an overall reduction to the full Programme of around £26m. This is a sensible approach with the threats facing the Programme, but a sound and justified business case needs to be presented to the EC to gain agreement for an increase in the intervention rate.
- 4.114 There are some concerns regarding the output and result targets set, and achievement of these. It is highlighted that particularly with regards PA1, there is an inconsistency between the contracted financial amounts and the contracted target outputs; that is, what the Programme is buying. However, a strategic decision has been taken to significantly front-load infrastructure investment which will lead to revenue projects anticipated to achieve higher targets downstream. Finally on targets, we have been alerted to the fact that some Priority Axes do not have indicators which they should be collecting, for example, including hectares of land for development and conversion of redundant buildings in PA2.
- 4.115 Several consultees expressed concern about the workspace target which is delivering behind schedule, this may be an area for further review, but this would depend very much on evidence on demand and supply for which an up to date employment land survey is required.
- 4.116 The achievement of outputs and results overall is lagging behind spend and ensuring increased delivery must be an urgent priority. The PMC and its sub-groups have clearly been keeping a close eye on delivery and have established review groups to address areas of concern or challenge. Whilst this is a sensible approach and should lead to the Programme commissioning and delivering those projects that will best achieve the overall objectives of the Convergence strategy, it is essential that these are conducted efficiently and do not become protracted to avoid placing any delay on delivery.
- 4.117 The ultimate objective of the ERDF Convergence Programme is to restructure the economy within Cornwall and the Isles of Scilly and close the GVA gap with the rest of the UK, and Europe. Some stakeholders have expressed concern about too much focus being given to outputs rather than ultimate impacts. At this stage in the Programme, it is too early to provide evidence in terms of overall impact and providing the logic chains for each of the Priority Axes and the Programme overall have been robustly and accurately developed, then the only metrics that can be used (at this stage) to measure performance are outputs and (some) results.
- 4.118 The Convergence Programme is complex not only in its size and ambitious objectives to restructure the economy of Cornwall and the Isles of Scilly, but also in the way that funding and targets are profiled across the priority axes. Whilst the programme has overall match and

Lisbon compliance requirements (of 68% and 80%) respectively, these vary across axes and in monitoring spend and delivery and making any recommendations for change in the future, there will be a need to ensure the overall balance is maintained. It may be appropriate to reduce the Lisbon target to nearer the regulatory requirement to ensure that this can be met.

- 4.119 Finally, reviewing performance against targets in the light of the overall Convergence strategy, we do not consider that there is a case for a significant change in strategic direction due to changing socio-economic conditions.

Key messages and recommendations

Table 4-26: Key messages and recommendations

Key messages

The programme started spending relatively quickly. Project spend is 11% of budget, slightly behind an ideal profile. 43% of budget has been contracted, 7% endorsed and 40% commissioned.

The achieved ERDF intervention rate of 65% is slightly below the maximum rate of 68%. Availability of match funding is a significant risk going forward, and is highly reliant on SWRDA funding.

Compliance with the Lisbon target will need close monitoring and management if it is to be met.

Performance is limited and is behind where it would be expected to be.

PA1 is behind where it should be in terms of spend and outputs achieved. Projects contracted have disproportionately low targets. Three task & finish groups have been established to address potential opportunities. However, it is recognised that the Programme has front loaded infrastructure investment which is less likely to achieve outputs.

PA2 targets are challenging and there is a significant amount of headroom under this Axis. There are concerns about the appropriateness and achievability of workspace targets. There is an ongoing and separate review of PA2 to inform future delivery of business support.

The beneficiary survey has shown high levels of satisfaction with the business support services provided.

PA3 is largely concerned with major infrastructure investments. Performance is dependent on the allocation of funding to the Next Generation Broadband project.

PA4 frameworks and projects have not progressed as quickly as anticipated. A separate review of the SIFs is underway.

The third sector provides a substantial contribution to the economy of Cornwall and the Isles of Scilly, yet has not had a great deal of assistance from the ERDF Convergence Programme. The focus on high value may have had an impact, but there should be opportunities going forward through the Big Society focus of the Coalition Government.

Progress in contracting projects that support the environmental cross cutting theme has been mixed. Progress against indicators and targets for environmental activity has been relatively low.

Targets for meeting BREEAM excellent standards are specified in proportions of total premises and projects, yet there are not output or target indicators for the total number of these. This is not an issue at present as only one project has recorded a BREEAM excellent standard, but will be an issue going forward and needs to be addressed.

There has been a lot of activity undertaken to introduce Equality & Diversity into the programmes, but concerns about how well it has been embedded.

Key recommendations

Continued consideration must be given to increasing the intervention rate to address the future match funding risks.

Output and result targets should be proportionate to the amount of funding being contracted (where this is appropriate) to ensure value for money and to achieve overall targets across the priority axes and programme.

Workspace targets should be reviewed using up to date evidence in the form of an Employment Land Study to ensure that the amount identified is not excessive for current and projected demand.

Key messages

Contingency plans need to be put in place by the PMC to account for the potential under or over commitment within PA3 depending on the outcome of the Major Projects Appraisal of NGA.

Some specific targets should be reviewed to ensure the Programme is fully capturing all that has been delivered.

Contingency plans need to be developed for PA3 due to its dependence on the NGA project and the fact that it will be over-committed if this project is successful.

Further consideration needs to be given to capturing BREEAM targets due to the proportionate rather than absolute target.

The full list of equality indicators should be reviewed to provide a shorter list of core indicators which all projects are monitored against, with an additional optional list from which further indicators can be selected as appropriate, to enable consistent monitoring of performance across the Programme.

Further consideration needs to be given as to how the third sector can contribute and benefit more from the Programme.

PMC and sub-group representation in terms of their gender profiles should be reviewed and action undertaken to redress the balance as a matter of priority.

Source: SQW Consulting

5: Evidence of impact and value for money

Introduction

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

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

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

Assessment of the reasonableness of the targets

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

Programme level targets

- 5.10 The full programme targets include:
- 6,400 businesses assisted to improve their performance (of which 630 will be environmental technologies and renewable energy businesses)
 - 15,400 gross jobs created and a further 8,700 safeguarded

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

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

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

- net impacts of 10,600 additional jobs, £370.5m of additional economic output (value added) and £99.3m of additional economic output safeguarded.
- 5.11 The breakdown of these targets at the Priority Axis level is shown in the table below (this excludes the TA priority as there are no targets in the performance framework).

Assessment of targets

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

Table 5-1: Summary of targets				
	Priority Axis 1: Innovation and Research and Development	Priority Axis 2: Enterprise and Investment	Priority Axis 3: Transformational Infrastructure	Priority Axis 4: Unlocking the Economic Potential of Place
Output targets	1,540 businesses assisted to improve their performance (incl. various subsets of business types) 6 research and innovation centres supported 90% of premises constructed/upgraded to at least the BREEAM standard of excellent or equivalent (incubators etc)	4,900 businesses assisted to improve their performance (incl. various subsets of business types) 80% of premises built achieving BREEAM "excellent" rating 93,000 sq metres of new or up-graded premises/facilities	2 major investment projects 90% of premises built achieving BREEAM "excellent" rating	60,000 sq metres of floorspace 58 hectares of land for development 40 redundant buildings developed for new economic use 20 historic buildings / sites developed for new economic use 7 Sustainable Integrated Development Strategies prepared 80% of premises built achieving BREEAM "excellent" rating
Results targets	2,187 gross new jobs created (incl. 560 in environmental sectors) 837 jobs safeguarded 140 patents granted and other IPRs and other IPR devices 700 additional firms involved in business/cluster networks 1,956 SMEs launching new or improved products £76.5m gross increase in GVA	£360m private sector investment arising from support 4,410 companies using ICT (new and upgraded) 5,474 jobs created (incl. 700 in environmental sectors) 3,413 jobs safeguarded £191.6m gross increase in GVA	10,000 businesses using new infrastructure 10,000 businesses benefiting from up-graded ICT infrastructure 6,000 businesses with improved performance 4,000 jobs created 2,000 jobs safeguarded £140m gross increase in GVA	3,751 jobs created 2,517 jobs safeguarded £157m private sector investment £131.3m gross increase in GVA
Impact targets	£29.3m net additional safeguarded GVA £57.8m net additional GVA 1,653 net additional employment	£126.7m net additional GVA 3,621 net additional employment	£70m net additional safeguarded GVA £99.2m net additional GVA 2,835 net additional employment	£86.8m net additional GVA 2,481 net additional employment

Source: SQW analysis of programme documents

Findings for output targets

- 5.13 Where benchmark data are available to inform a judgement on the reasonableness of the targets set out above, we have done this. Due to the unique nature of many of the outputs, it has not been possible to identify a suitable benchmark against which to judge the target. This is a commentary on the size of the targets rather than their value-for-money.
- 5.14 The assessment suggests most of the targets are reasonable and we do not comment on these here. Other key findings are:
- Given the proposed funding for businesses assisted to improve their performance, the target appears achievable. Although spend per unit comparisons show a range of costs, the programme spend per unit tends to be slightly higher than this range. This suggests that compared to these other interventions, the programme can dedicate more financial resource to achieve each output, result or impact. From this simplified perspective, the programme’s targets appear reasonable.
 - The target for the number of EGS enterprises assisted is extremely challenging, with a PA1 target of 280 and a PA2 target of 350, compared to a total EGS business population of 800 in 2007 (i.e. a business assist rate of 80% of the population). Therefore we recommend revising the target down by 25%, keeping it as a stretching target.
 - The target for square metres of new or upgraded premises and facilities appears achievable when assessed on a spend per unit basis. Spend per unit is higher than benchmarks, but not significantly so.
 - We are aware that some targets should be slightly increased or decreased from delivery experience. For example, within PA2 land has been developed, and historic and redundant buildings brought into economic use yet there are no target outputs for any of these categories for this Axis. Similarly, delivery is slower under P4 and it has been suggested by SWRDA that a small number of target outputs under these categories should be transferred from PA4 to PA2. This does not affect the overall numbers and we consider is a sensible adjustment.

Table 5-2: Recommended changes to target				
Output	PA2 (now)	PA2 target (recommended)	PA4 target (now)	PA4 target (recommended)
O17 - Hectares of land for development	0	10	58	48
O19 - Redundant buildings developed for new economic use	0	5	40	35
O20 - Historic buildings / sites developed for new economic use	0	5	20	15

Source: SQW

Findings for result targets

- 5.15 In common with the assessment of the output targets, it has not been possible to carry out an assessment of all of the results targets. For those targets for which reasonable benchmark data were available, we have undertaken some assessment.
- 5.16 Again, most of the result targets look reasonable, at the time they were set. The key findings are:
- At the time of setting the result target for the creation of new jobs, they appeared achievable when assessed on a spend per unit basis. The target equates to 7% of Cornish employment in 2007, which appeared reasonable over a six year period. The jobs safeguarded total of 4% of 2007 employment levels appeared reasonable. The target for gross increase in GVA appeared achievable when assessed from a spend per unit perspective and in terms of the proportional rise in GVA. Whilst these targets were achievable at the time that they were set, they may now be harder to achieve given the recession.
 - The target for employment growth in the EGS sector was challenging at the time that it was set – in terms of a 53% growth in employment in the sector. Therefore we recommend reducing it by 50%, but keeping it as a stretching target.

Findings for impact targets

- 5.17 The key findings are:
- Looking at the net additional employment target from the perspective of a spend per unit comparison, the target appeared achievable at the time they were set, given the programme funds available and the robustness of the logic model for translating inputs into outputs, results and impacts. The targets also appeared reasonable from the perspective of proportional growth in total employment.
 - However, the gross to net ratio of 69% appears challenging given the findings which have emerged from the business survey for this review which has identified a gross to net ratio of 53% (for business assistance activity under Priority Axis 1 and 2).
 - The target for net additional GVA appeared reasonable when compared to benchmarks and to historic change in GVA; although the gross to net ratio is challenging.
 - The target for safeguarding GVA is reasonable.
- 5.18 The achievability of the impact targets at the time they were set is therefore potentially challenging given the gross to net ratios assumed in setting the targets. Consideration should be given to reducing targets, although the European Commission is keen that targets are not reduced because of the impact of recession.

Revised set of targets

- 5.19 In light of the analysis above, the table below presents our recommendation for a revised performance framework for the programme. This suggests a reduction in the output targets for the number of EGS businesses assisted, and also changes between PA2 and PA4 due to delivery progress concerning O17 hectares of land for development, O19 redundant buildings developed for new economic use and O20 historic buildings/sites developed for new economic use. The only result target for which a reduction is recommended is for employment growth within the EGS sector.
- 5.20 For illustrative purposes, the table below also presents a scenario of the revised set of targets assuming a 25% cut in the total programme value (comprising both ERDF and UK). This scenario has been presented with the expectation of a reduction in the availability of UK public match funding (which has provided the lion's share of match funding to date). Given that we understand the programme's ERDF intervention rate is fixed at 65%, a reduction in the availability of UK match funding (all sources) will reduce the *total* programme value. The scenario assumes a fall in UK public sector funding of 25%. Consequently each target has been reduced by 25%. Clearly the relationship between expenditure and outputs/results/impacts will not be linear across the programme e.g. for some outputs, a 25% reduction in resources may lead to a disproportionate fall in the number of outputs.
- 5.21 We have been advised by the European Commission that the targets should not be revised based on performance to date (or anticipated programme performance in the future) where this is due to global and national economic recession. However, clearly the achievement of the targets may be challenging given the macro-economic and political changes outlined in Chapter 3. We do not have any firm evidence from the review on the impact of the recession on the deliverability of the targets, other than evidence that the programme is behind where it expected to be in terms of output and result achievements. Although the economic climate may impact in the short-term, there are still a number of years left to achieve the outputs and results, given that they can be achieved beyond 2013 (in the case of jobs, up to 4 years after the investment). The time left to deliver may also help overcome concerns expressed by some stakeholders of the lag between expenditure and the achievement of outcomes. This is especially the case for innovation and R&D expenditure.
- 5.22 Stakeholders in general considered that targets were stretching and queried whether the impact of the recession would make them unachievable. However, in the preceding chapter concerning performance, the only area where it was considered that targets were unachievable was on the development of workspace, which many considered had an excessively high target anyway. This assertion can only be confirmed with evidence from an up-to-date Employment Land Study which is currently underway. Stakeholders noted that due to the nature of the Programme – providing the conditions for economic growth, with a high proportion of large capital projects with long lead in times – it was not surprising that the achievement of outputs and results against target was slow and this did not mean they are unachievable over the full Programme period.
- 5.23 As previously discussed, the majority of consultees expressed concern regarding the 15 hours support required to constitute a single business assist output. We do not consider this excessive considering the time period of most projects. Also on an individual project level,

SWRDA consultees highlighted the inconsistency between targets of individual projects. For example, the Intensive Start Up Support project has a higher GVA impact target than some high growth projects. We consider individual project targets to be out of scope for this review but would highlight the need for consistency, proportionality and deliverability in setting individual project targets.

- 5.24 Finally some delivery partners expressed concerns with regards to job creation targets and whether these should be reviewed in the light of the recession. Our assessment of changed conditions showed that Cornwall and the Isles of Scilly had weathered the recession well to-date and whilst recognising that some of the data could not show the full impact of the recession due to the time at which it was published, we do not consider that there is definitive evidence for reducing job creation targets on this basis.

Table 5-3: Revised Targets

	Priority Axis 1			Priority Axis 2			Priority Axis 3			Priority Axis 4			Convergence total		
	Original	Revised	25% cut	Original	Revised	25% cut									
Outputs															
O01 - Number of businesses assisted to improve their performance	1540		1155	4900		3675							6440		4830
O02 - Number of new business assisted (Subset of businesses assisted)	210		158										210		158
O03 - Number of environmental goods and services enterprises assisted (subset of business assisted)	280	210	158										280	210	158
O04 - No of firms involved in collaborative research & development projects (subset of businesses assisted)	280		210										280		210
O05 - Number of business within the region engaged in new collaboration with UK knowledge base (subset of business assisted)	280		210										280		210
O06 - Number of research and innovation centres supported	6		5										6		5

	Priority Axis 1			Priority Axis 2			Priority Axis 3			Priority Axis 4			Convergence total		
	Original	Revised	25% cut	Original	Revised	25% cut									
O07 - Proportion of premises constructed/upgraded to at least the BREEAM standard of excellent or equivalent (incubators etc)	90		68										90		68
O08 - Number of new business assisted (subset of businesses assisted)				700		525							700		525
O09 - Environmental goods and services enterprises assisted (subset of businesses assisted)				350		263							350		263
O10 - Businesses advised on improved environmental performance (subset of businesses assisted)				1400		1050							1400		1050
O11 - Businesses engaged in new knowledge base collaborations (subset of businesses assisted)				210		158							210		158
O12 - Premises built achieving BREEAM "excellent " rating				80		60							80		60
O13 - Square metres of new or up-graded premises/facilities				93000		69750							93000		69750
O14 - Major investment projects							2		2				2		2
O15 - Premises built achieving BREEAM "excellent " rating or equivalent															

	Priority Axis 1			Priority Axis 2			Priority Axis 3			Priority Axis 4			Convergence total		
	Original	Revised	25% cut	Original	Revised	25% cut									
O16 - Square metres of floorspace (m2)										60000		45000	60000		45000
O17 - Hectares of land for development					10	8				58	48	36	58		44
O18 - Previously developed land prepared / developed (subset of land for development)										10		8	10		8
O19 - Redundant buildings developed for new economic use					5	4				40	35	26	40		30
O20 - Historic buildings / sites developed for new economic use					5	4				20	15	11	20		15
O21 - Sustainable Integrated Development Strategies Prepared										7		5	7		5
O22 - Projects achieving BREEAM "excellent" rating or equivalent										80		60	80		60
Results															
R01 - Gross new jobs created	2187		1640										2187		1640
R02 - Gross jobs safeguarded	837		628										837		628

	Priority Axis 1			Priority Axis 2			Priority Axis 3			Priority Axis 4			Convergence total		
	Original	Revised	25% cut	Original	Revised	25% cut									
R03 - No of patents granted and other IPRs and other IPR devices	140		105										140		105
R04 - Number of additional firms involved in business/cluster networks	700		525										700		525
R05 - No of SMEs launching new or improved products	1956		1467										1956		1467
R06 - Gross increase in GVA (£m)	77		58	192		144	140		105	131		98	539		404
R07 - Gross jobs created in environmental sectors (subset of job created)	560	280	210										560	280	210
R08 - Private sector investment arising from support (£m)				360		270							360		270
R09 - Number of companies using ICT (new and upgraded)				4410		3308							4410		3308
R10 - Number of jobs created				5474		4106	4000		3000				9474		7106
R11 - Number of jobs safeguarded				3413		2560	2000		1500				5413		4060
R12 - Gross jobs created in environmental sectors1				700		525							700		525

	Priority Axis 1			Priority Axis 2			Priority Axis 3			Priority Axis 4			Convergence total		
	Original	Revised	25% cut	Original	Revised	25% cut									
R13 - Number of additional firms involved in business/cluster networks (subset of businesses assisted)				1050		788							1050		788
R14 - Number of businesses using new infrastructure							10000		7500				10000		7500
R15 - Number of businesses benefiting from up-graded ICT infrastructure							10000		7500				10000		7500
R16 - Number of businesses with improved performance (GVA)							6000		4500				6000		4500
R17 - Private sector investment £m										157		118	157		118
Impacts	2187		1640										2187		1640
Net additional employment	1653		1240	3621		2716	2835		2126	2481		1861	10590		7943
Net additional GVA, £m	58		44	127		95	99		74	87		65	371		278
Net additional safeguarded GVA, £m	29		22				70		53				99		74

Impact findings from the survey of businesses

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

Introduction

5.26 Primary research was undertaken through surveying businesses that had directly benefitted from project activities (number of business assists) under PA1 and PA2. Contact details were sought from all businesses that had received business assistance, however, contact details were not available for the SW MAS project and the Envision project was excluded as it has been separately evaluated. Consequently, the economic impact of business assistance through these two projects has been treated separately in the impact assessment, as described later in this section.

5.27 There were 157 respondents to the survey, drawn from eight projects from Priority Axes 1, 2 and 3. Businesses were surveyed randomly in the survey. The largest share of the respondents related to the Deeper Broader IDB Service project. The number of respondents by project is shown in the table below.

Table 5-4: Breakdown of Convergence beneficiary contacts and interviewees

Project	Priority Axis	Number of contacts	Number of completed interviews	Proportion surveyed
Knowledge Escalator SW	P.A.1	5	2	40%
Intensive Start Up Support	P.A.2	22	11	50%
Starting a High Growth Business	P.A.2	16	10	63%
Coaching for High Growth	P.A.2	45	27	60%
Business Networking Activities Transition	P.A.2	115	27	23%
Deeper Broader IDB	P.A.2	205	62	30%
Business Collaboration Networks	P.A.2	46	16	35%
Enhancing the creative knowledge base of Cornwall	P.A.3	4	2	50%
Total Convergence business survey	-	458	157	34%

Source: SQW and QA Research

5.28 As is evident in Table 5-4, the majority of the respondents to the business survey were assisted by projects from Priority Axis 2. The sample size was too small to allow assessment of the sample results by PA. Although this could have consequences for the interpretation of the survey information and for grossing-up the survey results (see section below), we are confident that the similar nature of business assistance under PA1 and 2 is similar enough to apply the survey findings across both priorities. However, as the nature of business assistance

in PA3 is significantly different to that in PA1 and PA2, we are not confident that the results of our survey are representative of (and therefore applicable to) PA3.

- 5.29 The analysis of the economic impacts of the business assistance under PA1 and PA2 has estimated the net GVA outcomes of the assistance. This has been calculated from reported increases in turnover, converted to GVA, and cost savings, converted to GVA. The economic impact assessment has not considered net job outcomes of the business assistance, as there is a danger that this will double-count turnover benefits.
- 5.30 The table below outlines the survey response rates and associated confidence interval. The confidence intervals of +/-6.35% has been derived using the number of businesses eligible for inclusion in the survey (i.e. only those from projects listed in Table 5-4²⁷) and the number of survey respondents. Note, the figure of 620 for the total number of businesses eligible for survey is equal to the 458 total contacts noted in Table 5-4 above, and an estimated 162 firms that were assisted through the Business Networking Activities Transition project but for which no contact details were available (and no other evaluation evidence was available).

Businesses eligible for survey	Responses	% of eligible population surveyed	Confidence interval
458	157	34%	+/- 6.35%

Source: SQW

Step 1: Estimating additionality

- 5.31 Table 5-6 below sets out the approach to assessing additionality in the business survey, a key step in estimating the economic impact of the programme.
- 5.32 In order to assess the economic impact of the PA1 and PA2 business assists, it is necessary to estimate the additionality of the benefits generated from the business assistance – in other words, what was truly additional to what would have happened anyway in the absence of the programme. The survey provided two pieces of information in order to make this calculation:
- The first is the change in business performance since receiving the assistance. This was self-reported by the respondents to the survey.
 - The second is the extent to which businesses assessed that the support and intervention provided by the projects contributed to this change in performance. This information was gathered from the survey with a series of questions relating to factors relating to additionality (deadweight, displacement, substitution, leakage and multipliers). The responses of the businesses in the survey enables additionality to be estimated.

²⁷ This is the total number of contacts we were supplied with. This figure includes some post-March 2010 assists but excludes beneficiaries from the Envision project (which had already been evaluated) and the SW MAS project (which provided alternative GVA impact data) and 162 firms supported by the Business Networking Activities Transition project for which contact details were not available. The impact of the Envision and SWMAS project has been estimated separately to the survey work. No alternative evaluation evidence was available for the Business Networking Activities Transition project, so this project was included in grossing up the survey results to the total number of businesses assists to March 2010 – see on.

5.33 The table sets out the step by step approach to assessing additionality through the survey.

Table 5-6: Addressing of different components of the additionality logic chain		
Component	Business support survey	Survey results (number of responses)
Deadweight equals...	Proportion of beneficiaries indicating would have achieved benefits in full without the project	(10%)
	+ proportion of beneficiaries indicating they would have achieved some benefits but on a smaller scale multiplied by the proportion of the benefit that would have been gained anyway (midpoints of ranges used: 1-25%, 26-75%, 76-99% for partial additionality)	(5%)
	+ proportion of beneficiaries indicating that they would have achieved benefits later multiplied by 0.5 (0.5 used as a proxy for partial additionality)	(10%)
	+ proportion of beneficiaries indicating that they would have achieved benefits in a different way multiplied by 0.5 (0.5 used as a proxy for partial additionality)	(5%)
	= Total	30%
		(n = 134)
Leakage equals...	This is the average proportion of benefits that have been generated outside of Cornwall & IoS	4%*
		(n = 10)
Displacement equals...	This is the average proportion of benefits that would go to others within the local area/region if the benefiting business were to cease trading tomorrow (midpoints of ranges used: 1-25%, 26-75%, 76-99% for partial additionality)	38%
		(n = 157)
Substitution equals...	Proportion of beneficiaries indicating that they were unable to undertake other business development activities because of the project multiplied by the average proportion of benefits that the alternative activities would have generated (in comparison to those generated by the project) (midpoints of ranges used: 1-25%, 26-50%, 51-75%, 76-99% for partial additionality)	3%
		(n = 157)
Multiplier effects equals...	The proportion of the businesses' purchases by value that are made within Cornwall & IoS. (midpoints of ranges used: 1-25%, 26-75%, 76-99% for partial additionality)	48%
		(n = 157)

Source: SQW

* Note: The leakage coefficient of 4% was generated through just 10 responses to the survey. This number of responses is insufficient to form robust estimates. Therefore, when calculating the overall additionality ratio below we have used the CEA sub-regional leakage benchmark.

5.34 The additionality can be calculated by bringing all the elements together to yield an overall estimate of the proportion of assisted businesses likely to have generated outputs and outcomes from Convergence projects that would otherwise not have been produced. Our analysis estimates this proportion to be 53% - expressed as a net to gross output ratio of 0.53 (Table 5-7).

Component	Estimate
Non Deadweight , i.e. proportion of benefits that would not have happened without assistance	0.70
Non Leakage , i.e. proportion of benefits staying in the region	0.84 ²⁸
Non Displacement , i.e. proportion of benefits not causing adverse effects on other businesses	0.62
Non Substitution , i.e. proportion of benefits not causing diversion of resources to take advantage of assistance	0.97
Multiplier effect , i.e. knock-on effects through supply and income linkages	1.48
Overall ratio , i.e. multiplication of the components above	0.53

Source: SQW

- 5.35 The overall additionality ratio for business support activities is estimated at 0.53 for the elements of the Convergence programme included in this survey. This indicates that around half of gross benefits (e.g. increased turnover and reduced costs) may be considered additional.
- 5.36 There are a number of elements to the additionality calculations which appear to highlight the isolated nature of the Cornwall and Isles of Scilly sub-region:
- the high displacement figure (compared to CEA sub-regional benchmarks) suggests a fairly ‘localised’ economy in Cornwall, where Cornish firms displace sales from one another rather than competing with firms outside of Cornwall
 - although the CEA benchmark for leakage has been used (see footnote 34), the survey findings suggest that the true leakage may be lower than this; with only 6% of the 157 responding businesses stating that at least one of their premises is located outside of the area, and thus likely to ‘leak’ benefits outside the sub-region
 - the large scale of the multiplier effect in Cornwall and the Isles of Scilly – more in line with regional rather than sub-regional multiplier benchmarks – also suggests that the benefits of the intervention are being felt more greatly in Cornwall due to its peripheral location.
- 5.37 The majority of respondents to the survey also said that despite receiving business assistance from the programme, they were able to engage in other business development activities, meaning that levels of substitution were fairly low.

Step 2: Grossing-up

- 5.38 The additionality ratio calculated above allows us to consider the performance benefits experienced by the assisted businesses that otherwise would not have been achieved. So far, the analysis and estimates have been calculated based purely on the 157 firms that responded to the business survey. The next step in the impact analysis is to agree the process for

²⁸ CEA benchmark of 16% used for leakage, as the response rate for the corresponding survey question was too low to enable robust calculation.

grossing up to the larger population of businesses that have received assistance to March 2010.

- 5.39 As reported in Chapter 4, total business assists to March 2010 was 624. However, this figure includes business assists provided by SWMAS (24) and Envision (65), which are not in the population of business assists for the impact assessment. Consequently, the impact assessment grosses up to 535 gross business assists (624 minus 24 minus 65).
- 5.40 We did not gross up to the 458 business assist contacts in Table 5-5 (which excludes SW MAS and Envision) because this figure included businesses that had received assistance post-March 2010. At the time of the analysis, the post-March 2010 assists were not formally recorded in the SWRDA monitoring systems and therefore not fully verified in the management information supplied to SQW.

Sample representativeness

- 5.41 At this stage in the impact assessment it would have been useful to compare the representativeness of our sample of surveyed businesses to the overall population of businesses assisted by the eligible Convergence projects (see Table 5-4). Unfortunately, it has not been possible to undertake this step, as the characteristics of the population of businesses are not known e.g. firm size, industrial sector. Despite this, we believe it is appropriate to use the survey results to gross up to the population of business assisted as we have no evidence to suggest that the sample is not representative (for example the businesses were sampled randomly).

Step 3: Converting gross to net

Business assists

- 5.42 Having calculated the additionality ratio and confirmed the number of gross business assist outputs to March 2010 (excluding SW MAS and Envision outputs) we can combine these pieces of information to estimate the total number of net business assists.
- 5.43 In Table 5-8, we set out our assessment of the net business assists to March 2010. This calculation uses the overall additionality ratio of 0.53 (as noted in Table 5-7).

Table 5-8: Business assists to March 2010

	Gross business assists		Additionality ratio		Net business assists
2010	37	x	0.53	=	19
2009	474	x	0.53	=	249
2008	24	x	0.53	=	13
Total	535	x	0.53	=	281

Source: SQW

Notes: This table excludes business assists from the South West Manufacturing Advisory Service and Envision (and these (89) outputs were all achieved in 2009). Data for 2008 and 2009 is taken from the Annual Implementation Reports.

Step 4: Results and impacts to March 2010

Average benefits per net business assist

- 5.44 Using the results from the business survey, it is possible to estimate the average benefits achieved by each net business assist:
- to March 2010, the average firm had experienced the Convergence support for 0.7 years; noted an increase in turnover of £14,500 per annum; and noted cost savings of £950 per annum
 - overall, the average firm expected the benefits to last for seven years; expected an increase in turnover of £92,100 per annum; and expected cost savings of £3,800 per annum.
- 5.45 The seven years of persistence²⁹ is an interesting finding from the survey. Although this at first seems significantly greater than the three years benchmark for enterprise/business support activities in the *BIS RDA National Impact Report*, it is similar to the six years found in the *SQW Interim Evaluation of the South West Business Link Service* and is below the average persistence of eight years in the evaluation of the Envision project³⁰.
- 5.46 We have applied the seven years of persistence to the survey results, and for comparison purposes, calculated impacts using three and zero years persistence (zero persistence is actually twelve months or one year). The three years persistence allows comparison with evaluations of business support interventions that have used the three year benchmark. Zero persistence has been used to enable comparison of the survey results against targets in the OP, as SWRDA reported at the draft final report stage that the OP targets do not include persistence. It should be noted that under the seven years persistence scenario, it is assumed that all types of business will receive benefits for this length of time. This may be less appropriate to new businesses that the ERDF programme has or will support, given the failure rates of new businesses in the first couple of years. However, new businesses represent a relatively small proportion of the ERDF programme's total business assists.
- 5.47 The tables below present the value of benefits achieved to date (March 2010), expected in the future from the assistance already received (because of the persistence of benefits), and the total.

Table 5-9: Average benefits for each net business assist (non-discounted)

Benefits	Benefits achieved to date				Benefits expected over future years				Total
	Benefit per annum	x	Time period	= Value of benefits	Benefit per annum	x	Time period	= Value of benefits	Overall Benefit
Turnover	£14,500	x	0.7	= £10,900	£92,100	x	6.3	= £575,300	£586,200
Costs	£950	x	0.7	= £700	£3,800	x	6.3	= £23,700	£24,400

²⁹ In considering the overall impact of the ERDF programme it is important to consider the extent to which the benefits generated persist over time. Benefits will persist where the intervention has built the capacity of the individual or organisation to sustain or continue to achieve further benefits beyond the immediate period of the intervention.

³⁰ Ekos Gen, June 2010, An Economic, Environmental and Strategic Impact Evaluation of Envision

Benefits	Benefits achieved to date	Benefits expected over future years	Total
Total	- - - - £11,573	- - - - £599,000	£611,000

Source: SQW

Note: 2010 prices

- 5.48 The table suggests that each net business assist generates £586,200 of (undiscounted) turnover benefits and £24,400 of (undiscounted) cost saving benefits with seven years persistence.

Employment benefits

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

Table 5-10: Employment benefits across Cornwall and the Isles of Scilly

	To May 2010			Expected total (including to date)		
	Full-time	Part-time	FTE total	Full-time	Part-time	FTE total
Total benefits	84	27	97.5	734	189	828.5
Average employment benefit per business assist	0.3	0.1	0.3	2.6	0.7	2.9

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

Source: SQW

- 5.50 Across the Convergence area, the respondents to the survey estimated 98 Full Time Equivalent (FTE) jobs created and/ or safeguarded to May 2010, and estimated 829 FTE jobs would be created and/ or safeguarded in total, including the jobs created/ safeguarded to May 2010. This is all from the business assistance they had received to May 2010. This works out as an average per net business assist of 0.3 FTE jobs to May 2010 and 2.9 FTE jobs in total.

Total benefits for net business assists

- 5.51 Returning to the benefits that the survey work has focused on – turnover and cost reductions - the next step in the impact assessment is to estimate the total amount of benefits generated by the 281 net business assists to March 2010. The assumptions used to model these outcomes are set out below.

Table 5-11: Assumptions used to model outcomes

Outcomes	Assumptions
Turnover and related GVA	<ul style="list-style-type: none"> benefits start straight away for 64% of those deriving benefits, after one year for

Outcomes	Assumptions
	<p>32% and after two years for 4% (source from the business survey)</p> <ul style="list-style-type: none"> turnover benefits for the first 2 years are £14,500 per annum, for the next three years £117,200 per annum and for the next two years £102,700 per annum (based on evidence derived from the business survey).
Cost savings and related GVA	<ul style="list-style-type: none"> benefits start straight away for 64% of those deriving benefits, after one year for 32% and after two years for 4% (source from the business survey) cost savings benefits for the first 2 years are £950 per annum, for the next three years £4,900 per annum and for the next two years £3,900 per annum (based on evidence derived from the business survey).

Source: SQW

5.52 The overall benefits are set out in Table 5-12. The table includes the total GVA benefits from the increases in turnover and cost savings. GVA is estimated as 33% of turnover benefits³¹ and equivalent to cost savings benefits – as, other things remaining equal, cost savings will add equivalently to a firm’s profit and so to GVA (based on income-approach of assessing GVA, i.e. wages plus profits). The GVA estimates are also discounted in the last column. This column is particularly important given the significant level of benefits which are expected to occur over future years. The discount rate is used to convert all costs and benefits to ‘present values’. In doing so we have applied the HMT Green Book guidance of a 3.5% discount rate.

Table 5-12: Overall outcomes and impacts (excluding SW MAS and Envision and using 7 year persistence benefits)

Outcome	Benefits realised to date	Benefits expected over future years (non-discounted)	Total benefits (realised and expected, non-discounted)	Total discounted GVA benefits of net outputs to March 2010
Turnover benefits (from survey)	£7,287,930	£157,711,138	£164,999,067	-
Cost benefits (from survey)	£449,439	£6,410,463	£6,859,902	-
GVA assoc. with turnover (from survey)	£2,405,017	£52,044,675	£54,449,692	£48,679,791
GVA assoc. with reduced costs (from survey)	£449,439	£6,410,463	£6,859,902	£6,161,617
Total business assists GVA (from survey)	£2,854,456	£58,455,138	£61,309,594	£54,841,408

Source: SQW

Note: 2010 prices

5.53 The key findings of Table 5-12 are that, with the exception of the Envision and SW MAS projects, the business assistance under PA1 and PA2 has generated:

- £2.9m of GVA impact to date, with £58.4m still to come
- The total discounted present value of net GVA impact is £54.8m
- The net GVA impact per business assist is estimated at £19,502 (£54.8m divided by 281 net assists).

³¹ This assumption is taken from ONS South West Regional Accounts (latest data is 2007)

5.54 In addition as noted in the table above, the Envision and SW MAS projects have also produced benefits through Convergence business assistance:

- figures taken from the Envision Evaluation³² suggest a total net GVA contribution (cumulative plus persistence) of £1m
- SW MAS GVA figures have been provided by the project from their monitoring system. These are self-reported by the project and have not been verified in the review. Our assessment (see footnote) suggests that MAS has contributed approximately £1.2m in total net GVA benefits³³.

5.55 Bringing the survey results (seven years persistence) and SWMAS and Envision benefits together, we estimate that the present value of the total net GVA benefits of the business assistance funded by the programme to March 2010 as £57.1m.

Comparative persistence scenarios

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

Table 5-13: GVA impacts by area to March 2010 with varying levels of persistence

	Total cumulative discounted GVA benefits of net outputs to March 2010
7 years persistence	
GVA assoc. with turnover (from survey)	£48,679,791
GVA assoc. with reduced costs from survey	£6,161,617
Total GVA (from survey)	£54,841,408
3 years persistence	
GVA assoc. with turnover (from survey)	£19,744,900
GVA assoc. with reduced costs from survey	£2,535,800
Total GVA (from survey)	£22,280,700
Zero persistence	
GVA assoc. with turnover (from survey)	£1,425,900
GVA assoc. with reduced costs from survey	£281,400

³² Undertaken by Eko Gen (2010) http://www.southwestrda.org.uk/about_us/our_performance/evaluation/business.aspx. The figures quoted here are the midpoints of the ranges provided for Financial Savings/ GVA (cumulative plus persistence) and GVA resulting from new sales.

³³ SW MAS gross GVA figures are taken from MAS monitoring system. These are self-reported and not verified. We have applied a CEA benchmarks of 0.395 to calculate net impact, and applied the benchmark of 3 years persistence noted in BIS's IEF+ guidance. This persistence has been discounted using HMT Green Book standard rate of 3.5%.

	Total cumulative discounted GVA benefits of net outputs to March 2010
Total GVA (from survey)	£1,717,300

Source: SQW

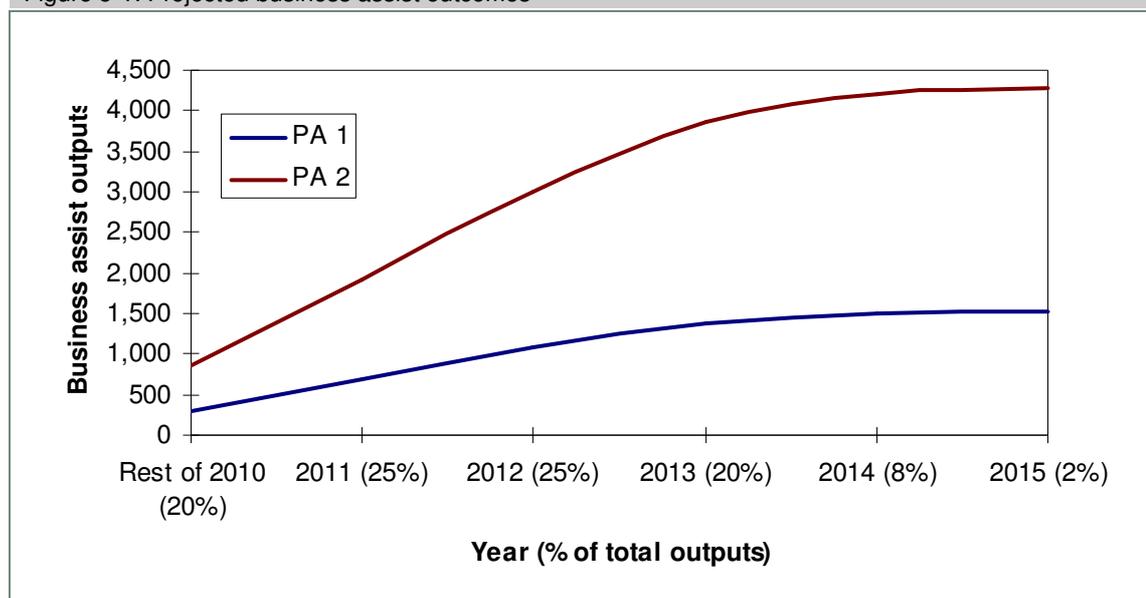
5.57 Applying a three year persistence level, rather than seven, reduces the estimated GVA net impacts to date for Cornwall and the Isles of Scilly, to £22.3m. With zero persistence, the GVA impact is estimated as £1.7m. The calculation of the zero persistence results uses the relatively low annual benefits *to date* reported in Table 5-9.

Step 5: Future projections

Post March-2010

5.58 In order to understand the likely lifetime impacts of the business assistance planned under PA1 and PA2, we have calculated estimates based on future projected outputs. The starting point for this has been to subtract the business assists outputs achieved to March 2010 from the OP targets for business assists for PA1 and PA2. We have then estimated the profile of when the remaining business assist outputs will be achieved to 2015, based on the assumption that the highest number of business assists will be generated in 2011 and 2012 (see Figure 5-1 below).

Figure 5-1: Projected business assist outcomes



Source: SQW

5.59 Based upon these projections, and applying only to the proportion of assists that are additional (for the Convergence area as a whole, this is 53%), we have estimated the potential GVA impacts of the post-March 2010 business assists, relying upon the average benefits found in the business survey. The results of this are presented in the table below, with varying levels of persistence.

Table 5-14: Projection of GVA impacts post March 2010 to 2015

	Total cumulative discounted GVA from turnover benefits	Total cumulative discounted GVA from cost reduction benefits	Total cumulative discounted overall GVA
7 year persistence			
Priority Axis 1	£126,866,238	£16,063,940	£142,930,178
Priority Axis 2	£353,820,433	£44,801,126	£398,621,559
Convergence total	£480,686,671	£60,865,066	£541,551,737
3 year persistence			
Priority Axis 1	£51,537,891	£6,624,519	£58,162,410
Priority Axis 2	£143,735,317	£18,475,287	£162,210,605
Convergence total	£195,273,209	£25,099,806	£220,373,015
No persistence			
Priority Axis 1	£35,930,999	£4,550,285	£40,481,284
Priority Axis 2	£48,638,529	£6,159,560	£54,798,089
Convergence total	£84,569,528	£10,709,845	£95,279,374

Source: SQW

Note: 2010 prices

- 5.60 With seven years persistence, and based on the survey findings we estimate that post-March 2010, business assistance under PA1 may generate a further £143m of net GVA and PA2 business assistance activities may generate £399m of net GVA (or £542m combined). The survey results suggest that PA1 is not on course to meet its overall Programme net additional GVA target of £58m, and nor is PA2 for which the target is £127m. Using zero persistence, it appears that business assists are not generating sufficient GVA to meet overall targets and fundamentally achieve the Programme's objectives. This could be for a number of reasons which may include: the high proportion of micro-enterprises in Cornwall and the Isles of Scilly; the low added value nature of the current business base; the extent and quality of business support provided to date; and the lack of impact from investments in infrastructure, innovation centres and floorspace investments under PA1 and PA2 which are expected to increase GVA benefit but have not had an impact yet. The review of PA2 that has been instigated due to concerns about the delivery of business support will be crucial for gaining further insight into these issues to ensure that they are addressed during the remainder of the Programme.
- 5.61 Both priorities also have targets for safeguarded additional GVA. The survey results are not directly comparable, as the survey only asked respondents to identify new turnover and cost reduction benefits. However, if the OP targets for new and safeguarded GVA are added together for both priorities, this is equal to a combined target of £214m. The lifetime total GVA benefit assuming zero persistence is less than half of this target at £97m. This is a concerning gap, but it is important to note that these estimated impacts are based on the findings taken from our survey of existing business assists. The eventual impacts of the

Convergence business assists will depend on the level of future support, the nature of the future support and the benefits generated by businesses in receipt of the future support. It should also be noted that the business survey drew largely on businesses assisted under PA2. Consequently, using the business survey results to project forward for PA2 may be more robust than for PA1, which includes different forms of intervention.

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

5.62 The preceding analysis estimated the impact of PA1 and PA2 business assists. This analysis was in two parts: actual benefits to March 2010 and projected benefits post-March 2010. Through combining these, we can illustrate the potential ‘lifetime impact’ of the PA1 and PA2 business assists. This is presented in the table below:

Table 5-15: Lifetime impacts (from PA1 and PA2 business assists)

	(a) Total cumulative discounted GVA benefits from outputs to March 2010	(b) Total cumulative discounted GVA benefit from outputs post-March 2010	(a+b) Total cumulative discounted ‘Lifetime’ total GVA benefit
7 year persistence	£54,841,400	£541,551,700	£596,393,000
3 year persistence	£22,280,700	£220,373,015	£242,653,715
Zero persistence	£1,717,300	£95,279,374	£96,996,674
Envision	£1,043,000	--	£1,043,000
SW MAS	£1,218,278	--	£1,218,278

Source: SQW

5.63 Assuming zero persistence, we estimate that the programme may generate net GVA benefit of £97m. The net additional GVA target in the OP for PA1 is £58m and for PA2 £127m. The survey results therefore suggest that with zero persistence, the Programme will not achieve its impact targets for GVA. There is a review of PA2 underway due to concerns from stakeholders concerning the delivery of business support. In addition, it is possible that whilst our analysis of the targets using benchmarks suggested that they were achievable, the very low value added business base, predominance of micro-enterprises and peripherality of Cornwall and the Isles of Scilly could mean they were set too high. There are also questions about the additionality ratios used to arrive at the GVA targets – with high levels of additionality apparent in the targets (which is discussed below).

Assessment of other programme impacts

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

Priority Axis 1

- 5.65 Applying the additionality ratio (0.53) found by our impact survey for the Convergence area to the PA gross business assists target (1,540) equates to a net total of 816 business assists. To fully achieve the PA net additional GVA target of £58m, each net business assist would need to equal GVA performance improvements of £71,000. Evidence from our impact survey suggests that the present value total GVA benefit per net business assist is £28,420 with zero persistence (lifetime impact of £97m divided by 3,413 net business assists for PA1 and PA2 combined). However, it is important to note that PA1 is not primarily concerned with the provision of business support and other activities, such as contributing to the development of six research centres, should also facilitate business growth and new employment, and hence contribute to the GVA target.
- 5.66 The OP ratio of gross jobs created to net jobs created is 76% and the OP ratio of gross additional in GVA to net additional in GVA is 76%. These ratios appear high in light of our impact survey that found an additionality ratio of 53% (for business assistance only).
- 5.67 Using the 2007 Cornwall average of GVA per worker (taken from *Econ i*) at £32,100, the OP impact target of net additional employment of 1,653 would create net additional GVA of £53m. This is just below the net additional GVA target of £57.8m.
- 5.68 The evidence from our survey suggests that the additional employment per net business assist is three FTEs (2.5 new full-time employees and one new part-time employee). If it is assumed that half of these jobs are net new jobs (i.e. 1.5 FTE) in order to achieve the PA OP net additional employment target of 1,653, a total of 1,102 net business assists would be required (equating to an additionality ratio of 72% of the 1,540 gross businesses assisted). This is significantly higher than the additionality ratio of 53% from the survey³⁴.
- 5.69 The PA OP target of £29.3m of net additional safeguarded GVA should, in part, be generated by the OP target of 837 gross safeguarded jobs. However, given that only a proportion of these jobs will be additional, other activity will need to contribute to the net additional safeguarded GVA target as the target is too high from net jobs alone.

Priority Axis 2

- 5.70 Applying the additionality ratio (0.53) found by our impact survey to the OP gross business assists target (4,900) equates to a total of 2,597 net business assists. To fully achieve the OP net additional GVA target of £126.7m, each net business assist would need to equal GVA performance improvements of £48,800. Our impact survey suggests net GVA benefits per net business assist of around £28,420 (with zero persistence).
- 5.71 The OP ratio of gross jobs created to net jobs created is 66% and the OP ratio of gross additional in GVA to net additional in GVA is 66%. These ratios appear large in light of our impact survey that found an additionality ratio of 53%.

³⁴ It is worth reiterating here that that the employment outcomes estimated from the business survey should not be added to the turnover estimates from the business survey, as this may double-count the benefits.

- 5.72 Using the 2007 Cornwall average of GVA per worker (taken from *Econ i*) at £32,100, the OP impact target of net additional employment of 3,261 would create net additional GVA of £116.2m. This is just below the net additional GVA target of £126.7m.
- 5.73 The evidence from our survey suggests that the additional employment per net business assist is three FTEs (2.5 new full-time employees and one new part-time employees). If it is assumed that one half of these jobs are new jobs (i.e. 1.5 FTE) in order to achieve the PA OP net additional employment figure of 3,621, a total of 2,414 net business assists would be required (equating to an additionality ratio of just 49% of the 4,900 gross businesses assisted). This compares favourably to the estimate of 2,550 net businesses assists calculated by applying the additionality ratio found in our survey to the gross businesses assisted target.
- 5.74 Assuming one workstation per 25 square metres of floorspace³⁵ and 0.53 FTEs per workstation³⁶, the OP Priority Axis 2 target of 93,000 square metres of new or up-graded premises should achieve 1,733 jobs. This equates to almost 20% of the total OP target of 8,887 gross jobs created or safeguarded.

Priority Axis 3

- 5.75 The OP primary output target for Priority Axis 3 is the two major investment projects. To therefore achieve the OP gross jobs created and safeguarding target of 6,000, each of the major investment projects must create and safeguard 3,000 jobs. In reality, we are aware that more investment proposals are planned under this priority.
- 5.76 The OP ratio of gross jobs created to net jobs created is 71% and the OP ratio of gross additional in GVA to net additional in GVA is 71%. These ratios appear large compared to the CEA benchmark of 54% for sub-regional regeneration through physical infrastructure.
- 5.77 Using the 2007 Cornwall average of GVA per worker (taken from *Econ i*) at £32,100, the impact target of net additional employment of 2,835 would create net additional GVA of £91m. This is just below the net additional GVA target of £99.2m.
- 5.78 The OP target of £70m of net additional safeguarded GVA should be generated by the OP target of 2,000 gross safeguarded jobs. This equals £35,000 of net additional safeguarded GVA per safeguarded job.

Priority Axis 4

- 5.79 The OP primary output target for Priority Axis 3 is 60,000 square metres of floorspace. Again, assuming one workstation per 25 square metres of floorspace and 0.53 FTEs per workstation, the of 60,000 square metres of new or up-graded premises should achieve 1,267 jobs. This equates to 20% of the total results target of 6,268 gross jobs created or safeguarded.
- 5.80 The OP ratio of gross jobs created to net jobs created is 66% and the OP ratio of gross additional in GVA to net additional in GVA is 66%. These ratios are high compared to the

³⁵ English Partnerships (2001), *Employment Densities, A Full Guide*. The figures are based upon the average figure for general offices and high-tech R&D.

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

CEA benchmark additionality ratio (54%) for sub-regional physical infrastructure interventions.

5.81 Using the 2007 Cornwall average of GVA per worker (taken from *Econ i*) at £32,100, the impact target of net additional employment of 2,481 would create net additional GVA of £79.6m. This is just below the net additional GVA target of £86.8m.

Summary

5.82 This exercise suggests some concerns regarding the achievement of Programme impact targets, based on the survey results – but these only paint a partial picture. The survey results for achieved and future GVA purely from business assists when applying a zero-persistence level (as we understand was applied when the OP targets were set) suggest that these are unlikely to be achieved for PA1 or PA2. Whilst PA1 has significant activity in addition to business support which should contribute to addressing this shortfall, the same cannot be said for PA2. The low projected GVA figures for PA2 are of concern and the reasons behind this must be considered in depth by the Task and Finish group undertaking the review of PA2.

5.83 From our assessment, we consider that the programme impact targets for PA3 and PA4 are also challenging. Gross to net ratios are high for net employment and GVA using accepted benchmarks, PA3 has no clear links between the major infrastructure developments proposed and employment and GVA, and PA4 assumptions for employment per square metre of floorspace suggest low overall job creation figures and therefore GVA.

Table 5-16: Assessment of impacts

	Net additional employment		Net additional GVA		Safeguarded GVA	
	Target	SQW view	Target	SQW view	Target	SQW view
PA.1	1,653	Appears challenging given survey evidence of 3 FTEs per net assist – would require 1102 net assists (additionality ratio of 72%).	£57.8m	Appears challenging given programme level GVA survey evidence and potential number of net assists.	£29.3m	Appears achievable at £35,000 per gross job safeguarded.
PA.2	3,621	Appears achievable given survey evidence of 3 FTEs per net assist and potentially 2,414 assists (Additionality ratio 49%)	£127m	Appears challenging given programme level GVA survey evidence and potential number of net assists.	n/a	n/a
PA.3	2,835	Appears challenging given that the two major investments must deliver these employment impacts.	£99.2m	Appears challenging as no clear link to employment and/or GVA benefits from the two major investments.	£70m	Appears achievable at £35,000 per gross job safeguarded.
PA.4	2,481	Appears challenging given the assumptions	£86.8m	Appears challenging as GVA is reliant on job	n/a	n/a

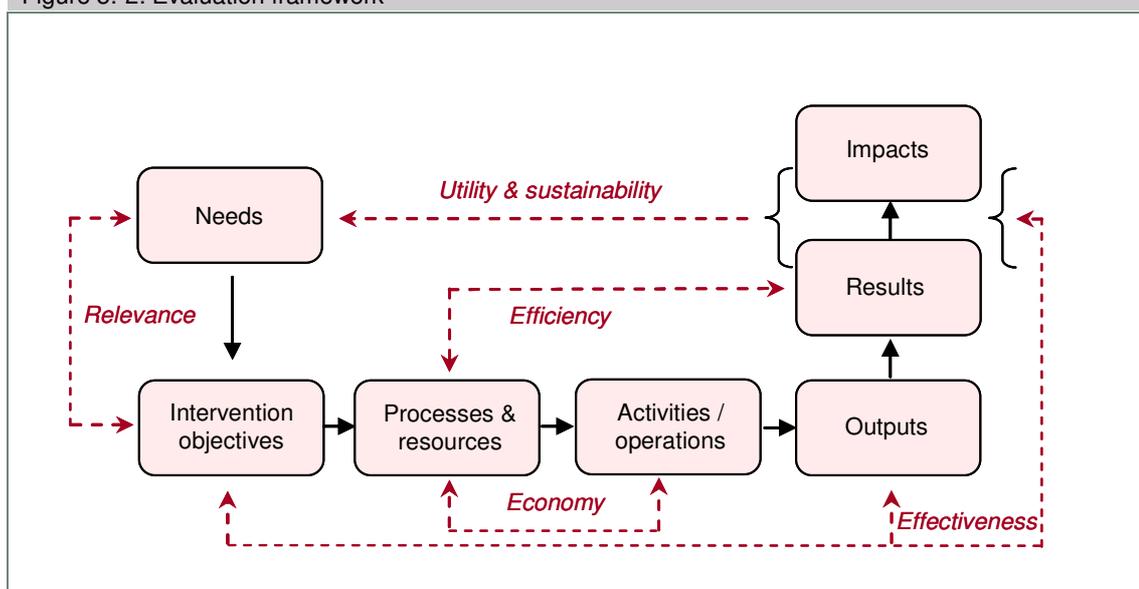
Net additional employment		Net additional GVA	Safeguarded GVA
	for employment per square metre of floorspace.	creation and the assumptions for employment per square metre of floorspace suggest low overall job creation figures.	

Source: SQW

Assessment of Value for Money

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

Figure 5.-2: Evaluation framework



Source: SQW

Economy

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

- the programme follows procurement rules in making investment decisions

- the programme has implemented a rigorous project appraisal process, which requests applicants to identify the value for money of proposals in the business plans
- all projects are scrutinised by the commissioning teams, Partnership Delivery Group, Endorsement Advisory Group and programme management team.

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

Efficiency

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

5.90 From the business assists to March 2010 (Table 5-12), the business survey estimates total net GVA outcomes realised to date of £2.9m, and an expected total net GVA of £54.8m, assuming seven years persistence (2010 prices, undiscounted). Programme monitoring data has the total cost of business assistance activity to March 2010 (not including SWMAS and Envision) as £6.1m (whole programme value). This suggests the business support activities are delivering poor value for money to March 2010 on efficiency grounds with a GVA to cost ratio of 0.5 to 1. However the evidence suggests good value for money for expected future GVA benefits, with a GVA to cost ratio of 9:1. Overall to date and expected, a GVA to cost ratio of 9.5:1 also suggests good value for money. We have not undertaken an assessment of efficiency against the zero persistence benefits to March 2010 as we do not believe it is a fair comparison, as the survey clearly shows that businesses expect the majority of turnover and cost benefits to be in the future.

5.91 We have also undertaken a cost-effectiveness comparison of contracted expenditure and contracted output and result targets (as recorded in monitoring data) for those indicators where external spend per output benchmarks are available. Unfortunately, the comparison is not exactly like for like, but it provides an indication of cost-effectiveness. In assessing the figures, it is important to note that much of the Convergence programme support is based around high-cost, high-tech, innovative support. Moreover, as a result of the Cornwall's peripherality the costs associated with such support are likely to be greater than the norm.

5.92 It is evident from Table 5-17 that across several indicators the programme is providing good value for money in terms of cost-effectiveness. For example, the contracted spend per job created compares well with the benchmarks (if additionality is assumed to be 50%) and Priority Axis 2 in general appears to be particularly efficient relative to the other Axes.

Table 5-17: Cost effectiveness comparisons

	Priority Axis 1		Priority Axis 2		Priority Axis 3		Priority Axis 4		Convergence total		Benchmark
Contracted spend (ERDF and UK) (undiscounted)	£61,941,215		£31,049,234		£36,573,867		£34,805,438		£175,915,578		
	No. Contracted	Spend per unit	No. Contracted	Spend per unit							
Businesses Assisted to Improve their Performance	210	£294,958	2,151	£14,434	-	-	-	-	2,361	£74,508	<p>Spend per unit comparisons are available for net business assists. For example, BIS state an average of £9,705, and AWM found a range of £11k-£82k.</p> <p>The SQW Interim Evaluation of Business Link Services in the South West (2009) found a spend per unit of £165 per gross business assist</p>
Gross New Jobs Created	875	£70,789	1,592	£19,503	594	£61,572	60	£580,090	3,121	£56,365	<p>AWM evidence for spend per units of net jobs created found an average of £116,000 per net job, within a range of £41k-138k. BIS found an average spend per unit for net jobs created of £14,200</p>
Gross Increase in GVA	£41.6m	£1.49 / 0.67:1	£42.2m	£0.74 / 1.4:1	£50.4m	£0.73 / 1.4:1	£16.7m	£2.09 / 0.48:1	£150.8m	£1.17 / 0.85:1	<p>BIS found an achieved net GVA to cost ratio of 7.3 : 1 – i.e. for every 14p of programme spend, a return of £ of GVA</p>

	Priority Axis 1		Priority Axis 2		Priority Axis 3		Priority Axis 4		Convergence total		Benchmark
Contracted spend (ERDF and UK) (undiscounted)	£61,941,215		£31,049,234		£36,573,867		£34,805,438		£175,915,578		
	No. Contracted	Spend per unit									
Square Metres of new or upgraded floor space	-	-	9,256	£3,354	-	-	13,380	£2,601	22,636	£7,771	AWM benchmarks of £469 for cost per net square metre of floorspace (place based infrastructure and asset development) and £1,970 (place based land and buildings for economic growth investment)

Source: SQW

Effectiveness

- 5.93 Effectiveness refers to how successfully the Programme is meeting its stated objectives. Reflecting back to Chapter 2 concerning the overall strategy for the programme, its overarching objective is

To establish the momentum for transforming the economy to a high value added economy where knowledge, environment and quality of life underpin sustainable economic growth.

- 5.94 The Programme is still at a fairly early stage of delivery and therefore it is too early to appreciate the full impacts of the activity and make an assessment of the extent to which objectives have been improved. However, the nature of the Convergence Programme is very much concerned with putting in place the conditions to support the transformation of the economy and it can be judged as effective in terms of moving in the right direction. The projects being commissioned and those delivering on the ground are capitalising upon opportunities within high value sectors such as marine energy with projects such as Wave Hub and PRIMaRE, providing business support to high growth businesses and helping businesses across all sectors increase their productivity (Coaching for High Growth and SW MAS), putting in place the infrastructure to address peripherality and reducing the distance to market (Newquay Airport and the potential Next Generation Broadband project) and supporting regeneration and realise economic potential in centres through the spatially focused Strategic Investment Frameworks that have been established.
- 5.95 Some questions around effectiveness have been raised by consultees concerning the degree of infrastructure provision compared with directly supporting businesses and knowledge transfer (particularly relating to PA1). Whilst transport and digital infrastructure is essential for the restructuring of the economy due to Cornwall and the Isles of Scilly's peripheral location, there does appear to be less robust evidence for the number of new HE buildings and workspace proposed within the Programme. It is appreciated that the essential infrastructure needs to be in place to support innovation and enterprise, but the PA1 Task and Finish Groups need to look to commission projects more directly related to the core objectives of the Priority and the proposed enterprise strategy important to ensure the continued effectiveness of the Programme into the future.

Sustainability and utility

- 5.96 Sustainability and utility refers to whether the intervention has had an impact on the target groups with respect to their needs and in ways that can be expected to last after the intervention has been completed.
- 5.97 The evidence from the business survey shows a high degree of sustainability through the fact that on average, firms stated that their performance benefits were likely to last for seven years.
- 5.98 It is important to understand the extent to which the Convergence Programme is meeting the needs which led to its initial justification. The key needs identified in Chapter 2 from the socio-economic analysis within OP were that Cornwall and the Isles of Scilly has a low wage economy dependent on low value-added sectors, low skills, low productivity and peripherality

due to its distance from markets. The Programme is clearly moving in the right direction to meet these needs as evidenced above in the effectiveness section.

Conclusions

- 5.99 This section has presented evidence on the impact and value for money of the Programme. To aid this assessment, the review has considered the reasonableness of the performance targets at the time they were set in the OP. We have not been provided with the methodology that was used to set targets so have had to assess them based on benchmarks and our evaluation experience. Overall the scale of the targets appears to be reasonable with the exception of output and result targets for the environmental services sector which were both set disproportionately high. During our consultations, it was suggested that some targets should be vired between PA2 and PA3 – these suggestions appear sensible and will not have an impact on the overall achievement of the Programme’s objectives.
- 5.100 The biggest issue raised within this chapter, is that from our impact survey, business support has not to-date, produced the returns – in terms of employment, projected turnover and ultimately GVA – required to meet the Programme’s targets. If these targets are reasonable, which we have judged them to be (using available benchmarks) then the current forecast is that these targets will not be met (under the zero persistence scenario). This needs further investigation, and could be due to a number of factors which include: the early stage at which this assessment has taken place, which means that the additional benefits of investment in infrastructure (such as innovation centres) and workspace has not been seen, and is expected to promote higher levels of GVA benefits in assisted businesses; the appropriateness of the business support being delivered; or specific local circumstances which make the benchmarks, used to judge the reasonableness of the targets, inappropriate. However no major concerns about the delivery of business support have been identified by stakeholders consulted as part of this process, and survey respondents have shown high levels of satisfaction with the business support that has been provided.

Key messages and recommendations

- 5.101 The key messages and recommendations concerning impact and value for money are summarised below:

Table 5-18: Key messages and recommendations

Key messages

Output targets are considered realistic and achievable other than O03 Number of environmental goods and services enterprises assisted. There were 800 such enterprises in Cornwall and Isles of Scilly and the target was for 280 which is excessive and we recommend reducing.

Result targets are considered realistic and achievable other than R07 Gross jobs in environmental sectors for which the programme target is actually 53% of the 2007 total number of jobs in this sector in Cornwall – again this is excessive and we recommend reducing.

In terms of impact key findings, there are substantial challenges with regards to meeting employment and GVA targets particularly within PA2 and the impact of current business support provision requires further consideration if these targets are to be met. In addition, the gross to net ratio of 69% is very challenging compared with 52% achieved in the business survey making targets even more challenging to achieve.

VFM appears reasonable, where it is possible to undertake assessment, however the return for investment in terms of the ratio of GVA and employment to Programme costs to date is poor but more positive looking to anticipated future benefits.

Recommendations

Target O03 (Number of environmental goods and services enterprises assisted) should be reduced by 25% (keep as a stretching target) and then potentially reduced by a further 25% to account for impact of match.

Target RO7 (Gross jobs in environmental sectors) should be reduced by 50% (keep as a stretching target) and then potentially reduced by a further 25% to account for impact of match.

Target O17 (Hectares of land for development) should be kept the same across the Programme with adjustments in PA2 and PA4 to allow for delivery experience then potentially reduced by the appropriate match proportion.

Target O19 (Redundant buildings developed for new economic use) should be kept the same across the Programme with adjustments in PA2 and PA4 to allow for delivery experience then potentially reduced by the appropriate match proportion.

Target O20 (Historic buildings / sites developed for new economic use) should be kept the same across the Programme with adjustments in PA2 and PA4 to allow for delivery experience then potentially reduced by the appropriate match proportion.

Retain business support impact targets as they are, but ensure the Task and Finish group undertaking the PA2 review is aware of the concerns raised in this section and considers how best to rectify this through the remainder of the Programme period.

Source: SQW

6: Effectiveness of programme management and administration arrangements

Introduction

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

Overview of the management and administration arrangements

Managing Authority – CLG and SWRDA

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

Programme Monitoring Committee and sub-groups

6.6 The PMCs for the Convergence and Competitiveness programmes oversee strategy and delivery for both the respective ESF and ERDF programmes. They are supported by:

- the Commissioning Delivery Board (CDB) for Competitiveness, and the Partnership Delivery Group³⁷ (PDG) for Convergence, which oversee the day-to-day management of the programmes (e.g. shaping frameworks, identifying appropriate delivery methods, agreeing key commissioning opportunities)
- commissioning teams have been established to develop projects through the commissioning process
- the Endorsement Advisory Groups (EAGs) (one for each Programme) consider project applications (along with the recommendations from appraisals) and make recommendations to the PMCs on whether to offer support or not
- cross programme advisory groups for the environmental sustainability and equality and diversity CCTs which work to ensure that the Programme's objectives with regard to the cross-cutting themes are upheld
- a joint PMC evaluation sub-group which oversees the joint evaluation programme.

6.7 Representation on the PMCs is from a wide range of organisations, including business membership organisations (e.g. Cornwall Business Partnership in the Convergence programme).

6.8 In Convergence, ad hoc working groups have been established to consider parts of the programme where there are concerns about delivery or focus:

- Three Task and Finish groups have been set up to support projects coming forward within Priority 1 (which is the cornerstone of the Programme yet has raised some concerns regarding the infrastructure focus of projects supported to date) and specifically to investigate the options for Convergence investment that may exist in the following initiatives - Eco Town (St Austell), Proof of Concept Fund and Goonhilly satellite earth station.
 - The first of these relates to the potential for Eco Town spin off projects related to environmental and construction technology; there is also a potential link with ERDF re: skills provision from basic construction skills through to Leadership and Management.
 - The Proof of Concept Fund is intended to provide funding to entrepreneurs and businesses that have a business idea, which requires further work and investment before it can be patented or fully developed.
 - Goonhilly has historically been a crucial component to the progress of satellite communications links with the USA and is the landing point for an international fibre connection. A number of potential opportunities have been

³⁷ Previously named the Partnership Delivery Board

identified at the Goonhilly site ranging from a renewable energy site, to a focus on commercial business opportunities in space and the communications sector.

- With the Business Link contracts due to be renewed this year, the Convergence programme PDG has also implemented a review of Priority Axis 2. The aim of the review, which should conclude in the Autumn of 2010, is to produce a commissioning framework for ERDF investment in business support in the second half of the programme. A Task and Finish Group was set up earlier this year which has met twice, with membership drawn mainly from PDG partners plus Cornwall Business Partnership to ensure engagement with the private sector.
- Following consideration of the SIF Interim Delivery Plan at the Cornwall Development Company board meeting in January 2010, concerns were expressed regarding the transformational potential of the SIF's constituent projects. This relates to concerns about them being too workspace oriented and reflecting more of a 'fair share approach' to project distribution across the former Cornish districts rather than focusing on more strategic transformational projects which will have an impact on the whole of Cornwall and the Isles of Scilly. A review has been initiated to develop a new SIF Delivery Plan based upon an internal re-evaluation and integration of the seven SIF's. It is not concerned with the location of the SIFs, but the projects to be delivered within them. A SIF Steering Group (Rapid Review Team) was established earlier this year, its membership comprises the two local authorities, Cornwall Development Company and SWRDA. The Steering Group will report to the September PMC with its recommendations.

Programme management team and Technical Assistance

6.9 The key activities that Technical Assistance (TA) is applied to are as follows:

- developmental (supporting project development and capacity building)
- management information (support for the provision of management and monitoring information to ensure effective programme management)
- evaluation (developing baselines and commissioning studies to support the Annual Implementation Reports and to satisfy evaluation requirements)
- partnership (coordination of the PMC and sub-groups, and support for partnership working – at strategic and beneficiary levels)
- communications (TA supports the Cornwall Partnership Office and PR consultants for Competitiveness).

6.10 As the managing agent SWRDA is responsible for all processes from pre-commissioning through to paying claims and final evaluation and clear segregation of duties is required between project development, selection and delivery; and appraisal, claims payment and monitoring requirements.

- 6.11 Cross-Programme team meetings are held to discuss areas of commonality and share good practice and challenges. In addition there is an SWRDA EU Programme Board which considers both programmes.

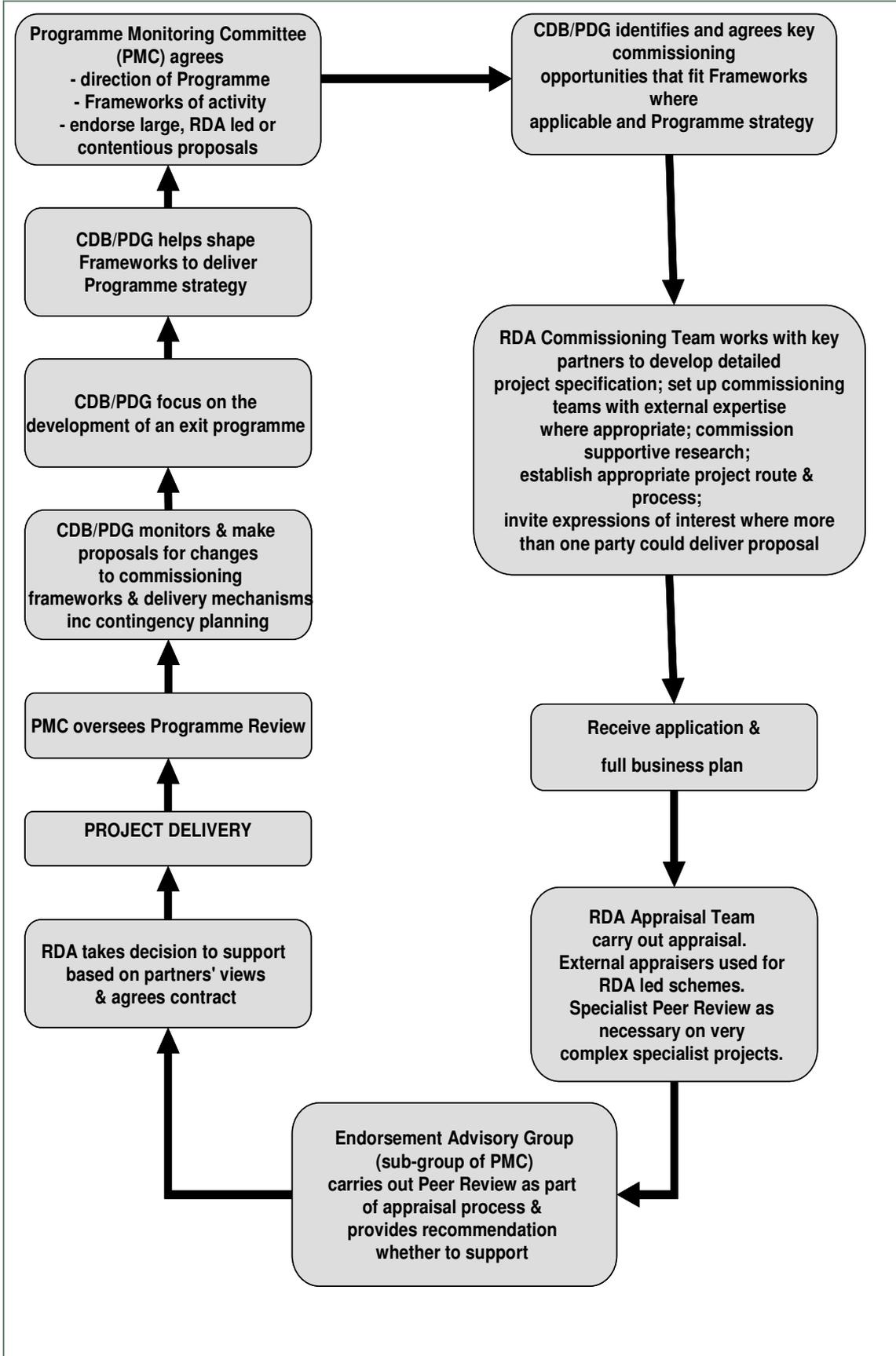
Systems for project development, appraisal, and contracting, monitoring and management

Commissioning, appraisal and contracting

- 6.12 The Competitiveness and Convergence Programmes both aim to make fewer, more strategic investments than the preceding Objective Two and Objective One Programmes. This is to be achieved through commissioning to exploit specific opportunities and meet needs, rather than via open bidding.
- 6.13 The commissioning approach means partners have agreed the type of activity they wish to see happen and the results each Programme requires to be successful, but the method of delivery is not fixed. The CDB/PDG commission activity that will determine the exact shape of a proposal and identify a project deliverer. The commissioning phase could include an exercise to identify the project deliverer such as requesting Expressions of Interest (EoI), which will then include an additional stage of scoring EoIs received against pre-agreed criteria³⁸. It has also involved pre-commissioning, where preliminary work is undertaken to determine whether a proposal is viable and then it can move into the full commissioning phase.
- 6.14 At the end of the commissioning phase, a full business plan is submitted alongside the ERDF application form (common to both Programmes) which is then appraised by SWRDA before being considered by the relevant EAG which makes recommendations for funding back to the PMCs (the full process is detailed in Figure 6-1).
- 6.15 Whilst there is no formal open bidding process for either Programme, the Commissioning process does not preclude any organisation from approaching SWRDA with potential project ideas.

³⁸ The Competitiveness team is currently preparing rules for the submission, evaluation and selection of expressions of interest and proposals which are intended to be adopted by both Programmes once finalised

Figure 6-1: Competitiveness and Convergence Life Cycle



Source: SWRDA, June 2010

Monitoring and performance management

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

Cross Cutting Theme processes

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

Environmental sustainability

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

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

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

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

Equality and diversity

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

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

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

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

- EU Programme Equality Indicators
- Social Sustainability Toolkit
- Environmental and Social Guidance for Sustainable Construction
- Equality and Diversity – Investment Guidelines
- Equality Impact Assessment Guidance notes
- Screening Stage Equality Impact Assessment Form
- Full Equality Impact Assessment form

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

Communications Strategy

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

Assessment of effectiveness of the management and administration arrangements

Strategic management – SWRDA and PMCs/sub-groups

- 6.26 Stakeholders commended SWRDA for taking over the management of the Programmes effectively, understanding the requirements and introducing new working practices. A very different set of circumstances is in place compared with when GOSW managed the Objective One Programme particularly with regards to the economic climate and institutional flux. However, some concerns were expressed (by SWRDA stakeholders) that there is a real lack of capacity within SWRDA to properly fulfil its role. It was considered that this has created bottlenecks at certain junctures within the overall appraisal and project management process which is causing delay.
- 6.27 In addition, stakeholders expressed concern about the bureaucracy associated with both Programmes and how this slows down the overall process. From our understanding of EU requirements and experience of the management of such Programmes elsewhere, we consider that the structures are appropriate for Programmes of this size which are managing substantial amounts of public funding. It is important that there is broad representation of sufficient

stakeholders to represent a variety of interests and if the Programmes are to achieve inclusive participation (rather than just consultation) then formal structures are required. Additional working groups that have been required (such as the review groups in the Convergence Programme) have been established as Task and Finish Groups with a clear and specific remit and these appear to focus in a business-like and task focused fashion.

- 6.28 Those stakeholders who attend both PMCs reported that the Convergence PMC works much more effectively than the Competitiveness PMC. The increased engagement with Convergence may be due to the fact that there is a much larger amount of funding involved, but the Competitiveness funding is not insubstantial and engagement could be greater.
- 6.29 The Convergence PMC is viewed as well run and playing an influential role in guiding the development of the Programme. This is evidenced by the papers considered, degree of constructive and productive discussion, minutes and the views of stakeholders. The majority of stakeholders consulted considered that the PMC takes effective actions and shows good leadership and operates in a 'business-like' fashion. Where there have been concerns with the delivery of specific axes, reviews have been quickly initiated with formally established groups (Terms of Reference). In addition, systems for reporting and communicating information were complimented. Private sector engagement was commended. The key negative aspects raised were about the size of the PMC which may impact on its ability to act strategically although its size does allow broad representation.
- 6.30 Overall, the Competitiveness PMC is considered to be operating reasonably well, but not as effectively as it could. Stakeholders expressed concern about the PMC in terms of its representation (the private sector and local government are not sufficiently engaged) and the level of discussion at meetings which tend to focus on reporting back activity that is accepted with little discussion. Currently, the PMC includes one business representative (South West Chamber of Commerce) and one local authority representative (South West Councils). With the pressure on public funding match, changes in institutional arrangements and the ultimate objectives of the programme, it is important that there is increased representation of local authorities and the business community on the PMC..
- 6.31 The sub-groups of both PMCs were highly regarded by stakeholders and considered to run effectively supporting the work of the PMC and taking forward commissioning and decision making on recommendations for funding.
- 6.32 The PMCs cover both ERDF and ESF providing a good opportunity to make links between the two. For example, at the Convergence PMC discussion is held around embedding ESF activity within the ERDF Priority 4 Strategic Investment Frameworks, and representatives of the ESF's co-financing organisations – the Skills Funding Agency and Jobcentre Plus sit on both PMCs enabling direct linkages between skills and place-based regeneration to be highlighted and addressed.
- 6.33 The Strategic Added Value resulting from the PMC is discussed further in Chapter 7.

Day to day programme management

Commissioning process

- 6.34 The commissioning process is appropriate for the ERDF Programmes and whilst it may take longer for projects to be worked up, it will ensure that a more targeted and strategic approach is taken which is more likely to achieve the Programme's overall objectives than open bidding. In addition, it is undertaken flexibly through a variety of routes:
- by a single tender process (for example, for Solutions for Business products)
 - through the development of frameworks (such as those used for the SIFs and some business support areas such as Grants for Business Investment)
 - via an EOI process.
- 6.35 It was reported that the programme management teams are open to direct approaches from organisations which have innovative ideas which meet the Programmes' objectives. This should mean that good ideas which have not been anticipated by the CDB/PDG or wider partners are not excluded.
- 6.36 Stakeholder consultees generally considered that commissioning was the right process for the programmes, but expressed concerns that the process is 'over-engineered', time consuming (e.g. pre-commissioning), exclusive (it does not encourage private sector engagement) and in danger of becoming increasingly mechanised and inflexible. Some raised concerns that even though a project has been commissioned and developed in conjunction with SWRDA, it is still taken through a full appraisal process. Some stakeholders have also found the different approaches followed (EOIs/pre-commissioning/single tenders) to be confusing and inconsistent. Clearly there is a need to improve communication concerning the commissioning process and the use of different approaches to fit different circumstances as well as its overall efficiency.
- 6.37 Several consultees raised concerns about the time that projects can take to 'get through the system'. We have undertaken a brief review of a number of projects tracked through the Convergence 'system' and analysed the Competitiveness Project Status Log which tracks projects and frameworks from the period when they were commissioned by CDB through to the offer letter date. The average time taken to proceed through the entire Competitiveness process was eight months, but this varied from five to 14 months. Frameworks, unsurprisingly, took longer to process with an average time of 11 months, and individual Frameworks taking between five months and two years. The largest amount of time taken was between CDB and application/appraisal; that is, the time taken by the applicant to work up the application. The period from application form to offer letter was generally around three to four months with the period from EAG to offer letter taking around two months. The Competitiveness team provided a proposed ('ideal') timeline from launching an Expression of Interest call through to offer letter which was estimated at four months.
- 6.38 Across the eight projects reviewed within the Convergence Programme, the average time taken from issuing the Commissioning Instruction Form (CIF) through to the receipt of offer letter was 11 months, however this varied from four to 22 months. The length of time the

process took appears to be very much related to the size of project which is unsurprising. As with Competitiveness, the largest proportion of time was dedicated to the period between issuing the CIF and the period from application form to offer letter was much shorter (an average of 3.5 months) whilst the period from EAG to offer letter only exceeded two months where external influences had impacts (template letter not being available from CLG).

Application, Appraisal and contracting

- 6.39 Applicants are required to complete an ERDF application form (the same form is used for both Competitiveness and Convergence), which must be accompanied by a comprehensive and detailed business plan. Some elements of the business plan requirement are fairly complex, such as the economic appraisal of each of the options, but the detail required is likely to be proportionate to the amount of grant requested and SWRDA staff members are available to provide support and advice. The business plan components do not appear to request a full risk assessment of the preferred option, which should be addressed. The same appraisal approach is undertaken for RDA Single Pot and European funded projects. The technical appraisal guidance again mainly covers HM Treasury Green Book components and includes the requirement for a risk assessment.
- 6.40 Stakeholders considered the process to be particularly cumbersome where RDA Single Pot match is required. A decision is required on the RDA appraisal outcome from the RDA Investment Group before the project can be considered by EAG and the timing of the two does not always dovetail. Match funding must always be committed prior to the EAG considering investment proposals, which has further delayed the process on occasions (at no fault of the appraisal team/ EAG). Our view is that where the same organisation is overseeing the ERDF funding and the match, there must be a solution concerning streamlining the two. The appraisal process was commended as being particularly thorough, (one stakeholder suggested 'gold-plated') but also proving a real bottleneck for the progress of projects through the system. There is a need for SWRDA roles – between project development/ appraisal/contracting/monitoring and management – to be separated, but there should be a way of making the process more efficient. In addition, whilst these roles need to be separate, there should be communication between the ERDF and RDA central teams which was perceived by Competitiveness and Convergence consultees to be lacking.
- 6.41 Reflecting back on issues around the length of time it takes for projects to flow through the process, this is in part because the business cases that are accepted at the commissioning stage do not always fully address green book investment requirements. Full business plans are then required at the appraisal stage which must be fully Green Book compliant and therefore require considerably more detailed analysis. Once projects have been appraised and contracted, there are often still a number of conditions that are passed on to the monitoring teams for follow up. Whilst the process to a large degree is no more complicated than any two stage grant funding process, often involving an initial Expression of Interest, it would be helpful for the SWRDA management team to review the relationship between commissioning and appraisal to ensure that it is as time and cost-effective and efficient as possible for applicants and commissioning and appraisal staff.

- 6.42 The contracting stage appears to be particularly slow, which SWRDA representatives stated was due to there being only one officer responsible for all ERDF and RDA contracts. (However there was a difference of view within SWRDA on this matter, as others considered this process to work well).
- 6.43 SWRDA considered that difficulties with the process were ultimately due to a lack of capacity. As the Programme moves into a more delivery focused phase with increasing numbers of projects coming forward, and the requirement for greater efficiency-savings being introduced, there will be real issues for the future if capacity is an issue and processes are not as efficient as they could be. We have highlighted this as a significant risk going forward.

Performance monitoring and project management

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

Cross-cutting themes

- 6.48 The Cross Cutting Theme Team (appointed in 2008) established a business process, which laid out the preferred method of engagement with projects pre-approval/endorsement. While initially intended to be a distinct three stage process (pre-commissioning, commissioning and appraisal/endorsement), with forms to complete at each stage, the process became unworkable (partly due to onerous reporting requirements) and therefore a more fluid and responsive process was developed with the CCT team advising projects through early discussions with project leads on initial project concepts through to appraisal.
- 6.49 Within ERDF Programmes, no cross cutting contractual targets have been imposed upon projects although there are some targets at Programme level for both themes. Monitoring of both CCTs has proved a significant challenge for both Programmes and whilst beneficiaries should report progress against targets within the Progress reports that accompany quarterly claims, this is not happening nor is it being queried (this should be addressed within the revised monitoring procedures being developed by the Competitiveness Team). A Strategic Environmental Assessment Monitoring Strategy is being developed which sets out the rationale for monitoring, including the difficulties of effective monitoring of environmental issues (the resourcing and implementation of the strategy is still in development). Key to this strategy is exploiting and speeding the deployment of the RDA carbon accounting methodology. An equivalent strategy is currently in development for equality and diversity, and will be informed by the outcome of this review.
- 6.50 Both CCT Teams provide an annual update on progress at Programme level to inform the AIR and have continued to provide ad hoc training with individual ERDF team members, capacity building and partnership working with RDA staff, investment leads and strategic and delivery partners.
- 6.51 An agreed target within the OPs is for a specific percentage of the PMC to be female (50% for both ERDF programmes). Following a survey of PMC and PMC sub-groups within both programmes in 2009; it was revealed that this gender balance was not reached in either PMC or within their constituent sub-groups. Both PMCs are now considering actions to ensure that the gender balance is met.
- 6.52 There is also a target concerning the proportion of business support that should be provided to businesses led by women (40% for both ERDF programmes) and the CCT team has invested considerable time in working with Business Link to ensure that the requirements of the equality and diversity CCT are met. However, whilst some projects routinely collect equalities data (for example, those supported by Business Link), others do not and this information is not readily available from the RDA.
- 6.53 The CCT team has been instrumental in sharing good practice with other RDAs through the cross-RDA CCT group with an inter-RDA meeting organised by SWRDA in 2008 to address ERDF equality issues as well as sharing good practice and discussing progress.
- 6.54 Overall, it appears that a substantial amount of work has been undertaken by the CCTs, but due to the lack of collated monitoring information, there is very little evidence to prove its effectiveness or otherwise. Processes appear to be undertaken successfully at the pre-commissioning, commissioning and appraisal stages ensuring that applicants are aware of the

requirements and can build these into proposals as early as possible. However, there is then no ongoing monitoring of how projects are meeting the requirements of both CCTs.

- 6.55 Stakeholder consultees considered that the Environment CCT had been embedded within Programme processes and was having an impact on delivery, but the Equality and Diversity CCT still had some way to go. This may well be due to the stricter requirements in relation to environmental sustainability (such as the need for all new premises to be built to BREEAM 'excellent' standards) and also the fact that the Programme as a whole has a strong environmental driver in terms of the move towards the low carbon economy. Similarly businesses have had to become more environmental in their outlook over recent years due to the financial as well as environmental costs of not doing so. Consultees generally considered the equality and diversity requirements less important and could not always appreciate how they could be built into their projects, especially where these are totally revenue funded.
- 6.56 The failure to collect data to evidence the delivery of impact of both of the CCTs to date will reduce their credibility if not addressed as a matter of importance. Our understanding is that this has resulted because whilst projects are requested to provide appropriate monitoring data for both CCTs, this is not a condition of grant (in that projects still receive funding if they do not provide the information) and the SWRDA monitoring teams do not chase the information. This is not difficult to address and more stringent adherence to monitoring requirements by SWRDA should ensure that the information is provided.

Communications Strategy

Competitiveness

- 6.57 The Competitiveness Programme has a plan in place which is managed by PR consultants, Bray Leino. According to the Annual Implementation Reports (AIR) publicity now appears to be much more coordinated through a single body and a significant amount of activity is being undertaken in terms of events, media activity, newsletters, development of website, support at external events and briefings, advising grant beneficiaries of publicity requirements and checking that these have been met.
- 6.58 Chapter 4 assesses progress with communications as these are noted as TA outputs. Therefore to avoid duplication, this section just briefly summarises recent progress based on the 2009 AIR:
- appointment of consultants, Bray Leino, in February 2009 to deliver the communications activities via an action plan covering media engagement, publicising new contracted investments, production and dissemination of a newsletter, development of a website within the SWRDA website and support at external events
 - quarterly joint ERDF and ESF e-newsletter produced since March 2009
 - Competitiveness website under development (will be launched in 2010)
 - second Annual Communication Event held in March in Taunton providing information of progress to date to the media and stakeholders

- produced and contributed to media releases and developed a media protocol outlining how proactive media relations would be managed from 2010 onwards
- implemented a Grant Recipient's toolkit and undertook a series of workshops aiming to support ERDF beneficiaries in meeting regulatory requirements and sharing good practice.

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

Convergence

6.60 The Convergence Partnership office runs a programme of activity in support of its Communication Plan. This includes annual Convergence conference, monthly newsletters, a dedicated Convergence in Cornwall website, the use of Twitter and Flickr and significant media activity (press releases, interviews etc), presentations (e.g. in the first quarter of 2010/11 to Devon and Cornwall Business Council and the Business League), communication briefings (e.g. in the first quarter 2010/11 to local media and Cornwall Business Partnership) and communications with partners (e.g. Cornwall Marine Network, Business Link and University of Plymouth).

6.61 Progress in 2009 (as reported in the AIR) is summarised below:

- continued encouragement for partners to acknowledge Convergence investment including the use of the logo to help build the profile of the 2007-13 Programme
- 17,500 hits on the Convergence Cornwall website (increase in visits per day from 33 to 52 throughout the year). The website is constantly updated and developed
- use of social media linked to the website such as Twitter and Flickr
- produced and contributed to media releases
- supported CCTs through dedicated section on the website, attention in media releases, bespoke media articles, via Twitter.

6.62 Overall, consultees considered the Communications Strategy delivered by the Cornwall Partnership Office was effective. It was suggested, however, that the Office could play more of a role in facilitating better communication between partners rather than just playing the external facing role. Following on from the earlier chapter concerning Programme strategy there is obviously a continued need to publicise the Programme's objectives clearly in order to ensure a broad understanding of the Programme which will also garner further support.

6.63 Consultees overall considered the Partnership Office to be fulfilling its role but there was a tendency for a reactive, rather than proactive response in terms of repeating the key messages

of the Programme and working with projects (which have publicity requirements placed on them) rather than providing significant added value at the Programme level. However, it is noticeable that recently the Office has been proactive in having discussions with MPs to discuss risks around the availability of future match funding.

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

Summary

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

Monitoring recommendations

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

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

Recommendations for value for money assessments

- 6.69 It has been requested that SQW provides recommendations on appropriate methods and data to enable VFM assessments of programme activity. Chapter 5 set out that VFM is commonly assessed using the 3 E's framework – the **economy** with which resources are used, the **efficiency** with which benefits are achieved and the overall **effectiveness** of the project or activity under consideration. VFM can be judged to be high when, 'there is an optimum balance between all three elements – when costs are relatively low, productivity is high and successful outcomes have been achieved'³⁹.

³⁹ <http://www.audit-commission.gov.uk/aboutus/strategicobjectives/challengingpublicbodies/Pages/Default.aspx>

6.70 The table below provides details on the methods and information requirements for examining economy, efficiency and effectiveness within the 3 E's VFM framework:

Table 6-3: Data and methods for assessing value for money
<p>Economy</p> <p>Economy is concerned with the assessment of the cost of inputs. The key question for economy is how much did the inputs to this project or activity cost and how do they compare to benchmarks or similar activity?</p> <p>Economy can be achieved where the price of inputs are reduced or where more activity is delivered for the same costs. Improved economy could also be achieved through implementing a new procurement or commissioning process or a new way of working.</p> <p>Evidence to help in assessing the economy of a project or activity will include budgeted and actual financial data broken down by type of input costs (e.g. salary costs, overheads, delivery costs etc) and monitoring data on delivery activity (e.g. number of events, number of publications).</p> <p>Economy should be assessed drawing on quantitative evidence such as the comparison of actual costs against budget costs and by calculating the unit cost of inputs and comparing the results against benchmarks or similar activity.</p> <p>The quantitative analysis can be supported through qualitative evidence of methods implemented to drive down the cost of inputs, for example through a new procurement process or staff taking on more responsibilities at no extra cost.</p>
<p>Efficiency</p> <p>Efficiency is concerned with the comparison of costs against the outputs/ results achieved. The key question for efficiency is whether the results of the project or activity were delivered economically and how these compare to benchmarks or similar activity.</p> <p>The efficiency of a project or activity can be improved by reducing inputs for the same outputs/ results or increasing the level of outputs/ results with the same inputs.</p> <p>Evidence to help assess efficiency includes monitoring data on the cost of the inputs used to deliver a project or activity and performance data on the outputs/ results achieved.</p> <p>Efficiency should be assessed against net outputs/ results rather than gross outputs/ results i.e. the proportion of outputs/ results that are truly additional and can be attributed to the inputs under consideration. In relation to costs, ideally the unit cost of outputs should be calculated against the proportion of the total costs used to generate each output/ result under consideration (e.g. 10% of the total costs were directed toward assisting 50 businesses). It should also be calculated against both gross costs and net costs (gross costs minus income and revenue).</p> <p>Two techniques to help measure efficiency are cost-effectiveness analysis and cost-benefit analysis (CBA):</p> <ul style="list-style-type: none"> • the cost-effectiveness of a project or activity can be shown by calculating the unit cost of outputs/ results achieved and comparing the results to benchmarks or similar activity (net outputs/ results divided by gross and net costs) • Cost-benefit analysis (CBA) is a technique that quantifies in monetary terms as many of the costs and benefits of a project or activity as possible. The result of CBA is a Benefit-Cost ratio, which is the ratio of the monetised benefits compared with the costs. <p>There are strengths and weaknesses to both approaches. Cost-effectiveness is a relatively simple method. The main disadvantage is its inability to compare interventions that produce different outputs/ results or even different mixes of the same outputs/ results. Other variations between interventions, such as the degree of intensity of the assistance, can cause simple cost per output measures to vary considerably and therefore be potentially misleading. It can be difficult to 'retrofit' cost-effectiveness assessment if appropriate monitoring systems have not been set up at the outset.</p> <p>CBA is a more complex but robust methodology. The weakness with CBA is that it does not capture benefits or costs of projects or activities that cannot be monetised. It can also be challenging and expensive to monetise benefits and costs where conceivably this can be done, particularly where there is not a 'market' price and some type of 'shadow' price has to be used instead (for example the monetary value people put on improvements to public spaces or the monetary value of environmental impacts). CBA should therefore be used alongside other evidence in assessing VFM – both quantitative evidence and qualitative evidence.</p>
<p>Effectiveness</p> <p>Effectiveness is concerned with whether there is evidence that the objectives of the project or activity have been met or exceeded and the intended impact has been realised.</p> <p>Evidence to assist the assessment of effectiveness includes monitoring, administrative and secondary data on results and impacts (e.g. Gross Value Added achieved); the views of beneficiaries that have benefited from the project or activity; and the views of stakeholders that have funded, managed or delivered the project or activity or have been influenced by it.</p> <p>Methods to help assess effectiveness include the comparison of achieved outputs/ results against targets, the comparison of achieved outputs/ results against benchmarks or similar activity, CBA or cost-effectiveness analysis,</p>

and the views of beneficiaries and stakeholders. The extent to which the project or activity has been mainstreamed or is on the path towards being mainstreamed may also provide evidence of effectiveness.

Effectiveness therefore combines quantitative and qualitative evidence.

Source: SQW Consulting

6.71 The table provides standard information and methods that the programme can implement to aid VFM assessments. However, the approach and methodology of VFM assessments will depend on the nature of the activity under consideration (value, intervention type, riskiness etc.). It is beyond the scope of this study for a full VFM framework to be developed for the programmes. This should be developed at a programme level, prioritising projects/ activities that lend themselves to VFM assessment and those activities that are most important to the programme's ultimate success.

6.72 As a minimum, the monitoring requirements include:

- project monitoring of budgeted and actual financial data broken down by year and gross/ net costs
 - input costs - management and administration costs (total/ % of total); cost of inputs to main activities (staff costs, building costs per square metre, equipment costs, other costs); cost of communication, marketing and dissemination activities
 - output/ result costs – proportion of costs directed to the main project outputs/ results (e.g. per business assist)
- programme monitoring of the same input and output/ result costs for Technical Assistance
- project monitoring of outputs/results by year. This should include the outputs/ results in the programme target framework and any other major outputs/ results not captured which may be needed for VFM assessment (e.g. for CBA)
- project monitoring of administrative and secondary data against project objectives.

6.73 This monitoring data will aid the assessment of economy, efficiency and effectiveness. Quantitative analysis will be required for each area, particularly for the assessment of efficiency through techniques such as cost-effectiveness or CBA. However, as the text in the previous table points out, VFM assessments should also draw on qualitative evidence. This is because VFM brings together various factors - cost, quality, resource use, fitness for purpose, timeliness - to judge whether or not together they constitute good value. For example, the benefit-cost ratio of CBA is a strong guide to the value of an activity, but this metric should also be considered alongside qualitative evidence, for example the views of the ultimate beneficiaries of the activity.

6.74 The PMC can improve the VFM of projects/activities and ultimately of the programme as a whole through:

- developing strategies to prevent or reduce the need for more intensive or costly services

- ensuring the most effective services are commissioned
 - reducing inputs for the same outputs
 - getting greater outputs/ results with improved quality for the same inputs
 - getting proportionally more outputs/ results or improved quality in return for an increase in resources⁴⁰.
- 6.75 To assist in the assessment of the value for money of both programmes, the programme (through TA spending) and projects over £1m (total programme spend) should collate and be able to report financial spend by defined budget lines. We suggest: management and administration costs (total/%of total); costs of inputs to activities (staff costs, building costs per square metre, equipment costs, other costs); estimated costs of main activities (e.g. per business assist); communications, marketing and dissemination activities.
- 6.76 At a project level, this may involve introducing more stringent monitoring conditions (that is relating claim payment to meeting conditions and providing adequate information in progress reports). We recommend that the programmes undertake a review of the efficacy and efficiency of the current monitoring arrangements and ensure that minimising the burden on project delivery partners is a key principle for implementing any new arrangements.

Risks to delivery

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

⁴⁰ Audit Commission

6.82 Below are the key risks for delivery highlighted by the review:

Table 6-4: Risk assessment of the delivery of the Convergence Programmes					
Risk	Probability	Impact	Mitigating action	Action recommended	Red/Amber/Green assessment
Securing sufficient match funding for projects to proceed BOTH PROGRAMMES	HIGH	HIGH	Investigate potential increased intervention rate, alternative sources e.g. land holdings, maximise private sector & other sources of public sector (e.g. LAs)	Secure increased intervention rate, set up sub-group to focus on identifying & investigating all appropriate sources of match	Red
Failure to progress Next Generation Access impacting on the success of the Programme & spend in P3. If it does go ahead the PA will be over-commissioned requiring other investment to be lost CONV PROGRAMME	MEDIUM	HIGH	Working closely with EC concerning Major Project Procedure appraisal	Continue working with EC and develop contingency plan PMC and/or its sub-groups need to scenario plan for potential different outcomes for PA3	
Changes to national and regional funding and delivery organisations e.g. Business Link, RFA, DfT programme BOTH PROGRAMMES	HIGH	HIGH	Ongoing partnership discussions to determine minimising impact on Programme delivery	Ensure key stakeholders involved in discussions ensuring most positive outcomes with feedback to and support from the partnership	
Change in managing agent for the Programme with abolition of RDA by March 2012 BOTH PROGRAMMES	HIGH	MEDIUM	Ongoing partnership discussions to determine minimising impact on Programme delivery	Continue discussions, ensure long lead in time & smooth transition to ensure minimal impact on project development, delivery & management	
Delay to Programme delivery if reviews of P2 & P4 become contracted CONV PROGRAMMES	MEDIUM	HIGH	Formal groups established reporting back to PMC, clear collective desire to resolve matters	Continuing commitment to resolve issues quickly – set target for both reviews to be completed & recommended way forward in place by end of 2010	

Risk	Probability	Impact	Mitigating action	Action recommended	Red/Amber/Green assessment
Economic downturn affecting private sector ability to invest in workspace CONV PROGRAMME	MEDIUM	HIGH	Maximum use of flexible intervention rates/investigate local asset backed vehicle/encourage businesses to access full range of support available through the Programme	Continue investigations and maximise positive publicity involving private sector to ensure all potential businesses aware of support & appreciate benefits it can bring	
SWRDA Capacity proves a constraint on delivery in terms of increasing time periods for appraisal and contracting BOTH PROGRAMMES	MEDIUM	HIGH		Implement recommendations from this review and maximise dovetailing and streamlining of processes wherever possible	

Source: SQW Consulting

Key messages and recommendations

Table 6-5: Key messages and recommendations

Key messages
<p>Processes appear to be compliant with EU Regulations (although only a headline review has been undertaken).</p> <p>Processes are similar across Competitiveness and Convergence although some elements are tailored to specific requirements of each Programme.</p> <p>Convergence PMC is considered to be more successful than Competitiveness in terms of level of debate and communication of information – by stakeholders and the evaluators.</p> <p>Concerns were expressed by consultees that the overall structure is overly administrative and bureaucratic – our view is that it is reasonable for Programmes of this scale and measures such as setting up time limited Task and Finish groups to undertake reviews (Convergence) are an effective and appropriate response.</p> <p>Both Programmes are commissioned which we consider an appropriate approach, but there have been overall delays particularly at the project development stage which may require more support.</p>
<p>But related to the above, concerns about SWRDA's capacity have been raised which is a serious issue with cost-efficiency savings being introduced immediately.</p> <p>CCTs are progressing well with environmental sustainability more embedded than Equality & Diversity, but cannot assess performance as monitoring data is not consistently collected.</p> <p>Communications are having a positive impact for both programmes – this largely consists of media engagement, events, newsletters and websites, plus engagement with beneficiaries concerning their publicity requirements.</p>
<p>Recommendations for future monitoring and administration</p> <p>Engagement with the private sector and local authorities must be addressed by the Competitiveness Programme as a matter of urgency. A review should be undertaken of the membership of the Competitiveness PMC to ensure it is representative of the needs of the Programme for the future.</p> <p>The communications functions could take a more lobbying role to address the substantial risks to delivery that the Programmes are now facing in terms of match.</p>

Key messages

The PMC should agree to adopt and act upon the detailed monitoring and VFM recommendations provided within the Chapter as a matter of urgency

Source: SQW Consulting

7: Strategic added value and partnership working

Introduction

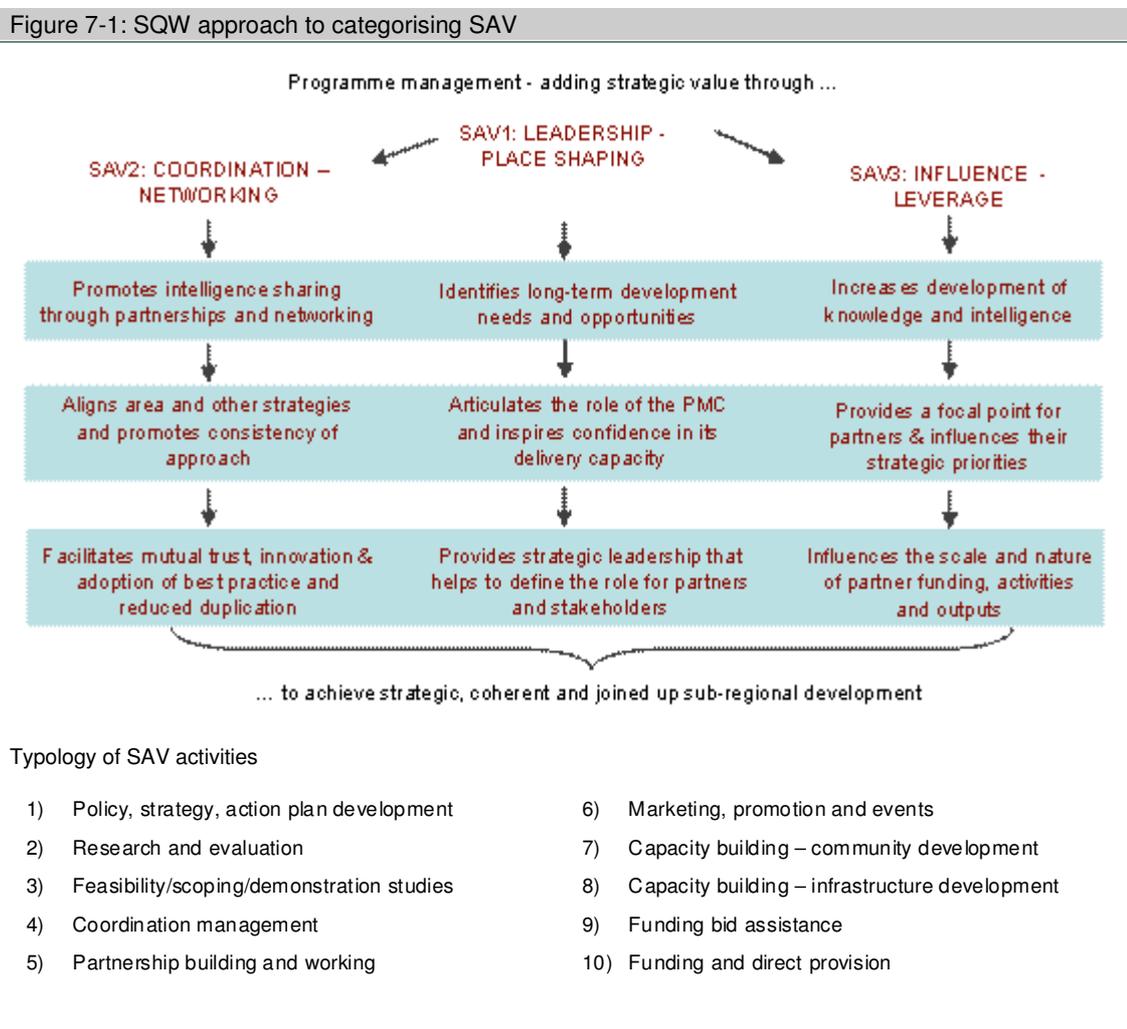
- 7.1 The purpose of this chapter is to consider the Strategic Added Value (SAV) of the Competitiveness and Convergence ERDF programmes, and the benefits of partnership working both within these two programmes, between them and with other European funded programmes. The objective of the review in respect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

Definition of SAV

- 7.4 According to the IEF guidance, *“the concept of Strategic Added Value (SAV) ... aims to capture the effects of the wider coordinating, catalytic and influencing role of an RDA and its investment, and which is not captured in the outputs of direct project support.”*⁴¹ It is a concept that has been developed with respect to the role of the RDAs rather than partnerships such as the PMCs, and therefore it has been conceived in terms of identifying the additional impacts of the activity of the RDA beyond those directly generated by the project or programme. However, it is a useful framework for considering the strategic added value of the PMC and the programmes. There are five tests of SAV set out in the brief (based on the IEF/PwC version of SAV), which include:

⁴¹ RDA Evaluation: Practical Guidance on Implementing the Impact Evaluation Framework. Department for Business, Innovation and Skills (December 2009) p.21

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



Source: SQW Proposal

SAV as an outcome rather than a function

7.5 All the definitions tend to describe SAV in functional terms rather than the outcomes that SAV is expected to generate. They do not set out the hypothesised logic chain that leads to the outcomes from the deployment of SAV functions. As SAV has been treated as a function, it is typically assessed in process terms. Was leadership effectively exercised? Has coordination of partners' activities been achieved? Was information and intelligence generated and effectively disseminated to partners?

7.6 SAV has rarely been assessed as an outcome – i.e. what changes have been brought about from the exercise of SAV? So, what are the possible SAV outcomes? Here are some possibilities:

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

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

SAV and partnership working

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

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

Strategic leadership

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

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

Long-term needs, opportunities and solutions

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

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

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

Articulating the programmes' role and their ability to deliver

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

Defining roles for stakeholders and partners

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

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

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

Summary

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

Networking

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

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

Intelligence sharing

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

Strategic alignment and consistency of approach

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

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

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

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

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

Influence and leverage

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

Influencing partners’ strategic priorities

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

Scale and nature of partners funding, activities and outputs

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

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

Joint working between Competitiveness and Convergence

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

Links between ERDF and ESF

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

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

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

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

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

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

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

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

Key messages and recommendations

Table 7-1: Key messages and recommendations

Key messages
<p><i>Strategic Leadership</i></p> <p>The purpose of both PMCs is to provide strategic leadership and linkage across the ERDF and ESF programmes.</p> <p>There is more praise for the Convergence PMC than the Competitiveness PMC – in terms of the quality of engagement, debate, role and value-added; although the history of the Convergence PMC in previous programmes is seen as a contributory factor to its success.</p> <p>There is praise for the independent chairing of both PMCs by the Government Office; and praise for the work of the PMC sub groups “behind the scenes”.</p> <p>Potential for better communication of the strategic leadership, role and value added by both PMCs to the wider stakeholder community.</p> <p>Both PMCS will need to provide significant strategic leadership in the future in addressing the likely need for match funding in the future.</p>
<p><i>Networking</i></p> <p>This is an important aspect of both the management of the two programmes and the activity that they are delivering.</p> <p>Scope to improve networking opportunities, particularly for delivery partners (particularly noted in Competitiveness programme).</p>
<p><i>Influence and leverage</i></p> <p>Both programme do exert influence in terms of directing partners’ spend; although this will become more important given the expected challenge to finding match funding in the future.</p>
<p><i>Competitiveness and Convergence</i></p> <p>There are structures in place for collaboration between the two programmes; and there are shared processes and</p>

Key messages

ways of working.

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

ERDF and ESF

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

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

Recommendations

In the face of match funding cuts the PMCs need to take a strong leadership role in identifying and lobbying potential new (and continuing) funding partners and ensuring they have a good understanding of the value added by the programmes in order to secure future resources. This will need to include evidencing the impact and outcomes of the ERDF programmes in supporting local and sub-regional policy objectives.

Effective communication of the objectives of the programmes and the impacts at local and sub-regional levels will be needed to help to engage new funding partners.

The ERDF programmes should continue to explore opportunities for closer joint working between ERDF and ESF in funding projects where this is appropriate.

Source: SQW Consulting

8: Recommendations

8.1 The recommendations from the review of the Convergence Programme are as follows:

Programme strategy

1. The rationale and objectives of the strategy were valid at the time they were developed and continue to be valid. We do not recommend significant changes despite the upheaval in the economic and political context, but this will need to be considered in light of the outcome of the Comprehensive Spending Review. The strategy of the programme should remain focused on restructuring the Cornwall and Isles of Scilly economy to address its low productivity, reliance on low value added sectors and peripherality.

2. That the PMC should re-confirm in the review of the Operational Programme the ultimate objectives of the programme in relation to supporting the transition to the low carbon economy. Priority should be given to investments in the low carbon economy along with those supporting the restructuring of the business base if the programme faces a fall in available resources as a result of cuts in match-funding.

2. That the PMC addresses weaknesses arising from the level of detail in the Operational Programme, by providing greater detail and guidance on:

- definition of high-growth and high-value businesses and sectors
- managing a balance between the focus on support for high value businesses and also a need to increase productivity across all sectors
- including output indicators for TA and including an impact indicator for reduction in carbon emissions.

Performance

4. That the PMC undertakes a review by the end of October 2010 of the risks to project and programme delivery of changes in match-funding availability. This should assess all contracted, endorsed and commissioned projects and assess the risk to each of changes in match-funding. It was also suggested by the PMC at its July 2010 meeting that this should include a considered review of the degree to which projects have maximised opportunities for integration with ESF and addressing this where opportunities can be capitalised upon.

5. That the PMC gives continued consideration to increasing the intervention rate to address the future match funding risks.

6. That the PMC should ensure that output and result targets are proportionate to the amount of funding being contracted (where this is appropriate) to ensure value for money and to achieve overall targets across the priority axes and programme.

7. That the PMC informs the Task and Finish group reviewing PA2 with the findings from this evaluation as a matter of urgency and that the groups' findings are then given serious consideration in terms of both headroom and the impact that has achieved to date by business support activities as evidenced by our survey of supported businesses.

8. That the PMC should put contingency plans in place to account for the potential under or over commitment within PA3 depending on the outcome of the Major Projects Appraisal of NGA.

9. That the PMC should give further consideration to ensuring a greater contribution of, and benefits to the third sector from the Programme.

10. That the PMC should again review PMC and sub-group representation in terms of their gender profiles and undertake action to redress the balance as a matter of priority.

Targets

11. Target O03 (number of environmental goods and services enterprises assisted) should be reduced by 25% and Target RO7 Gross jobs in environmental sectors should be reduced by 50%, but both should be kept as stretching targets. These reductions are suggested as both appear to have been set too high at the outset and are very unlikely to be achievable.

12. Workspace targets should be reviewed using up to date evidence in the form of an Employment Land Study to ensure that the amount identified is not excessive for current and projected demand.

13. Specific targets should be reviewed to ensure the Programme is fully capturing all that has been delivered particularly within PA2, PA4 and BREEAM targets.

14. The target of 10% businesses supported to be owned by under-represented groups should have its remit extended to include residents from disadvantaged areas as measured through the Index of Multiple Deprivation, 2007 (which is in keeping with the Competitiveness definition of under-represented groups).

Management and administration

15. That the PMC considers the roll-out of SWRDA's zero carbon methodology in the appraisal process. The PMC should consider the resource implications of applying the methodology and how the difference the programme makes can be measured without burdening project delivery partners.

16. That the PMC undertakes a review to speed up the commissioning process. Where match funding is available from the RDA, a more streamlined approach is required and there may be the potential to get outside organisations (e.g. local authorities) to provide more support with project development which would also help address the RDA capacity issue.

17. That the programme management team should review the relationship between commissioning and appraisal to ensure that it is as time and cost effective and efficient for applicants and commissioning and appraisal staff.

18. That the PMC adopts the recommendations made in Chapter 6 to improve monitoring and the collation of performance management data:

- Technical Assistance –
 - Output targets should be set and monitored annually, to include: establishing monitoring databases; evaluation reports; publication/ dissemination of information and guidance; meetings; and publicity and communications events (the latter are already identified within the AIRs)
 - Result targets are set where appropriate against the output targets. These should be changes in behaviour, capacity and performance as a result of the activity that delivers the outputs
 - TA spend is monitored and reported against the strands of TA activity in the OP e.g. developmental, management information, evaluation, partnership and communication (with defined sub categories as appropriate)
 - Equalities and Diversity CCT - the programme must monitor and report achievements annually against the equalities and diversity targets in the OPs (including the target for
-

50% of PMC and sub-committee members to be women). Additionally, the long list of programme equalities indicators should be reviewed to provide a shorter list of core, SMART indicators which all projects are monitored against, to enable consistent monitoring of performance across the programme

- Environmental CCT - the long list of environmental performance indicators in the monitoring strategy should be reviewed to provide a shorter list of core, SMART indicators which all projects are monitored against, to enable consistent monitoring of performance across the programmes.
- Spatial activity: It must be possible to report output and result achievements for the spatial priority (SIF) areas in both programmes.

19. That the PMC adopts the recommendations made in Chapter 6 to improve monitoring and the collation of performance management data to aid value for money assessments. The details of the recommendations are provided in the chapter.

20. That the PMC considers how the programme can more effectively communicate its objectives and work. Articulating the Programmes' role and their ability to deliver will become increasingly important in a more challenging funding environment. The programme needs to be able to demonstrate to a wide range of stakeholders from the public and private sectors the difference it is making and how it can support local and sub-regional priorities.

Strategic Added Value

21. In the face of match funding cuts the PMC needs to take a strong leadership role in identifying and lobbying potential new (and continuing) funding partners and ensuring they have a good understanding of the value added by the programmes in order to secure future resources. This will need to include evidencing the impact and outcomes of the ERDF programmes in supporting local and sub-regional policy objectives.

22. That the PMC ensures continued effective communication of the objectives of the programmes and the impacts at local and sub-regional levels in order to engage new funding partners.

23. The ERDF programmes should continue to explore opportunities for closer joint working between ERDF and ESF in funding projects where this is appropriate.

Source: SQW Consulting

Programmes Review of European Regional Development Fund in the South West

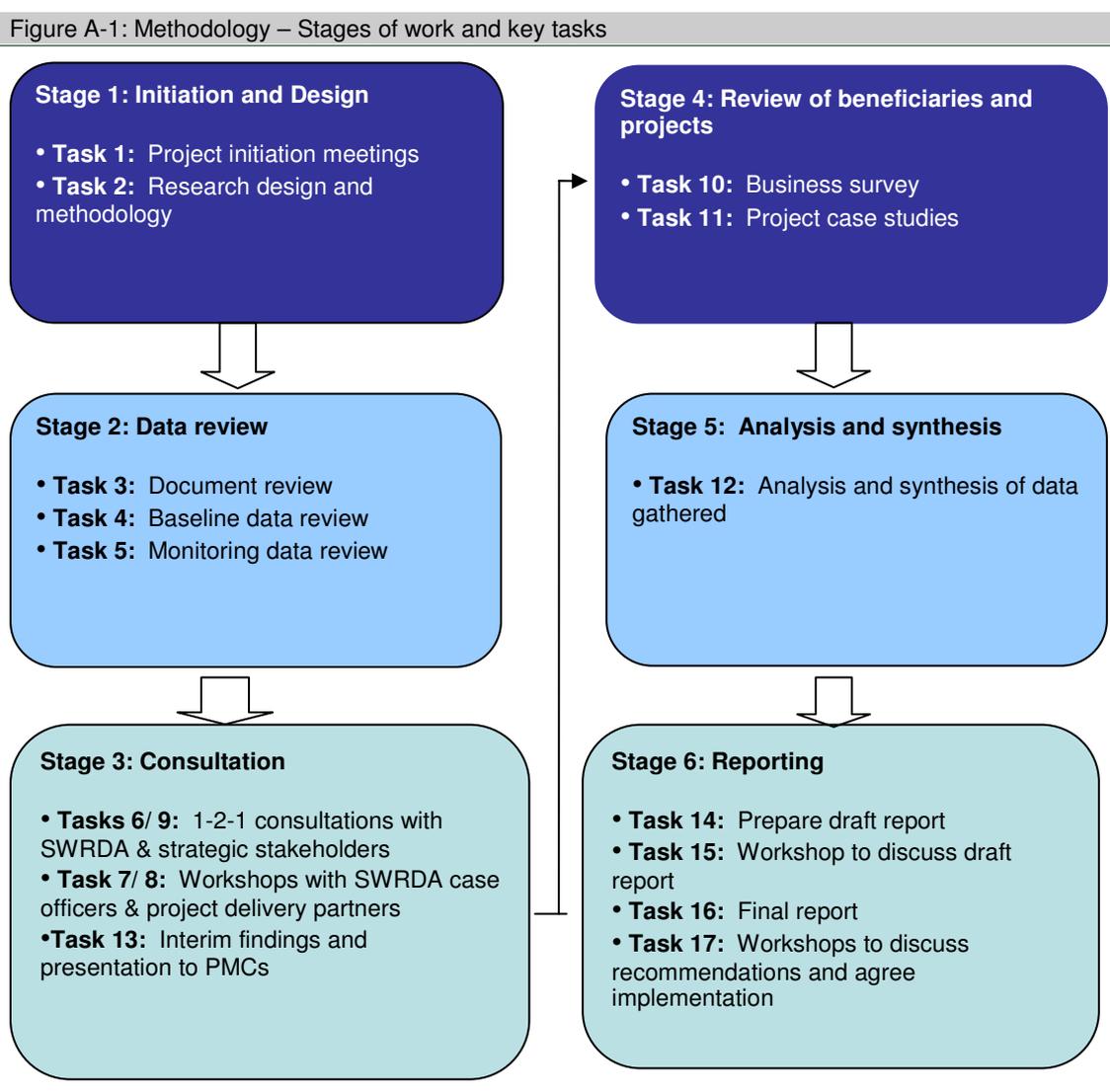
Convergence - Final Report Annexes

October 2010



Annex A: Review Methodology

- A.1 The 2010 review of the ERDF Competitiveness and Convergence programmes followed a standard methodology for both programmes. The methodology was developed to meet the objectives and scope of the review, as described in Chapter 1.
- A.2 Full details on the methodology were provided in the Project Initiation Document (PID) which was agreed with the client group. The figure below summarises the stages to the review and the tasks involved.



- A.3 The programmes review was undertaken in six main stages:
- Stage 1 included two project initiation meetings, the design of research tools (see Annex B) and the development of the PID. Due to the tight timetable for the initial stages of the review, the PID was agreed at a later stage in the review process

- Stage 2 involved the comprehensive review of strategic documents for both programmes, an update on baseline conditions for both programmes and the review of key developments in the UK (national, regional and local) and European policy landscape. Given major changes in the macro-economic and political context, the baseline conditions update and policy review was updated for a second time in stage 5
- Stage 3 involved in-depth consultations with a range of strategic, programme management and project stakeholders for both programmes, through one to one consultations and half-day workshops with SWRDA case officers and project delivery partners. Due to slippage in the original timetable, Task 13, the presentation of interim findings to the two PMCs, took place in this stage
- Stage 4 encompassed a survey of businesses that had received business assistance through one of the programmes, and a series of short project case studies
- Stage 5 involved the analysis and synthesis of the review evidence, and updates to some of the previous tasks, including the baseline conditions and policy review
- Stage 6 saw the preparation of two separate draft final reports and their presentation to the evaluation sub-group (the Steering Group for the review). This was followed by a presentation to the Convergence joint PMC of the findings of the review of the Convergence programme. Members of the Competitiveness joint PMC were invited to provide written comments on the Competitiveness report. These comments, and others from a range of stakeholders, were taken on board in finalising the final reports.

Annex B: Research Tools

Strategic Stakeholder Questionnaire

Consultee details
Name and position of consultee
What has been your involvement to date with the programme(s)?
Rationale, focus and objectives
What is (are) the programme(s) seeking to achieve? What problems or opportunities is the programme(s) seeking to address/ take advantage of? [Focus on consultee's role in programme(s) and their policy/ organisational interest]
Are the programme objectives clear and widely understood? What about the objectives of the Priority Axis you are most familiar with - are they clear and widely understood?
Does the rationale and focus of the programme(s)/ Priority Axis/ activity that you are involved in continue to be relevant? What changes are needed and why?
Has the programme's strategy been adapted to respond to recent changes in a) economic conditions (e.g. recession, public finances), b) policy developments (local, regional, national, European), c) other factors? What changes are required now to respond to these developments? What is likely to happen if the programme/activity is not adapted?
What are the key ways in which the programme(s) is contributing towards the Lisbon agenda and EU Cohesion Policy? Is the programme on track to meet its target for supporting the Lisbon agenda? [Provide context on Lisbon agenda if required and probe understanding in relation to the programme(s)]
Programme governance/ processes
Do the programme managers and Programme Monitoring Committee (PMC) have the requisite skills/ capacity to manage the programme effectively? If not, what is lacking?
Is the PMC and programme sub-groups operating effectively?
How effective and efficient is the programme's project development/ appraisal/ contracting processes? E.g. pre-commissioning stage; the commissioning of projects; the appraisal of projects including the decision-making of the Endorsement Advisory Group; project contracting
What are your views on the quality of the projects contracted to date or near to contracting? What explains any differences between the Priority Axis?
How has the programme sought to manage risk, and particularly the risks around delivery, poor performance and match funding? How effective has this risk management been?
Have delivery partners encountered any major difficulties with programme management? If so, in what areas?
How effective is the programme's communication strategy? How effectively is this being implemented by projects?
Programme engagement and joint working
Who have been the programme's key delivery/ strategic partners? How effective has the programme engaged them? Are these the right partners, or should others be involved?
How successfully is the programme collaborating with the ESF programme? How has this been reflected in management, delivery and impacts?
How successfully is the programme collaborating with other programmes or initiatives? E.g. Solutions to Business, policy initiatives. How has this been reflected in management, delivery and impacts?
Has there been any communications/collaboration/joint working between the Convergence and Competitiveness programmes? If so, has this been effective and useful? If not, is there a need for joint working? Which areas of the programmes may benefit from joint working?

Programme performance
For those parts of the programme(s) that you are most familiar with, which aspects have worked well to date and contributed to the delivery of the outputs and outcomes (results)? Which activities (Priority Axis, projects) have been more and less successful? What explains this? [Probe delivery in rural areas for both programmes]
Has the programme/ project delivery been different to what was originally intended? Why is this?
What have been the outcomes/ results achieved by the programme to date? What types of impacts are expected in the future?
How confident are you that the programme/ Priority Aixs/ projects are on track to reach their output/ result and financial (N+2) targets? If not what can be done to improve current performance? [Probe answers in relation to experience of previous European/ UK programmes, evidence to explain answers]
Is there a need to review any of the original targets, either in scale or type (e.g. in light of recent performance or changing conditions)?
[For C&E only] How successfully is the programme delivering its objective to tackle intra-regional disparity? Is this a help or hindrance to meeting targets?
Are the SIF areas the right geographical areas? If not, which areas should be included?
What are the main risks to the programme securing its objectives? What impediments may exist to future progress?
How successfully is the programme meeting its objectives for the equal opportunities cross-cutting theme? What progress has been made in embedding equal opportunities throughout the programme? How has this been reflected in management, delivery and impacts?
How successfully is the programme meeting its objectives for the environmental sustainability cross-cutting theme? What progress has been made in embedding environmental sustainability throughout the programme? How has this been reflected in management, delivery and impacts?
How successfully is the programme supporting the transition to a low carbon economy? What opportunities does this present for the programme? What more needs to be done?
Investment and value for money
Is the programme delivering (or on track to deliver) value for money? Why do you say this? How do you think vfm could be improved? [VfM is obtaining the maximum benefit with the resources that are available - the economy with which resources are used, the efficiency with which benefits are achieved and the overall effectiveness of the activity. Probe for evidence and benchmarks for comparison]
What are the priorities for investing future resources? What should the programme do more of and what should the programme do less of? [Probe potential uses for headroom in Priority Axis and areas of under performance]
Strategic added value
Has the PMC provided strategic leadership to partners and stakeholders in relation to: (a) articulating and communicating long term development needs, opportunities and solutions? (b) articulating the programme's role and inspiring confidence in its capacity to deliver? (c) defining the roles for partners and stakeholders?
Has the PMC provided coordination or networking opportunities that have: (a) promoted intelligence sharing between partners (b) encouraged greater strategic alignment or consistency of approach (c) facilitated mutual trust, innovation and adoption of best practice, or reduced duplication
Has the PMC influenced: (a) the development of knowledge and intelligence (b) partners' strategic priorities (c) the scale and nature of partner fundng, activities and outputs

Good practice and lessons
From your experiences to date, what lessons can be learned for the future design and implementation of the programme or other similar programmes?
Are there examples of genuine good practice? Why do you say this?
Is there anything else you would like to discuss that we have not covered?

Business Survey - Questionnaire¹

Good morning, afternoon, evening. My name is ... from QA Research, an independent research agency. SQW Consulting and ourselves are carrying out a review of activities that have been funded through the European Regional Development Programme in the South West.

We understand your business benefitted from the [insert project name] project. You may know this project as [insert type of support received and/or project description]

Anything you say will be in the strictest of confidence. Any information collected will be anonymous and you will not be identified in the analysis. QA is an MRS registered company and is MRQSA accredited.

We would like to ask you about your involvement with this support. The survey will take about 20 minutes. Can we conduct the survey now or would it be better to call back later.

Now – CONTINUE

Later – ARRANGE CALLBACK

To start I have some details that I'd like to check are correct.

(PRE-POPULATE, AND AMMED IF NEEDED)

Name of Company:

Contact Name:

Project benefiting from:

1. Which of the following would you describe your business as? READ OUT. SINGLE CODE

Sole trader

Partnership

Private limited company

Public limited company

Voluntary sector organisation

Social enterprise

Other (please specify)

IF CODES 1-4 AT Q1 ASK Q1a. OTHERS GO TO Q2.

1a And is your business a subsidiary of a larger company or group?

Yes

No

DK

2. In which of the following sectors does your business operate? READ OUT

Environmental goods and services sector

Agriculture and fishing

Energy and water

Manufacturing

Construction

Distribution, hotels, restaurants

Transport and communications

Banking, finance and insurance, etc

Public admin, education, health

¹ The questionnaire did not have questions 4, 5, 7 and 25 as they were not included in the final questionnaire.

Other services (please specify)

3a. What services/products does the business provide?

OPEN

3b. Do you consider your business to be high-technology or knowledge intensive?

Yes
No
DK

6. How long has the business been located in <Cornwall & Isle of Scilly> <South West>?

ENTER IN YEARS

8a. What is the full postcode of this site?

ENTER POSTCODE

8b. Does your business operate from one or more premises PROBE FOR CODE

One site

More than one, but all in <Cornwall & Isle of Scilly> <South West apart from Cornwall & Isles of Scilly>

More than one, with at least one site outside of <Cornwall & Isle of Scilly> <South West apart from Cornwall & Isles of Scilly>

9a.) If the business has been trading for over 1 year (otherwise skip to Q11), what was the value of sales in the last financial year for the whole business?

Up to £64k

£65k – £250k

£251k – £500k

£501k - £1million

£1,000,001 - £2.5 million

Over £2,500,001

N/A business not yet trading

DK (BEFORE ACCEPTING DK, PLEASE REMIND RESPONDENT THAT WE ARE AFTER A 'BEST ESTIMATE')

DO NOT ASK 9B IF BUSINESS NOT YET TRADING OR DK OR IF Q8 CODED 'ONE SITE'.

9b.) Approximately what proportion of this was generated by your business sites in <Cornwall & Isle of Scilly> <South West apart from Cornwall & Isles of Scilly>?

ENTER %

DK

10. By what percentage do you think sales will increase over the next three years?

0 – 10%

11 – 25%

26% or more

Stay the same

Decrease

DK (BEFORE ACCEPTING DK, PLEASE REMIND RESPONDENT THAT WE ARE AFTER A 'BEST ESTIMATE')

11a . How many full-time employees does your business employ (including owner/proprietor) (IF MORE THAN ONE SITE AT Q8 – CODES 2 OR 3: at this site?

ENTER NUMBER

11b . How many part-time employees (ie working less than 30 hours a week) does your business employ (IF MORE THAN ONE SITE AT Q8 – CODES 2 OR 3: at this site?

ENTER NUMBER

IF CODE 2 OR 3 AT Q8 ASK 11c. OTHERS GO TO Q12.

11c . How many full-time employees does your business employ (including owner/proprietor) in total, that is across all sites or premises?

ENTER NUMBER

11d . How many part-time employees (ie working less than 30 hours a week) does your business employ in total, that is across all sites or premises?

ENTER NUMBER

12. By what percentage do you think overall employment will increase over the next three years?

0 – 10%

11 – 25%

> 26%

Stay the same

Decrease

Don't know (BEFORE ACCEPTING DK, PLEASE REMIND RESPONDENT THAT WE ARE AFTER A 'BEST ESTIMATE')

13a. What proportion of this site's sales by value are made within the following areas?

READ OUT. ENSURE THE ANSWER TO ALL THREE AREAS = 100%

Within <Cornwall & Isle of Scilly> <South West apart from Cornwall & Isles of Scilly> ENTER %

Elsewhere in the UK ENTER %

Abroad within the European Union ENTER %

Abroad Elsewhere Enter %

13b. What proportion of this site's purchases by value are made within the following areas? READ OUT. ENSURE THE ANSWER TO ALL THREE AREAS = 100%

Within <Cornwall & Isle of Scilly> <South West apart from Cornwall & Isles of Scilly> ENTER %

Elsewhere in the UK ENTER %

Abroad ENTER %

Abroad Elsewhere Enter %

14. If the business were to cease its operation at this site, roughly what proportion of the site's sales, by value, would be taken by competitors located within the following areas?

READ OUT. ENSURE THE ANSWER TO ALL THREE AREAS = 100%. DK ALLOWED (but not read out)

Within <Cornwall & Isle of Scilly> <South West apart from Cornwall & Isles of Scilly> ENTER %

Elsewhere in the UK ENTER %

Abroad ENTER %

Abroad Elsewhere Enter %

15a. In which year did you first start to participate in the project? REMINDER
CONSULTEE OF THE PROJECT NAME, TYPE OF SUPPORT RECEIVED AND/OR
DESCRIPTION OF SUPPORT

ENTER YEAR

15b. How old was your business when you first participated in the project?

NEW BUSINESS/ LESS THAN ONE YEAR OLD
ESTABLISHED BUSINESS (SPECIFY NUMBER OF YEARS OLD)

**15c. Is your business a black or minority ethnic owned business, female owned
business, or disabled owned business?**
PERMIT MULTICODING

Black or minority ethnic owned business
Female owned business
Disabled owned business

**16a. What issues was your firm facing that prompted interest in the project? PERMIT
MULTICODING (NOT PROMPTED)**

Wanted information / knowledge
Staff skills gaps
Wanted to improve management practices
Wanted loans, equity or other sources of funding
Networking / linkages (e.g. supply chain, collaborations)
Improve links to research organisations (e.g. University)
Wanted access to workspace / facilities
Wanted to improve technical efficiency (e.g. equipment utilisation)
Wanted to test / develop new product or process
Wanted to improve ability to adopt new technologies
Wanted help reducing costs
Support to help start-up the business/increase survival chances
Support to help improve productivity
Support as a means to help improve profitability
Support to help improve overall competitiveness
Support to improve environmental performance
Other (please specify)

IF MORE THAN ONE AT Q16a ASK Q16b. OTHERS GO TO Q17.

16b. What was the most important issue? SINGLE CODE. READ OUT ISSUES BELOW
IF NECESSARY.

DISPLAY ONLY ISSUES FROM Q16a.

17. What types of support did you receive through the project? IF NECESSARY READ
OUT

General support on management (marketing, design, finance, production)
Business coaching
Proof of concept funding support
Support on commercialisation
Access to specialist facility
Access to workspace for business location
Networking with other businesses / organisations
Start-up / post-start support
Investment readiness support
Training/development for staff
Signposting to other forms of support

Advice on improving environmental performance/ resource efficiency
Other (specify)

18. How satisfied were you with the project support in terms of the following factors
(Very satisfied, fairly satisfied, neither, fairly dissatisfied, very dissatisfied, not applicable)

Understanding of needs
Appropriateness of solutions to needs
Ease of application for grant / support
Speed of response to application
Regular contact with you
Value of financial support received
Value of non-financial support received
Provision of follow up advice / support / guidance / signposting
Overall satisfaction

19. Do you have any further comments regarding your satisfaction with the project?

OPEN

20. On a scale of 1 to 5 (where 1=no impact, 5=extensive impact), how has the project impacted on your business in terms of READ OUT

New information or knowledge
Improved staff skills
Management practices
Access to appropriate funding
Networking / linkages (e.g. supply chain, collaborations, clusters)
Access to appropriate workspace / facilities
Technical efficiency (e.g. better equipment utilisation)
Developing new products or processes
Innovation performance
Ability to adopt new technologies
Reducing costs
Improve start-up prospects or survival chances
Improving productivity
Profitability
Overall competitiveness
Improved environmental performance
Improved approach to promoting equality of opportunity

20a Has the project has any other impacts

21. How long after the support did you start to realise benefits (or if benefits have not yet been experienced, how long after the support do you anticipate to start to realise benefits)?

Straight away
Within 1 year of support
Within 3 years of support
Within 5 years of support
5+ years following support
None expected (GO TO Q29)

22. For how many years do you expect the benefits to last from the time benefits were first realised/are expected to be realised?

One year

Two-three years

Four-five years

Six-ten years

More than 10 years

DK (BEFORE ACCEPTING DK, PLEASE REMIND RESPONDENT THAT WE ARE AFTER A 'BEST ESTIMATE')

In the next questions we want to establish the impact of the changes that have been brought about on the performance of the business at this site. First I will ask about changes to date, and then about expected overall changes, including those anticipated into the future. May I stress that we are after your best estimate if you are not aware of the exact figure.

23. Which of the following have happened to this business at this site to date as a result of your involvement with the project? READ OUT. CODE ALL THAT APPLY.

Turnover increased

Full-time employees (30+ hrs per week) increased/safeguarded

Part-time employees (less than 30 hrs per week) increased/safeguarded

Costs reduced

Profit increased

Other (specify)

N/A – too early for impacts to be realised (DON'T READ OUT)

IF TURNOVER INCREASED

24a On average how much has your annual turnover increased to date as a result of the project?

Per annum increase ENTER AMOUNT IN £ (ALLOW DK)

ASK ALL

24b By how much, including any increase you have experienced already, do you expect your average annual turnover to increase as a result of your involvement in this project?

Per annum increase ENTER AMOUNT IN £ (ALLOW DK)

IF FULL-TIME EMPLOYEES INCREASED

24b How many more full-time employees work here to date because of your involvement in the project, include jobs safeguarded that otherwise may have been lost?

ENTER NUMBER (ALLOW DK)

ASK ALL

24c how many full-time employees do you expect will work here in total as a result of your involvement with this project?

ENTER NUMBER (ALLOW DK)

IF PART-TIME EMPLOYEES INCREASED

24d How many more part-time employees work here to date because of your involvement in the project, include jobs safeguarded that otherwise may have been lost?

ENTER NUMBER (ALLOW DK)

ASK ALL

24e How many part-time employees do you expect will work here in total as a result of your involvement with this project?

ENTER NUMBER (ALLOW DK)

IF COSTS REDUCED

24f On average how much have your costs reduced on an annual basis to date?

Per annum reduction ENTER AMOUNT IN £ (ALLOW DK)

ASK ALL

24g By how much, including what has happened already, do you expect your average annual costs to decrease as a result of your involvement in this project?

Per annum reduction ENTER AMOUNT IN £ (ALLOW DK)

IF PROFIT INCREASED

24h On average how much has your annual profit increased to date as a result of the project?

Per annum increase ENTER AMOUNT IN £ (ALLOW DK)

ASK ALL

24i By how much, including what has happened already, do you expect your average annual profit to increase as a result of your involvement in this project?

Per annum increase ENTER AMOUNT IN £ (ALLOW DK)

26. On a scale of 1 to 5 (where 1=no impact and 5=extensive impact), how would rate the impact of the project in on your overall business?

(IF CODED AT Q24) Increased turnover to date

Expected increase in turnover in total

(IF CODED AT Q24) Increase/safeguarding of full-time employees to date

Expected increase/safeguarding of full time employees in total

(IF CODED AT Q24) Increase/safeguarding of part-time employees to date

Expected increase/safeguarding of part-time employees in total

(IF CODED AT Q24) Reduced costs to date

Expected reductions in cost in total

(IF CODED AT Q24) Increase in profits to date

Expected increase in profits in total

(IF CODED AT Q24) Other (from Q24)

ASK IF CODE 2 or 3 AT Q8. IF CODE 1 AT Q8 GO TO Q28.

27. What proportion of the overall benefits to the business have been generated a) at this site, b) other sites in <Cornwall & Isle of Scilly> <South West apart from Cornwall & Isles of Scilly> c) outside of <Cornwall & Isle of Scilly> <South West apart from Cornwall & Isles of Scilly>?

0%

1-25%

26-50%

51-75%

76-99%

100%

DK

ASK ALL

28. In the absence of the support you received, would these performance benefits (e.g. increase turnover, profit, employees) have still occurred? If yes, prompt into code.

Single code 1 or 5, others can be multicoded

SINGLE CODE 1 OR 5. OTHERS CAN BE MULTICODED.

Yes – in full

Yes but later (specify months later)

Yes but on a smaller scale (specify how much smaller as %)

Yes but in a different way (specify)

No, not at all

IF YES AT Q28. OTHERS GO TO Q30.

29. If you would have implemented changes without the support of this particular project, from which of the following would you have found the resource or support to do so? READ OUT MULTI CODE

Internal resource

Private sector professional service providers (e.g. accountant, lawyer)

Private sector consultants

Public sector funded support – regional-based support

Public sector funded support – other public support

Other (specify)

ASK ALL

30. Did your participation in this project mean that you could not engage in other business development activities? IF YES PROBE FOR CODE

Yes - substantially

Yes – a little

No

Don't know

IF YES AT Q30. OTHERS GO TO Q32

31. How do you think these other business development activities would have compared, in terms of their benefits, to this project? READ OUT

Other business development activities would have achieved more than 100% of scale of benefits that this project has brought about

Would have achieved 76-100%

Would have achieved 51-75%

Would have achieved 26-50%

Would have achieved 1-25%

Would have achieved 0%

32. What, if any recommendations do you have on how the project could be improved?

OPEN

33. Would you be happy to be contacted for future research regarding the issues we have just talked about?

Yes

No

Project Case Studies - Aide-memoire

Introduction

Name & position of stakeholder.....

What is their role/involvement with the project?

Underlying conditions, rationale for the project and its objectives

Please can you confirm the rationale for the project, in terms of the problems and opportunities the project is trying to address?

What is the rationale for delivering the project in this form rather than in any other way?

Why was Convergence/Competitiveness funding required to support the project rather than other sources? Was an option appraisal undertaken?

Please can you confirm the project's overall objectives? Are these SMART?

How well do these fit with the objectives of the Programme and Lisbon agenda?

Inputs (intended spend/actual spend) and activities

What are the project's main activities? How were the activities identified, prioritised and selected – for example, was an options appraisal undertaken?

How is the project working alongside other projects and initiatives? [Probe other ERDF projects, ESF projects, other initiatives]

Please can we confirm our understanding of project spend to date? [Read out from monitoring data]

Where has the match been accessed from?

Is the project where it expected to be by now in terms of project spend?

How confident are you that you will spend your allocation in full? Why do you say this?

Challenges experienced in delivery

What have been the main challenges experienced in delivering the project? What impact have these had?

What has been done to mitigate these?

Outputs and results – achieved and anticipated

Please can we confirm our understanding of project outputs and results to date? [Read out from monitoring data]

How were the targets set?

Is the project where it expected to be by now in terms of achieving outputs and results?

What have been/ will be the outcomes of your project? [changes in behaviour, capacity or performance resulting from the project] What difference will this make to the economy of the Convergence or Competitiveness area?

How confident are you that you will achieve your output and result targets? What are the main risks or barriers to the project achieving the targets? How are these being mitigated?

Additionality

In the absence of the project, what would have happened?

- All actions and changes would have taken place anyway
- Actions and changes would have taken place at a reduced scale
- Actions and changes would have taken place at a later date
- Actions and changes would have taken place at a lower quality?
- Nothing would have happened without the project

Probe the additionality of the achieved or expected outputs and results, in terms of perceptions on leakage, displacement and substitution, where appropriate.

Has the project had any positive or negative unintended benefits?

What additional spin offs (multiplier effects) are likely as a result of the project? (For example, more people employed, impacts on sectors, supplier chains etc)

Value for money

In terms of value for money, how has the project achieved the following three elements:

- Economy – how has the cost of activities been minimised? What is the cost per gross output?
- Efficiency – how have outcomes been maximised from the lowest given costs?
- Effectiveness – how well have outputs and outcomes (results) been achieved against targets? How well is the project meeting its objectives?

Cross cutting themes

How were the two cross-cutting themes addressed during the project development process? What challenges did you face? [Probe each CCT individually]

How well are the two cross-cutting themes being met through the delivery of the project? To what extent have the CCTs aided the delivery of economic outcomes and stimulated the development of new market opportunities? [Probe each CCT individually]

Future risks to the project

What are likely to be the biggest future risks to the project achieving its goals? And what would be the implication of the risks being realised?

What is being done to mitigate against these?

Good practice/hindsight lessons

Is the project an example of good practice? If so why?

Is there anything that should have been done differently?

Are there lessons that have been learned which can be applied in the second half of the project?

Annex C: Stakeholders consulted

List of strategic and programme management stakeholders

Table C-1: Programme management and strategic stakeholders list (for review of both ERDF Competitiveness and Convergence programmes)

Stakeholder	Title	Organisation
Chris Kirby	Head of Structural Funds Implementation and Twinning	Department for Business Innovation and Skills
Ian MacDougall	Head of Economic Development	Bristol City Council
Wendy Jarvis	Deputy Director European Policy and Programmes and Emergency Management	Communities and Local Government
Thelma Sorensen	Chairman	Cornwall Business Partnership
Sandra Rothwell	Head of Economic Services	Cornwall Council
Blair Thomson	Chairman	Cornwall Strategic Partnership (Third Sector)
Tom Flanagan	Corporate Director for Environment, Planning and the Economy	Cornwall Council
Cllr Caroline Rule	Councillor	Cornwall Council
Paul Stephens	Principle Officer - External Relations	Environment Agency
Vivienne Rayner	SW Policy Development Manager	Federation of Small Business
Jon Bright	Regional Director	GOSW
Philip Johnson	Deputy Director European Programmes	Government Office for the South West
Sarah Beeson	ESF Manager	Government Office for the South West
Diana Monpoloki	Economic Development Manager	Isle of Scilly Council
Christopher Grace	Economic Development	Plymouth City Council
Paul Hickson	Group Manager, Economy and Europe	Somerset County Council
Trevor Smale	-	South West Forum
Nigel Hutchings	Chief Executive	SW Chamber of Commerce
Nigel Howells	Head of Competitiveness Programme	South West Regional Development Agency
Gareth Grimshaw	Head of Convergence Programme	South West Regional Development Agency
Phil McVey	Director of European Policy & Programmes	SWRDA
Lorelei Hunt	Director of Innovation / HE	South West Regional Development Agency

Stakeholder	Title	Organisation
Suzanne Bond	Executive Director, European Programmes and People & Skills	South West Regional Development Agency
Ian Durston	Head of Business Link Operations	South West Regional Development Agency
Ian Piper	Director of Development & Regeneration	South West Regional Development Agency
Theo Leijser	Area Director - Cornwall & IoS	South West Regional Development Agency
Lisa Sandercock	E&D CCT Advisor	South West Regional Development Agency
Alex Huke	Environmental CCT Theme Manager	South West Regional Development Agency
Alan Denby	-	Torbay Development Company
Robin Bower	Project Manager - Business Relations	Universities South West
Jeremy Filmer-Bennet	Chief Executive	Devon and Cornwall Business Council
Suzy Wright	EU Co-Coordinator	South West Regional Employment and Skills Board

Source: SQW Consulting

Attendance at workshops with case officers and project delivery partners

Table C-2: Attendance at Convergence workshops

Attendees

Case officers workshop

Anona Vazquez-Masson – Innovation and Entrepreneurship Convergence Manager

Stephen Bhoane – Head of Business Development

Jane Caro – Innovation and Entrepreneurship Convergence Manager

Ian Whale – Communities Infrastructure Manager

John Burton – Communities Infrastructure Manager

Robin Edwards – Business finance Manager

Delivery partner workshop

Simon Howes - SWMAS – Representing Arthur Richardson

Gillian Burnett - University College Falmouth.

Diana Mompoloki - Council of Isles of Scilly

Tarn Lamb - Cornwall Neighbourhoods for Change (Chief Exec)

Amanda Ratsey - BL Peninsular

Attendees

Andrew Farmer - Oxford Innovation

Keith Vallely - BLS Estates

Jean Taylor - Exeter University

Nick Blandford - CDC

Lisa Pill/Matt Borne - Cornwall College

Neil Lyndsay - CPR

Nigel Hewitt - CUC (representing Sue Brownlow)

Emma Bland - Peninsular Medical School

Mags Truman - Peninsular Medical School

Robin Bower - University SW

Rory Uniake - UKTI SW

Source: SQW Consulting

Project Case Study Stakeholders

Table C-3: Convergence case study contacts

Project	Organisation	Project Contact Name	SW RDA/ERDF Case Officer
Wave Hub Construction Costs & Development Costs	South West RDA	Nick Harrington	N/A
Interim Funding for CUC Central Team and CUC Phase 3 Central Team	Combined Universities Cornwall	Sue Brownlow, Director	Jane Caro, Enterprise & Innovation Manager
Watson Marlow Ltd	Watson-Marlow Ltd	Mark Rawet	John Burton

Annex D: Review of European Policy Developments

Introduction

- D.1 This annex presents the findings of a review undertaken of European policy developments since the ERDF programmes were launched in 2007 and considers the implications for the strategy of both programmes. Further analysis, including a review of developments at a UK level, are provided in a separate annex and in the main body of the report.

Background

- D.2 The new European Structural Funds Programmes were designed for the period 2007-2013 to run concurrently with the period of the EU's Multi-Annual Financial Framework – the budgetary framework for the EU. In response to widespread criticisms, the Structural Funds were designed to be more flexible to local and regional needs than the previous programme period (2000-06). This means that in the current programming period, there is scope to take into account new developments in the political and economic landscape. The section therefore examines some of these key developments, in respect of:

- EU climate change agreement
- The impact of and policy response to the financial and economic crisis
- The ongoing review of the EU budget and of cohesion policy
- The Europe 2020 agenda (the successor to the Lisbon Agenda).

- D.3 To set these developments into context, it is first necessary to examine the starting point of the current programmes.

Starting point of the 2007-2013 Programmes

- D.4 The EU strategic direction for the programmes is summarised in the 'Community strategic guidelines on economic, social and territorial cohesion, 2007-2013'². They note in order to support growth and jobs under the Lisbon agenda the programmes should focus on three priorities:

- improving the attractiveness of Member States, regions and cities by improving accessibility, ensuring adequate quality and level of services, and preserving the environment
- encouraging innovation, entrepreneurship and the growth of the knowledge economy by research and innovation capacities, including new information and communication technologies

² http://ec.europa.eu/regional_policy/sources/docoffic/2007/osc/index_en.htm

- creating more and better jobs by attracting more people into employment or entrepreneurial activity, improving adaptability of workers and enterprises and increasing investment in human capital.

D.5 The strategic guidelines also emphasise a number of key principles:

- the renewed Lisbon agenda
- pursuing the objective of sustainable development and synergy between its economic, social and environmental dimensions
- promoting equality between men and women
- taking appropriate steps to prevent any discrimination on the basis of gender, race or ethnic origin, religion or belief, disability, age or sexual orientation.

D.6 Given this emphasis at the outset of the 2007-2013 programme, there is a need to review the impact of any major EU policy developments in the economic, social and environmental fields to consider any implications for the ERDF programmes in the South West.

Climate change policy

D.7 The most significant development in environmental policy in recent years has been the agreement of the EU climate and energy package that aims to combat climate change and to increase the EU's energy security while strengthening its competitiveness. The package became European law in June 2009³, including a series of climate and energy targets to be met by 2020 (known as the 20-20-20 targets):

- a reduction in EU greenhouse gas (GHG) emissions of at least 20% below 1990 levels
- 20% of EU energy consumption to come from renewable resources
- 20% reduction in primary energy use compared with projected levels, to be achieved by improving energy efficiency⁴.

D.8 Having the legally binding targets is a new level of commitment at the EU level. However, the economic crisis and the changing structure of the EU energy supply (away from carbon-intensive sources such as coal to lower carbon sources such as gas) might mean that the 20% reduction in GHG emissions might not be a very stretching target. A more ambitious 30% reduction is proposed only if there is an international agreement, which failed to materialise in Copenhagen in December 2009.

D.9 However, arguably the targets on renewable energy and energy efficiency should provide a renewed emphasis on these areas in the Structural Funds programmes. This can take advantage of the recent changes to Cohesion Policy rules that support investments in energy efficiency and renewable energies in the residential sector, which the South West programmes are currently exploring. Overall, while Cohesion Policy is planned to invest €48 billion (out

³ NB The energy efficiency target is not legally binding.

⁴ http://ec.europa.eu/environment/climat/climate_action.htm

of €347 billion) over 2007-13 to promote the fight against climate change, most of this is focused on transport. So far programmes across Europe have only allocated €4.8 billion in renewable energy and €4.2 billion in energy efficiency.

The financial and economic crisis

- D.10 The major economic change in Europe has been the financial and economic crisis. The impact quickly spread from the financial sector to the real economy, causing a deep recession and a deterioration in labour markets across the EU. In addition, as EU countries used public spending to cushion the impact, public finances have deteriorated and are forecast to further suffer.
- D.11 At EU level, the Commission endorsed the European Economic Recovery Plan at the end of 2008. The EERP contained three EU-level measure of particular importance for cohesion policy:
- The frontloading of cohesion funding, to protect and enhance so-called "smart investment" in areas of high long-term growth potential.
 - The flexibility to revise programmes to take account of changed circumstances
 - The accelerated expansion of lending activity of the European Investment Bank (EIB).
- D.12 Flexibilities continue to be introduced to Structural Funds:
- The European Parliament has recently backed new rules on the "de-commitment" of funds (for funds committed in 2007) to give Member States more time to spend EU funds and relaxed commitments for major projects
 - Support has been provided for multi-instrument financing, which energy efficiency and the use of renewable energies in housing will also be encouraged to make use⁵.
- D.13 In 2009, around 80 formal decisions were taken to modify Operational Programmes⁶. Modifications can be made to take account of
- significant socio-economic changes
 - major changes in Community, national or regional priorities
 - evaluation findings (Article 48(3))
 - implementation difficulties (Art 33)⁷.
- D.14 The changes to Operational Programmes can include revising targets, not least because the process across European programmes lacked benchmark values (apart from those derived from previous programmes) and the indicator framework was difficult to apply.

⁵ http://www.europarl.europa.eu/news/expert/infopress_page/059-74104-125-05-19-910-20100504IPR74101-05-05-2010-2010-false/default_en.htm

⁶ http://ec.europa.eu/dgs/regional_policy/document/aar2009_en.pdf

⁷ <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2006:210:0025:0078:EN:PDF>

Integration of ERDF and ESF

- D.15 The 2007-2013 programmes have attempted to improve the integration between ERDF and ESF. In the new programmes, it is now possible (under Art 34, 2) for ERDF and the ESF to fund actions falling within the scope of assistance from the other fund, providing that they are necessary for the satisfactory implementation of the programme and are directly linked to it. The assistance must not exceed 10 % of Community funding for each priority axis⁸. Neither of the ERDF funds in the South West has taken up this option to date.
- D.16 It is also now easier to finance projects jointly. For example, in the West of Scotland one of the ESF Programme priorities will be delivered jointly with one of the priorities in the ERDF programme. Joint awards of funding under Priority 1 of the ESF Programme and Priority 3 (Urban Regeneration) of the ERDF Programme will be made to projects making linked separate applications under each priority. However, this is not a simple process, as applications need to be made to each programme and be specific in allocating distinct activities, expenditure and outcomes to each Fund⁹. Nevertheless, in responding to the economic crisis and securing the successful implementation of the Operational Programmes, there may be further potential to build links between ERDF and ESF in the South West.

Changes to EU spending and cohesion policy

Increased role for the European Investment Bank

- D.17 The previous section highlighted the expansion of the role and lending of the EIB as part of the European Recovery Plan. The EIB has been expanding its lending portfolio prior to the Economic Recovery Plan, for example, with the aim of increasing the supply of venture capital.
- D.18 The integration of the EIB is part of a longer term development of EU cohesion policy, prompted by the need to focus available EU spending on the new member states with low per capita GDP/incomes. There are currently two specific routes for EIB support in Cohesion Policy which, arguably, are better suited to the member states / regions with significant experience of working with Cohesion funding for competitiveness objectives: JEREMIE (based on access to finance for SMEs) and JESSICA (for sustainable urban development)¹⁰. It is likely that Cohesion Policy in the future will see further development of these concepts.¹¹
- D.19 Under the auspice of ‘financial engineering’, these funds are usually managed by the EIB and constitute joint initiatives, which will include the region, the EIB and other partners (such as venture capitalists and banks). With the 2008 EU Recovery Package, the scope of JESSICA became significantly enlarged and included expenditure on energy efficiency and the use of renewable energy in existing housing. With JEREMIE the significant ‘holding fund’ partner

⁸ <http://www.scotland.gov.uk/Publications/2008/07/29142711/8tp://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2006:210:0025:0078:EN:PDF>

⁹ <http://www.scotland.gov.uk/Publications/2008/07/29142711/8>

¹⁰ For further details of the main funding mechanisms please see: http://ec.europa.eu/regional_policy/funds/2007/jjj/index_en.htm

¹¹ For further detail please see <http://www.eib.org/projects/events/jeremie-and-jessica-conference.htm>

is the EIF (the European Investment Fund¹², which provides risk financing to SMEs for entrepreneurship and innovation).

- D.20 With JEREMIE in place for longer than JESSICA, there are more lessons to be learned from previous experiences. For example, JEREMIE provides strong scope for a strategic approach to venture capital interventions. The ‘Holding Fund’ status also allows for flexibility in re-allocating finances between funds and incorporating new funds. Creating one ‘single pot’ of funds also means that EIB loans can be incorporated with ERDF finances.¹³ This combination of resources is not automatic and the right set of circumstances and conditions apply to make this possible – i.e. making clear what each separate component of funding is for. As such, the exact nature of such a combination of funds must be reviewed on a case-by-case basis.
- D.21 The EIB has also increasingly moved into providing finance for SMEs. Due to the long term impact of the crisis on financial markets, firms’ access to capital through the EIB and other mechanisms could be a crucial and cost-effective intervention in many programmes in future. However, it depends on uptake by commercial financial intermediaries and more needs to be done to encourage their involvement in a number of countries, including in the UK.

The future of cohesion policy

- D.22 At the EU level, the Commission published in April 2009 an expert report on future regional policy, *An Agenda for a Reformed Cohesion Policy*¹⁴. It assesses the effectiveness of cohesion policy as well as setting out a range of policy recommendations for the post 2013 period. DG REGIO has initiated the formation of an informal high level reflection group on the future cohesion policy (HLG) to develop the main building blocks of post-2013 Cohesion policy.
- D.23 Some of the key questions under consideration for the future of Cohesion Policy are:
- Whether it should be a policy for all European regions
 - There is need for reinforced territorial dimension and co-operation in providing common solutions to shared problems
 - Whether there should be a stronger focus on core-priorities
 - There should be stronger integration between cohesion policy and other Community policies
 - More focus on sustainable development and opportunities of a low carbon economy
 - More differentiated approaches to policy delivery: more focus on results and performance, greater scope for experimentation, enlarged role for financial engineering
 - Adaptation of transition mechanisms (phasing in and phasing out) towards an overall sliding support mechanism

¹² <http://www.eif.europa.eu/>

¹³ <http://www.eib.org/attachments/mitchell.pdf>

¹⁴ http://ec.europa.eu/regional_policy/policy/future/barca_en.htm

- Greater effectiveness of additionality¹⁵.
- D.24 The key question for the South West ERDF programmes and others is whether they will provide the evidence to illuminate some of the questions noted above and whether they will, and desire to, be involved with cohesion policy in future.
- D.25 This review of cohesion policy should be seen in the context of a more general review of EU spending and the EU budget. The review was supposed to be carried out between 2008 and 2009 but at the time of writing (May 2010) nothing officially has been published. The review has the potential to further influence the direction of cohesion policy when it is published.¹⁶

Post-Lisbon Agenda - Europe 2020

- D.26 Potentially the biggest influence on current and future programmes is the successor of the Lisbon Agenda - Europe 2020. The current Structural Funds programmes were designed around meeting the key objectives of the Lisbon Agenda, which has led to a substantial increase compared to the previous programming period in investments supporting the growth and jobs agenda, especially in the areas of innovation, research, skills and human capital. Convergence programmes such as Cornwall and the Isles of Scilly are required to direct 65% of funds to Lisbon- related expenditure, and Competitiveness programmes 82% of funds, although both programmes in the South West have set higher targets.
- D.27 The Lisbon Agenda was designed to run for a decade, ending in 2010. The European Commission has consulted on its successor. Recent proposals explicitly note that, “economic, social and territorial cohesion will remain at the heart of the Europe 2020 strategy to ensure that all energies and capacities are mobilised and focused on the pursuit of the strategy's priorities. Cohesion policy and its structural funds, while important in their own right, are key delivery mechanisms to achieve the priorities of smart, sustainable and inclusive growth in Member States and regions¹⁷.”
- D.28 At the heart of the proposed new strategy were five “headline targets”:
- 75 % of the population aged 20-64 should be employed
 - 3% of the EU's GDP should be invested in Research and Development
 - The "20/20/20" climate/energy targets should be met (including an increase to 30% of emissions reduction if the conditions are right)
 - The share of early school leavers should be under 10% and at least 40% of the younger generation should have a tertiary degree
 - 20 million less people should be at risk of poverty.
- D.29 However, while the subsequent European Council broadly endorsed the agenda¹⁸, the support for the targets was less clear. The R&D target has been criticised both in terms of whether it

¹⁵ http://ec.europa.eu/dgs/regional_policy/document/aar2009_en.pdf

¹⁶ http://ec.europa.eu/budget/reform/index_en.htm

¹⁷ http://ec.europa.eu/eu2020/index_en.htm

¹⁸ http://www.consilium.europa.eu/uedocs/cms_data/docs/pressdata/en/ec/113591.pdf

can be achieved and whether it is the right objective. The education target ran into difficulties due to devolved responsibilities for education. Finally, the appropriateness of using the poverty target was questioned. As a result, these targets are now being revised. However, the higher emphasis on cohesion, education and climate change is likely to remain, potentially requiring an adjustment in current programmes if the wish is to remain close to the EU strategy.

D.30 In the meantime, the Commission has published Integrated Guidelines¹⁹ to provide direction to Member States concerning the necessary reforms for economic change and growth which underpin the strategy. Europe 2020's headline targets are supported by seven "flagship initiatives"²⁰

- 'Innovation Union' to improve framework conditions and access to finance for research and innovation
- 'Youth on the move' to enhance the performance of education systems and to facilitate the entry of young people to the labour market
- 'A digital agenda for Europe' to speed up the roll-out of high-speed internet
- 'Resource efficient Europe' to help decouple economic growth from the use of resources, support the shift towards a low carbon economy, increase the use of renewable energy sources, modernise the transport sector and promote energy efficiency
- 'An industrial policy for the globalisation era' to improve the business environment, notably for SMEs, and to support the development of a strong and sustainable industrial base able to compete globally
- 'An agenda for new skills and jobs' to modernise labour markets and better match labour supply and demand, including through labour mobility.
- 'European platform against poverty' to ensure social and territorial cohesion such that the benefits of growth and jobs.

D.31 All Member States will be required to adopt reform packages to support the emerging agenda and develop national targets as part of their National Reform Programmes. There are ten guidelines to support this, ranging from ensuring the quality and sustainability of public finances (through budgetary consolidation) to improving resource efficiency and reducing greenhouse gases (through market-based instruments and "green procurement. Europe 2020 may imply that far-reaching reforms are necessary across Europe to set the right conditions for future economic growth. The Structural Funds will be one of the key instruments to implement these guidelines and might need to be revised to take full account of the changed strategic direction.

¹⁹ <http://ec.europa.eu/eu2020/pdf/Brochure%20Integrated%20Guidelines.pdf>

²⁰ <http://ec.europa.eu/eu2020/pdf/COMPLET%20EN%20BARROSO%20%20%2020007%20-%20Europe%202020%20-%20EN%20version.pdf>

Annex E: Review of UK Policy Developments to May 2010

Review of United Kingdom Policy Context

Introduction

- E.1 This annex presents the findings of a review undertaken of UK policy developments since the ERDF programmes were launched in 2007 and considers the implications for the strategy of both programmes. It focuses on key developments in UK national policy up until the May 2010 general election. For the Convergence programme, key developments in local economic policy are also considered.
- E.2 Further analysis of the implications of the policy developments includes a review of developments at a European level set out in a separate annex, and details on the national and regional political and economic landscape under the new coalition government are provided in the main body of the report.
- E.3 The policy developments considered in the remainder of the annex are:
- Industrial and sector policy responses to the recession
 - Reform of business support
 - Knowledge and innovation
 - Climate change
 - Cornwall and Isles of Scilly local economic policy.

Industrial strategy and enterprise

- E.4 2009 saw a number of policy announcements by the former labour government and government institutions to support the recovery of the economy from the recession. Four of the key documents are summarised below.

'New Industry, New Jobs' (HM Government, 2009)

The strategy sets out that in the face of growing competitive pressure, British businesses will need to develop high skills levels and bring about creativity and technological change. This can most easily be achieved by prioritising areas where the UK holds – or realistically can gain – lasting advantages.

The strategy identifies the following key sectors as priorities to support:

- British science and technology
- low carbon technologies
- high levels of skills and creativity
- advanced manufacturing
- Life Sciences and pharmaceuticals.

'Going for Growth' (HM Government, 2010)

Going for Growth builds on the analysis set out in 'New Industry, New Jobs' and focuses on "equipping people and

businesses to return the economy to growth” through:

- supporting enterprise (e.g. making it easier to start a business; finance for business growth)
- fostering knowledge (e.g. investment in higher education and cutting edge technology)
- helping people develop skills
- investing in low carbon infrastructure
- ensuring open and competitive markets
- building on industrial strengths (e.g. plastic electronics, biotechnology, low carbon)
- employing the right strategic role for the government in markets.

‘BIS Enterprise Strategy’ (2008)

The Enterprise Strategy centres on the unlocking of talent to realise the UK’s full business potential. Its vision is to make the UK the most enterprising economy in the world and the best place to start and grow a business, focusing on five key areas which can enable this vision to be realised:

- creating a **culture of enterprise**
- developing **knowledge and skills**, starting at primary school
- providing better and clear **access to finance**
- changing the **regulatory framework** to minimise interference with businesses
- developing and encouraging **business innovation**

Advanced manufacturing support (BIS, 2009)

As part of the New Industry, New Jobs strategy BIS launched a £151m package of measures to support advanced manufacturing. It aims to ‘expand access to information, encourage take up of new and emerging technologies and address challenges faced by specific manufacturing sectors.’ A number of sectors have been targeted including composite materials, the low carbon supply chain, and plastics.

- E.5 The Competiveness and Convergence programmes both have a strong alignment with the agenda set in the policy strategies. Both programmes are seeking to promote innovation, exploit potential new economic markets, build links between business and research, and encourage greater enterprise. There is an argument that the recession has added a greater sense of urgency to ensure that the ERDF priorities for innovation and enterprise are met.
- E.6 The ERDF programmes are seeking to support high-growth, high value added activities and businesses across a range of sectors. The programmes have not picked sectors they will support, other than the environmental goods and services sector (and environmental technologies and renewable energy in particular). *New Industry, New Jobs*, and *Going for Growth*, both have a sectoral strategy. Although the ERDF programmes are *sector blind*, implicitly there is good alignment between the objectives of both programmes and the sectors promoted in the national strategies, for example with low carbon technologies, British science and technology, advanced manufacturing and life sciences and pharmaceuticals. The national priorities also match many of the priority sectors in the South West Regional Economic Strategy, namely advanced engineering (with a focus on aerospace and defence-related), ICT (especially semi-conductor design and wireless), marine, creative industries (especially digital media), environmental technologies (particularly renewable energy and waste) and bio-medical.
- E.7 There are other parallels between the national strategies and the ERDF programmes. Both recognise the importance of raising skills and creativity, something the ERDF programmes are seeking to promote through working alongside the respective Convergence and

Competitiveness ESF programmes and through building links between business and research institutions and organisations.

Reform of business support

- E.8 When the Operational Programmes for both programmes were being developed, the Business Support Simplification Programme (BSSP) was an emerging strategy and not yet finalised. Since the launch of the ERDF Programmes, the BSSP and the Solutions for Business product range have been published. These, and other key recent business support policy/ strategy documents, are highlighted below:

'Business Support Simplification Programme' (BIS- Budget 2006 and pre-Budget report 2007)

BSSP involved reducing 3,000 business support schemes to 100 or less by 2010. The review confirmed the role of Business Link to be the 'primary access route for individuals and businesses seeking support.' Its primary goal is that any business or individual contacting Business Link for advice will receive 'personalised, targeted, useful support.' Business Link in turn would also refer customers to appropriate products from the public, private and third sectors. BSSP transferred all Information Diagnosis and Brokerage activity to Business Link including Train to Gain, UKTI and DEFRA services.

'Solutions for Business' (BIS, 2009)

Solutions for Business is the government's streamlined portfolio of business support products accessible via Business Link. 29 opening products became available to businesses under the Solutions for Business banner between October 2008 and March 2009. Products are available to help with accessing finance, innovation, research and development, training and skills, exporting and overseas trade and resource efficiency, including low carbon. The products are to be provided by a range of respected public sector providers such as government departments and their agencies, Regional Development Agencies and Local Authorities.

- E.9 The review of business support activity has simplified the range of products available to business, and provided a portal through the Business Link network to receive advice and onward support through delivery organisations. The Solutions for Business products now fall under seven main areas:

- Starting Up: Information on starting and running a business
- Grow your Business: Practical help and advice on growing a business
- Finance and Grants: Information on sources of finance and access to finance support
- Developing People: Skills training under the banner of 'Train to Gain'
- Environment and Efficiency: How to save money through energy efficiency, and support to exploit opportunities in low carbon energy generating technologies
- Exploit your ideas: How to innovate and make the most of new ideas
- International Trade: Help and support for starting or increasing international sales.

- E.10 The business support provided by the ERDF programmes must be aligned with, and support, the BSSP strategy for simplified business support. Moreover, ERDF-funded activities should support or extend the Solutions for Business products and use the standard approaches for branding these products. The question for the ERDF programmes is whether the review has restricted the types of business support activity that the programmes wished to support. The alignment between products available through Solutions to Business and the business support

activities envisaged in the ERDF Operational Programmes suggests this is not the case. The prioritisation given to the environment and efficiency in Solutions to Business is particularly welcome given the aspiration of both ERDF programmes to support the transition to a low carbon economy. As all business support programmes should use Business Link as the primary access route, the ERDF support will need to work closely with Business Link to make the most effective use of resources and to limit the duplication of existing activities.

- E.11 Within the Competitiveness Programme, the aim of providing internationalisation and investment support (in Priority Axis 2 Enterprise and Growth) suggests that the Programme should seek to encourage specific Solutions for Business products, for example the 'Developing Your International Trade Potential' and 'Accessing International Markets' products.

Knowledge and innovation

- E.12 The key recent policy announcements relating to knowledge and innovation are summarised below.

'Digital Britain' Report (2009)

Digital Britain sets out how the state of British businesses and industries can be improved through a digital revolution. Its main priority is to end the 'digital divide' within the country by:

- tackling digital exclusion by addressing the geographical disparities
- providing universal second generation broadband coverage
- enhancing the UK's 'soft infrastructure' (regulation, piracy, supporting businesses).

'Higher Ambitions: The future of universities in a knowledge economy' (BIS, 2009)

There is a need to sustain the strength of UK higher education in an increasingly demanding and competitive environment. This can be achieved by:

- expanding new types of higher education programmes
- HEFCE to encourage development programmes that deliver higher skills levels
- identifying areas where university supply does not meet demand for skills
- increasing partnership working between universities and businesses.

'Innovation in a Recession' (UK Trade and Investment, 2010)

Innovation in a Recession stresses the importance of continued spending on innovation to help reduce costs in the short run, and to help exploit emerging markets in the upturn. Particular attention is placed on building on the UK's existing strengths in this field but also ensuring that only projects that will generate real pay-back are pursued.

'Innovation Nation' (DIUS, 2008)

Stresses the importance of creating innovative organisations, something that can be achieved by producing 'highly skilled people with excellent technical, business and life skills.' Key elements include:

- implementing the Leitch agenda
- establishing National Skills Academies
- a cross-government project to ascertain the demand for STEM skills
- a careers and communications campaign by DCSF.

'Skills for Growth' (BIS, 2009)

The strategy assets a need for a stronger vocational element in education to generate transferable job skills (especially through an advanced young apprenticeship system). The aims are to ensure that the education system better meets the demands of employers and to raise recognition among businesses of the value of investing in workforce skills.

- E.13 For both ERDF programmes, these recent strategy developments have a good alignment with what the programmes are seeking to achieve. Innovation and knowledge is fundamental to the strategy of the Convergence and the Competitiveness programmes. The *Innovation in a Recession* strategy of UK Trade and Investment²¹ sets out the importance of continuing to invest in innovation to help reduce costs in the short run, and to help exploit emerging markets as the economy recovers.
- E.14 There is a particularly good fit between the strategies and the ‘Transformational Infrastructure’ priority of the Convergence programme which is developing the knowledge infrastructure at the Cornwall Combined Universities and seeking to support broadband digital infrastructure (higher bandwidths and speeds).
- E.15 The ERDF programmes have less clear direct links to the skills agenda, as neither programme has skills outputs or outcomes in their performance framework. The Operational Programmes do set out the need to raise skills in the South West to realise the full potential of the economy and support the transition to a low carbon, knowledge intensive and high value added economy. To achieve this, the programmes are working alongside the ESF Convergence and Competitiveness programmes, and it will be crucial that support is available through ESF and other routes to raise skills, particularly in the less productive parts of the region.

Climate Change

- E.16 Since the Operational Programmes were launched, climate change has become a higher priority in national policy. Key developments are summarised in the box below.

‘UK Low Carbon Transition Plan’ (DECC, 2009)

Sets out a target of emission cuts of 18% on 2008 levels by 2020, with 40% of electricity coming from low-carbon sources.

£405 million is to be invested into research and development of low carbon technologies with help also to businesses to help manage the costs of climate change (e.g. insulation and energy efficiency).

It also strives to make the UK a centre of green technology by supporting the development and use of clean technologies (this includes up to £120 million investment in offshore wind and an additional £60 million to cement the UK’s position as a global leader in marine energy.)

EU renewable energy targets

Under the EU’s renewable energy target, the UK is required to provide 15 per cent of all its primary energy from renewable sources. This will require an adequately qualified and educated supply chain of young people to provide a relevant future workforce.

‘Low carbon industrial strategy’ (HM Government, 2009)

This strategy stresses the importance and potential of moving to the low carbon economy. Three key principles are identified:

- the government setting stable frameworks for businesses
- encouraging intelligent intervention and low carbon innovation
- ensuring British-based companies and people are sufficiently well-equipped to meet the increased low-carbon demand.

‘Low Carbon Industrial Strategy’ (HM Government, 2009)

This strategy defines an industrial policy to support the transition to a low carbon economy. The document identifies the need for business to achieve greater energy and resource efficiency and the ambition to make Britain a global leader in the development and production of low carbon vehicles. Investment is expected under the industrial strategy in the following low carbon projects:

²¹ Innovation in a Recession, UK Trade and Investment, 2010

- £120 million – offshore wind
- £60 million – wave and tidal power
- £15 million – civil nuclear power
- £10 million – ultra-low carbon vehicles
- £6 million – renewable construction materials
- £12 million – renewable chemicals
- £4 million – low carbon manufacturing

- E.17 Since the programmes were launched, there has been a heightened interest amongst policy makers, politicians and the public in understanding, mitigating and adapting to the threats of climate change. As noted above, the EU and UK have introduced carbon emission targets; a greater number of government publications have been released on the issue of climate change; and an entirely new government department has been introduced to take responsibility for tackling energy and climate change. The new coalition government of May 2010 has reiterated the need to keep climate change issues at the heart of government policy.
- E.18 For Competitiveness and Convergence in the South West, this is welcome, as responding to climate change is a defining feature of both ERDF programmes. As regulation changes, new environment standards are introduced and demand for environmental action intensifies, this may open up new opportunities for the ERDF programmes. For example, the *UK Low Carbon Transition Plan* and the *Low Carbon Industrial Strategy* highlight investment in research and development of low carbon technologies, low-carbon innovation and significant funding for wind, wave and tidal power (amongst other renewable sources). This planned investment complements the priorities of the ERDF programmes and the South West's existing strengths in marine renewable energy.

Cornwall & Isles of Scilly policy priorities

- E.19 Cornwall council was awarded unitary authority status in December 2007. Since the new authority was formed, a number of strategies have been published on the priorities of the council and its partners for economic development. These are outlined below.

'Economic priorities and strategic intent: Towards a distinctive, high-value, knowledge-based green Cornwall with opportunity for all (Cornwall Council Green Paper, 2009)

Outlines how the area's "economic strategy should be founded upon a vision of Cornwall moving towards a distinctive, high value, knowledge-based, 'green' Cornwall with opportunity for all." Five key strategic issues are focussed upon:

- Business and Innovation (world class skills, innovation)
- 'Green' Agenda (council capacity, energy and environmental technologies, business and domestic resource productivity)
- Connectivity (next generation broadband, airport development, rail and road, ports infrastructure)
- Enhancing quality of life (place shaping, enhanced rural development)
- Leadership (council capacity and development, council outreach)

It is hoped that all of this will lead to the development of a resilient economy that has 'positive outcomes of people' but does so by strengthening and not eroding existing natural assets.

'The Cornwall Council Economic Ambition White Paper' (Economy and Regeneration, date unknown)

Sets out the plans for "the immediate and medium term future of Cornwall's economy" with an ultimate vision of creating a "confident, resilient Cornwall that is a leader in innovative business and low carbon technologies" over the

next three years. Emphasis is placed on five key issues:

- leadership in the economy – will require a clear strategic focus led from the Cornwall Council cabinet and the establishment of the Cornwall Development Company
- business transformation leading to high productivity – focus will be placed on improving progression from further to higher education, developing more effective business support, fostering research and development, and promoting a culture of enterprise
- Cornwall connectivity – to be achieved through the development of Cornwall's airport and harbours, and through the delivery of next generation broadband
- place shaping – through 'transformational regeneration' and the promotion of 'rural and coastal vitality'
- low carbon economy – through the provision of support to energy and environmental technologies, encouraging carbon reduction and business efficiency, and using low carbon as a business growth catalyst.

Strategy and Action Plan²²

This is the economic development strategy for Cornwall and the Isles of Scilly, 2007 – 2021) which helped inform the development of the Operational Programme.

- E.20 In policy terms, there is a good alignment of the Cornwall economic Green and White papers with the Convergence programme, with their shared objectives for greater innovation, research and enterprise and support for the low carbon economy. Likewise, the emphasis on improving Cornwall's connectivity through the development of physical infrastructure and next generation broadband ties in the transformational infrastructure Priority Axis of the Convergence programme.
- E.21 Nonetheless, there are some areas where the Convergence programme and the new strategies do not align as effectively. Both the Green paper and the White paper point to the need for effective and efficient leadership from Cornwall Council in order to improve business support. It for instance suggests a reform of the management structures that underpin the process through which such business support is devised and then delivered.

²² <http://www.economicforum.org.uk/economic-development-strategy.htm>

Annex F: Update on Baseline Conditions

Introduction

- F.1 This Annex presents the findings of an update to baseline conditions in the Convergence programme area since 2005, the base year for much of the socio-economic analysis in the Operational Programme.
- F.2 The baseline conditions update considers changes in national macro-economic conditions before considering the impacts of the recession in the South West. The analysis then provides an update on changes in key socio-economic and environmental indicators for the Convergence area, including by sub-area within the Convergence area where data is available.
- F.3 It is not possible to see the full implications of the recession in the baseline conditions update, as data are mostly only available up to 2008 or before. The programme should continue to monitor changes in socio-economic conditions as data are released.
- F.4 The update has not had the resources to undertake a full update to the socio-economic baseline in the Operational Programme or to construct a macro-level reference case for the programme. Given the relatively small number of outputs and results to date, it will not be possible to observe any influence of the programme on changes in socio-economic conditions.
- F.5 Further analysis on the implications for the programme of changes in socio-economic conditions is provided in the main body of the report.

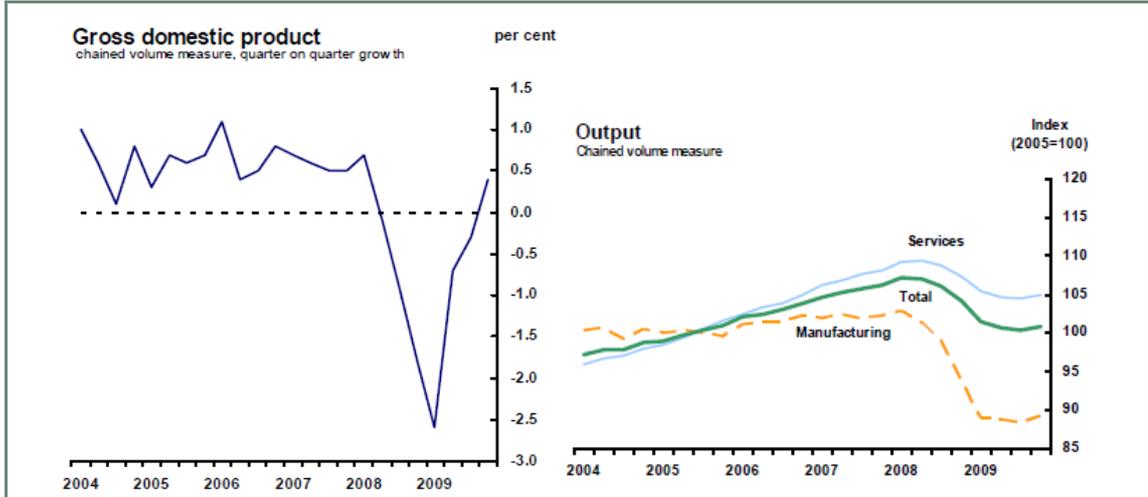
The impact of the recession at the national level

- F.6 The UK recession has largely been a product of the global credit crunch, where a cut in the availability of credit and loans restricted consumption and business growth. The credit crunch itself was largely a product of inflated house prices, combined with over-extended credit and leverage in the financial system, together with unsecured lending and so-called ‘toxic’ debts.
- F.7 The global recession started in America in December 2007²³. The UK officially entered recession in the last three months of 2008, as GDP fell by 1.5% following a 0.6% drop in the previous quarter (thus two consecutive quarters of negative growth).²⁴ Figure F-1 illustrates the national economic conditions, showing the recession and recovery to date, as set out in the Office of National Statistics Q4 2009 Statistical Bulletin.

²³ National Bureau of Economic Research, 2008, *Determination of the December 2007 Peak in Economic Activity*, <http://www.nber.org/cycles/dec2008.html>

²⁴ BBC, 2009, *UK in recession as economy slides*, <http://news.bbc.co.uk/1/hi/business/7846266.stm>

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



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

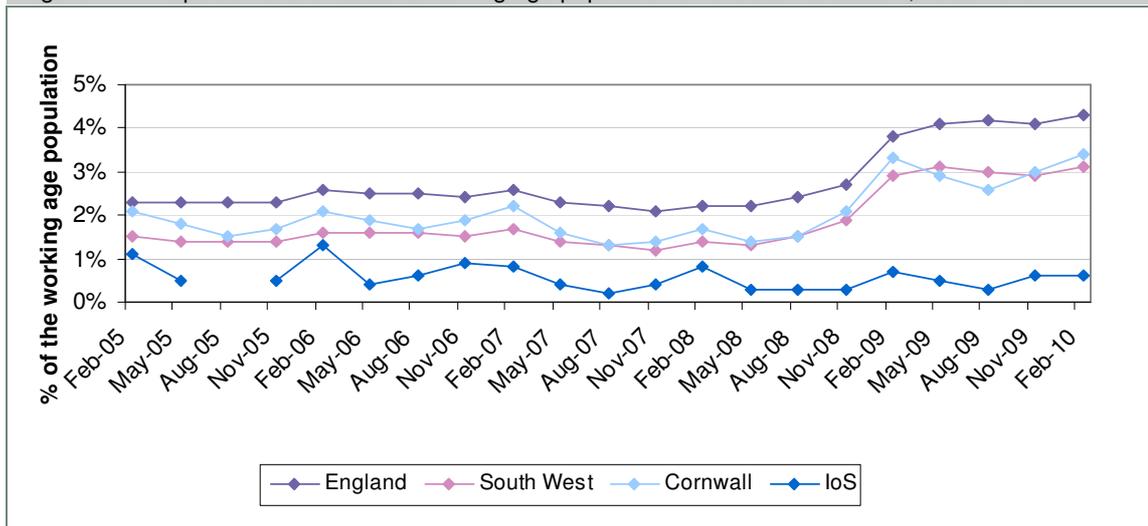
The impact of the recession in the South West and the Convergence area

F.8 The South West Regional Development Agency (2009) states that:

The same loss of confidence and momentum was experienced in South West England [as in the UK]. According to purchasing managers, who tend to look forward more than most, South West England's output and employment expectations started to drop at the same time as the United Kingdom as a whole.²⁵

F.9 Figure F-2 illustrates the proportion of the working age population claiming Job Seekers Allowance (JSA) between February 2005 and February 2010 by area – tracking unemployment through the recession.

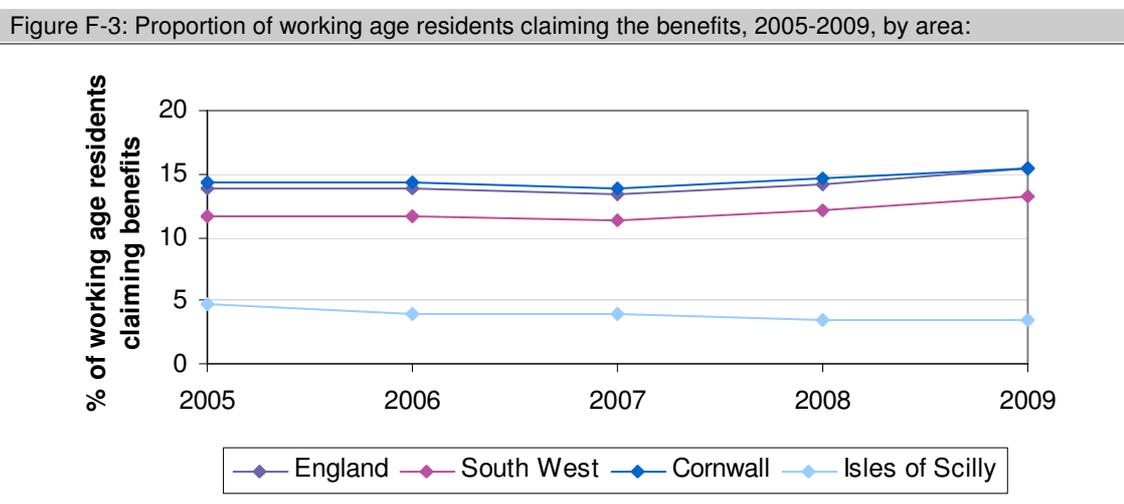
Figure F-2: Proportion of the resident working age population on the claimant count, 2005-2010:



Notes: Data for Isles of Scilly missing for August 2005 to avoid disclosure.
Source: Claimant Count. Accessed via Nomis

²⁵ South West Regional Development Agency, 2009, *Regional Economic Profile: Recession Special*

- F.10 Although *Regional Economic Profile: Recession Profile*²⁶ reported that the effects of the recession have spread from the northern arc of the South West throughout the Peninsula, variation in the level of unemployment has been pronounced across different parts of the region.
- F.11 Unemployment in the South West remained fairly constant until mid 2008, before increasing from November 2008. Cornwall has experienced a more volatile trend than the South West in general. While 3.4% of working age residents in Cornwall were claiming JSA by February 2010, which is approximately in line with recipients across the South West, the proportion of claimants remained 1.2 percentage points below the level of claimants in England. In contrast to the trend shown across comparator areas, Isles of Scilly has not seen an increase in JSA claimants between February 2005 and February 2010.
- F.12 Figure F-3 illustrates the proportion of working age residents claiming all benefits between 2005 and 2009 by area.



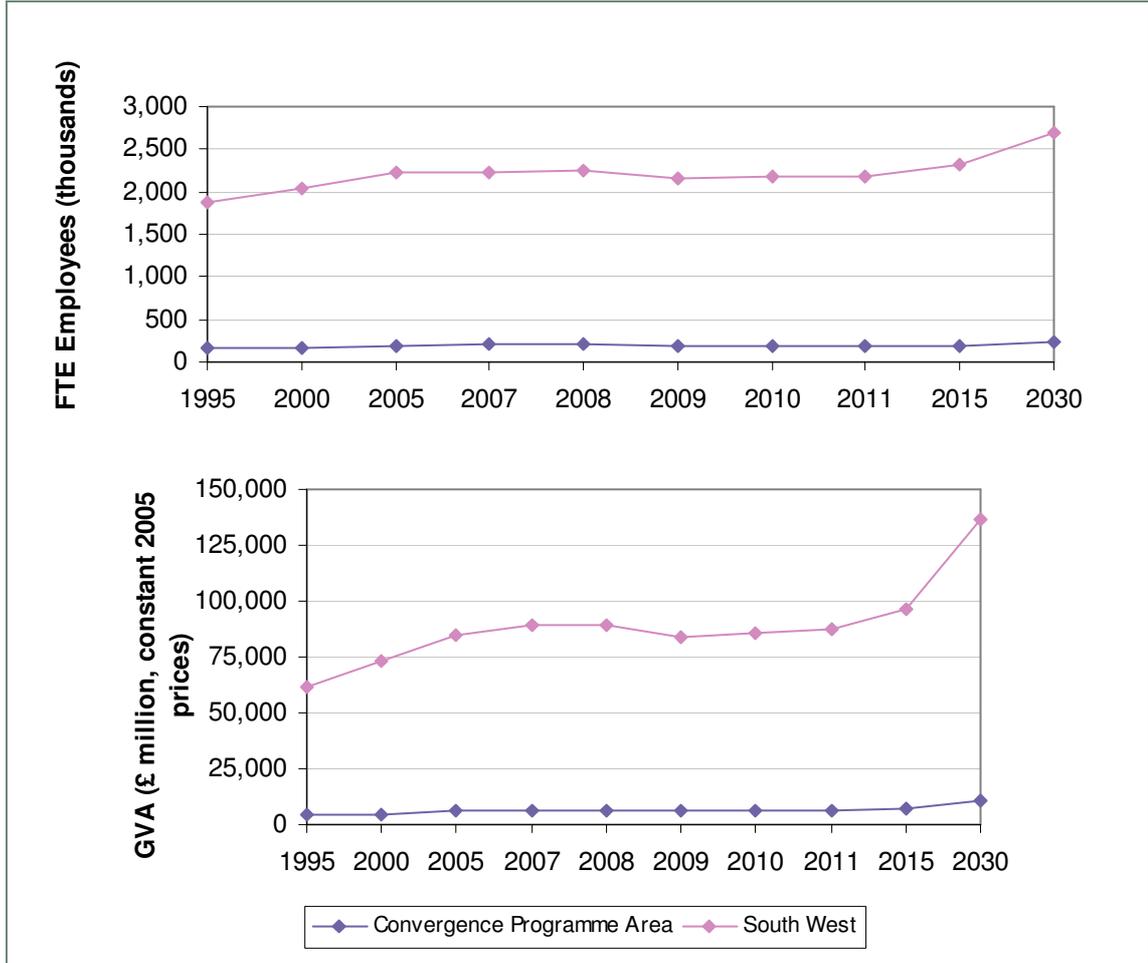
Notes: Figures taken in November each year.
Source: DWP Benefits, Nomis

- F.13 The proportion of working age residents claiming benefits did not change substantially between 2005 and 2009, although there was a small increase in Cornwall and the South West. November 2009 figures show that the proportion of working age residents claiming benefits in Cornwall was in line with the national average (15.4%), but above the South West level (13.2%). In contrast, only 3.4% of residents in Isles of Scilly were claiming benefits in November 2009.
- F.14 According to the *Regional Economic Profile: Recession Profile*²⁷, the South West economy, and employment in particular, are not expected to improve significantly until 'well into 2010'. The Experian forecasts, illustrated in Figure F-4, seem to confirm this.

²⁶ SWRDA, 2009, *Regional Economic Profile: Recession Special*

²⁷ SWRDA, 2009, *Regional Economic Profile: Recession Special*

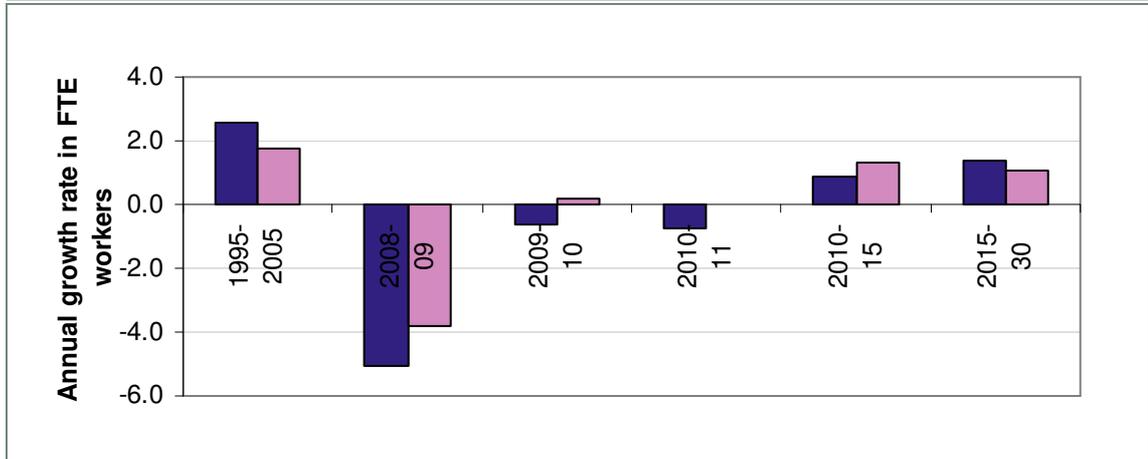
Figure F-4: Employment and GVA forecasts, 1995-2030, by area

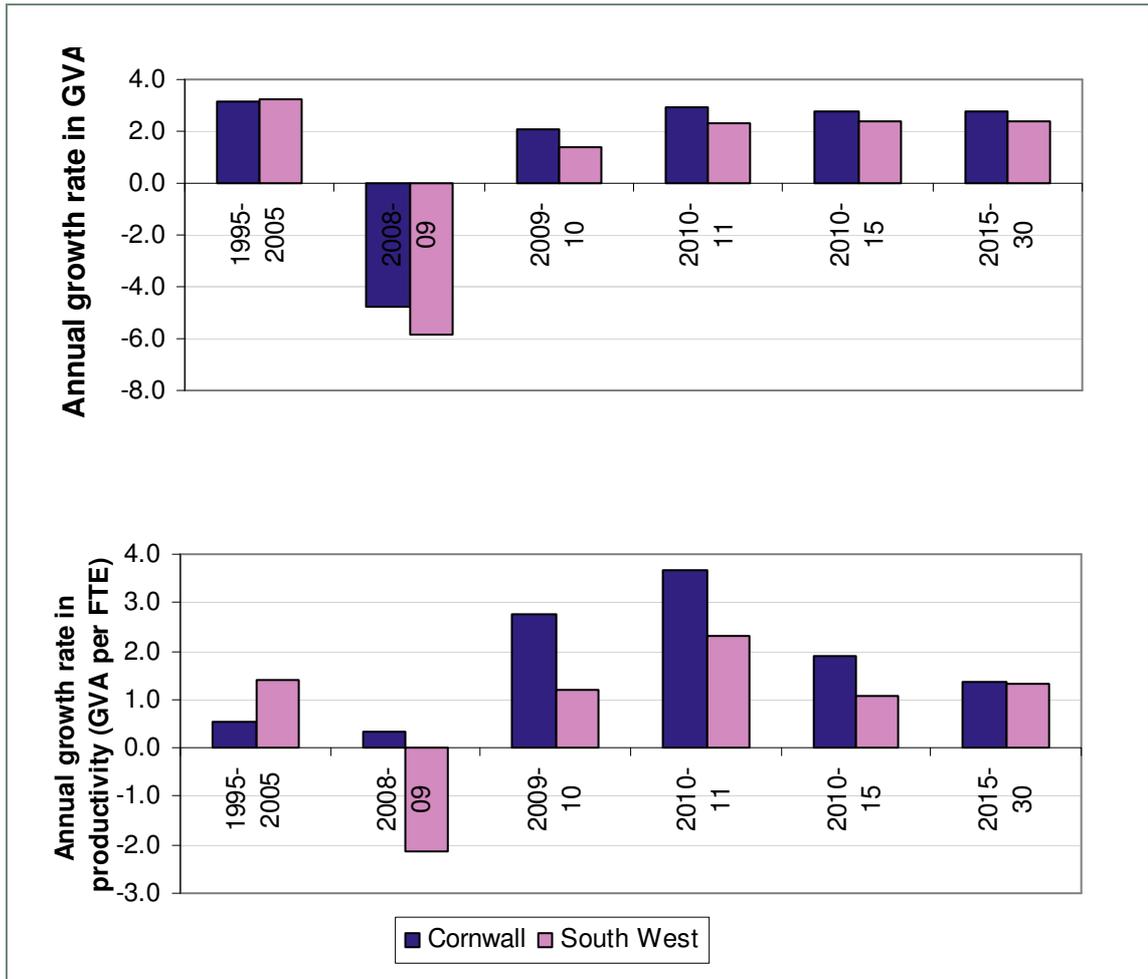


Notes: Projections from Spring 2010
Source: Experian

F.15 Annual growth rates in FTE workers are forecast to be negligible across the South West until 2010, before picking up between 2010 and 2015 and at a faster rate again from 2015. The figure below compares the annual growth rates in FTE workers and GVA in Cornwall and the South West.

Figure F-5: Employment and GVA growth rates, by period





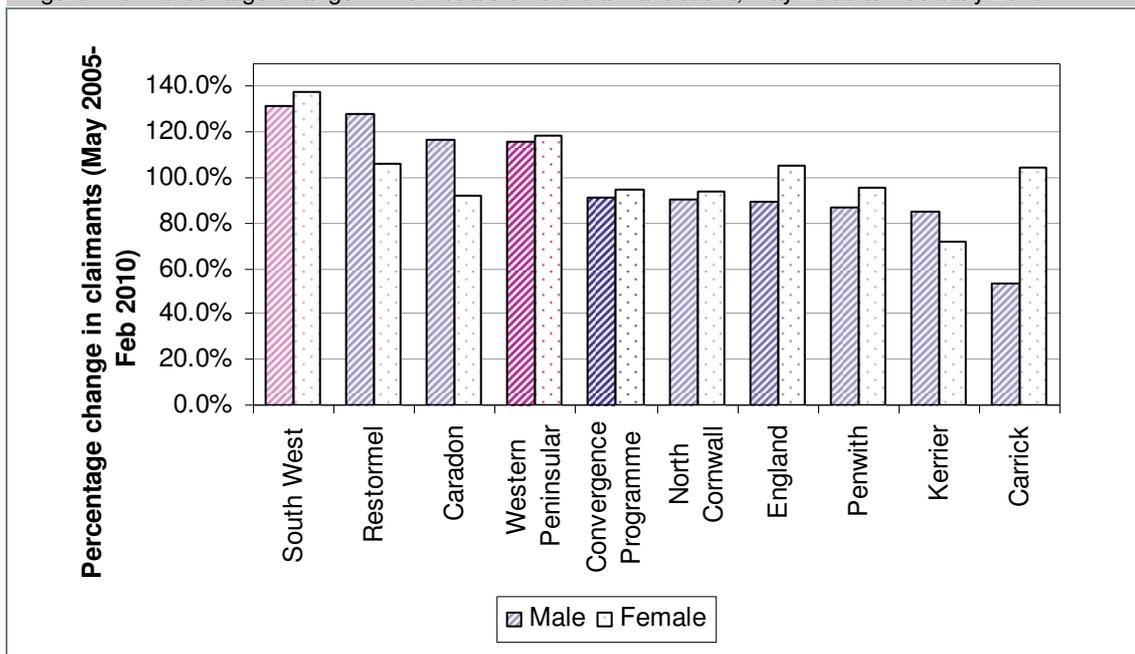
Notes: Projections from Spring 2010
Source: Experian

- F.16 According to the Experian forecast, growth rates in FTE workers in Cornwall are forecast to be much slower to pick up; remaining negative until 2011, and increasing to only 0.9% for 2010-2015, and to 1.4% between 2015 and 2030. However, the GVA growth rate in Cornwall is forecast to be less hit by the downturn than the South West, and to recover more strongly.

Equalities in the recession

- F.17 Figure F-6 shows the percentage change in the number of individuals on the claimant count, by gender.

Figure F-6: Percentage change in individuals on the claimant count, May 2005 to February 2010



Notes: Data for Isles of Scilly is missing.
Source: Claimant count. Accessed via Nomis.

- F.18 Across the region, women do not appear to have been considerably worse (or less badly hit) by the recession than men. However there is notable variation within Cornwall, by the pre-2009 district authorities. The number of women claiming benefits in Carrick increased by 104% between May 2005 and February 2010, while the number of men on the claimant count increased by 54%. However, some other pre-2009 Cornish districts, including Restormel and Caradon experienced a greater proportional increase in the number of men on the claimant count than women.
- F.19 Residents aged 18-24 appear to have been worse hit by the recession than the general working age population (and over 50s subgroup), in terms of being unable to find employment. The number of 18-24 year olds on the claimant count in Cornwall increased by 130% between May 2005 and February 2010, compared to an increase of 92% in the total number of claimants. Restormel appears to have been particularly badly hit in this area with an increase of 181% 18-24 year old claimants. However, overall young people in Cornwall appear to have been less hit by the recession than across the rest of the region. While the number of 18-24 year old claimants has increased by 130% since May 2005, the number of 18-24 year old claimants in the South West has increased by 153%.
- F.20 Table F-1 sets out the number of working age benefit claimants, and how this has changed since November 2005.

Table F-1: Working age residents claiming out of work benefits, 2009 and change 2005-2009, by area

	Total claimants		Male Claimants		Female Claimants		Under 25s	
	Nov-2009	% change 2005-9	Nov-2009	% change 2005-9	Nov-2009	% change 2005-9	Nov-2009	% change 2005-9
England	1,236,940	77%	901,270	74%	335,670	87%	792,430	37%
South West	85,780	101%	62,810	100%	22,970	104%	62,790	44%
Convergence Programme Area	8,990	58.0%	6,540	62.3%	2,440	47.0%	7,020	37.6%
Cornwall	8,980	58%	6,540	63%	2,440	48%	7,020	37.6%
Isles of Scilly	10	0.0%	-	-	-	-	-	-

Note: Percentage change calculated between November 2005 and November 2009.

- = Figures nil or negligible

Source: DWP. Accessed via Nomis

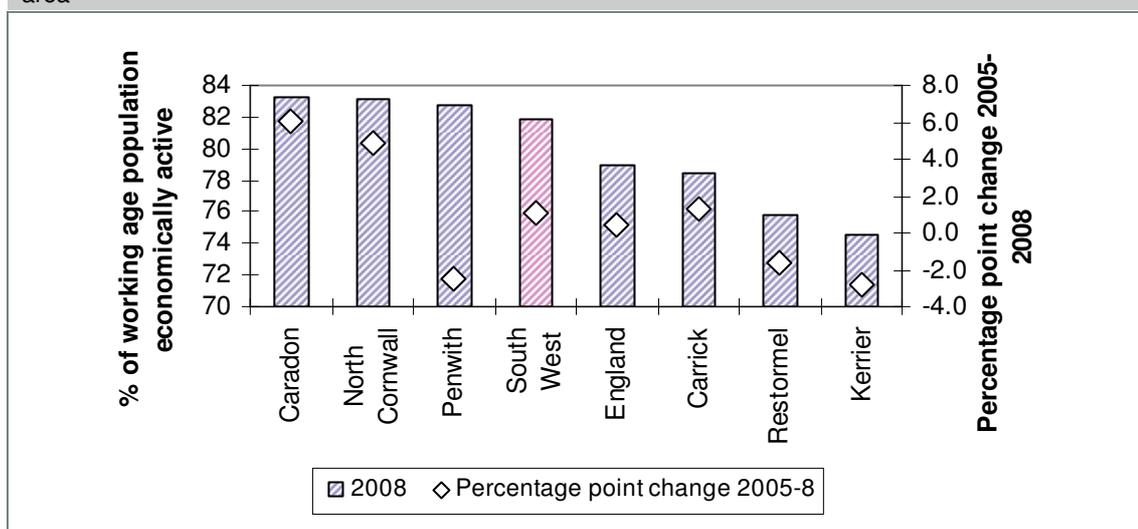
- F.21 This shows that the rate of increase in claimants of out of work benefits was higher in the South West than in the Convergence area, particularly for males.

Baseline conditions update

Employment and economic activity

- F.22 Economic activity rates in Cornwall marginally increased (by 0.8 percentage points) between 2005 and 2008, and in 2008 the rate exceeded the rate across England. However, during this period, economic activity across the rest of the South West grew at a faster pace. By 2008, 79.2% of the working age population in Cornwall were economically active, while 81.8% were economically active across the South West.
- F.23 Figure F-7 sets out trends in economic activity by former districts of Cornwall since 2005. Data is unavailable for the Isles of Scilly.

Figure F-7: Economic activity rates of working age people, 2008 and percentage change 2005-2008, by area



Notes: There is no data for the Isles of Scilly

Source: Annual Population Survey

F.24 Within Cornwall, there is substantial variation in economic activity, and in terms of percentage point change in the proportion of the working age population who are economically active between 2005 and 2008. In Caradon, for instance, 83% of the of the working age population were economically active in 2008, compared to 75% in Kerrier. In the period from 2005 to 2008, the proportion of economically active residents in Caradon was 6.1 percentage points, while the proportion in Kerrier decreased by 2.8 percentage points. The implications of the recession are not yet clear from the data.

F.25 Table F-2 sets out the change in FTE workers in Cornwall and Isles of Scilly compared to the South West between 2005 and 2008.

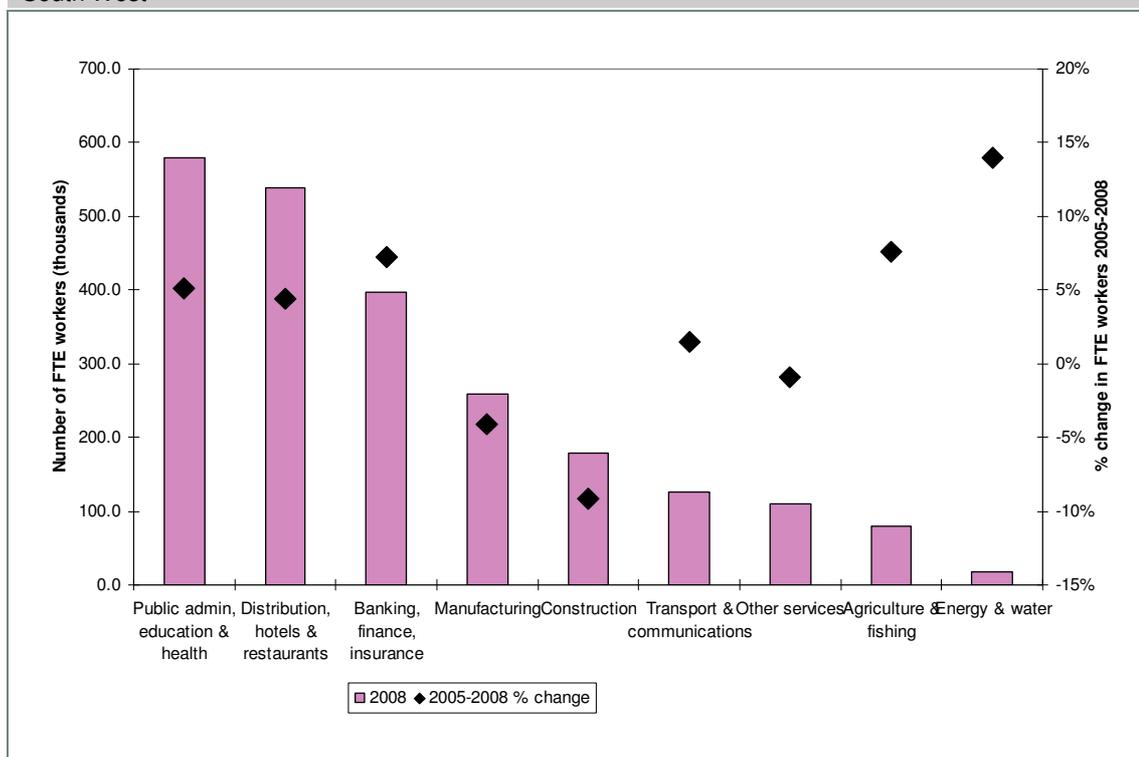
	2005	2006	2007	2008	2005-2008 % change
South West	2,226	2,250	2,299	2,284	3%
Cornwall & Isles of Scilly	198	208	215	210	6%

Source: Econ I - South West Regional Accounts Online

F.26 The number of FTE workers in Cornwall has increased at a greater rate than the South West between 2005 and 2008. However, a smaller proportion (68%) of the working age population in Cornwall was in FTE employment in 2008 than across the South West (73%), indicating that there is still a gap in employment levels between the areas.

F.27 Figure F-8 provides a sectoral split of FTE workers.

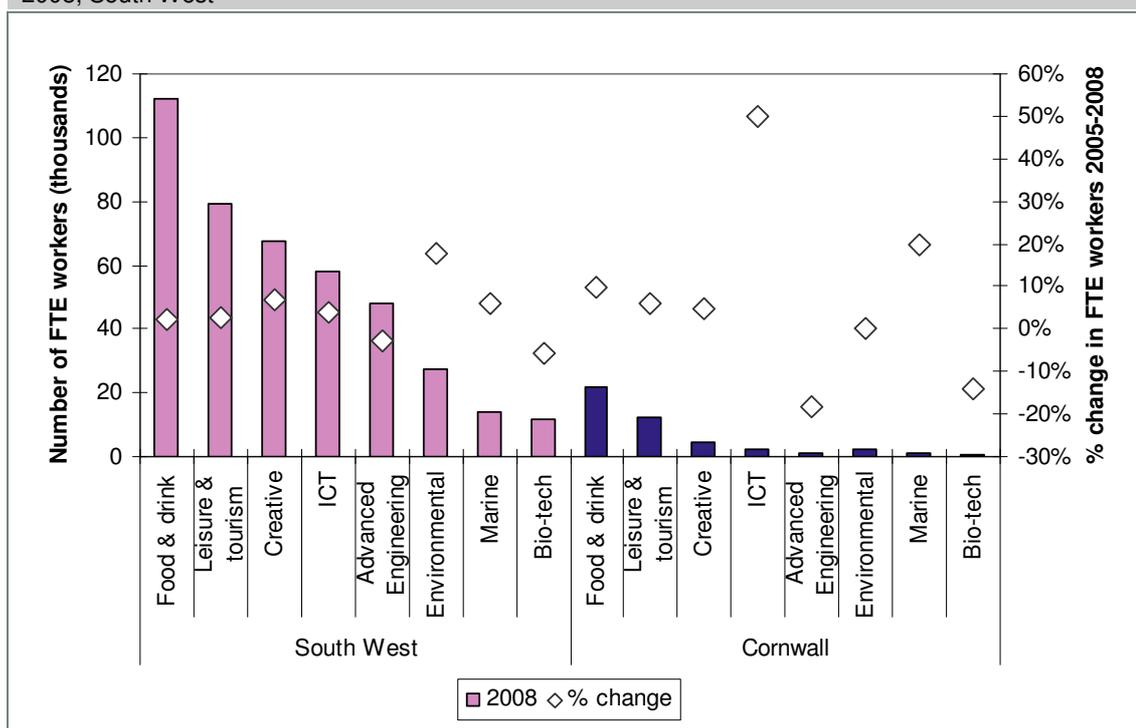
Figure F-8: Total number of employees in the South West by sector, 2008 and change 2005-2008, South West



Source: Econ I - South West Regional Accounts Online

- F.28 Public administration, education & health and distribution, hotels & restaurants remain the biggest employers in the region, between them employing 49% of FTEs. Employment in the energy and water sector increased by 14% in the period, from employing 15,000 people in 2005 to 17,100 workers in 2008.
- F.29 Employment declined in the construction and manufacturing sectors, which employed 9% and 4% less FTEs in 2008 than in 2005. These sectors were hard hit by the recession.
- F.30 Figure F-9 provides a break down of FTE workers employed in the RES priority sectors in the South West and Cornwall and the Isles of Scilly.

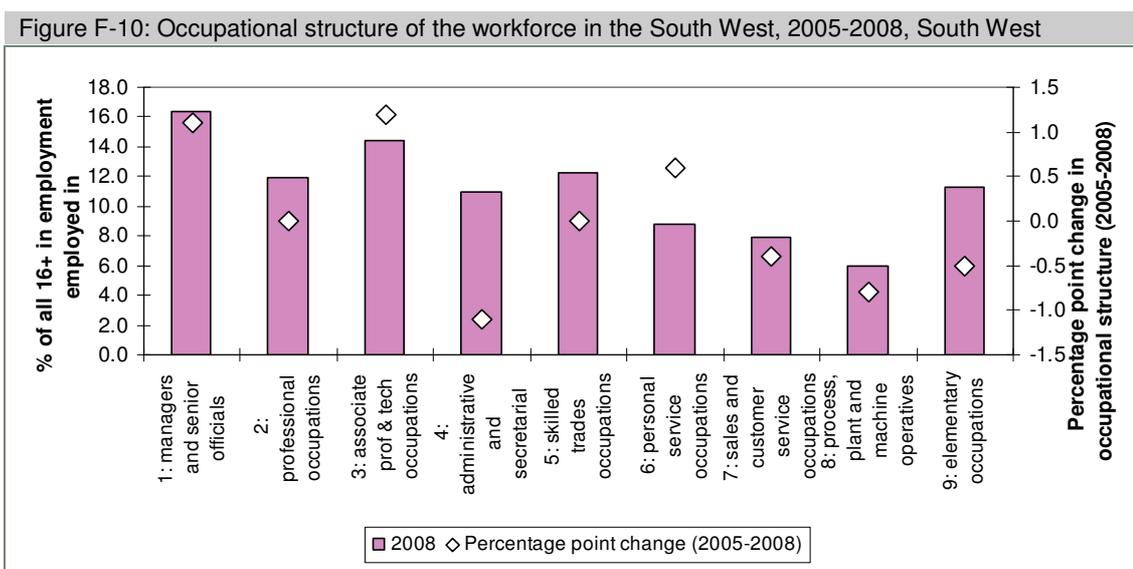
Figure F-9: FTE workers in Regional Development Agency priority sectors, total 2008 and change 2005-2008, South West



Source: Econ I - South West Regional Accounts Online

- F.31 In terms of the RES priority sectors, the largest employers in Cornwall in 2008 were the food & drink, leisure & tourism and creative sectors – employing 21,700, 12,300 and 4,300 FTE employees respectively. The biggest percentage change in employees between 2005 and 2008 was an increase of 50% in the IT sector. There was also strong growth in the marine sector of 20%.

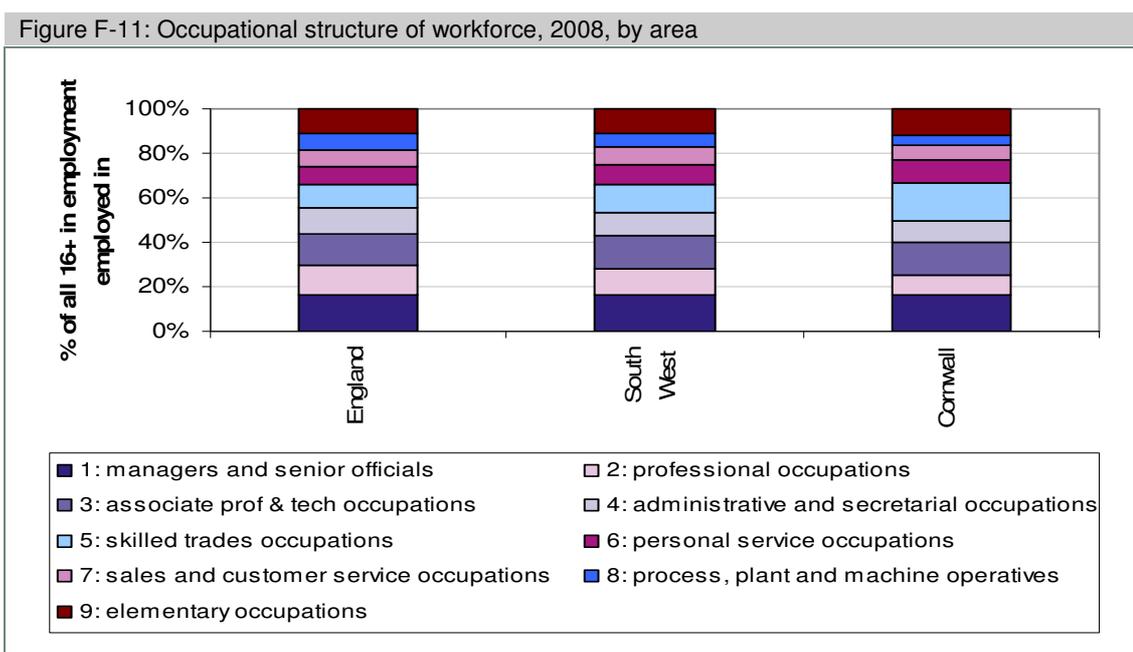
F.32 Figure F-10 sets out the occupational structure of the workforce in the South West.



Source: Annual Population Survey

F.33 Broadly, ‘managers and senior officials’, ‘associate professional and technical’ and ‘skilled trades’ occupations are the most common occupations in the South West, between them employing 43.1% of 16+ employees. With the exception of ‘skilled trades’ occupations, these sectors have become increasingly prominent – with the proportion of the 16+ workforce in managerial and senior official positions increasing by 1.1 percentage points and the proportion in associate professional and technical occupations increasing by 1.2 percentage points between 2005 and 2008. The proportion of 16+ employees in administrative and secretarial occupations and lower skilled occupations has fallen in the same period.

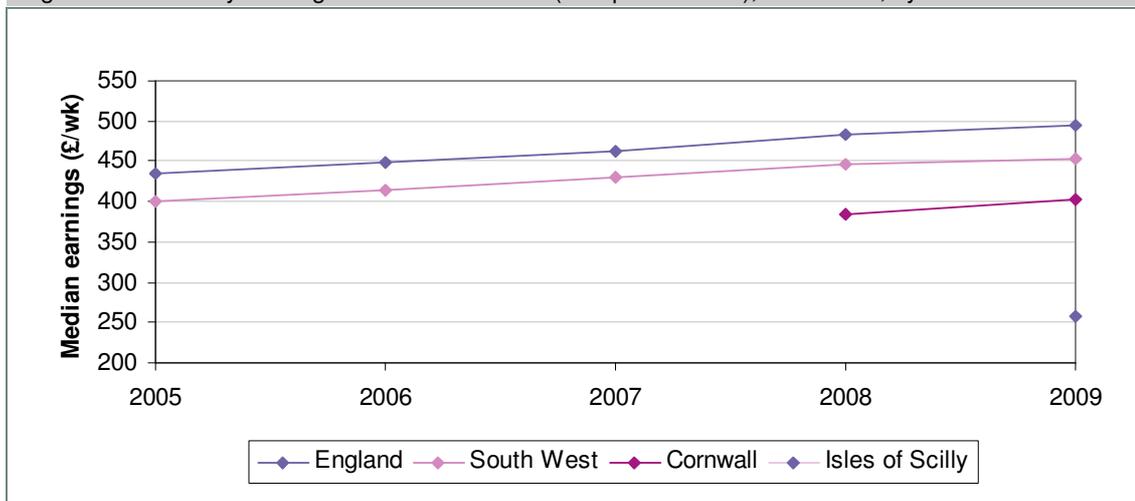
F.34 The occupational structure does not vary substantially between Cornwall and the South West, as illustrated below. Data is unavailable for the Isles of Scilly.



Notes: Data is unavailable for the Isles of Scilly
Source: Annual Population Survey, 2008

- F.35 Median weekly earnings for 2009 and percentage changes in earnings between 2005 and 2009 are set out in Figure F-12. Isles of Scilly data is only available for 2009 and Cornwall from 2008.

Figure F-12: Weekly earnings of full-time workers (workplace based), 2005-2008, by area



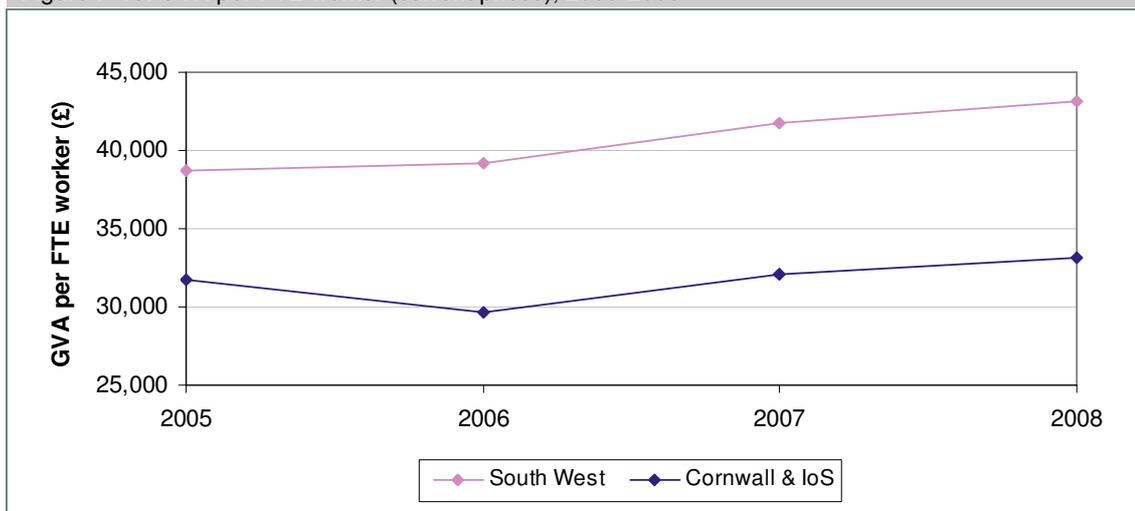
Notes: There are gaps in local authority data as figures are missing or the group sample size is zero or disclosure.
Source: Annual Survey of Hours and Earnings

- F.36 In 2009, average earnings across workplaces in Cornwall and Isles of Scilly were lower than in England, with median weekly earnings of £402.90 and £257.40 respectively. Earnings in Isles of Scilly workplaces were particularly low; £145.50 lower than the median South West weekly wage, and £196.40 less than the average across England.

Competitiveness

- F.37 GVA is a measure of competitiveness. Figure F-13 shows GVA per FTE worker across Cornwall and the Isles of Scilly and the South West between 2005 and 2008.

Figure F-13: GVA per FTE worker (current prices), 2005-2008



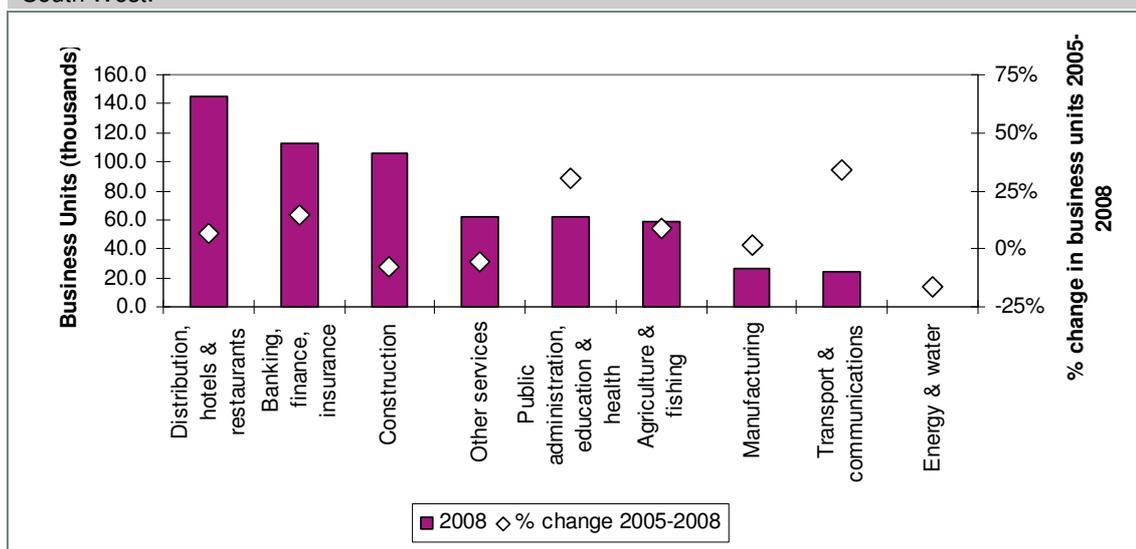
Source: Econ 1 - South West Regional Accounts Online

- F.38 The pattern of change in GVA per FTE worker in Cornwall has been roughly in line with the South West. However, Cornwall continues to have considerably lower GVA per FTE worker than the South West, and the gap has widened somewhat in the period, to £10,000 per FTE worker in 2008.
- F.39 Although *UK Recession Scenarios: Impact on SWE Sectors and Places*²⁸ reported that South West England was forecasted to experience a decline in GVA in 2009, GVA was expected to recover in the region by 2010, with an annual percentage increase in growth of 1.7 according to the baseline forecast. The county of Cornwall was forecasted to be the least badly hit of all the South West counties in terms of GVA – with a relatively small fall in GVA of between 0.2% and 1.7% in 2009, before a return to growth in 2010.

Enterprise

- F.40 Figure F-14 shows the number of business units in the South West by sector in 2008, and the extent to which this has changed from 2005.

Figure F-14: Business Units (including self-employed) in the South West, 2005 and change 2005-2008, South West:



Notes: Sectors categorised to provide the best possible match to those used in the Operational Programme 2007-13
Source: Econ 1 South West Regional Accounts Online

- F.41 Most business units are in the distribution, hotels & restaurants sector. From 2005-2008, the number of business units in transport & communications and public administration, education & health increased by in excess of 30%, while banking and finance increased by approximately 15%. The number of business units in constructions and other services declined.

Table F-3: Business Units (including self-employed), 2008, by area

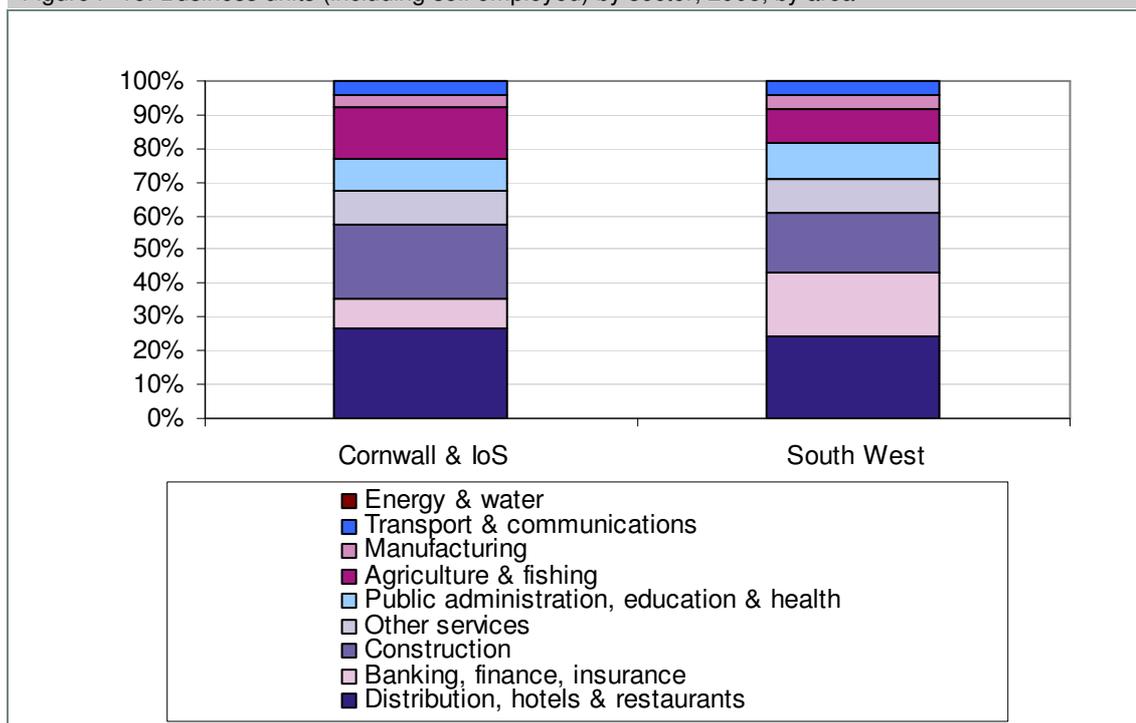
	2008
South West	597,000
Cornwall & Isles of Scilly	70,000

Source: Econ 1 - South West Regional Accounts Online

²⁸ Experian, 2009, *UK Recession Scenarios: Impact on SWE Sectors & Places*

- F.42 The recession is expected to affect sectors differently, according to the *UK Recession Scenarios: Impact on SWE Sectors and Places*²⁹, although the ‘baseline’, ‘worse’ and ‘adverse’ scenarios show different effects. In terms of sectors, the baseline forecast shows the biggest decline in construction (6.1% in 2009), utilities (5.7%), other manufacturing (3.8%) and then transport equipment (1.6%), distribution (1.6%) and financial sector. The ‘worse’ scenario suggests that other sectors including private and public administration will also be hit, while the ‘adverse’ scenario would leaves virtually all sectors affected by the downturn.
- F.43 Figure F-15 illustrates the extent to which the business base in Cornwall and the Isles of Scilly is different to the rest of the South West economy in 2008.

Figure F-15: Business units (including self employed) by sector, 2008, by area



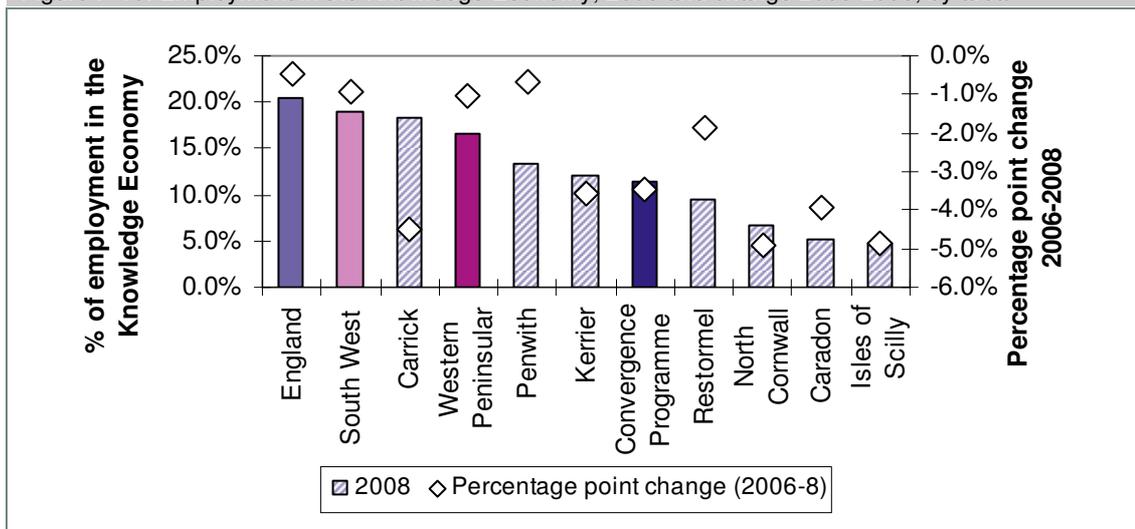
Notes: Sectors categorised to provide the best possible match to those used in the Operational Programme 2007-13
Source: Econ 1 - South West Regional Accounts Online

- F.44 The sectoral makeup of the business base in Cornwall varies quite substantially from the rest of the South West. A much smaller proportion of business units are in the banking, finance and insurance sectors (9.3% compared to 18.9% in 2008), and a greater proportion are in agriculture (15.5% of business units in Cornwall compared to 9.8% in the South West) and construction (21.6% compared to 17.7%) sectors.
- F.45 The figure overleaf shows the proportion of all employment by area that is in knowledge-based industries³⁰.

²⁹ Experian, 2009, *UK Recession Scenarios: Impact on SWE Sectors & Places*

³⁰ For the purpose of this study, the definition of knowledge-based industries used is taken from SWRDA, 2005, *The Knowledge-Driven Economy, Regional Economic Strategy and Regional Spatial Strategy in the South West of England*. The definition was derived from OECD (2003).

Figure F-16: Employment in the Knowledge Economy, 2008 and change 2006-2008, by area



Source: Annual Business Enquiry, Employee Analysis

F.46 Table F-4 provides a breakdown of employment in the knowledge economy in 2008 across Cornwall and Isles of Scilly.

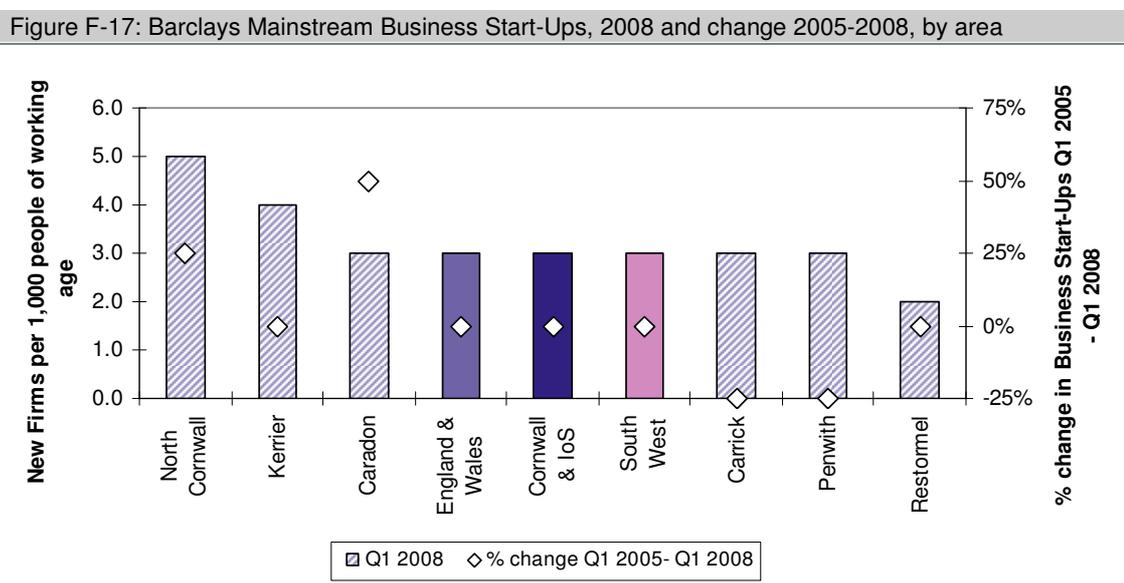
Table F-4: Employment in the Knowledge Economy, 2008 and change 2006-2008, by area

Local Authority	2008			2006-2008
	Employment in the knowledge economy	All employment	% of employment in the Knowledge Economy	Percentage point change (2006-8)
England	4710653	23073713	20.4%	-0.5%
South West	424210	2240625	18.9%	-0.9%
Convergence Programme Area	22650	198297	11.4%	-3.4%
Caradon	1246	23747	5.2%	-3.9%
Carrick	8794	48185	18.3%	-4.5%
Kerrier	3884	32422	12.0%	-3.6%
North Cornwall	2232	33884	6.6%	-4.9%
Penwith	2974	22193	13.4%	-0.7%
Restormel	3463	36733	9.4%	-1.9%
Isles of Scilly	54	1134	4.8%	-4.9%

Source: Annual Business Enquiry, Employee Analysis

F.47 Cornwall and the Isles of Scilly are lagging behind England and the South West, in terms of the proportion of employment in the knowledge economy, with less than 12% of all employment in the knowledge-based industries. Within this, North Cornwall, Caradon and the Isles of Scilly are lagging particularly far behind, with 6.6%, 5.2% and 4.8% of employment in the knowledge-based industries. All three areas have seen the proportion of employment in the knowledge-based industries fall between 2006 and 2008, which is causing them to fall further behind.

F.48 Barclays' data on UK business start-ups, measures bank account openings, and as such provides an indication of business start-ups. Figure F-17 illustrates new firms starting up per 1,000 people of working age, and the extent to which this ratio has changed since quarter 1 of 2005.



Source: Barclays

F.49 There has been variation in the rate of business start-ups across Cornwall & Isles of Scilly, the South West and England and Wales. In quarter 1 of 2005 and 2008, three new firms were created per 1,000 people of working age across each of these three areas. During quarter three of 2006 and quarters one and two of 2007 the number of start-ups per 1,000 of the working age population rose to five, although this has since fallen back to three firms per 1,000 people of working age. North Cornwall had 5 new firms per every 1,000 people of working age in quarter 1 of 2008, compared to 3 per 1,000 people of working age in the South West and England & Wales. The number of business start-ups in North Cornwall increased by 25% from Q1 of 2005 to Q1 of 2008 according to the Barclays indicator.

F.50 Table F-5 sets out the number of VAT de-registrations which provides an indication of the number of businesses deregistering from VAT due to closure, although in a minority of cases businesses deregister because turnover has fallen below the registration threshold. The table also shows 'net change'. Where there is positive net change, more firms have registered for VAT than have deregistered, indicating a growth in the business stock.

Table F-5: VAT De-registrations, 2005-2007, by area

Area	2005		2006		2007	
	De-registrations	Net change	De-registrations	Net change	De-registrations	Net change
England	124,945	+34610	126,185	+33150	128,800	+51105
South West	11,955	+3420	12,295	+3210	12,540	+4480
Cornwall & Isles of Scilly	1,190	+275	1,210	+360	1,265	+300
Caradon	180	+55	195	+40	190	+70

Area	2005		2006		2007	
	De-registrations	Net change	De-registrations	Net change	De-registrations	Net change
Carrick	220	+40	210	+80	215	+95
Kerrier	205	+25	205	+40	200	+5
North Cornwall	225	+85	235	+60	245	+50
Penwith	165	+20	155	+30	175	+10
Restormel	190	+40	195	+115	230	+70
Isles of Scilly	5	+10	15	-5	10	0

Notes: Net change is the net gain or loss in the stock of registered enterprises each year – equal to registrations minus deregistrations.

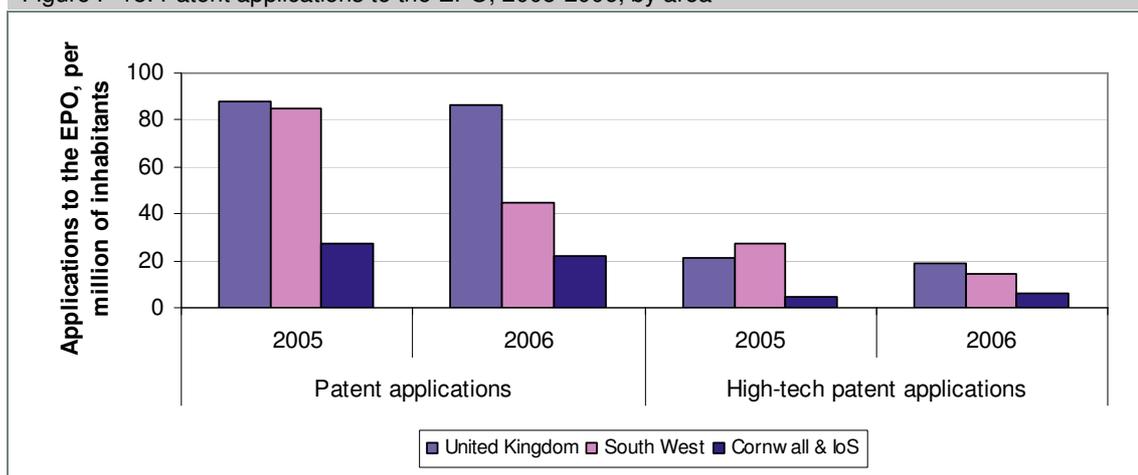
Source: VAT Registrations/Deregistrations, Nomis

- F.51 There have been relatively few VAT deregistrations on Isles of Scilly, although there have equally been a relatively small number of registrations. In contrast, for each year between 2005 and 2007, VAT registrations in Cornwall have exceeded deregistrations across all of the pre-2009 districts – resulting in a positive net change. Strongest net change has been in Restormel, Carrick and Caradon.

Innovation

- F.52 Innovation is a key enabling force of improved economic performance, and is important to transforming the economy to a more knowledge based, high value economy. Figure F-18 sets out the number of patent applications as a proportion of the number of inhabitants, both in terms of total patent applications and high-tech applications.

Figure F-18: Patent applications to the EPO, 2005-2006, by area

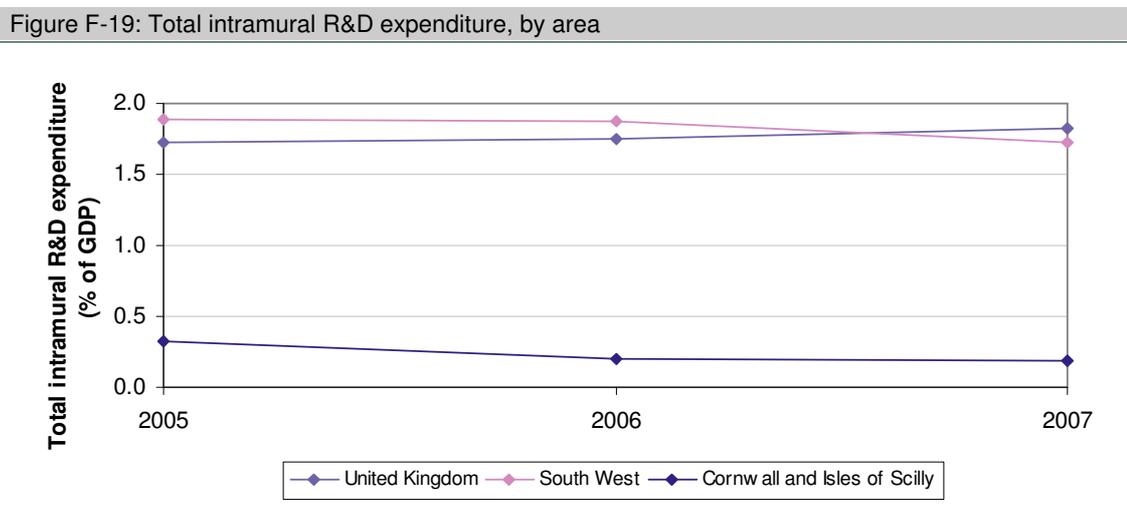


Notes: 2006 figures are provisional values

Source: Eurostat

- F.53 In both 2005 and 2006, Cornwall and Isles of Scilly had less than half the number of patent applications to the EPO per million inhabitants than in the South West – a finding which is also true of high-tech patent applications. However, Cornwall and Isles of Scilly is the only NUTS 2 area in the South West to have increased the number of patent applications per million of inhabitants in 2006 than 2005.

F.54 Total intramural R&D expenditure includes all expenditures for research and development performed in the area, regardless of whether the source of funds came from within or outside the area. Figure F-19 shows total intramural R&D expenditure between 2005 and 2007.

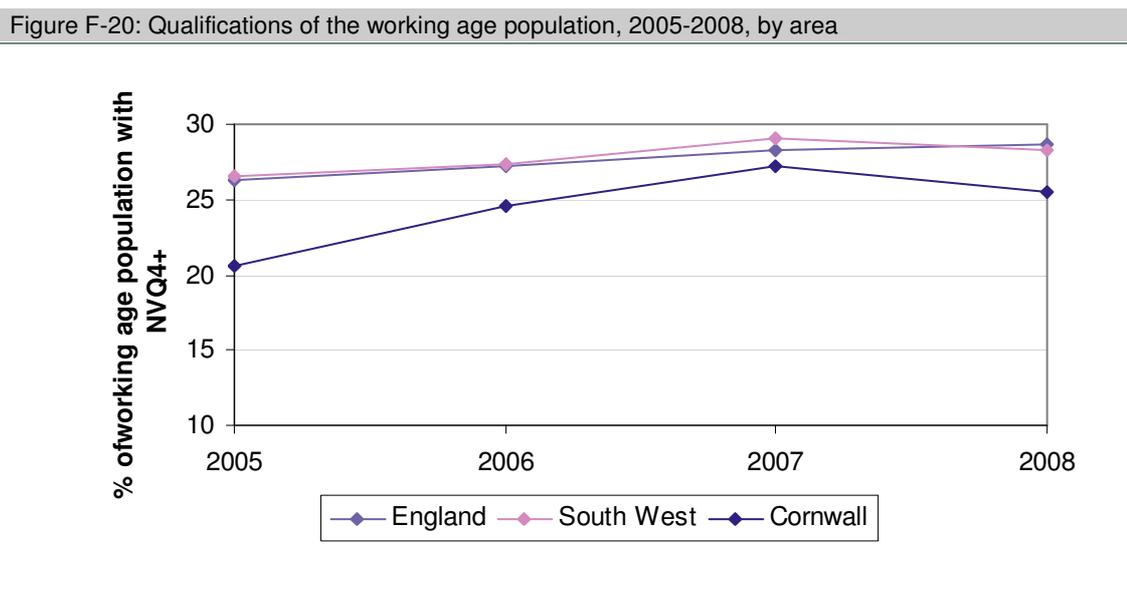


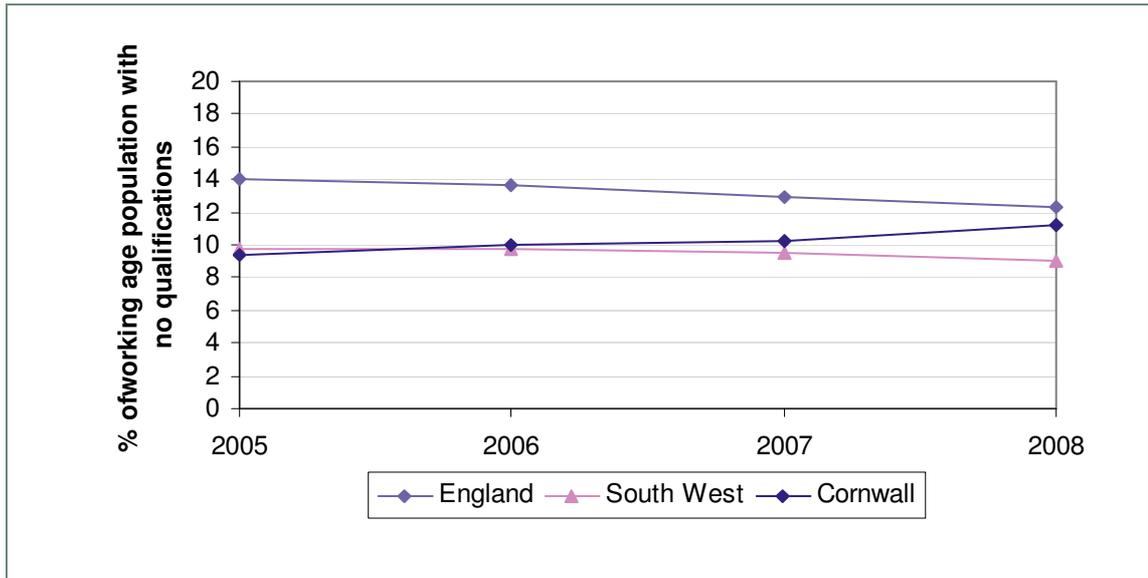
Notes: Figures are all estimates, aside from the UK figure.
Source: Eurostat

F.55 Total intramural R&D expenditure as a proportion of GDP in Cornwall and the Isles of Scilly and the South West fell marginally between 2005 and 2007 (by 0.16 and 0.13 percentage points respectively). Levels of R&D expenditure in Cornwall and Isles of Scilly remained substantially lower than in comparator areas, at 0.19% of GDP in 2007. It is too early to see the effects of the Convergence Programme and the recession within these figures.

Skills

F.56 The proportion of the working age population with no qualifications or NVQ4+ are set out in Figure F-20. Data is unavailable for the Isles of Scilly.





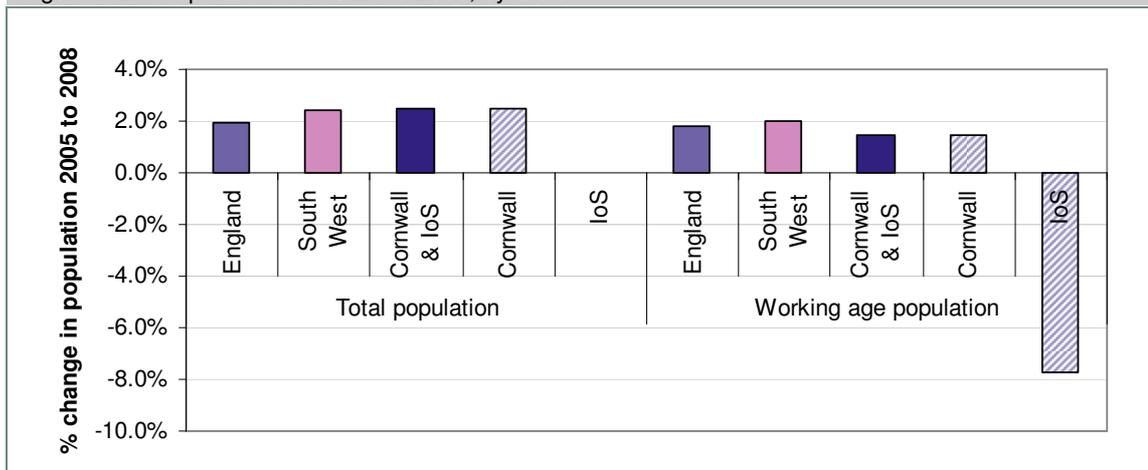
Notes: Data for Isles of Scilly is unavailable
Source: Annual Population Survey

F.57 Between 2005 and 2007, the proportion of the working age population with NVQ4+ increased by 4.7%. However, the level has since fallen back slightly, to 25.5% of the working age population in 2008. In the same period, there has been an increase in the proportion of the working age population with no qualifications. This is contrary to trends across the South West and nationally.

Demography

F.58 By 2008 Cornwall and the Isles of Scilly had a combined population of approximately 534,000, of which just over 310,300 (58%) were of working age. Figure F-21 illustrates population trends in the Cornwall, Isles of Scilly, the Convergence Programme Area, the South West and England between 2005 and 2008.

Figure F-21: Population trends 2005-2008, by area



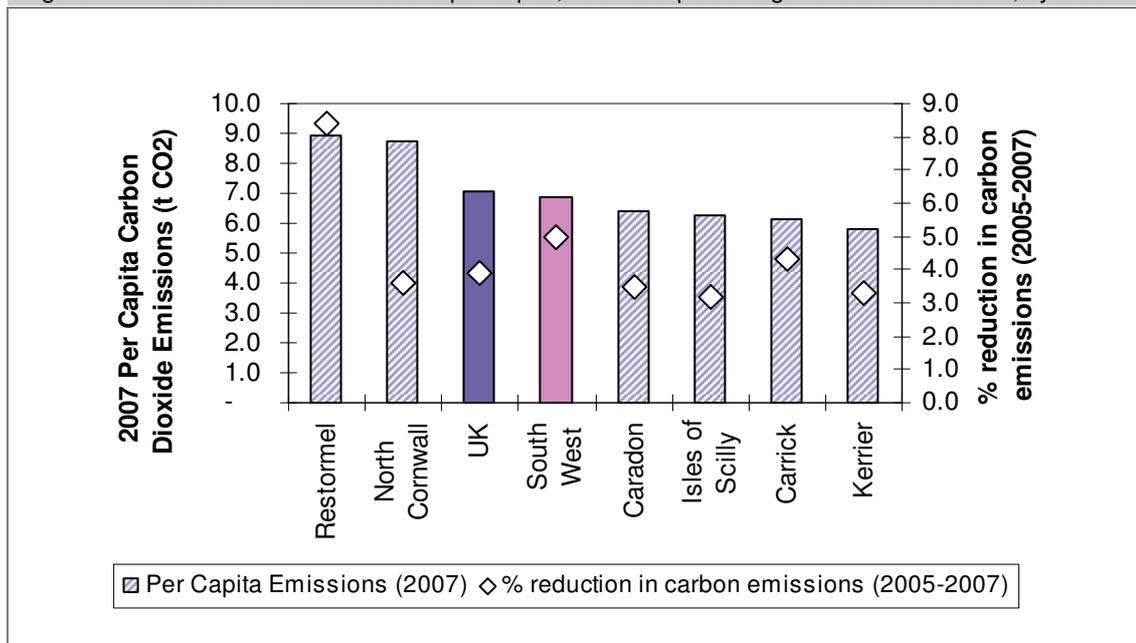
Source: ONS Mid year population estimates

F.59 Total population change between 2005 and 2008 in Cornwall has been roughly in line with population growth in the South West (Figure F-21), although the working age population in Isles of Scilly experienced a fall of 7.7% (from 1,300 to 1,200) in this period (total population change between 2005-08 was negligible).

Environment

- F.60 Carbon dioxide emissions account for about 85% of UK greenhouse gas emissions³¹, and as such the reduction of carbon dioxide emissions is core to meeting emissions targets.³² Figure F-22 illustrates the current levels (2007) of per capita carbon dioxide emissions, and the percentage reduction in carbon emissions between 2005 and 2007.

Figure F-22: Carbon Dioxide Emissions per capita, 2007 and percentage reduction 2005-007, by area



Source: Department of Energy and Climate Change, 2007

- F.61 Currently, the area with the highest level of per capita carbon dioxide emissions (Restormel) reduced its carbon emissions by the most between 2005 and 2007. Three of the pre-2009 districts in Cornwall and the Isles of Scilly had lower levels of per capita carbon dioxide emissions than the South West and UK.

³¹ South West Observatory, 2010, *State of the South West*

³² The UK is committed to an 20% reduction in greenhouse gas emissions by 2050.

Annex G: Case Study Reports

Interim Funding for CUC Central Team and CUC Phase 3 Central Team

Project details

Table G-1: Project details	
Programme (convergence or competitiveness)	Convergence
Name of Project	Interim Funding for Combined Universities in Cornwall (CUC) Central Team and CUC Phase 3 Central Team
Status (commissioned/endorsed/contracted)	Contracted
Amount allocated £	Interim funding ERDF: £345,216.00 CUC Phase 3 Funding ERDF: £1,858,335.00 <u>TOTAL ERDF: £2,203,551.00</u>
Amount spent £	Interim funding: £302,418.89 CUC Phase 3 Funding: £149,153.27 <u>TOTAL: £451,572.16 (20%)</u>
Match allocated £	Interim funding: £115,072.00 from CUC Partner institutions CUC Phase 3 Funding: £619,446.00 from CUC Partner Institutions; Cornwall County Council and ESF <u>TOTAL MATCH: £734,518.00</u>
Match spent £	Interim funding: £100,806.30 CUC Phase 3 Funding: £49,717.76 <u>TOTAL MATCH: £150,524.06 (20%)</u>
Priority Axis	Priority Axis 3
Priority Axis Strand	Knowledge infrastructure
Project description	<p>The CUC partner institutions have developed a number of proposals for consideration by the Convergence funding partnership under both ESF and ERDF programmes. The role of the CUC Central Team is to provide overarching support for the formulation of these proposals and for other CUC activities. The key activities of the central team include:</p> <ul style="list-style-type: none"> • supporting programme development and the formulation and refinement of proposals for Convergence ESF and ERDF funding • maintaining a high level of liaison with stakeholders • maintaining CUC engagement with the business community and the development of HE engagement with businesses. • developing the relationship with Business Link and formulating robust working relationships in support of the Business Simplification agenda • maintaining a strong and effective communications strategy <p>The CUC Partnership sought the interim funding for the Central Team when its Objective One funding came to an end in April 2008. The team was required to support the completion of CUC Convergence funding proposals and maintain the momentum of CUC developed under Objective One. The Interim funding supported the Central team's</p>

Programme (convergence or competitiveness)	Convergence
Name of Project	Interim Funding for Combined Universities in Cornwall (CUC) Central Team and CUC Phase 3 Central Team
	work until a proposal for longer term funding was prepared. Following the CUC Partnership Review completed in May 2008 the Phase 3 funding proposal was prepared. It sought funding to support a slightly smaller team of seven people under three main functional areas - Executive support and Co-ordination, Business Support and PR and Communications.
Intended/actual start date	Interim funding Intended: 01/04/2008 Actual: 01/05/2008 CUC Phase 3 Funding Intended/Actual: 01/03/2009
Intended/actual completion date	Interim funding Intended: 30/09/2008 Actual: 31/01/2009 CUC Phase 3 Funding Intended/Actual: 31/12/2013

Source: SQW Consulting

Issues

- G.1 The purpose of this case study is to examine the effectiveness of the CUC and its Central Team with regards to supporting the development of the knowledge economy through infrastructure provision. It looks at the degree to which it has used the ERDF funding to support infrastructural projects rather than business and people engagement activities. It also investigates the difference the work of the CUC has made to the Cornish businesses and people. In particular, it aims to identify the ways in which the CUC projects have managed to increase HE participation and develop links between the partner higher education institutions and businesses. The case study also discusses the future plans of the CUC partners and the Central Team.

Rationale and objectives

- G.2 Cornwall has traditionally suffered from a low proportion of residents qualified to a degree level; low specialisation of the economy in high growth sectors and low levels of R&D compared to the rest of the region and UK³³. Narrowing this gap has proved difficult, especially as a clear majority of the young talent in the region leaves Cornwall to pursue higher education elsewhere and rarely return to apply their skills in the area. To counteract this 'brain-drain', the CUC Partnership has, over the last 10 years, developed infrastructure to deliver Higher Education (HE) in Cornwall.

³³ Roger Tym and Partners (2008). South West RDA Evaluation of the economic impact of the Combined Universities of Cornwall.

G.3 A previous evaluation of CUC's economic impact³⁴ described CUC as a partnership, funding stream and an initiative which seeks to:

- provide a significant increase in the range of Higher Education provision available in Cornwall to underpin the development of a knowledge based economy
- widen participation in Higher Education in Cornwall
- develop capacity for research and innovation
- bring about sustainable step change in the development of Cornwall by enabling CUC partners to play a more prominent part in supporting the growth of the Cornish Economy
- create 4,000 student places by 2010.

G.4 The ERDF Convergence Operational Programme Strategy acknowledged the success of CUC as a major force in shaping the Cornish economy under Objective One, and identified the opportunities it can provide to further develop the research base, HE expertise and engagement with businesses in the current programme.

G.5 In contrast to the approach taken under the Objective One Programme where CUC was funded under one allocation, a decision was taken at the outset of the Convergence programme to commission individual CUC projects relevant to the different programme priority axes. This decision was based on the negotiations between SWRDA and the European Commission where the Commission emphasised the need for CUC to focus on the outward facing business engagement activities as opposed to the inward look on building its infrastructure.

G.6 According to the CUC Central Team business plan³⁵, the CUC partners saw a role for the CUC Executive Team to direct, add value, and execute CUC Strategy in Convergence and also in coordinating the CUC project delivery that arise through both ESF and ERDF funding streams. The Central team was also seen to be crucial in promoting CUC in Cornwall, and partnering with the business support providers to communicate a coordinated business offer for engaging with Higher Education.

G.7 The key areas of responsibility and target outcomes for each of these are summarised below in Table G-2 below.

Table G-2: Roles and responsibilities of the Central Team Members

Function	Target outcomes
Business Support	<ul style="list-style-type: none"> • Growth in the total number of businesses engaged in substantial relationships with CUC partners. • Increase in the number of businesses engaged with substantial relationships with more than one partner. <p>Delivery of Business Support services is provided by the most appropriate partner institutions and delivery from the Central Team will be minimised, avoiding duplication</p>

³⁴ Roger Tym and Partners (2008). South West RDA Evaluation of the economic impact of the Combined Universities of Cornwall.

³⁵ Combined Universities in Cornwall. Appendix 1: Business Plan for ERDF Convergence Funding CUC Central Team Phase 3.

Function	Target outcomes
	with other business support agencies.
Coordination and integration of ESF and ERDF projects	Achieve the five cross cutting HE themes
PR & Communications	<p>The PR & Communications functions are to:-</p> <ul style="list-style-type: none"> • Ensure a coherent message is generated through effective liaison with partners about CUC. • Enhance the reputation of the CUC Partnership. • Raise awareness of HE for potential students. • Raise awareness of HE (and the impact of EU regional funding) in Cornwall through press activity, events (e.g. Royal Cornwall show; Chamber of Commerce events; RDA events) and literature. • Support the broader communications work of the Convergence Communications Team. • Raise business awareness of CUC's Partnership offer through case studies and press releases on Unlocking Cornish Potential, Know-How and other business-facing CUC initiatives. • Coordinate all promotion and publicity for CUC events. • Provide a gateway into higher education in Cornwall through literature and web content detailing the study opportunities available and signposting to the CUC partners. • Develop CUC's relationship with key opinion formers and decision makers through events and literature (e.g. arranging ministerial visits, reception in European Parliament, CUC Education lecture, CUC Newsletter etc). • Manage media enquiries, interviews and visits.

Source: SWRDA. Technical Assessment Template, CUC Phase 3 Central Team, Date submitted 21/01/2009.

The roles have not been linked to SMART objectives or a performance framework³⁶.

Inputs and activities

Inputs

G.8 The CUC Central team has received just under £3million of funding, three quarters of which comes from the Convergence programme (See Table G-3).

Table G-3 : Funding provided for the CUC Central team:

Theme and Project	ERDF Approved £	Match Funding £	Eligible project costs £	Intervention Rate %	Total Project Spend to Date £	Total ERDF spent to Date £
Interim Funding for CUC Central Team	345,216.00	115,072.00	460,288.00	75.00	403,225.19	302,418.89
CUC Phase 3 Central Team	1,858,335.00	619,446.00	2,477,781.00	75.00	198,871.03	149,153.27

Source: SQW Consulting based on SWRDA Monitoring data

G.9 The ERDF Interim funding for the Central Team was matched with a contribution from the CUC Partnership institutions. Collectively they contributed just over £115,000 over the nine

³⁶ SWRDA. Technical Assessment Template, CUC Phase 3 Central Team, Date submitted 21/01/2009.

months. However, the Phase 3 proposal had two additional match funders; Cornwall Council (£100,000) and European Social Fund (£116,902). The CUC partners contributed just under £550,000 for the Phase 3 activity.

- G.10 To date, the project has spent just over 20% of the funding. The Central Team is slightly behind on expenditure due to a previous loss of staff. Whilst it is still quite early days, there is general confidence that the project will be able to spend the allocated amount of funding within the project duration.
- G.11 At CUC project level, the Central team has some concerns about the ability to get match funding in the future. The key sources of match funding for projects to date have included HEFCE Strategic Development Funds, RDA single pot funds and institutions' own funding. The latter, however, has tended to cover only the ineligible project costs. The greatest uncertainty relates to the future availability of the HEFCE funding which is threatened by the current spending review. Although HEFCE is perceived to have general good will to support the work of CUC, possible cuts can impact both CUC's existing and planned projects. For example, although the Tremough Research Centre is already contracted, the CUC partners are still waiting to hear the about HEFCE's investment decisions on further infrastructural development which is currently caught in the spending review.
- G.12 The CUC is seen to be improving its coordination with other European funding programmes, namely the ESF and Framework Programme 7 funding. Practically it has proven to be difficult to source complementary funding from these programmes as they have different approaches and timelines to decision making. Despite these challenges, CUC and its Central Team have been successful in sourcing match funding from the other European programmes and seeks to continue doing this where appropriate.

Activities

- G.13 The CUC activities are mainly focused around three outcome areas:
1. Building research capacity and infrastructure
 2. Business Engagement
 3. Continue widening the participation in Higher Education.
- G.14 To date the CUC activity has largely focused on the first aspect of infrastructural development as it is seen to be a pre-cursor for the other key activities. Most of the non-infrastructural activities so far have related to provision of undergraduate or Foundation Degree teaching. Some of the consultations, however, suggest that the business engagement and widening participation activities will take precedence in the next couple of years when the research centres have been properly established.
- G.15 The role of the Central Team is to support and coordinate the partner institutions activity in these three key areas, as well as market CUC to wider group of partners to raise awareness of CUC and the opportunities it offers for Cornish businesses and people.

Outputs and results

Intended and actual

- G.16 The individual CUC projects have a wide range of output and result targets (although these are none for the Central Team). Although little progress has been made in achieving the output targets to date, according to the consultations, there is confidence that the projects will achieve them during the programme timelines. Attracting the required numbers of high growth business to ‘flow through the projects’ during the programme was identified as one of the key challenges which resonates with the concerns expressed by a wider range of Convergence programme delivery partners concerning the extent to which there are sufficient high growth businesses in Cornwall and the Isles of Scilly who qualify for the business assist targets. In terms of the outcomes, the Central Team believes these will be evident a couple of years after the programme end.
- G.17 The Central Team does not have any measurable output targets. There is only one result target of one job created which has not been achieved so far. However, this target has been questioned by the consultees as the project is unlikely to have created any non-fully-grant-funded jobs.
- G.18 The Central team is seen to have been very successful in raising the profile of the CUC and marketing the CUC model especially at the European Commission level as a mode of delivering higher education in a rural setting. Similarly, the team has been seen to be able to create a single interface for the business support providers to communicate with. This has enabled CUC to effectively outline what they can offer businesses and how the businesses can engage with higher education in Cornwall.
- G.19 However, some concerns have been expressed regarding the way in which the Central Team has succeeded in coordinating and adding value to the CUC’s project development and proposal writing. The partner institutions have struggled to understand the differences between the Objective One and Convergence programmes, especially in terms of the current programme’s focus on GVA and job creation, which has led to some proposals not articulating sufficiently the contribution of the projects towards achieving the overall Convergence programme’s aims. The Central Team should continue providing a supportive role to ensure that partners fully understand the aims of the Programme and ensure that projects are developed which meet the Programme’s objectives.

Challenges experienced in delivery

- G.20 There have not been major issues in project delivery. However, there have been some delays in moving the projects quickly from proposal to contracted activities due to the need to ensure more of a ‘Convergence’ focus. The Central team is continuing to support the partners in ensuring that their proposals demonstrate good understanding of the programme. The Central Team has been very open to communication and proactively sought opportunities to discuss the progress and delivery issues both with SWRDA, the Government Office and HEFCE.

Additionality and value for money

- G.21 While there is limited evidence to date in terms of outputs, the various CUC projects working on both the supply and demand side of higher education are generally seen to be additional. The CUC offer, for instance, in terms of knowledge transfer and higher education short course are and could not be provided by other providers.
- G.22 It is unlikely that the Central Team would have existed without ERDF support as this funding covers two third of the total cost of the Team. It is unlikely that the partner institutions alone would have been able to fund the Team, at least not in its current size. In the absence of the Central Team there would have probably been less coordination of CUC activities and the promotion of the CUC brand, particularly at the European Commission level would not have been as strong. The role of the Central Team is seen to be crucial in driving the widening participation agenda because the individual projects in this area are often very small and without central coordination they would possibly achieve greater participation only in a piecemeal way.
- G.23 As the CUC Central team does not have output and outcome targets traditional value for money assessment is not applicable. Nevertheless, on qualitative basis the Central Team is seen to provide generally good value for money in terms of their PR and marketing work, as well as the coordination of business engagement activity by pulling together a CUC offer for businesses.
- G.24 Although it is too early to tell to assess Value for Money (VfM) for the CUC projects at this stage, there is a perception that especially in terms of *economy*, the VfM is not likely to be as good as in some of the other ERDF funded projects. For instance, the cost of each 15hr business assist is likely to be much higher than in some other business support projects. However, in terms of *effectiveness* the VfM is likely to be good due to their support being very in-depth and over an extended period time.

Cross cutting themes

- G.25 The environmental sustainability CCT has been achieved by reaching the BREEAM excellence in all physical development projects. The equalities CCT has so far been addressed mainly through the institutional policies, for example, on ease of access for disabled people etc. However, this 'operational approach' is seen to be too light touch. The consultations highlighted both the requirement and interest to work on embedding this in a more strategic way in the future, mainly through the widening participation agenda. The focus is likely to be on engaging people from the deprived communities in the higher education offer. For example, they will look at opportunities to introduce different activities in areas such as Penzance where the interest and engagement in HE has been limited. However, the plans for these activities are not yet defined.

Future

- G.26 By the end of the programme, CUC would like to have several research units growing to the point where they are attracting external research grants. They would also like to have enterprise and leadership units in the HEIs which would be flourishing in terms of the work

they do with the SME community in Cornwall. They would also like to achieve successes in terms of reduction in the HEI cold spots and widening participation through either learning centres or other means, such as the campuses where they are already teaching undergraduates or Foundation Degrees.

- G.27 To achieve this, the CUC partners will spend the rest of the programme working on the business engagement agenda. They are also going to be focusing on developing the environmental sector in partnership with other organisations which will involve a range of activities and make a contribution towards the programme aim of embedding environmental sustainability. There is also potential for them to work more extensively to meet the excess demand for Foundation Degrees, especially in Truro. Extended provision of Foundation Degrees would make a good contribution towards their widening participation agenda.
- G.28 There has not been any decision on the future of the Central Team after the Convergence funding ends and it is not clear whether an exit strategy has been developed. However, one of the consultees noted that decision of the partner institutions on whether they will continue funding the team at the end of the funding period will be a good indicator of the Team's perceived success and value-added.

Risks to the project

- G.29 Securing match funding for CUC projects is likely to be the biggest challenge going ahead. The consultations suggested that in the past the CUC partners and the Central Team have not attempted to leverage a wide range of funding sources. If the availability of the relevant HEFCE funding is significantly reduced as a result of the current spending review, even some of the already contracted projects are in jeopardy. The Central team and the partner institutions are aware of the issue and are committed to identifying alternative funding streams.
- G.30 The funding related challenges also pose a threat to the widening participation agenda. For instance, the recent news on increases in University fees will make it harder to attract some of the excluded groups to higher education. Although there is little that the CUC and the Central Team can do to mitigate this, they are looking at the opportunities to extend the provision of the Foundation Degrees in Truro where there is currently excess demand.
- G.31 Another issue is that there is very little evidence of successes in securing business engagement to date. The consultations suggest that the focus so far has been largely on developing the infrastructure and undergraduate level skills development, and the business engagement is to follow that. However, the consultees have also acknowledged that business support market is very saturated with various providers. Although the business facing offer of CUC is unique and not provided by others, it is going to be challenging for them to successfully engage with the businesses.

Good practice

- G.32 According to the consultees, both HEFCE and the European Commission view the CUC as an effective higher education delivery model in a rural setting. The partnership is recognised to be genuinely working together to broker relationships and drive skills and knowledge

development. CUC is also seen to be facilitating a wider cultural change in Cornwall, especially in terms of the perception of higher education and making it part of “what we do around here”.

Conclusions & assessment of effectiveness overall

- G.33 The CUC and its Central Team have worked on supporting the development of knowledge economy in Cornwall through creating infrastructure and engaging with Cornish people and businesses to improve their skills and knowledge. The activities to date have largely focused on the infrastructural development to set the foundation for the outward facing activities. Consequently, limited progress is made so far in terms of the business engagement and widening participation agenda.
- G.34 The Central Team has made a notable contribution to raising CUC’s profile both at the European level as well as within County. They have also engaged well with the business support providers and provided them with a collective CUC offer which they can use in signposting businesses to the higher education partnership. However, they have been expected to make a greater contribution towards improving the partner institutions’ understanding of the programme aims and drive effective proposal development. This is especially in terms of supporting the institutions and their project development process by “quality controlling” the proposals and ensuring that they demonstrate understanding of the programme aims and how the proposed projects support them. Consequently, this represents an area that they should improve on in the future.
- G.35 The tightening public funding climate is likely to influence the CUC projects through making match funding more difficult to source and threatening the widening participation agenda through increased student fees. However, the Central Team and the CUC partners are committed to looking for new funding sources and widening activities in areas where there is currently excess demand.
- G.36 The CUC, as a delivery model of HE in rural setting and as a partnership, is recognised as an example of good practice, both nationally and internationally. It is seen to encourage joint-up working by the regional HEIs but most importantly, embedding higher education and skills development in the people and businesses of Cornwall.

Watson Marlow Case Study

Project Details

Table G-4: Summary of project details	
Programme (Convergence or competitiveness)	Convergence
Name of Project	Project Faster (Fully Automated Silicone Tubing Extrusion) - Watson Marlow Ltd
Status (commissioned/endorsed/contracted)	Commissioned
Amount allocated £	£768,737.00
Amount spent £	£768,787.28
Match allocated £	£2,647,873 (of which £256,246 SWRDA match and the difference provided by Watson Marlow Ltd)
Match spent £	£256,262.42 (Public Sector)
Priority Axis	Three
Priority Axis Strand	Building place potential - Truro, Falmouth/Penryn, Newquay, Bodmin, Penzance/loS
Project description	<p>Watson-Marlow Bredel Ltd is an innovative engineering company specialising in the design, manufacture and distribution of products for the pump industry with particular reference to the medical industry. Watson Marlow is one of the largest employers in Falmouth with 174 staff and an annual turnover of £20 million producing a high value added product using skilled labour and state of the art technology and materials.</p> <p>The company was looking to expand its operation in the UK and construct a new unit for the increased production of peristaltic pumps and tubing as its current facility was close to its maximum production capacity. The company is principally an engineering manufacturer, specialising in the supply of pumps and components.</p> <p>The Watson-Marlow Bredel site is located close to Falmouth's industrial area close to Bickland Industrial Estate and Falmouth Business Park on the North side of the town. The site had suitable land for expansion that comprised a 0.56ha plot. Watson-Marlow Bredel used EU Convergence investment funding to help plug the cost/value gap produced by the construction of a 1,800m² building with clean room facilities that helped to facilitate the expansion of the company, safeguarding and creating jobs in the region.</p> <p>The building was completed in December 2009 and operations within the new production unit have begun.</p>
Intended/actual start date	01/03/2008
Intended/actual completion date	31/12/2009

Source: SQW Consulting

Issues

- G.37 Project Faster at Watson Marlow was chosen for a case study because the project is one of the few projects that is now complete and has delivered against its target outputs. However a key question here is the genuine additionality of those outputs and trying to ascertain what would have happened without the Convergence Programme funding.

Rationale and objectives

- G.38 Reaching full operational capacity at its peristaltic pumps and tubing production unit in Falmouth, Watson Marlow Ltd anticipated that in order to meet growing demand and make the most of future opportunities that it would have to expand its operations; it had land on its existing site to develop and wished to create a new production unit on this site. However, the construction costs of the high-tech production unit needed were far in excess of the end value of the building. This led Watson Marlow to consider the prospect of outsourcing some of their operations from Falmouth to China where costs are lower if no public sector funding could be found.
- G.39 There is a genuine market failure here relating to the cost value gap which means that the development and construction costs of building are higher than the end worth and saleable value of what is built – this makes it extremely difficult for local businesses that wish to expand. In this example, the construction costs of the building were around £3.5 Million and the anticipated value of the finished building just £1.49 Million; this left a cost value gap of almost £2 Million.
- G.40 The rationale for funding the project from the Convergence Programme's and RDA view is about keeping a significant local employer in the region thus safeguarding jobs and creating new employment opportunities. The project fits in with one of the Programme's core objectives of unlocking the potential of place – in this case in Falmouth; and delivers on the aim to develop, in a sustainable manner, the capacity of key towns to accommodate new investment critical to the development of a knowledge based and higher value-added economy. The project also fits with the Lisbon Agenda's aim of creating a sustainable, knowledge based economy for Europe.

Inputs and activities

- G.41 The Programme and public sector match funding (from SWRDA) was intended to help meet the cost value gap outlined above. The Convergence funding for the project totalled £768,787.26, which was 100% of the allocation. SWRDA promised a 30% match on the Convergence funding and £256,242 was provided in line with this. This meant that 30% of the eligible costs of the project were met. The project ran 0.5% over budget and these costs were met by Watson Marlow.
- G.42 The main activity of the project were the construction of the high tech Production Unit, included obtaining relevant planning permissions, contracting the builders and carrying out the build.

Outputs and results

Intended and actual

- G.43 Effectively, the project has finished in that the identified land has been developed and a Production Unit including clean room of 1801 Metres Square now occupies the site. The building was the first in industrial Unit in Cornwall to be built to BREEAM Excellent standards. In this respect the project has met all of its targets with regards to outputs.

- G.44 In terms of results, the 15 jobs that were targeted to be safeguarded have been retained and two additional jobs have been created against the target of eight set. The project is still on target to create more jobs as business develops and it is anticipated that the project will meet this target in the not too distant future.
- G.45 Additional business turnover will be, in addition to new jobs created, the other method by which the project will create additional GVA locally and in the region. It is difficult, at this early stage to measure the difference that the project has had in this respect as there are not yet any annual figures to compare. However, there is a level of optimism that the anticipated business demand exists. Taking in to account that the project was initiated and delivered as the national economy was experiencing difficulty, business performance is on track but not as positive as could be expected in more stable economic circumstances. The important thing is that Watson Marlow now has the infrastructure and capacity in place to meet higher business demand when economic circumstances improve.

Challenges experienced in delivery

- G.46 Project Faster has been quite a straightforward project – essentially it is a construction project and this has gone well. The contracted builders delivered in advance of schedule and the project was very close to budget. The relationship between public and private sector has also been smooth although some initial difficulties in understanding the language and requirements of the funding process were identified.
- G.47 If there were any challenges in the development an delivery of the project they were in ensuring that the front end was kept in line in terms of funding and planning permissions and making sure that the project was not delayed by having everything in order.

Additionality and value for money

- G.48 At first glance this project is odd in that it gives public sector funding to the private sector for them to develop their business – this would seem to have State Aid implications.
- G.49 However, the key thing to take in to account with regards to the additionality of this project is that the firm had the genuine intention of outsourcing some of their operations out of Cornwall if they could not have accesses funding to help them plug the cost value gap on expanding their operations. Assuming that it is also unlikely that the project would have won the amount of funding required from other sources. This would have meant the loss of 15 jobs in the local area immediately at the longer term risk of all the 174 jobs in the area being lost if the partial outsourcing of their operations was successful. From this respect we can say that the 15 jobs safeguarded and any new jobs created have a high level of additionality and low level of deadweight given that they would have been taken elsewhere without gap funding. Further, the loss of jobs through outsourcing of production would have had negative benefits on the supply chain and employee spend locally although this can not really be classed as significant.
- G.50 There is some degree of leakage from the local area and indeed the region, some supply chain benefits are lost as the parts and materials required for production are specialist and come from all over the world although some supply chain benefits in more basic materials will be

felt. Similarly, the employee who is best for the job may not necessarily, although would ideally, come from within the region.

- G.51 In terms of multiplier and spin off effects, at this stage, it would be making large assumptions to say that any firms would really benefit from this extension at Watson Marlow but as business expands this is a possibility.
- G.52 In measuring the value for money of the project it is important to consider that as business develops, more jobs will be created the economy of the project will appear better. The current gross cost per job created or safeguarded of the project is in the region of £45,000.³⁷ This does not represent particularly good value for money but should be considered within the context of keeping a major employer such as Watson Marlow Ltd in the Falmouth area and as such the project is, overall, assessed to have been effective.
- G.53 The aim when building the Production unit was not to keep costs as low as possible but to ensure that the build was of a high standard & met the BREEAM requirements. With an emphasis on quality, references were sought for the shortlisted building contractors. Fortuitously the firm with the best references was also the cheapest and so the building appears to represent good quality for good value. The challenge for Watson Marlow Ltd now will be to try and maximise employment and GVA benefit from the new facilities to ensure that the project is as efficient and effective as it can be.

Cross cutting themes

- G.54 The cross cutting themes were seen by the project management team as one of the most laborious aspects of the funding requirements – not because they were difficult to meet but because the requirements are inherent to Watson Marlow’s way of operating. The BREEAM excellent rating shows that the build has been done in as sustainably and environmentally friendly manner as possible. In terms of equality, the firm has an open employment policy but does not positively discriminate and therefore nobody would be selected nor denied work on the basis of race, ethnicity, gender or sexuality.

Future

Risks to the project

- G.55 Whilst the project has met its goals to a certain extent, the promised number of additional jobs have not yet been created and the difference that the project is likely make to local GVA will not be known until the additional business operations have been running for at least a full year. The threats to the promised outputs are clearly related to the recession and continuing economic downturn; if business demand is lower than expected at the time that the funding applications was made then the anticipated jobs and turnover may never materialise. Behind this is the threat that if supply is much lower than expected, the building will not be needed, by Watson Marlow at least, in the longer term. However, this is a worst case scenario and a more realistic assessment of risk would be that business will take longer to build up than

³⁷ Base on a calculation of ERDF spend to number of jobs created or safeguarded.

originally anticipated and consequently that forecast outputs will be delivered over a longer period.

Good practice/hindsight lessons

- G.56 The project is an example of good practice because of the efficient and straightforward manner in which the project was approached and delivered. The project was delivered ahead of time, very close to budget and with minimum fuss. Outputs are already being delivered.
- G.57 The successful delivery of this project can be attributed to the effort that went in to planning and assessing the risks involved before the project began – this reduced risks on the critical elements of the delivery. One lesson to be taken from the project from the private sector side was around the structure and terminology used in public sector funding.

Conclusions & assessment of effectiveness overall

- G.58 Overall, the project is a straightforward example of how the Convergence fund has created opportunities for local businesses in priority areas to capitalise on economic opportunities in the Convergence Fund area and
- G.59 Overall this project shows that with positive and decisive action, local public-private sector projects can be swiftly and easily implemented to the benefit of the local area and wider region. Other businesses may be interested to learn that, if the case is genuine, they can make a case for Convergence programme funding and this could be the key to retaining and creating high-value jobs in the local economy through smaller projects.

Table G-5: Watson Marlow Ltd Project Faster Outputs & Results to March 2010

OUTPUTS				
	Square metres of floorspace (m2)	Premises built achieving BREEAM "excellent " rating	Hectares of land for development	
Target	1801	1	0.42	
Actual	1801	1	0.42	
RESULTS				
	Number of jobs created	Gross increase in GVA	Number of jobs safeguarded	Private sector investment (£m)
Target	8	£9,340,00	15	4.93
Actual	2		15	4.40

Wave Hub

Project details

Table G-6: Summary of project details	
Programme (Convergence or competitiveness)	Convergence
Name of Project	Wave Hub Development and Construction Costs
Status (commissioned/endorsed/contracted)	Contracted
Amount allocated £	Development Costs: £1,950,00 Construction Costs: £18,000,000
Amount spent £	Development: £1,755,000 Construction: No ERDF spend yet.
Match allocated £	Development: £650,000 Construction: £15,250,000 (DBIS / DECC £9.51m ; SWRDA £6.39m as of June 2010)
Match spent £	Development: £585,000 Construction: £12,100,000
Priority Axis	One: Innovation and Research and Development
Priority Axis Strand	Environmental goods & services
Project description	The Wave Hub is a groundbreaking renewable energy project to create the UK's first offshore facility to demonstrate the operation of arrays of wave energy generation devices. Many different devices are being developed in the UK and elsewhere to generate electricity from the power of the waves. After the devices have been tested as prototypes elsewhere, the Wave Hub provides an area of sea with grid connection and planning consent where arrays of devices can be operated over several years.
Intended/actual start date	Development: 01/01/2007 Construction: 01/06/2009
Intended/actual completion date	Development: 30/08/2009 Construction: 30/11/2010

Source: SQW Consulting

Issues

- G.60 The Wave Hub is the project receiving (or set to receive) the largest amount of funding under the Convergence Programme and is of huge strategic importance to Cornwall and the wider region. Its importance lies in both the innovative nature of the project – it is the most advanced project of this type in the world and also in the project's role in the creation of a low carbon energy sector in the area.

Rationale and objectives

- G.61 The Wave Hub is a demonstration project for technology to generate electricity from waves. It involves installing an “electrical socket” off the north coast of Cornwall into which companies developing Wave Energy Conversion devices (WECs) can then install groups (arrays) of machines and test their performance over periods of several years in a realistic, fully monitored marine environment that also has a simplified route to permitting and consenting the devices.
- G.62 An external appraisal and several economic assessments and options appraisals were carried out as part of the successful development phase and the project is currently in the middle of construction - six of the seven construction contracts required to finish the build have been awarded.
- G.63 The wider rationale for the project is to help demonstrate that the generation of electricity from the sea is doable and reliable. The project contributes to a reduction of dependence on fossil fuels and paving the way for a greener future for electricity. Within the Convergence programme the rationale for the project is to develop Marine Renewables Industry in Cornwall creating high value and suitable knowledge jobs both directly and through companies attracted to the area as a result of the project. According to the ARUP appraisal of the Wave Hub project “The case for market failure in the development of renewable energy technology is strong, particularly because of the *positive externalities* of reducing carbon emissions.”³⁸
- G.64 Wave Hub, when complete, fits in exactly with the four objectives of the Convergence Programme:
- transforming the economy to a more knowledge based, high value added economy with a broader range of sectors, and a reduced dependence on low paid jobs
 - increasing the range and quality of employment opportunities available to the community
 - managing economic growth in a sustainable manner
 - take a leading role in investing in the drivers of a low carbon economy, including increasing carbon literacy, overcoming market failure, and accelerating technological change.

More specifically it is a perfect example under the Priority One axis of projects that are particularly innovative or research intensive and can help drive the knowledge economy forwards in the long term and at the cutting edge. It is also a perfect strategic fit with the Lisbon Agenda’s aim for Europe to be the most dynamic knowledge-based economy in the world capable of sustainable economic growth. Wave Hub can be at the centre of sustainable economic growth in the region.

- G.65 The objectives of the Wave Hub project are as follows:

³⁸ ARUP Appraisal of the WaveHub (Construction Costs) External Appraisal, 2009.

- demonstrate the commercial viability of alternative wave energy systems
- make Cornwall & the Isles of Scilly and the South West of England the destination of choice for WEC developers to conduct commercial scale development
- support WEC developers in crossing the funding gap after the research and development stage
- create a new industry and job opportunities in Cornwall & the Isles of Scilly and the South West, expanding on the existing marine and engineering industries that are present in the region and creating opportunities for inward investment
- enhance the science and the knowledge base in Cornwall & the Isles of Scilly and the South West, expanding on the existing marine and engineering industries that are present in the region
- provide opportunities for Cornwall & Isles of Scilly firms and academic institutions to develop new skills and business opportunities
- enhance Cornwall & the Isles of Scilly, the SW region and the UK's reputation in the field of renewable energy and marine energy in particular
- complement existing UK marine renewable initiatives such as the European Marine Energy Centre (EMEC) in Orkney and the New and Renewable Energy Centre (NaREC) in Blyth and help establish the UK as a world leader in marine renewable energy
- produce more energy from renewable marine resources and lessen the dependency on non-renewable fossil fuel.

G.66 Whilst some of these objectives will take a considerable amount of time to come to fully come to fruition there is no reason why they are not all achievable in the longer term under a project of this magnitude and strategic importance. The achievement of many of these objectives will be realised from autumn 2010 when the construction of Wave Hub is complete. The project has the capacity to be truly transformational for the economy Cornwall and the wider region, providing the catalyst for an entire sector that is entirely sustainable.

Inputs and activities

G.67 The Development Phase of the project is now complete. The total development costs were £2.34 million. Of this, £1,755,000 was from Convergence Programme Funding out of an allocation of £1,950,000 and the remaining £585,000 was taken from a match funding allocation of £650,000 from SWRDA and DECC/DBIS. The under-spend is attributed to the work being achieved at a lower cost than expected.

G.68 The Construction phase has been awarded total funding of £ 33.9m. This is made up of £18m of Convergence programme funding, £9.51 m from BIS/DECC and £6.39m from SWRDA. As of May £12.1m had been spent although none of this is ERDF as the decision was made to draw the BIS/DECC funding down first. It is anticipated that the majority of this money will

get spent, the plans include £3m of contingency funds, again related to the likely impacts of storms and bad weather on the project delivery so if it is not needed the project could under-spend by up to £3m. With the contractors now selected and construction under way, a large amount of this money should be spent over the next three-six months. The construction is due to be complete in autumn 2010.

G.69 The project development activities comprised a series of technical studies, negotiations and professional consultations to provide a robust and practical basis for implementing the Wave Hub project and to ensure all the necessary technical data, consents and agreements are in place. This has included getting the lease of the sea bed and ensuring all the legal paperwork is in order.

G.70 The construction of the Wave Hub and the underlying cable pipe is a complex process of significant scale with several large capital projects including:

- connection to the Western Power Distribution system at the site of a former coal-fired power station in Hayle
- a sub-station building housing electrical and telecommunications equipment
- a duct beneath the Towans through which the cable will be routed
- a sub-sea cable laid under the Towans, under the beach and then across the sea bed
- a terminal distribution unit (effectively, a junction box) where the cable divides into four, each of which then connects to a WEC array
- navigation marks.

G.71 In addition to this, the marketing of the Wave Hub to prospective customers as well as external stakeholders, press and the local community is an ongoing task. A full time Manager for the Wave Hub has now been appointed.

Outputs and results

Intended and actual

G.72 The Wave Hub Project does not have as many target outputs as other projects under the Convergence fund but its overall impact on the economy of Cornwall should be substantial, it was anticipated that the project, when complete and underway would generate an additional 548 jobs in the region and will bring in an additional £23,600,000 of GVA. However, given the changed economic circumstances of the last two years these targets are currently being re-negotiated with low, medium and high options and they are likely to be lower than originally anticipated. That said the overall outcome of giving Cornwall and the Isles of Scilly a significant stake in a new and exciting worldwide industry and all the benefits that can be reaped from that should remain the same.

Challenges experienced in delivery

- G.73 It is unsurprising that in a project of this scale there have been challenges to tackle in the delivery of Wave Hub, these have been varied but key challenges to highlight have been:
- working with a new industry where everything is untried and untested and there are many 'firsts'
 - adhering to strict procurement requirements of public sector funding to which the marine and offshore industries are not accustomed
 - meeting all the legal requirements for consent and planning and getting the required documentation back from all parties with the requisite comments and approvals.
 - Mother Nature! To do a lot of this work - surveys on the sea bed in particular - the sea has to be calm
 - the impact of the recession on the industry has made it difficult to access finance and investment.
- G.74 All in all these challenges have been met either through good organisation and management or through working carefully with partners such as DECC to mitigate risks.

Additionality and value for money

- G.75 Overall, the project has allowed Wave Hub technology to be developed in Cornwall far earlier than it might otherwise have been giving the area a competitive edge and allowing the region to get ahead in what is a very competitive game. Because of Cornwall's location it is likely that a project along these lines would have gone ahead at some point in the future but by then the region would have been playing catch up rather than positioning themselves as a global leader in wave hub technology.
- G.76 The economic impact of the project and the degree to which the project will truly prove its worth and value for money depend on the extent to which Wave Energy Converter firms expand and how they see Cornwall fitting in with their plans. As the 2009 Economic Impact Update by Arthur Little highlights the wave energy market has been slower to develop than anticipated in 2007 and growth in the global market to 2020 is also likely to be slower than forecast. That aside, the project alongside PRIMARE has already begun to attract other firms in the sector to the area. The project works closely with PRIMARE and other firms to make the most of knowledge transfer and relevant expertise and as the construction completes and Wave Hub is in use this cluster is likely to grow.
- G.77 Due to the specialist nature of the project a lot of the work so far has not been able to be carried out by local firms – so far just one contract (for the construction of the sub-station building) has been awarded locally. However, there is a much greater chance for firms moving forward and the arrival of companies from around the world to use the facility will greatly enhance supply chain opportunities. One threat must be that the companies come to the Wave Hub for testing and then take the knowledge away from the area with them to benefit other areas. However this risk is offset by the obvious gains to be made locally from

hosting a world leading facility. The Wave Hub management team are committed to enabling opportunities for local companies wherever possible.

- G.78 Furthermore, the project has spurred further investment in the immediate area such as the Hayle Harbour Regeneration plans. The project also has the ability to help retain graduates and their expertise (from CUC, Exeter etc) within the local economy creating new opportunities (directly and indirectly) in a high-value knowledge intensive sector.

Risks to the project

- G.79 There is the reasonable risk that wave energy technology gets surpassed by other new energy and new engineering methods before the project is fully realised and that something ‘bigger or better’ or more reliable takes over from wave energy.
- G.80 However the greatest and more probable risk is competition from elsewhere in the world. Wave Hub currently has a lead but other countries including Scotland, Ireland, Spain and Portugal are catching up on the technology and Wave Hub needs to use its lead whilst it can to embed firms within the region and prove that Cornwall is the leading place for marine energy.
- G.81 In addition, the most direct risk to the project finishing on time and on budget is the weather, although as mentioned before, significant contingency costs are in place to meet this risk.

Good practice/hindsight lessons

- G.82 The project, so far, appears to be well managed and well delivered. A strong project team that have had the dedicated time and resource to work on the project appears to be the crux of this and though many challenges have been highlighted they have been surpassed. That said, the project is far from over and its success cannot yet really be judged.
- G.83 The project team are the first to admit that there have been lessons to learn along the way and that can of course be expected from a project of this scale. The key lessons highlighted are firstly on technical expertise and ensuring that the external teams and consultants do have the required knowledge to deliver what is needed; and the second is around keeping all parties fully informed, keeping relationships going and generally ensuring that everyone involved is singing from the same hymn sheet.

Conclusions & assessment of effectiveness overall

- G.84 Overall it must be remembered that we are looking at the Wave Hub project before it has been completed and so it is impossible to second guess its impact however the following conclusions can so far be drawn:
- The project is well under way and will deliver on its overall aim of handing Cornwall a leading place in the development of the Marine energy sector
 - However, the projects end results are unlikely to be as positive as anticipated – economic circumstances have changed and the industry has changed and with a long

term project that is as innovative as this one, changes should be expected and targets must not be too rigid.

Table G-7: Results Table (No outputs for the project target or actual)

RESULTS		
	Gross new jobs created	Gross Increase in GVA
Target	Development: 1 Construction: 548	Construction: £23,600,000
Actual	Development: 0 Construction: 0	Construction: £ 0

Source: SWRDA Performance Monitoring Data

Annex H: Assessment of reasonableness of targets

Assessment of output targets

Table H-1: Assessment of output targets for Convergence

Indicator (and Programme target quantity)	Programme spend per unit range (whole programme value)	External spend per unit comparisons	Assumptions within the targets	Evidence from secondary data	How reasonable is it to hit/miss the target i.e. achievability
O01 - Number of businesses assisted to improve their performance (6,440)	PA.1 gross spend per unit of £62,300 and PA.2 gross spend per unit of £25,800 Using the 0.52 additionality ratio found in our business impact survey (see on), PA.1 net spend per unit of £120k and PA.2 net spend per unit of £49,600	Spend per unit comparisons are available for <u>net</u> business assists. For example, BIS ³⁹ state an average of £9,705 (bus. dev and competitiveness interventions), £24,640 (science, innovation and R&D innovations), and AWM ⁴⁰ found a range of £11k-£82k		There were 70,000 business units in Cornwall and the IoS in 2008 (source: Econ-I) The target of 6,440 assists represents 9% of business units in 2008	Comparing the spend per unit to external benchmarks suggest the targets are achievable
O02 - Number of new business assisted (Subset of businesses assisted) (210)	Spend per unit unavailable for sub-sets. See figures above for O01		The PA.1 target of 210 equates to approximately 14% of the PA.1 business assists target The PA2 target of 700 equates to approximately 14% of the PA.1 business assists target	The baseline data suggest that approximately 5,100 new start-ups were created in Cornwall and the Isles of Scilly in 2007	Targets appear achievable

³⁹ BIS (then BERR) (2009), *Impact of RDA spending: National report*. Figure refers to business development and competitiveness interventions unless stated otherwise

⁴⁰ AWM (2009), *Performance Benchmarks*, prepared by SQW. Figure refers to Enterprise and Business Development interventions

Indicator (and Programme target quantity)	Programme spend per unit range (whole programme value)	External spend per unit comparisons	Assumptions within the targets	Evidence from secondary data	How reasonable is it to hit/miss the target i.e. achievability
<i>O03 - Number of environmental goods and services enterprises assisted (subset of 001) (280)</i>	Spend per unit unavailable for sub-sets. See figures above for O01		The PA.1 target of 280 equates to approximately 18% of the PA.1 business assists target The PA2 target of 350 equates to approximately 7% of the PA.1 business assists target	The baseline data suggests that in 2007 there were around 800 business units operating in the Cornwall and IoS environmental sector (Source: Econ i) The review of performance data shows a low number of contracted environmental business assists to date	Target appears very challenging given the small population of business units in the environmental sector Recommend revising target down as set too high at the time of developing OP
<i>O04 - No of firms involved in collaborative research & development projects (subset of 001)) (280)</i>	Spend per unit unavailable for sub-sets. See figures above for O01		The PA.1 target of 280 equates to approximately 18% of the PA.1 business assists target		18% of the business assists target appears achievable given the focus of PA.1
<i>O05 - Number of businesses within the region engaged in new collaboration with UK knowledge base (subset of 001) (280)</i>	Spend per unit unavailable for sub-sets. See figures above for O01		The PA.1 target of 280 equates to approximately 18% of the PA.1 business assists target The PA.2 target of 210 equates to approximately 4% of the PA.1 business assists target		18% of the business assists target appears achievable given the focus of for PA.1
O06 - Number of research and innovation centres supported (6)		No benchmark available			

Indicator (and Programme target quantity)	Programme spend per unit range (whole programme value)	External spend per unit comparisons	Assumptions within the targets	Evidence from secondary data	How reasonable is it to hit/miss the target i.e. achievability
O07 - Proportion of premises constructed/upgraded to at least the BREEAM standard of excellent or equivalent (incubators etc) (90%)	No unit cost calculation as target is proportionate	No benchmark available			
<i>O08 - Number of new business assisted (subset of 001) (700)</i>	Duplicate output category. See O02	Duplicate output category. See O02	Duplicate output category. See O02	Duplicate output category. See O02	Duplicate output category. See O02
<i>O09 - Environmental goods and services enterprises assisted (subset of 001) (350)</i>	Duplicate output category. See O03	Duplicate output category. See O03	Duplicate output category. See O03	Duplicate output category. See O03	Duplicate output category. See O03
<i>O10 - Businesses advised on improved environmental performance (subset of 001) (1,400)</i>	Spend per unit unavailable for sub-sets. See figures above for O01				
<i>O11 - Businesses engaged in new knowledge base collaborations (subset of 001) (210)</i>	Duplicate output category. See O05	Duplicate output category. See O05	Duplicate output category. See O05	Duplicate output category. See O05	Duplicate output category. See O05

Indicator (and Programme target quantity)	Programme spend per unit range (whole programme value)	External spend per unit comparisons	Assumptions within the targets	Evidence from secondary data	How reasonable is it to hit/miss the target i.e. achievability
O12 - Premises built achieving BREEAM "excellent " rating (80)	PA.2 spend per unit of £1.58m and PA.4 spend per unit of £1.40m	No benchmark comparator			
O13 - Square metres of new or up-graded premises/facilities (93,000)	PA.2 spend per unit of £1,360 and PA.4 spend per unit of £1,870 The CEA additionality benchmark ⁴¹ for sub-regional physical infrastructure interventions is 0.54. Using the 0.54 additionality ratio the PA.1 net spend per unit is £2,520 and PA.2 net spend per unit is £3,460	AWM benchmarks of £469 for cost per net square metre of floorspace (place based infrastructure and asset development) and £1,970 (place based land and buildings for economic growth investment)			Comparing the spend per unit to external benchmarks suggest the targets are achievable
O14 - Major investment projects (2)	Unit cost comparison not applicable				
O15 - Premises built achieving BREEAM "excellent " rating or equivalent (0)	Duplicate output category. See O12	Duplicate output category. See O12	Duplicate output category. See O12	Duplicate output category. See O12	Duplicate output category. See O12

⁴¹ BIS (2009), *Research to improve the assessment of additionality*

Indicator (and Programme target quantity)	Programme spend per unit range (whole programme value)	External spend per unit comparisons	Assumptions within the targets	Evidence from secondary data	How reasonable is it to hit/miss the target i.e. achievability
O16 - Square metres of floorspace (m2) (60,000)	Duplicate output category. See O13	Duplicate output category. See O13	Duplicate output category. See O13	Duplicate output category. See O13	Duplicate output category. See O13
O17 - Hectares of land for development (58)	PA.4 spend per unit of £7.91m The CEA additionality benchmark ⁴² for sub-regional physical infrastructure interventions is 0.54. Using the 0.54 additionality ratio the PA.4 net spend per unit is £4.27m	BIS state a benchmark of £4.75m per net hectare of land remediation			Comparing the spend per unit to external benchmarks suggest the target is achievable
<i>O18 - Previously developed land prepared / developed (subset of land for development) (10)</i>	Spend per unit unavailable for sub-sets. See figures above for O17				
O19 - Redundant buildings developed for new economic use (40)	PA.4 spend per unit of £2.78m	No benchmark comparator			
O20 - Historic buildings / sites developed for new economic use (20)	PA.4 spend per unit of £5.59m	No benchmark comparator			
O21 - Sustainable Integrated Development Strategies prepared (7)	PA.4 spend per unit of £16.0m	No benchmark comparator			

⁴² BIS (2009), *Research to improve the assessment of additionality*

Indicator (and Programme target quantity)	Programme spend per unit range (whole programme value)	External spend per unit comparisons	Assumptions within the targets	Evidence from secondary data	How reasonable is it to hit/miss the target i.e. achievability
O22 - Projects achieving BREEAM "excellent" rating or equivalent (80)	Duplicate output category. See O12	Duplicate output category. See O12	Duplicate output category. See O12	Duplicate output category. See O12	Duplicate output category. See O12

Assessment of results targets

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Indicator	Programme spend per unit range (whole programme value)	External spend per unit comparisons	Assumptions within the targets	Evidence from secondary data	How reasonable is it to hit/miss the target i.e. achievability
R01 - Gross new jobs created (2,187)	<p>Overall Programme spend per unit is £29,800</p> <p>Gross spend per units: PA.1 - £43,900, PA.2 - £23,100, PA.3 - £26,800, PA.4 - £29,800</p> <p>Using the 0.52 additionality ratio found in our business survey, net spend per units: PA.1 - £84,400, PA.2 - £44,400</p> <p>Using the CEA benchmark for physical interventions of 0.54 additionality ratio gives a net spend per unit of: PA.3 - £49,630, PA.4 - £55,185</p>	<p>AWM evidence for spend per units of <u>net</u> jobs created found an average of £116,000 per net job, within a range of £41k-138k</p> <p>BIS found an average spend per unit for net jobs created of £14,200 (Bus. development and competitiveness interventions), £38,000 (Science, R&D and innovation infrastructure), and £79,500 (Cross-cutting regeneration interventions)</p>		<p>The baseline data suggest that in 2007 Cornwall had around 215,000 FTE workers.</p> <p>A rise of 15,412 gross jobs (the programme target) equates to just over 7% of this total</p>	<p>The spend per units are broadly in line with the large range provided by external benchmarks – all within the AWM range of £41k-£138k, but further away from the BIS benchmark</p> <p>Over the 7 years of the programme, adding 7% to the overall Cornish employment figure appears achievable. Between 2004 and 2007 the number of FTE workers grew by 21,000 from 194k to 215k</p>
R02 - Gross jobs safeguarded (837)	<p>Overall Programme spend per unit is £52,300</p> <p>Spend per units range from £37,000 per job in PA.2 to £114,578 in PA.1</p>	No benchmark comparator		<p>The baseline data suggest that in 2007 Cornwall had around 215,000 FTE workers. Safeguarding 8,767 gross jobs (programme target) equates to 4% of this total</p>	<p>Over the 6 years of the programme, safeguarding 4% of the overall employment figure appears achievable</p>
R03 - No of patents granted and other IPRs and other IPR devices (140)	PA.1 spend per unit of £685,000	No benchmark comparator			
R04 - Number of additional firms involved in business/cluster networks (700)	PA.1 spend per unit of £137,000 and PA.2 spend per unit of £120,000	No benchmark comparator			

Indicator	Programme spend per unit range (whole programme value)	External spend per unit comparisons	Assumptions within the targets	Evidence from secondary data	How reasonable is it to hit/miss the target i.e. achievability
R05 - No of SMEs launching new or improved products (1,956)	PA.1 spend per unit of £49,000	No benchmark comparator			
R06 - Gross increase in GVA (539.4m)	Overall Programme spend per unit is £0.85 – i.e. for every 85p of Programme spend, a return of £1 of GVA (1.2 : 1) Spend per units range from £0.66 in PA.2 to £1.25 in PA.1	BIS found an achieved net GVA to cost ratio of 7.3 : 1 – i.e. for every 14p of programme spend, a return of £ of GVA		The baseline data suggest that in 2007 Cornwall's gross GVA was £6,923m. A gross increase of £539m (programme target) equates to 8.6% of this total Between 2004 and 2007 the Cornish GVA increased from £5,988m to £6,923m. A rise of £935m in three years	Comparing the spend per units to external benchmarks suggest the targets are achievable Adding £539m of GVA over the lifetime of the programme appears achievable given growth in GVA over time and business survey results (see on)
<i>R07 - Gross jobs created in environmental sectors (subset of job created) (560)</i>	Spend per unit unavailable for sub-sets. See figures above for R01		The PA.1 target of 560 equates to approximately 26% of the PA.1 gross new jobs target The PA.2 target of 700 equates to approximately 13% of the PA.1 business assists target	The baseline data suggest that in 2007 FTE employment in Cornwall's Environmental sector was around 2,400 The overall programme target of 1,260 jobs is equal to 53% of the Cornish total in 2007	Target appears very challenging given the small number of employees in the Cornish environmental sector Recommend target is reduced
R08 - Private sector investment arising from support (360m)	PA.2 spend per unit is £0.35 – i.e. for every 35p of spend, matched by £1 of private sector investment (2.9 : 1) PA.4 spend per unit is £0.71 – i.e. for every 71p of spend, matched by £1 of private sector investment (1.4 : 1)	No benchmark comparator			
R09 - Number of companies using ICT (new and upgraded) (4,410)	PA.2 spend per unit of £28,700 and PA.3 spend per unit of ££10,800	No benchmark comparator			

Indicator	Programme spend per unit range (whole programme value)	External spend per unit comparisons	Assumptions within the targets	Evidence from secondary data	How reasonable is it to hit/miss the target i.e. achievability
R10 - Number of jobs created (13,225)	Duplicate result category. See R01	Duplicate result category. See R01	Duplicate result category. See R01	Duplicate result category. See R01	Duplicate result category. See R01
R11 - Number of jobs safeguarded (7,930)	Duplicate result category. See R02	Duplicate result category. See R02	Duplicate result category. See R02	Duplicate result category. See R02	Duplicate result category. See R02
R12 - Gross jobs created in environmental sectors (700)	Duplicate result category. See R07	Duplicate result category. See R07	Duplicate result category. See R07	Duplicate result category. See R07	Duplicate result category. See R07
R13 - Number of additional firms involved in business/cluster networks (subset of businesses assisted) (1,050)	Duplicate result category. See R04	Duplicate result category. See R04	Duplicate result category. See R04	Duplicate result category. See R04	Duplicate result category. See R04
R14 - Number of businesses using new infrastructure (10,000)	PA.3 spend per unit of £10,800	No benchmark comparator			
R15 - Number of businesses benefiting from up-graded ICT infrastructure (10,000)	Duplicate result category. See R09	Duplicate result category. See R09	Duplicate result category. See R09	Duplicate result category. See R09	Duplicate result category. See R09

Indicator	Programme spend per unit range (whole programme value)	External spend per unit comparisons	Assumptions within the targets	Evidence from secondary data	How reasonable is it to hit/miss the target i.e. achievability
R16 - Number of businesses with improved performance (GVA) (6,000)	PA.3 spend per unit of £18,000 Duplicate of output 001				
R17 - Private sector investment £m (157)	Duplicate result category. See R08	Duplicate result category. See R08	Duplicate result category. See R08	Duplicate result category. See R08	Duplicate result category. See R08

Assessment of impact targets

Table **Error! No text of specified style in document.-2**: Assessment of impact targets for Convergence

Indicator	Programme spend per unit range (whole programme value)	External spend per unit comparisons	Assumptions within the targets	Evidence from secondary data	How reasonable is it to hit/miss the target i.e. achievability
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Indicator	Programme spend per unit range (whole programme value)	External spend per unit comparisons	Assumptions within the targets	Evidence from secondary data	How reasonable is it to hit/miss the target i.e. achievability
Net additional employment (10,590)	Overall Programme spend per unit is £43,300 Spend per unit range from £34,900 per job in PA.2 to £58,000 in PA.1	AWM evidence for spend per unit of <u>net</u> jobs created found an average of £116,000 per net job, within a range of £41k-138k. BIS found an average spend per unit for net jobs created of £14,200	The programme target at 10,590 net jobs is equal to 69% of the target for gross new jobs (15,412)	The baseline data suggest that in 2007 Cornwall had around 215,000 FTE workers. A rise of 10,590 net jobs (programme target) equates to 5% of this total Between 2004 and 2007 the number of FTE workers grew by 21,000 from 194k to 215k	The spend per unit is broadly in line with the large range provided by external benchmarks – fitting within the AWM range but higher than the BIS benchmark However, the gross to net ratio of 69% appears very challenging
Net additional GVA, £m (370.5)	Overall Programme spend per unit is £1.24 – i.e. for every £1.24 of Programme spend, a return of £1 of net GVA (0.8 : 1) Spend per unit range from £1 in PA.2 to £1.66 in PA.1 (0.6 : 1)	BIS ⁴³ found an achieved net GVA to cost ratio or 7.1 : 1 – i.e. for every 14p of programme spend, a return of £1 of GVA	The programme target of net GVA (£371m) is equal to 69% of the target for gross GVA (£539m)	The baseline data suggest that in 2007 Cornwall's gross GVA was £6,923m. A net increase of £371m (programme target) equates to just over 5% of this total Between 2004 and 2007 the Cornish GVA increased from £5,988m to £6,923m. A rise of £935m in three years	The spend per unit is significantly more achievable than the external BIS benchmarks i.e. the target is low However, the gross to net ratio of 69% appears challenging
Net additional safeguarded GVA, £m (99.3)	PA.1 spend per unit is £3.27 – i.e. for every £3.27 of spend, returns a net £1 of GVA safeguarded (0.3 : 1) PA.3 spend per unit is £1.54 – i.e. for every £1.54 of spend, returns a net £1 of GVA safeguarded (0.65 : 1)	BIS ⁴⁴ found an achieved net GVA to cost ratio or 7.1 : 1 – i.e. for every 14p of programme spend, a return of £ of GVA		The baseline data suggest that in 2007 Cornwall's gross GVA was £6,923m. A net safeguarding of £99m (programme target) equates to 1.4% of this total	The spend per unit is significantly more achievable than the external BIS benchmarks i.e. the target is low

⁴³ BIS (then BERR) (2009), *Impact of RDA spending: National report*. Benchmark figures refer to business development and competitiveness interventions unless otherwise stated

⁴⁴ BIS (then BERR) (2009), *Impact of RDA spending: National report*. Benchmark figures refer to business development and competitiveness interventions unless otherwise stated

Cornwall & Isles of Scilly Convergence ERDF 2010 Programme Review – What happened next?

The 2010 Programme Review was commissioned to assess the continued relevance of the rationales behind the Cornwall & Isles of Scilly Convergence and South West Competitiveness European Regional Development Fund Programmes, determine whether the Programmes were on course to reach Programme targets, identify risks to delivery, review the effectiveness of governance and management arrangements and make recommendations for improved Programme performance. The Review was not a formal interim evaluation, but partners felt the work would usefully direct activity for the second half of the Programmes.

In broad terms the Review concluded that despite the economic upheaval and more recent administrative and institutional changes, the Operational Programme and associated strategic objectives remained valid for the remainder of the programme. The Review did not signal a need for any significant change to the programme's aims or objectives, or the overarching mission to transform the economy to a high value added economy where knowledge, environment and quality of life underpin sustainable economic growth.

The Review's recommendations focused on three areas of issues: Strategic Delivery; Targets and Management & Administration. The Programme Monitoring Committee reviewed the Recommendations and agreed the actions they wished to take in each case, not all Recommendations were accepted by the Programme Monitoring Committee and some Recommendations have been overtaken by events such as the transfer of direct management of the ERDF Programmes to DCLG following the demise of the South West Regional Development Agency (RDA). Minutes of the Programme Monitoring Committee meetings in late 2010 and early 2011 capture the discussions around the Recommendations. Agreed minutes are held on the Key Documents page of the Convergence section on the DCLG website.

In summary:

Match Funding – there were a number of Recommendations referring to issues relating to match funding. The Local Management Committee (successor to the Programme Monitoring Committee) have agreed an amber risk rating for match funding and review the position at each meeting. BIS are managing contracts that had been awarded Single Pot funding prior to the RDA closing, Convergence had had a high level of early take-up of Single Pot as match funding, which lessened the impact of the loss of this pot as a future source. There are difficulties in obtaining bank finance, but a significant number of private sector proposals are going ahead and opportunities to use Regional Growth Fund as a source of match funding are being followed up. Partners agreed not to formally follow up the possibility of increasing the Programme level intervention rate as a means of decreasing the level of match funding required to draw down the entire ERDF allocation – the pipeline of activity indicated it was not necessary. If circumstances changed dramatically this would still be an avenue open to the Programme.

Low Carbon - The environment cross cutting theme is designed to ensure that programme investments support wherever possible the drive towards a low carbon economy. At the Programme Monitoring Committee workshop held in July 2010 it was clear that partners wished to retain a focus on low carbon initiatives. The 2010 Annual Implementation Report includes an analysis of low carbon activity within the Programme. To date the Programme has invested in transformational activity such as Wave Hub, linked to the Peninsula Research Institute for Marine Renewable Energy, which helped to secure Marine Energy Park status and an Environmental & Sustainability Institute, whilst premises are contracted to meet BREEAM Outstanding or Excellent standards. Cornwall Council is taking the lead on carbon capture mechanisms within the Programme area, which is intended to lead to data that will inform 2014-2020 Programmes.

Business Support activity – a high value high growth definition was devised by business support deliverers and those businesses qualifying as such are producing good GVA results. The Programme Monitoring Committee's response to the Recommendation to consider benefits for the third sector was to recognise the limitations upon direct support from ERDF to this sector, but challenge the Strategic investment Framework to build in links to the European Social Fund activities, for example, and provide workspace that could be utilised by third sector businesses.

Targets – the Review identified a number of areas where Programme targets would not be met. Partners decided not to reduce the targets and maintain the ambition, but the Local Management Committee and its sub-groups have reviewed detailed information relating to the targets and recognise the factors that have impacted on achievement. Minutes of the Local Management Committee meeting of 20 September 2012 capture this discussion and will be posted on the website once approved. The Review also recommended introducing carbon reduction targets, but partners felt this was too sophisticated for the Programme. Cornwall Council is taking the lead on carbon capture mechanisms within the Programme area, which is intended to lead to data that will inform 2014-2020 Programmes. Technical Assistance targets have not been introduced as no new contracts would be made and existing Technical Assistance investments either had Monitoring & Evaluation Plans or were delivering regulatory activity.

Governance and Administration – the Recommendations in this area have been overtaken by the transfer of programme administration to DCLG. Programme Monitoring Committees have been replaced by Local Management Committees and DCLG have introduced a standardised ERDF process across all English ERDF Programmes in response to observations directly from the European Commission.