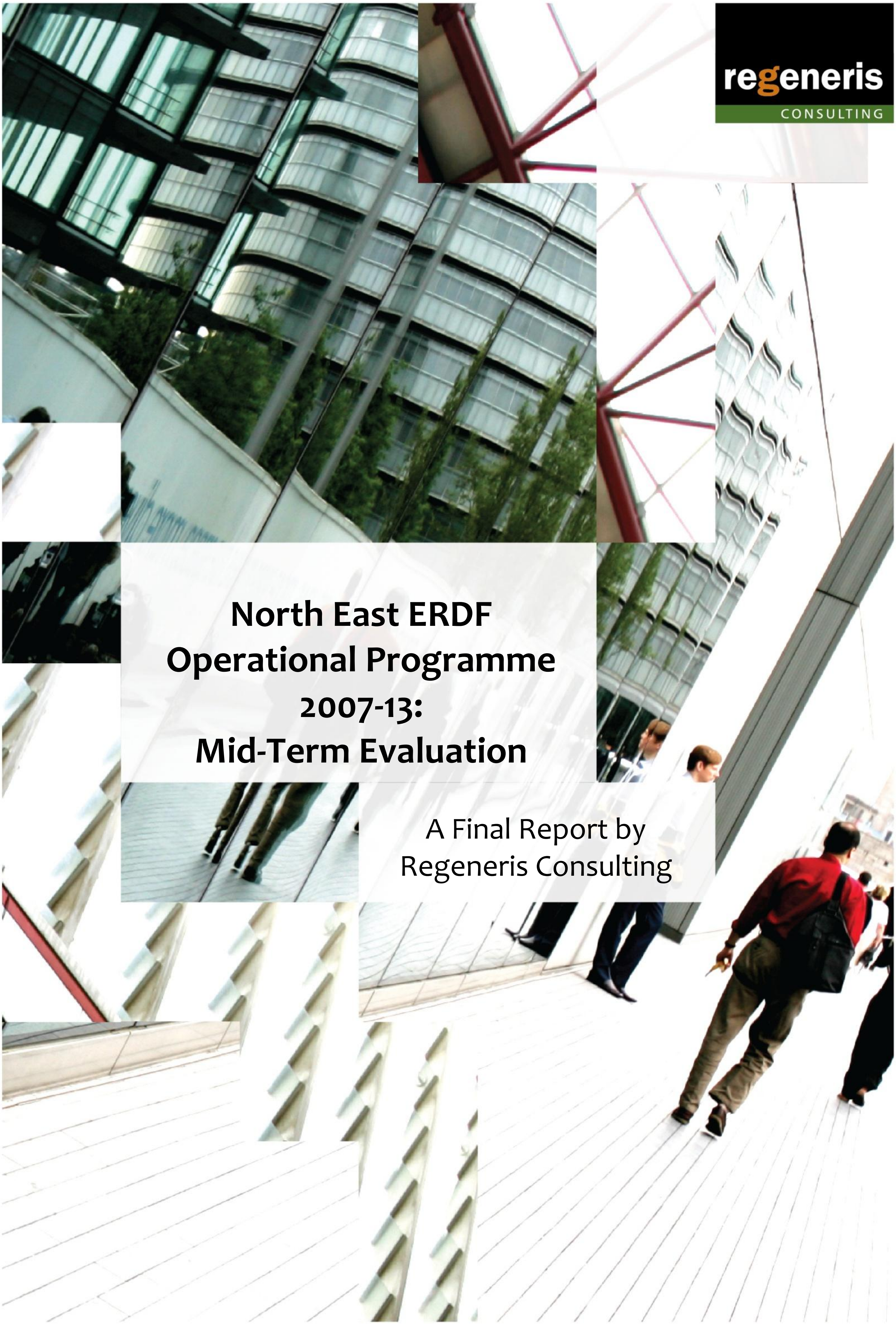

North East ERDF Operational Programme 2007-13: Mid-Term Evaluation

A Final Report by Regeneris Consulting

One North East

North East ERDF Operational Programme 2007-13: Mid-Term Evaluation

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Headline Findings and Conclusions

Purpose of Mid-Term Evaluation

1. The North East ERDF Operational Programme (NEOP) 2007-13 has some £325m[1] of ERDF resources to be supported by an equivalent amount of match funding. Given the scale of resources and potential impact on the region's economy, a mid-term evaluation of the Programme was commissioned by One North East (ONE). The evaluation is being managed by a Steering Group comprising officers from the ERDF Secretariat, other ONE Directorates and strategic partners. The evaluation is intended to answer the following questions:

- *Question One: Is the original Programme strategy and investment focus still relevant to the region's socio-economic conditions and consistent with policy?*
- *Question Two: What progress has been made towards the Programme's quantified targets for spend, outputs, results and impacts, and are these targets realistic and achievable?*
- *Question Three: How effectively is the Programme being managed and how robust are the systems or processes that underpin programme implementation?*
- *Question four: What impact has the Programme made to date and how can it maximise future impacts on beneficiaries and the wider economy?*

2. In light of the subsequent changes in government policy on regional and local economic development[2] that have been announced since the evaluation commenced, the evaluation has also considered the implications on future management and delivery of the Programme. An initial scoping phase of the evaluation set out a five strand approach to the mid-term evaluation in order to meet the evaluation objectives set by the ERDF Secretariat:

- **Strand One: Assessment of Programme Relevance**. A detailed review of the strategic, policy, funding and economic environment, including consultations with 30 programme strategic partners on the Programme Monitoring Committee, the Programme Executive Group and across the region.
- **Strand Two: Review of Programme Progress and Performance**. A detailed quantitative analysis of the programme performance and position on spend and outputs and the extent to which ERDF procurement approaches are generating an efficient throughput of high-quality projects.
- **Strand Three: Review of Project Engagement, Progress and Performance**. Detailed reviews of some 40 ERDF projects, including meetings with project managers, to understand how the Programme is operating on the ground and to identify gaps/opportunities in the programme investment portfolio.
- **Strand Four: Assessment of Emerging Programme Impacts**. Quantitative estimates

1 At December 2010 exchange rate.

2 Including the closure of Regional Development Agencies by March 2012,and Government Offices by March 2011, the creation of Local Enterprise Partnerships and the abolition of regional business support frameworks (see Chapter 2 for more detailed discussion).

of gross impact and net additional impact at the level of each Priority and the overall Programme, generated in part via a survey of around 500 programme beneficiaries.

- **Strand Five: Assessment of Systems and Structures**. A review of the systems and structures that are currently in place and an assessment of how partners can most effectively prepare for the transition to new management arrangements.

Question One: Is the original Programme strategy and investment focus still relevant to the region's socio-economic conditions and consistent with policy?

Economic Context and Implications for the Programme

3. The socio-economic context is much changed since the Operational Programme was signed off in late 2007. The recession (and its after effects) will continue to affect the achievability of programme objectives and targets during 2010 and 2011 (as it did in 2008 and 2009), which is likely to have implications for the achievement of overall programme targets for the whole programme period. The key issues for the Programme are:

- The private sector business environment is less challenging than it was during 2008 and 2009, but it remains much more difficult than when the Programme was developed. There is evidence that fewer new businesses were created in 2010 than in the years preceding the recession, survival rates are lower, and net employment creation has been modest at best. Given the scale of public spending cuts and the dependence of the North East economy on the public sector (for employment and demand for goods and services), a double dip recession in the region cannot be ruled out. Perhaps the biggest issue is the extent to which certain localities across the North East are particularly vulnerable to a reduction in public sector spending and employment.
- The harsher business environment, credit crunch and business cash flow issues (and the knock on effect on business confidence) during the past two years will continue to make many local businesses risk averse in terms of their growth plans and when it comes to making new investments. It is also likely to make it harder to engage firms in programmes and projects, especially where the payback may take some time to emerge.
- A major issue for SMEs since the start of the downturn has been access to finance as banks became increasingly unable or unwilling to lend to SMEs and credit terms became more onerous. Credit conditions have improved, although the volume of lending is still much lower than before the recession. The constraints on the availability of finance through the banks is likely to encourage firms to look to the JEREMIE funds for finance.
- One consequence of the deterioration in UK economic performance and change in credit conditions has been a marked depreciation in the value of sterling compared to other major currencies (the dollar and Euro in particular). As world growth and export demand rose during 2010 this has, and will continue to, provide a boost to the opportunities for export sectors (largely manufacturing but also service sector invisible exports such as tourism, education, transport and business services).

- The sector that felt the most immediate effect of the credit crunch and entered recession first was the property and the construction industry. The ability of property values to help fund development in the more difficult sites and locations has been especially impaired. This has impacted on the ability to progress commercial property schemes that lead directly to the creation of new floor space and could constrain the potential to fund a JESSICA initiative using ERDF. All parts of the region have suffered from the recession, even previously very buoyant local economies. However, in absolute terms the recession has impacted more on those locations which already had weaker economies, suggesting that efforts to create jobs and businesses in the targeted areas of deprivation may prove especially challenging.
- The most recent longer-term forecasts suggest that the region will continue to struggle to make up any ground on the UK as a whole and that, in relative terms, it will see the GVA gap widen. This reinforces the need to focus on investments to improve long-term regional competitiveness, in spite of the short-term cyclical challenges posed by the recession.

4. We conclude from the analysis that the strategy underpinning the Operational Programme is still highly relevant to the needs and opportunities facing the region. Below we have translated the Operational Programme strategic priorities into a number of underpinning objectives and considered the risks which may arise as a consequence of the economic recession and subsequent reduction in public sector expenditure.

Table 1: Programme Priorities and Objectives

Priority	Objectives	Risk to the Programme (high, medium or low)
Priority One: Enhancing and Exploiting Innovation	Stimulate and facilitate increased investment in innovation and R&D.	**Medium-High**: private sector likely to have spent less on R&D and innovation during recession, further constraining potentially limited absorptive capacity for innovation. Some SMEs still likely to be more risk averse to investment, and therefore lower demand for some Lisbon type business support may remain modest, although it should increase as economy begins to grow again.
	Provide and support the infrastructure needed to stimulate innovation and R&D.	**Medium**: may be constrained by HEIs' ability to engage and generate eligible match funding for business-facing activities.
	Support the commercialisation of knowledge and spin-out of SMEs from universities and other organisations which conduct primary research.	**Medium-High:** private sector likely to have spent less on innovation during recession and fewer new businesses likely to start-up in weaker economic climate. Greater reluctance of private investors to fund spin-outs. Strength of recovery key to ensuring demand for services grows.
Priority Two: Business Growth and Enterprise	Underpin the future sustainability and growth of new and existing businesses and target sectors.	**Medium**: business environment remains challenging but private sector should start to grow in the next year; potential stronger demand for some types of support (eg debt finance)

Table 1: Programme Priorities and Objectives		
Priority	**Objectives**	**Risk to the Programme (high, medium or low)**
	Promote a more enterprising and entrepreneurial culture and support the growth of businesses at start-up and early stage and those with growth potential.	**Medium:** encouraging new enterprises significantly more difficult in an economic downturn, but opportunities should emerge as economy pulls out of recession.
	To create sustainable jobs in the social economy supported by existing and new social enterprises.	**Medium:** new job creation difficult in downturn.
Cross-Cutting Theme: Environmental Sustainability	Ensure that all new buildings conform to the highest standards of environmental sustainability.	**Low**: green issues likely to remain an important element of government policy, but cost pressures could result in some energy efficiency measures being viewed as unaffordable.
	Ensure that business growth supported by the Programme takes account of CO2 emissions and adopts environmental best practice.	**Medium**: green issues likely to have been lower priority for many firms in tighter economic climate, but an increasingly important element of central government policy.
Cross-Cutting Theme: Equality & Diversity	Ensure that employment opportunities created are accessible to women, BAME groups and disabled people.	**Medium**: impact of public sector spending cuts likely to have a disproportionately high impact on women and disabled groups which have a high presence in the public sector and part time work.
	Ensure that enterprise and business development support is open to all sections of the community.	**Medium:** cuts in funding for business support could make it harder to ensure services are tailored to all sections of the community.
Cross-Cutting Theme: Reducing Spatial Disparities	Promote active participation in the development of a knowledge driven economy in deprived communities.	**Low**: This is a major challenge irrespective of wider economic conditions.
	Increase economic activity and entrepreneurship within deprived communities.	**High**: difficult to increase entrepreneurship and business formation when economic confidence is low, and key dedicated central government programmes/funds (eg LEGI and WNF) come to an end.
	Support the development of local supply chains.	**Medium:** Some larger firms may be less willing to develop links with local firms as cost pressures lead them to source from low-cost suppliers.

5. The Programme's overarching quantitative target is an increase in Gross Value Added per capita in the North East to 90% of the UK average by 2015. This was a challenging target at the time it was set in 2007, not least due to the large extent that the public sector expansion drove economic growth in the region during the first half of the decade. The recession and the programme of public sector expenditure cuts (and national policy changes) make it highly unlikely that the Programme will achieve this target and some of the output and outcomes targets, and could put upwards pressure on the cost of achieving each output.

Table 2: Key Programme Targets		
	Target Area	**Risk to the Programme**

	North East region	Disadv-antaged areas	
Increase business density as a result of the creation of 3000 new businesses, of which 15% in disadvantaged areas	3000	450	**Low-Medium**: regional economy still recovering from downturn; consumer and business confidence is still very low. Potential entrepreneurs still face restrictive lending conditions. However, the Programme has made good progress to date; 45% of regional target has been delivered and the disadvantaged areas target already exceeded.
Creation/safeguarding of 28,500 gross jobs of which at least 10% in disadvantaged areas	28,500	285	**Medium**: employment levels seem to have levelled off and private sector services have grown slightly, but danger of knock on effect from public spending cuts.
Increase in R&D expenditure as a percentage of regional GVA of 0.2%	0.2%	N/A	**Medium:** Businesses likely to have cut back on R&D spending during downturn but should increase as the regional economy recovers
Improved environmental management and energy efficiency in 2,850 assisted businesses	2,850	N/A	**Low:** Green issues lower priority during the downturn but likely to remain an important policy issue for Coalition Government
Increased productivity among the region's businesses resulting in an increase in £1.1bn in regional GVA per annum	£1.1bn	N/A	**Medium**: Likely to be very difficult to achieve in challenging economic conditions. In addition, the ex-ante evaluation stated that the overall net additional GVA target at £1.1bn pa (or a 3% increase on current regional GVA) was very ambitious even at the time the Programme was being developed, and may need to be reviewed.

Policy Context and Implications for the Programme

6. In addition to the change in economic conditions since the Operational Programme was signed off, there have been some important policy developments at national level which have implications for the Programme. Some of the changes in policy had been made by the previous Labour Government during 2008 and 2009, and have impacted upon the design, delivery and focus of ERDF projects (for example, the requirement for compliance with the Business Support Simplification Process).

7. However, the more radical changes to regional economic development policy and delivery arrangements being implemented by the Coalition Government since it came into office in May 2010 are having significant implications for the management, funding and delivery of the remainder of the ERDF Programme. The closure of Regional Development Agencies by March 2012 (and the moratorium in the interim period on the use of Single Pot to fund new ERDF project) is likely to have major implications on project delivery and hence impacts, given ONE's role as one of the major sources of match funding for the Programme.

Table 3: Policy Changes Since the 2010 General Election			
Theme	**Policy Initiatives**	**Relevance to Operational Programme**	**Impact on Operational Programme**
Abolition of Regional Development Agencies	RDAs to be abolished by March 2012. Some powers expected to be handed over to Local Enterprise Partnerships, while others assumed by central government.	Fundamentally affects RDAs' role as the principal source of match funding and as the overall Programme management authority. Also loss of regional strategic guidance and insight which has shaped the OP and investments.	Creates considerable uncertainty over the future arrangements for managing the OP and securing match funding. Possibility that some funding will come from Regional Growth Fund (RGF), but no mechanism to ensure this happens.
Abolition of Government Offices	Government Offices (GO) will be abolished, by the end of the current financial year.	GOs responsible for overseeing European Social Fund, and coordination of future activities by DWP may make alignment with ERDF more difficult.	Impact not as substantial for NEOP as abolition of RDAs but questions over new arrangements for managing ESF and how it is aligned with ERDF in the NEOP.
Creation of Local Enterprise Partnerships	New or modified public-private partnerships of local authorities, partner organisations and businesses to be created and then endorsed/approved by Government. Three LEPs have already been approved in the North East	Clear expectations that LEPs may play a significant role in the future decision-making processes of the NEOP (eg. on the PMC). However, LEPs will be receiving no direct funding from central government and although they may possibly take on some existing RDA assets. They are therefore unlikely to provide a significant source of match funding in themselves, and they are likely to be substantially less resourced than RDAs.	Much would depend on the LEPs which form in the North East. White Paper is clear that the main driver of policy on business innovation and knowledge transfer will be BIS and TSB, not LEPs. However, LEPs encouraged to get involved in local enterprise and business support activity, even though they will receive no direct central government funding.
New arrangements for the delivery of business support	BIS to take in-house (or via arms length bodies such as UK:TI and TSB) future design and coordination of Lisbon type business support (sectors, innovation, trade and inward investment etc). Business Link to be replaced by national call centre and web site.	Uncertainty about future funding and organisation of existing regional schemes, especially where contract is with and the majority of match funding comes from ONE.	Threat to the continuation of major regional projects, although they could continue providing central government makes match funding available and is prepared to novate existing contracts from ONE (such as for the Manufacturing Advisory Service).

8. The White Paper "Local growth: realising every place's potential"[3], published on 29th October provided further detail on the role that Local Enterprise Partnerships (LEPs) are expected to play; largely a strategic and leadership role, with no central government funding and no programmes or projects that central government is expecting or asking LEPs to run on their behalf. Looking to the future, LEPs may have important (but as yet unspecified) roles in strategy, delivery and funding. However, as far as ERDF is concerned there may be a potential funding and delivery gap for economic development investments in the short term whilst the role of LEPs is still evolving.

9. There is also a strong message that local authorities and LEPs will need to play a more prominent role in the overall governance and decision-making around ERDF programmes. This is sensible in principle, but there is clearly a potential for intra-regional competition over geographical resource allocations.

10. The broader cuts in public expenditure, as part of the Coalition Government's plans to reduce the level of government debt, will severely reduce public sector resources for investment in regeneration and business support. The Comprehensive Spending Review (CSR), published by the Coalition Government on 20th October 2010, sets out the Government's departmental spending plans for the next four years. Total annual government spending is to be cut by £81bn between 2010/11 and 2014/15. The average departmental budget reduction is 19% during this period.

11. Much of the content of CSR is fairly high level, although some specific points of policy were announced. Greater clarity on the precise nature of the spending cuts will follow when departments publish their own individual spending plans. Nevertheless, some of the key announcements contained in the CSR could impact upon the North East economy and the ERDF Programme. Some of the key announcements were:

- A 25% cut in funding for BIS (which funds much Lisbon-type business support) up to 20014/15, although the science budget has been protected (in cash terms); proposed investments in green technologies should help safeguard the North East's commitment to low carbon economy and renewable energy. No further detail was given on BIS's preferred approach to the novation of ERDF contracts with Single Programme (eg the major regional Business & Enterprise North East and Manufacturing Advisory Service projects)[4].

- Reform to the Higher Education Innovation Fund (HEIF) to provide an increased focus on commercial interaction between the research base and business, although overall Higher Education Institutions (HEIs) will have less grant to work with SMEs.

- The Department of Communities and Local Government (CLG) is tasked with linking ERDF "*wherever possible with the Regional Growth Fund*"; the fund is worth £1.4bn over four years, although its very strong private sector job creation focus may limit the potential to use the fund as match funding for ERDF in the North East given the

3 CLG (2010).

4 The White Paper 'Local growth: realising every place's potential' did contain a firm message that central government will lead on inward investment, trade support, sector support and innovation.

current structure of the Programme.

- On average, local authorities will see a 7% annual fall in their budgets, although the ring-fencing of local authority revenue grants will end and councils will have freedom to borrow against their assets. Whilst this may widen the potential to bring forward local authority-led projects, the 45% drop in capital funding from CLG to local authorities may make it difficult to increase the scope for investment in capital projects.

- Up to 500,000 public sector jobs could be shed over the next four years across the UK (a figure that has been widely reported for some time and equates to about 9% of the public sector workforce). Given the concentration of public sector employment in the wider North East, the region's economy is particularly vulnerable to a reduction in the public sector workforce (as well as the knock on effects on consumer spending and local supply chains). The reduction in public sector jobs is expected to disproportionately affect women in the workforce. On average, twice as many women as men work in the public sector, which accounts for around 40% of all employment amongst female workers.

Conclusions

12. Our current view is that the Operational Programme strategy (with a strong focus on long-term competitiveness and a strong Lisbon Agenda) remains relevant and appropriate to the region's need to raise its economic competitiveness and also remains consistent with the broad thrust of central policy. The region continues to need strong support for knowledge transfer, R&D, innovation and enterprise, and the likely effect of the recession has been to exacerbate/deepen the structural challenges facing the region.

13. The programme strategy has been flexible enough to adapt to the change in economic conditions since the Programme was signed off; a specific Recession Call for Proposals provided specific support to firms to help them through the economic downturn, but the Programme has remained focussed, rightly, on long term challenges and has not been over-reactive in response to cyclical patterns.

14. However, the Programme does face a significant challenge to meet its spending targets and to fund a sufficient volume of projects in the coming years, given the dearth of public sector resources now available. The general reductions in match funding that are starting to impact now, and in particular the moratorium on the use of Single Programme to match fund new investments, will have a major impact. From a more practical delivery perspective, the programme focus may need to shift to some degree if it is to ensure steady progress is achieved against the lifetime spending targets.

15. The nature of the Competitiveness Strand under which the Operational Programme is funded requires by legislation at least 75% of ERDF resources to be spent against the Lisbon Agenda for Growth, Innovation and Jobs. As such, this is reflected in the high proportion (estimated at around 80%) of match funding to date that has come from ONE's Single Programme. This reliance on Single Programme may present a greater challenge for the North East than some other regions as a consequence.

16. ONE and its partners put in place the delivery infrastructure to deliver what is an innovation and business development focused operational plan, including the Innovation Connectors, Manufacturing Advisory Service and Business and Enterprise North East (BENE). Whilst the RDA has consequently been a major providers of match funding, the focus of the programme in the North East will constrain its ability to use other sources of funding that may be open to other regions in the absence of further Single Programme (eg greater use of local authority funding for local interventions).

17. The recent White Paper encourages "alignment" of the RGF and ERDF, but with no practical suggestions on how this is to be achieved. In practice this will be challenging, but not impossible, because of different eligibility issues and timing issues. There is an emphasis in the White Paper on increasing private sector match funding, which again could prove a major challenge given the regulations governing the use of private sector match.

18. Steps to better align ERDF with the Regional Growth Fund would be very welcome and help the ERDF Programmes secure much needed match funding. Achieving this in practice should not be under-estimated. There have been attempts over several programme cycles to better integrate ERDF with ESF and, most recently, with Single Programme. While some progress has been made, ERDF has proven itself to be difficult to integrate in a substantive fashion. Given the pressure to secure match funding, it is essential to achieve this alignment.

19. There is scope to better understand the challenges encountered but this will require a substantial shift in the way Round 1 of RGF has been handled. The RGF emphasis on direct jobs and private sector leading the access to funding does not currently easily align with ERDF. However, it is the decision-making processes which would require most attention. Regional allocations of RGF and delegated decision-making to the new ERDF teams may be required if we are to see substantial amounts of RGF being matched with ERDF.

Question Two: What progress has been made towards the Programme's quantified targets for spend, outputs, results and impacts, and are these targets realistic and achievable?

Programme Progress

20. The Programme has made good progress to date on contracted spend, helped by a varied approach to procurement (ie the use of non-competitive selection for major regional projects and limited bidding for specialist investments such as Innovation Connectors, in addition to the traditional open bidding approach). By the end of 2010, around £190m (60%) of programme value has been successfully contracted and committed (although this is a reduction from £200m at the end of September 2010), and the Programme comfortably met its 2009 and 2010 N+2 targets. The 2009 N+2 target was met even before JEREMIE was factored in. Looking ahead, the target for 2011 also looks very achievable given the level of anticipated spend in contracted projects. As would be expected, the 2012 and 2013 targets appear more challenging based on the current position

21. However, progress on defrayment has been more modest, standing at around £85m in total (of which £44m is JEREMIE). In addition, in light of the current fiscal climate, the project pipeline is shrinking rapidly, as current projects are withdrawn and very few new projects

have entered the system since an Open Call for Tender was published in July 2010. As is the case elsewhere, the Programme's N+2 targets could begin to become a major concern from 2011 onwards as the cuts announced in CSR translate into reductions in match funding for existing projects and an even smaller project pipeline (as we expect it will, at least without targeted action to address this).

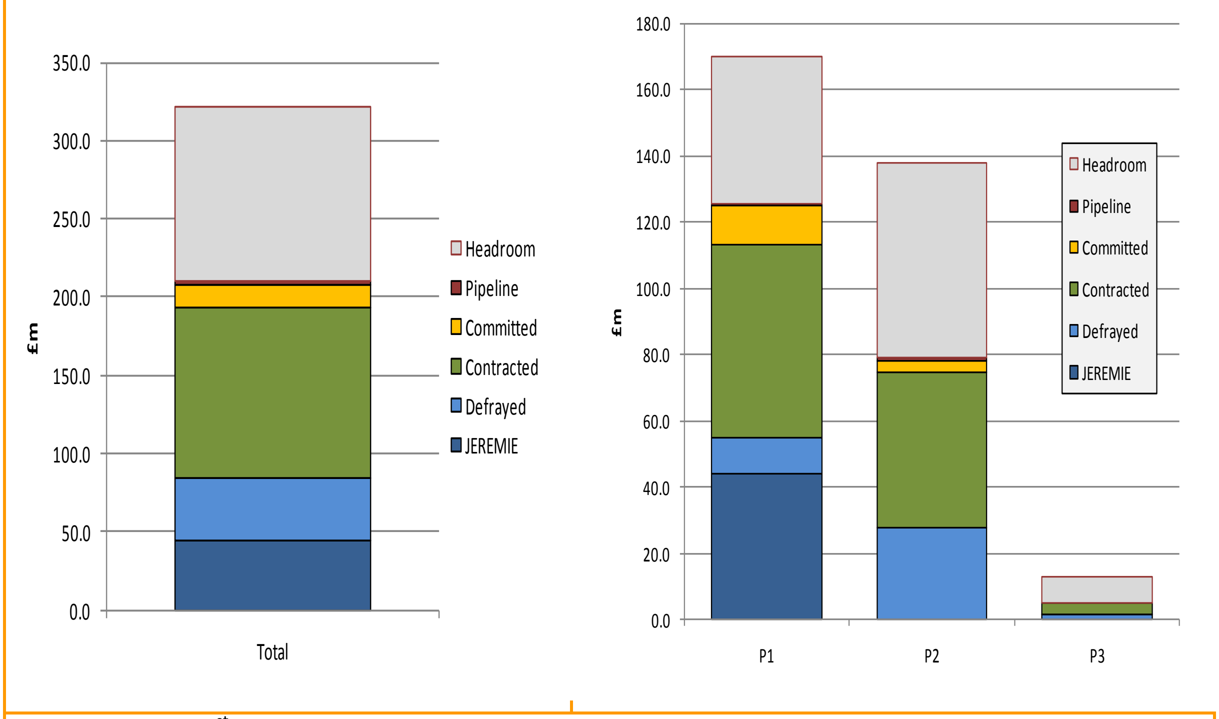
22. The value of projects currently in the development, appraisal and approval stages is very low and has been falling. At present, just £15m worth of projects are at the committed (Full Business Case appraisal) stage and a further £1.9m at earlier pipeline stage. A key cause of the reduction in the pipeline has been the withdrawal since May 2010 of Single Programme funding as available match for non-contracted ERDF projects. Around £19m of match funding has been withdrawn during the second half of 2010, the vast majority of which was Single Programme funding. A further £12.6m of Single Programme funding is earmarked for existing contracted projects beyond March 2012 (the date by which RDAs will have closed) and this funding could be lost to the Programme unless an alternative source is found.

23. With respect to outputs and results, the Programme to date has prioritised contracting for jobs created and businesses created; two key programme indicators, although perhaps the most challenging to achieve in the current economic climate. However, the Programme has made good progress on businesses created (46% of overall programme target already achieved), especially in disadvantaged areas (target already exceeded).

24. A high proportion of jobs created and safeguarded results have also been contracted (70% of target), but modest numbers achieved (15% of target). The over-profiling of this indicator is sensible, although this does raise the question of whether the contracted jobs targets in individual projects are realistic. In addition, the Programme is very dependent on a small number of projects (Business & Enterprise North East and JEREMIE especially) to deliver on new business and new jobs targets. There is a major timing issue given the importance of JEREMIE, in that results and impacts are loaded towards the latter stages of the programme period.

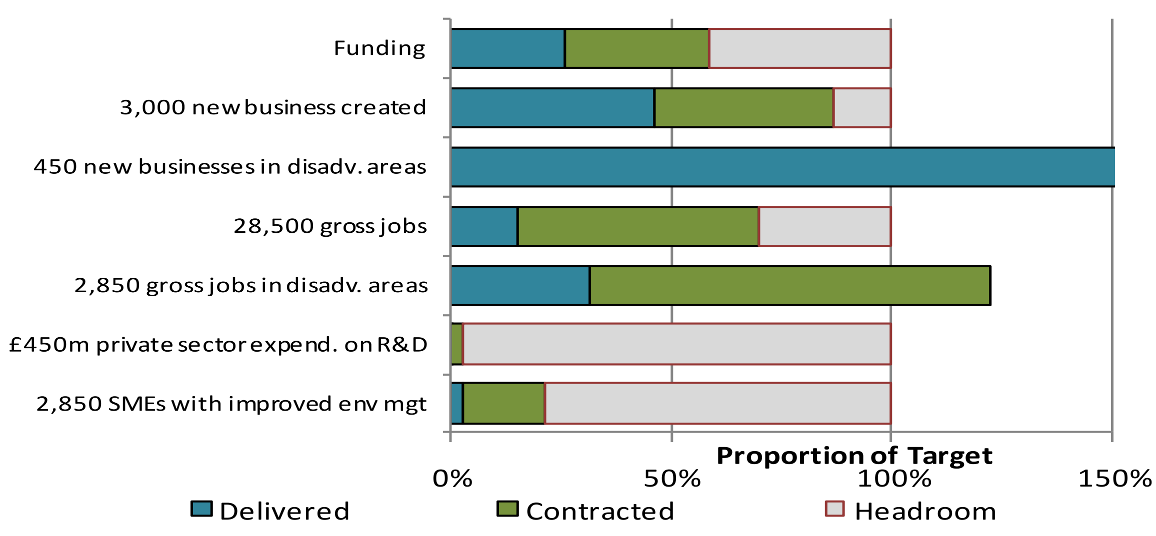
25. Significant gaps remain on several contracted and claimed output and result indicators. Very few investments to date have sought to stimulate private sector expenditure on R&D and very few firms have been assisted to improve their environmental performance. This could present a challenge to the Programme in achieving its headline Lisbon objectives and suggests that the environmental cross-cutting theme is not being sufficiently well embedded in programme delivery.

Figure 1: Programme Financial Progress 2007-10



Note: Data as of 31st December 2010. **Source:** MCIS.

Figure 2: Programme Output Performance



Note: data as December 2010.
Source: MCIS.

Priority One Progress: Enhancing and Exploiting Innovation

26. The projects reviewed under Priority One point to a number of strengths in the package of investment to date:

- The benefits of harnessing ERDF investment to organisations and initiatives which are leading the North East's drive to improve its performance in commercial innovation. For example, the Centre for Process Innovation, PETEC and NETPark can all point to their support for SMEs that are trading internationally and are competitive in technologically intensive industries.
- The focus on priority sectors and particularly on areas in which the North East has a mix of research specialisms and a commercial presence which is seen as nationally or internationally significant.
- Signs that the private sector has a central role in the development of projects. Several projects (eg. Sunderland Software City) have highlighted the strategic involvement of large companies in the wider Sunderland Software City initiative.
- Evidence of a strong emphasis on commercialisable knowledge transfer, moving beyond exploratory collaboration between the research base and SMEs. The approach adopted by one project to agree what is expected of an SME by way of results and what the SME should expect of the project by way of support is a good example of how to increase the potential for investments to generate direct and measurable economic benefits.
- The geographic spread of investments, with the Innovation Connectors approach having enabled the Programme to invest in a manner which allows for some degree of equity in the allocation of ERDF resources.
- The North East was the first English region to approve a JEREMIE initiative in the current programme period. The six initial JEREMIE funds are now fully operational and all have now commenced investment activity. There has been progress towards the establishment of a Micro Loan Fund, which should be investing by April 2011.

27. Key challenges highlighted by the assessment of Priority One investments reviewed include:

- The extent to which some P1 investment is concentrated in sectors which the North East does not currently have nationally or internationally recognised strengths in, nor the prospect of achieving this. Consequently the prospect of a lower return on ERDF investment in these sectors.
- The heavy dependence of capital projects on public sector funding, with future investment to improve and expand facilities likely to be much harder to obtain.
- The importance of integrating JEREMIE across the strands/Fields of Action of Priority 1 and also Priority 2.
- The winding up of One North East has wider implications for delivery of the region's strategy for innovation, with action and investment to support higher skills development among the range of activity which is likely to be significantly affected by cuts in public sector funding, changes in the institutional architecture and changes in the UK government's approach to skills policy and funding. The North East may find itself less able to influence the array of interventions which need to be brought together to create a stronger environment for commercial innovation.
- A similar challenge for revenue projects which face both uncertainty about the

future institutional landscape for this activity in UK policy and difficulty in securing funding to continue their activity. This is likely to be a significant issue for projects which are reliant on close working relationships with publicly funded business support providers in the region.

- A lack of clarity about what the range of community engagement activity delivered by P1 projects will achieve in terms of direct economic benefits or impacts on the aspirations and attitudes of local communities.
- The challenge of attaining a reasonable balance of investments in riskier innovation activity which may generate higher returns for the Programme with less risky activity which generates lower returns.
- The need to develop a framework which enables the Programme to capture the complex relationships between outputs, results and impacts in P1 and the way that they contribute to the Programme's objectives for science and innovation.
- The need to ensure that the range of innovation support activities being provided by P1 projects works effectively with wider business support and access to finance provision. Clearly, this is a particular challenge given current uncertainty about business support policy and funding, but it will be essential both to avoiding duplication and to enabling the Programme to maximise the resources available to the North East's SMEs.

Priority Two Progress: Business Growth and Enterprise

28. The evaluation work carried out so far points to a number of strengths across Priority Two investments to date:

- The initiatives have, on the whole, correctly identified an appropriate rationale and economic imperative guiding their development and delivery and have aligned themselves clearly to the region's economic priorities. There is a clear 'logic chain' linking objectives, the activities they seek to implement and prevailing issues of market failure affecting the markets in which they operate.
- The Programme has successfully used ERDF to increase the scale of existing major regional business support programmes, building on existing structures rather than create new ones, and helping to foster efficient management and delivery of ERDF activities.
- Support for local enterprise programmes has enabled the Programme to target support on underperforming parts of the region, fostering the equitable allocation of ERDF resources.
- The Programme has contracted a reasonable amount of spend and outputs across main priority fields, even it not a lot of delivery.

29. Key challenges highlighted by the assessment of P2 investments include:

- The economic climate may quite significantly reduce the ability of local enterprise projects (Field of Action One) to meet their targets, particularly those trying to get people currently disengaged from the labour market into self-employment. With several of the major LEGI and WNF funds now fully used as a source of match funding, new sources of match funding will need to be found for the remainder of the Programme. This is likely to be much harder to identify in the coming years given potential local and national public sector funding cutbacks in general, as well as the ending of LEGI and WNF.

- The loss of Single Programme funding will create difficult conditions for continuing the activities of sector development bodies. An emphasis on priority sectors has been a feature of P2 but given the changing policy context and uncertainties about the future public funding of support to businesses, there is a case for considering whether P2 should broaden its focus on sectors. However, in practice the definition of the priority sectors currently used is probably broad enough that relatively little business activity in high value activity is excluded from eligibility for ERDF support. There may be a need to consider if the sectors align with opportunities coming from the national level.
- The achievements and impacts of Priority Two are largely dependent upon the success of a small number of projects, several of which are under threat due to the loss of Single Programme funding. Of some concern to the Programme will be its capacity to generate new, large scale projects to support the formation of high growth and high value businesses in the face of the loss of any new Single Programme match together with the radical policy changes to the funding and delivery of business support.

Progress Against Programme Lifetime Impact Targets

30. The survey of SME beneficiaries covered the full range of intervention types which had been funded up to the end of 2010 where there had been significant progress in providing advice and guidance to existing SMEs and start-ups (and individuals wishing to set up a new business). At the end of 2010 this type of business support accounted for two thirds of the total ERDF spent across all projects (around £29m out of £44m). The survey did not however include SMEs that benefited indirectly from land and property provision funded either through Priority One or Two projects. **The consequence is that the survey is not a full assessment of the wider impact of the programme's investment in land and property, a part of the programme which will produce the longer term 'transformational' benefits and indirect benefits to SMEs.**

31. A total of 502 SME beneficiaries were questioned as part of the telephone survey, which represents 15% of SMEs assisted by the programme to date. This provides a fairly robust basis for judging the experiences of these SMEs and start-ups, the benefits they have secured and the gross and net additional economic impacts being secured for the region therefore excludes an important source of economic benefit for the region.

32. The beneficiary survey highlighted a number of key conclusions for the programme:

- Overall levels of satisfaction amongst businesses responding to the telephone survey are very high; overall, 89% of businesses stated that their experience of support had either met or exceeded their expectations and just 6% indicated that they were not satisfied with the support. There appears to be very little difference between levels of satisfaction reported by businesses receiving different types of support.

Businesses receiving start-up support were more likely to be to feel their expectations had been exceeded.

- The survey results clearly indicated the greater extent to which turnover, GVA and employment has been safeguarded than was originally envisaged in the OP. This is a consequence of the recession, with a range of projects being developed to address the challenges SMEs were facing at the time, as well as more SMEs seeking assistance from providers to address the challenges of the recession. The consequence for the programme is that safeguarded GVA and jobs account for between two thirds to three quarters of the total being reported. However, this balance should shift back towards economic creation rather than safeguarding over the remainder of the programme.

- In terms of overall progress against the key lifetime impact targets, progress is favourable. Progress on most key impact indicators is around 10 percentage points above the spend rate up to the end of 2010 (with £44.4m or 13.7% of ERDF resources spent up to the end of December 2010). On the most important measures, namely net additional jobs created and net additional GVA, the survey suggests at least 20% and 50% of the lifetime targets have been achieved. Progress against jobs safeguarded targets has been greater in Priority 2 than Priority 1, which reflects the greater role which Priority 2 projects has played in addressing the impacts of the recession upon SMEs.

- The key measures of progress in terms of value for money is a little more mixed, although again this reflects the manner in which resources have been used by the programme itself or the SMEs to safeguard economic activity as opposed to creating it. Key performance benchmarks are:

  - £2 of net additional GVA created in the region per £1 of ERDF invested. This is fairly low (and well below the benchmark of £7.3 GVA per £1 invested provided by the 2008 national RDA impact evaluation) and does reflect the resources which have been focused on safeguarding GVA. If safeguarded net additional GVA is included, the programme would have generated £21 GVA per £1 ERDF spent.

  - £19,800 ERDF spend per net additional job created, which although larger than the cost per job benchmark of £14,000 provided in by the 2008 National RDA impact evaluation, it is well within the range which we would judge to be acceptable. If safeguarded net additional jobs were included, the ERDF cost would be just £7,300 per net additional job created and safeguarded.

Conclusions

33. The Programme has made good progress to date on contracted spend. However, progress on defrayment has been more modest (excluding JEREMIE) and the programme pipeline is now shrinking. In light of the reduced sources of eligible match funding, increasing the project pipeline and ensuring the Programme remains on course to meet N+2 targets from

2012 onwards will be challenging. The Programme pipeline now is a cause for concern and it remains unclear how (or indeed if) the major regional projects will be delivered once ONE is closed.

34. The Programme must draw on the evidence presented in the evaluation to inform decision on future direction, ensuring that it is aligned in such a way as to be able to draw on available match funding for projects going forwards, as well as to ensure that the structures and processes are in place to begin to rebuild the pipeline. This may require the Programme to support partners in identifying match funding and navigating new delivery mechanisms to ensure projects can come forward. This is possibly the biggest challenge facing the Programme.

35. The modest capital focus in the design of the current Operational Programme will constrain both the ability to draw on the Regional Growth Fund and local authority resources as match funding. It is also constraining the potential to fund a JESSICA project across Priority One and Two. Creation of an additional Physical Regeneration Priority could provide the scope for additional land and property economic development investments, although any major changes to the Programme structure would require consultation and European Commission approval, which would potentially be a time consuming process.

36. Related to the above, the creation of an additional Priority could increase the potential scale of a JESSICA-type investment, as long as there are investment ready projects. From a practical perspective, it would probably require a twelve month period to development, appraise and approve a JESSICA project.

37. The North East Programme is estimated to be 83% Lisbon compliant (well above the 75% minimum threshold), and so there is scope to fund some physical investments that are aligned with the Competitiveness Objective, but are not in line with Lisbon spending codes. This could potentially free up to £25m of ERDF to spend on non-Lisbon activity. JESSICA also has the potential to secure a legacy fund for the North East, which is important given declines in some other sources of investment funding.

38. A JESSICA project could be aligned with other funding mechanisms such as Tax Incremental Financing (TIF) and the RGF. A number of consultees expressed a desire to see a fund with JESSICA at the heart, with TIF, RGF and private sector funding mixed in. However,. given the timescales for bringing forward JESSICA (a minimum of one year) it would certainly not be possible to fit in with the first or second round of RGF bids but there may be potential to draw on future RGF round bids. Also there remains a lack of detailed guidance at present on how these mechanisms may work in the region and to seek to mix ERDF with these funding sources may be a risky strategy at this point in the Programme's life.

39. Within the current Priorities, the Programme could consider a greater focus on Priority 1 projects that seek to increase R&D and innovation among SMEs, two currently underperforming programme indicators, and a greater emphasis on low carbon projects in Priority 2 (given underperformance on related indicators).

40. The programme is making reasonable progress in terms of the lifetime programme impacts targets. However, there is a need to shift the emphasis of the support for SMEs back

towards delivering the creation of wealth and employment, as opposed to safeguarding.

Question Three: How effectively is the Programme being managed and how robust are the systems or processes that underpin programme implementation?

Programme Management to Date

41. Programme governance arrangements are judged to be sound. The ERDF team is well regarded and works well with the PEG and PMC groups. Respective roles and responsibilities are well understood and there is good communication between the groups. Meetings are well run and the flow/volume of information is appropriate. A number of PMC members felt that there needed to be more specific reporting on the progress being achieved by the Innovation Connectors.

42. The structure of the ERDF team, embedded across several ONE departments (eg legal/delivery) has worked well. There is therefore a significant risk to the ongoing effective delivery of the Programme from the loss of this wider support capacity as a result of the closure of the Agency. This should be taken into account by CLG in their deliberations on future administrative arrangements and the transfer of ERDF functions to successor bodies.

Project Development, Appraisal and Approval

43. Pre-contract support for projects by ONE is appropriate and has been working well. The project development and appraisal process is clear, transparent and has been working efficiently. The approach of having both a single method of entry to the Programme and a single point of contact within ONE (Project Developers) for project sponsors provides transparency and consistency of contact. However, it relies heavily on an effective working relationship being developed by the project sponsor and the ONE project developer, each of which may have different degrees of experience and understanding of ERDF programmes.

44. A firmer line could be taken on projects that do not demonstrate a good fit with the Programme (ie in some cases, rejecting rather than deferring a project where the Project Investment Plan (PIP) did not appear to be aligned with the Operational Programme's objectives). This could save project development time on the part of ONE project developers for those projects that appear more viable.

45. Market failure and options assessments tend to be two of the sections of applications which are least robust, whilst the level of detail and specificity provided on project activities/delivery can vary. CCTs are now covered in the PIP stage and are built into the project development and appraisal stage earlier on than they were in the previous 2000-06 Objective Two programme. The quality of responses on CCTs varies, however, as some organisations and ONE project developers pay much closer attention to CCT issues than others (and for some projects the CCT aspects/implications are much more obvious).

46. Some other issues have been highlighted, for instance some delays in communication and some inconsistencies in advice due to ONE project developers having differing levels of ERDF expertise. However, these are common across ERDF programmes nationally and are in part a

result of the complexity of regulations and embedding systems and structures with those of the wider RDA.

Project Monitoring

47. Post-contract project support and monitoring is much more robust than in the previous 2000-06 programme period. Prior to submission of the first claim form, each contracted project receives a Project Engagement Visit (PEV) from a member of the ERDF team. The PEV is a new approach for the 2007-13 programme period, and is an important mechanism for making projects much more aware up front of their regulatory responsibilities and requirements for ERDF compliance. On the whole, post-contract support for projects by ONE appears to be strong, with support provided through:

- The dedicated ONE project developer stays with the project as a support contact during delivery.
- A specific Delivery team contact to assist in checking claims and other day-to-day delivery issues. All projects are able to phone the Delivery team for any questions on ongoing delivery matters.
- Support for audit preparation - to help a project get all the relevant information and files together if it is subject to an audit visit.
- The ERDF Practitioner Network, which is an important forum for discussion and demonstration of good practice. Some specific training sessions have been run on State Aid, Article 55, as well as general eligibility refreshers. The ERDF Delivery team hosts bi-monthly ONE cross-directorate meetings for ONE project developers and project sponsors at which key delivery issues, best practice, and current pertinent ERDF/policy issues (eg future match funding) can be discussed.
- Guidance material for projects, covering ERDF eligibility/compliance issues, which has recently been updated.
- An annual monitoring visit by the Delivery team and following this an external verification visit.
- Delivery team representation on Steering groups of some larger projects.

48. There are mixed views about whether the cross-cutting themes (CCTs) are being adequately addressed at present and differences of opinion about their importance given the other challenges facing the Programme. CCTs appear to be better embedded in project development and appraisal than in monitoring and delivery. There is clear risk of a loss of focus on CCTs as partners wrestle with other challenges and the potential negative effects of the Government's austerity measures on equality and diversity and spatial cohesion.

Project Evaluation

49. ERDF project evaluations are covered by the same protocols and procedures that apply for Single Programme investments. ONE has produced Impact Evaluation Framework (IEF) compliant evaluation guidance that covers the key issues and requirements, and has developed an evaluation plan for the whole ERDF Programme, which covers project evaluation requirements.

50. Any project that has a total public funding pot of more than £1m is contractually obliged to commission an external IEF compliant final evaluation. Given the standard minimum ERDF project threshold of £500,000 (although this is relaxed in some cases), the vast majority of ERDF funded projects will have to go out to external evaluation. A project cannot be considered complete/closed down unless it has already commissioned the final evaluation.

51. The evaluation team has sought to put in place consistent project evaluation procedures and have developed common guidance. However, on the whole the approach to ERDF project evaluation is not as robust as the systems in place for project development, appraisal and monitoring. Resource constraints mean that ONE has a limited ability to influence the design of project evaluation plans and support implementation. The transition to new ERDF management arrangements provides a further challenge in terms of continuity and consequently project evaluation requirements must be strengthened.

52. A significant minority of projects were unclear on the responsibilities for project level evaluation and there is currently no central monitoring of projects' progress with their evaluations. Project level evaluations will be an important part of the Programme's overall evaluation evidence and hence it would be beneficial to have stronger central co-ordination and support on evaluations.

Management Information Systems

53. Management Information Systems are well developed and appear to enable ONE to meet CLG reporting requirements and also allow detailed analysis of information on programme progress to date and projected future performance. Combining data into the ERDF management information (MI) database has enabled detailed analysis and strong interrogation of data to be undertaken. These systems and procedures will be particularly tested over the coming months as a process of project renegotiation and re-profiling is likely to be needed.

54. The ERDF claims stage involves variety of checks and appears to be a robust, if rather arduous, way of minimising errors. Project sponsors have one month to submit claims after the end of each quarter, and claims are usually paid within one month of draft submission (although the programme target is 90 days).

55. The MIS generally appear to be sound and between MCIS and PMC contain a great deal of information on the Programme and individual projects. The main information gap is in relation to match funding, as neither MCIS nor PMS record the sources of match funding. MCIS, for example, records total public match, total private match, ERDF funding and the total project funding package. In the current funding climate, being able to generate an accurate picture on match funding secured to date and (at the time) anticipated in future would help to give a clear picture of the specific challenges facing the Programme. A mapping exercise of match funding sources for all contracted projects was undertaken in July 2010, although this was a labour intensive exercise.

56. Under the current approach, for every action in relation to inputting ERDF project information, an equivalent action is required in relation to PMS. This dual requirement has been a source of frustration to the management team and provides potential for errors. On the flip side, this dual system (with MCIS as a standalone ERDF database) does make the

transition to a new managing authority (as part of the RDA abolition process) more straightforward. Future Programme Management.

Future Programme Management

57. Following the announcement of the abolition of RDAs, CLG needs to put in place new arrangements for managing and delivering ERDF in England. CLG has confirmed that regional ERDF programmes will remain and they will continue to be managed on a day-to-day basis at the regional level. ERDF teams are to become part of CLG under the proposed arrangements. This includes the 31 officers of North East ERDF secretariat. The transfer of RDA staff and functions into CLG will be completed by 1st July 2011.

58. The composition of the PMC may also change. A new Chair will be required once Government Office North East closes in March 2011. CLG's preference is for the Chair to be a director of the department CLG authority representative (the PMC is made up of local authority Elected Members, rather than officers). The overall level/composition of local authority/LEP representation will also need to be considered. CLG plans to replace Programme Monitoring Committees with Local Management Committees, although it is our understanding there will still be one committee for the North East.

Conclusions

59. Our analysis of programme systems, structures and procedures suggests the Programme is being administered efficiently and effectively. This includes strong embedding of ERDF officers and processes within ONE's core business development approaches. However, the abolition of ONE has heralded major changes in how the ERDF Programme will be administered.

60. CLG has also taken the sensible decision to continue with regional management of the ERDF Programmes, with Secretariat staff being transferred to CLG employment. Notwithstanding the likely problems involved in transferring ERDF Secretariats from their respective RDAs, the current set of Programmes have now built up a body of capacity and insights, and a series of relationships with delivery bodies.

61. CLG has taken the sensible decision to try and minimise relocation and management costs by co-locating the ERDF teams with existing CLG funded agencies where possible. However the past experience of the integration between RDAs and ERDF systems suggests the benefits can be easily over-played. The culture, requirements and structure of ERDF mean that it comes with an infrastructure of its own, although with untapped synergies and efficiencies waiting to be unlocked.

62. The assumption is that the plans to replace Programme Monitoring Committees with Local Management Committees are intended to produce a single LMC for each region, rather than a series of more local committees within each Programme. Although there is merit in seeking more local involvement in programme governance, in reality the local authorities and sub-regional partnerships, which sit behind the proposed North East LEPs are already represented on the PMC in the North East. The major challenge facing the PMC is to ensure that it provides the Programme with real strategic oversight and guidance, are able to make

informed decisions and can monitor progress on programme objectives. It is unclear from the proposals as they stand how the proposed changes to PMC membership will help here.

63. The emphasis on bringing new projects forward is critical although this should be balanced against putting sufficient resource into supporting existing projects. As the funding cuts begin to impact, projects will require guidance and leadership to help them navigate through the uncertain funding situation which many of them may be facing. It is encouraging that the current ERDF project development staff will be included in the transfer to CLG. However, to date the Programme has relied heavily on core RDA staff to develop and contract with strong projects. It is unclear how the Programme will fare without future RDA expertise.

64. Although the marriage between RDAs and ERDF Programmes has not been without its challenges, in areas such as knowledge transfer, innovation, business support, cluster development, venture capital & loan funds, and in operational issues such as State Aids, delivery vehicles, Article 55 and related legal matters, the Programme has relied heavily on RDA staff outside the ERDF team. Without that support, these more Lisbon compliant areas of the Programme may struggle while local partners continue to press the case for physical economic regeneration and public realm schemes. Care needs to be taken to ensure the balance of expertise does not shift too far away from these essential policy areas and technical requirements and that the expertise is available in the North East region.

Question four: What impact has the Programme made to date and how can it maximise future impacts on beneficiaries and the wider economy?

Strategic Added Value

65. Most (although not all) of the projects we have reviewed are at a relatively early stage of delivery and it is difficult at this stage to provide a substantive assessment of the impacts they are generating., However, an assessment of the strategic added value they have the potential to deliver points to the following impacts:

Priority One: Enhancing and Exploiting Innovation

- **Strategic Leadership:** Priority 1 investments are well placed to contribute to strategic leadership impacts. The emphasis on the Innovation Connectors ensures that ERDF investments are being made in specific facilities and initiatives which are already the focal point for research and commercial innovation in the region, and which in many cases have a national or international profile.
- **Strategic Influence:** The project reviews have heard a clear message about the importance that projects attach to activity delivered in partnership. Again, the Innovation Connectors are a focal point for exercising strategic influence, given their role as physical hubs for science and innovation. Emphasis on the need for P1 investments to support the work of the Innovation Connectors is a good indication that strategic influence is fundamental to the way they are expected to operate.
- **Synergy:** The development of synergistic behaviours is critical to the success of P1. A core rationale for ERDF investments to date is to broaden and deepen knowledge

transfer activity, with many examples of the expertise residing in Innovation Connectors, universities and other components of the region's innovation infrastructures being made more widely available.

- **Engagement:** Much of the success of investment to date in P1 will be contingent on the ability of projects to nurture networks of SMEs, researchers and innovation support providers. Findings from the project reviews suggest that the need for extensive engagement is widely recognised by delivery organisations.
- **Leverage:** The Innovation Connectors are positioned to assist the North East in securing investment from major national funding streams (eg. Technology Strategy Board (TSB)). There are several Innovator Connectors which form part of a much larger package of funding that includes TSB's investments in specialist research centres. Delivery of the JEREMIE project will ensure that the North East levers in substantial funding from the European Investment Bank, and this in turn is expected to stimulate the private sector venture capital market in the region, drawing in additional private sector investment as a result.

66. In addition, Priority One investments have potential catalytic effects. Investments in the Innovation Connectors can also claim to be generating catalytic impacts. These centre on the role they play in bringing together specialist research facilities, SMEs and large companies and university researchers. While the Programme has set out to greater interest in these sectors amongst local communities, it is too early to establish whether this will be achieved although it will clearly be a big challenge given the highly specialised nature of much of the activity that is being funded.

67. Beyond the Innovation Connector investments, projects designed to stimulate innovative entrepreneurship also explicitly set out to stimulate a change in attitudes and approaches to this type of activity. A successful JEREMIE project would be expected to have significant catalytic impacts in its own right. These centre on the extent to which the presence of a long term supply of venture capital (through legacy funds) and the organisational capacity to deliver it sends out signals to the venture capital market that help to stimulate the development of a stronger venture capital infrastructure in the North East.

Priority Two: Business Growth and Enterprise

- **Strategic leadership:** Business and Enterprise North East (BENE) has worked with other business networks to support efforts to boost small firm productivity in accordance with the Business Link National Framework and, as part of the Business Support Simplification Process, led work to reduce confusion in the supply and delivery of business support products and services in the North East. The Programme also has the potential (as yet unfulfilled) to work with the financial community to improve the supply and effective use of finance by SMEs and to develop partnerships with key intermediaries within the context of the regional economy.
- **Strategic influence:** international trade projects are able to influence the overall approach to marketing the region both internally and externally, through interacting with influential networks of companies and strategic organisations overseas, promoting cultural change to encourage companies to trade internationally, and

promoting the creation of overseas joint ventures and outward investment.

- **Leverage:** the North East Regional Start up Finance project seeks to generate a return on investment and create a legacy fund, which is a form of leverage. Generally, leverage is likely to be modest across Priority Two, as opportunities to secure investment from major national funding streams are more limited here.
- **Synergy:** There is potential for synergy at regional and local levels through projects referring clients to other partners and business support organisations. Our project reviews suggest that much of this synergy to date has been horizontal (ie between regional projects overseen by the same organisation) than vertical (between regional projects and those being administered locally).
- **Engagement:** local enterprise programmes are explicitly seeking to increasing awareness of enterprise among hard-to-reach groups and deprived communities and have sought to get buy-in from local community stakeholders, thereby contributing towards equity objectives.

Quantitative Impacts

68. The beneficiary survey, which is now well underway, will be the main source of evidence to inform our assessment of impact across both Priorities One and Two. Several issues should be kept in mind:

- First, it is important to stress that there is always a significant lag between actual spend, delivery of outputs and then final impact - although this lag should, on average, be less in Priority Two than in Priority One, for two reasons:
  - Greater emphasis on revenue, rather than capital investments.
  - Greater integration of ERDF into mainstream business support and enterprise programmes/delivery structures.
- Second, impacts are heavily dependent on the successful delivery (of job/business outputs) from a small number of large projects or specific intervention areas (in particular the region-wide business support programmes). Securing impacts therefore depends on these projects being able to proceed as planned in terms of match funding, the take-up and delivery of support, and ultimately business growth. Based on progress to date:

69. The success of the Programme to date in supporting the growth of sustainable new businesses is heavily dependent upon the performance of the *Business Link Branded IDB & Solutions Funding* and *Business Growth & Support for Enterprising Young People* projects.

70. The success of the Programme in stimulating enterprise to date among deprived communities is largely dependent upon the performance of the *Raising Enterprise North Tyneside* and *Flexible Families* projects. It is also important to bear in mind that local enterprise projects are likely to have a modest impact on the overall performance on the North East economy when looking only at GVA uplift (as they are focused on providing business support to under-performing communities and areas). It must also be recognised,

however, that GVA and, to a lesser extent, job creation was not a major part of the rationale behind the LEGI and WNF programmes that ERDF has been used to bolster.

Recommendations

Summary of Programme Position

71. The North East ERDF Competitiveness Programme is well designed and has been implemented effectively to date. The bulk of the issues raised to date are common across English ERDF programmes (eg scope of HEI involvement, project approval timescales, embedding of CCTs, eligibility etc).

72. The North East ERDF Programme is, like its counterparts elsewhere, at a critical point in its implementation. The Programme has made good progress to date, although the combined effects of the recession and wider policy changes being implemented by central government presents a number of serious challenges to the Programme and its ability to meet its original objectives.

73. These challenges are mainly driven by external factors and this means that some of the key decisions that could affect the future success of the Programme are being taken outside the region and are beyond the control of the region (although regional partners can inform ongoing discussions). It is vitally important that programme partners (working with other regions as appropriate) continue to work closely with both CLG and the EC to agree some workable solutions.

74. Below are a number of recommendations containing both strategic and tactical responses that the ERDF Secretariat and partners could make to address the issues identified by this evaluation. These recommendations are summarised below under headings which relate to each aspect of the Programme that the evaluation has examined. In making these recommendations, we acknowledge:

- The good progress made by the Programme on spend and commitments up to the early part of 2010, and the good use of different procurement methods.
- The North East was the first English region to approve a JEREMIE initiative in the current programme period.
- Effective embedding of ERDF functions and staff across One North East and overall programme management and governance.
- The sound delivery of early programme investments, as evidenced by individual project evaluations.
- The radical changes in economic development policy, the institutional landscape and the reductions in public spending will necessitate some changes to programme strategy, delivery and management arrangements; business as usual is no longer an option.
- Many of the recommendations require discussion and agreement with CLG and in some cases the EC; very few of the solutions to the largest challenges facing the Programme can be implemented unilaterally in the North East and/or without

formal approval from CLG and/or the EC.

Programme Strategic Options

75. A set of strategic choices are open to partners on how the remainder of the Programme's unallocated resources could be invested and the targets against which progress is gauged.

1) **Retain the current Priority structure and broad investment portfolio**. Keep the same Priority Structure and balance of resource. There are several variations under this option:

A) Take a more proactive approach to generate a robust project pipeline. The key sources of match funding are either being withdrawn (Single Programme, LEGI, and WNF) or are being substantially reduced (eg BIS funding) and the existing delivery structures in the region are being dismantled. Partners in the region should therefore take proactive approach to mapping and utilising match funding.

B) Shift resource allocations within and across Priorities. This would be done to maximise opportunities to secure match funding, therefore focusing on those parts of the Programme that may be less problematic to deliver given wider match funding constraints. This would probably be a minimal re-focusing, designed to assure partners of the Programme's ongoing realism.

Credibility among co-investors & deliverers demands that the Programme has realistic and achievable expectations of returns on investment. So in conjunction with the above changes, some down-rating of selected targets may be required to reflect tougher economic conditions which the region has faced (and may continue to face if the recovery is sluggish) in relation to job creation and new business creation.

2) **Increase the focus on economic infrastructure.** The Programme was a long-term commitment and partners have been right not to rush to re-structure itself in response to funding pressures. However, the radical shift in government policy and match funding has changed what it is possible to deliver to support regional growth and local regeneration under the existing programme structure. A fresh look at the strategic challenges is required and a reformulation of priorities and investments to support overall programme delivery, guided by the availability of match funding for capital activities and for Priority One and Two services and initiatives. The recession has also exacerbated existing economic challenges facing the North East region and has resulted in greater concentrations of worklessness in deprived parts of the region.

The North East Programme is estimated to be 83% Lisbon compliant (above the 75% minimum threshold). So there is scope to fund some physical investments that are aligned with the Competitiveness Objective but are not in line with Lisbon spending codes. This could potentially free up to £25m of ERDF to spend on ERDF-eligible, but non-Lisbon compliant activity. It should be noted though, that it may prove difficult to move some sites and premises projects forward without sufficient public and private investment, and therefore to secure economic impact (jobs, businesses etc).

Indicators should reflect the nature of activity being delivered (eg brownfield land reclaimed, new or upgraded floorspace, jobs created and safeguarded, and private sector leverage).

There are two possible approaches to achieving this:

A) **Changes to the strategy within Priorities One and Two**. This approach would see relatively minor changes to the structure and focus of each Priority, to enable increased funding towards economic infrastructure that supports the overall priority objectives to be more easily funded (Priority One in particular, but also to some extent Priority Two). This would not necessarily require the changes to be negotiated with the EC.

B) **The introduction of a new economic infrastructure priority**. Subject to the precise economic needs of the region, there could be a case for a new priority focused on economic infrastructure. This could help to deliver the economic investment to support local economic development and regeneration and the shift to a more knowledge based economy, as well as potentially any additional capital requirements of Priority One (subject to there being a need). This would assist in delivering the Programme's headline goals of GVA and employment. However, it should be borne in mind that the weakness of the property market in the North East arising in part from the recession, as well as reductions in other sources of public sector match funding, does present risks in pursuing this course of action.

76. In our view, Option 2B should be pursued, in combination with Options 1A and 1B (which are not mutually exclusive). Stimulating activity in longer term knowledge-driven economic sectors offers the best scope for long term change (the recession has eaten away lots of the less competitive businesses and is most responsive to public intervention) and so the broad focus of Priority 1 remains relevant. However, a broader overall programme of capital investments is required given the changed policy and funding environment, in order to help deliver on programme objectives.

77. **In considering this, the time lags associated with land and property schemes will need to be carefully considered, as should the risks of pursuing a strategy which is dependent on a property market which is only just recovering from the impacts of a prolonged recession.**

78. Any change to the programme structure would require some modifications to the quantitative performance monitoring framework and the reprofiling of some programme and Priority indicators. Consultation and agreement within the region and with the EC would be required in relation to any change in Priority resource allocations.

Recommendation: Adjust the Programme's investment strategy to maximise the region's ability to secure new and alternative sources of public sector match funding

79. The North East Operational Programme's investment strategy and programme structure was appropriate to the region's needs at the time the Programme was signed off in December 2007 and was consistent with the national and regional economic development strategy and

policy at the time. The policy initiatives introduced at the European and national level in the two years following sign off were also supportive of the Programme's strategic objectives and investment priorities.

80. The programme strategy remains aligned with the Lisbon and Europe 2020 agendas and is consistent with a key plank of the Coalition Government's economic development priorities in relation to innovation, enterprise and the low carbon agenda. In addition, the economic needs of the North East region suggest that enterprise and innovation remain important themes to be addressed in the region: the recession has exacerbated the structural challenges facing the North East. The performance gaps with more prosperous regions on measures of innovation, R&D and enterprise are likely to have widened during the recession and will widen further if, as expected, the more prosperous parts of the country emerge from recession more rapidly.

81. However, the economic development policy and match funding environment has changed fundamentally during 2010. In light of the announcements about the closure of Regional Development Agencies and Regional Business Links, we believe that without significant changes to the Programme there will be neither the delivery structures nor the available potential match funding to deliver the Programme and to meet financial commitments beyond 2011. The very strong focus on the Lisbon Agenda may further constrain the ability of the Programme to secure match funding available for other ERDF eligible investments that are currently not contained within the Programme.

82. A number of interventions have previously been identified as regional priorities[5], are ERDF eligible activities and have either GVA generation or employment growth as a core objective. These include the development of major sites and premises where there is a strong focus on meeting the needs of higher value sectors, as well as local regeneration schemes with strong job creation and enterprise potential.

83. The development of strategically important sites that support the development of the region's high value and knowledge based sectors that add value to the region's economy would be consistent with the Place theme of the Regional Economic Strategy, with European Community Strategic Guidelines (CSG) and with the National Strategic Reference Framework (NSRF) Building Sustainable Communities Priority.

84. In addition, the Programme could support direct efforts to link job growth to areas and/or groups of people where there is a need to increase economic participation. This is currently partly address by Priority Two through local enterprise investments, and the overall investment packages could be strengthened by including support for people in areas of high worklessness to benefit from jobs being created in the wider economy the regional economy or direct support for employment creation in areas of need. Such interventions would link to CSG 1.3 (More and Better Jobs) and also to the NSRF Pillar of Sustainable Communities.

85. There is therefore a strategic case for broadening the Programme's investment strategy to increase the region's ability to secure new and alternative sources of public sector match funding.

5 As contained in the Regional Economic and Spatial Strategies.

Recommendation: Develop a new Programme Priority with an emphasis on supporting investment in the underpinning economic infrastructure

86. The argument for increasing the capital focus of the Programme is based partly on pragmatism (increasing the potential of the Programme to secure additional and alternative sources of match funding). It is also based on a recognition that there are some capital-focused ERDF eligible activities that are currently not part of the Programme, and which could help to deliver on the Programme's headline goals in relation to GVA and employment, and also specific objectives in relation to R&D, the low carbon economy and local regeneration.

87. However, the current structure of the Programme provides a limited scope for investment in major physical schemes and we believe that in order for the programme strategy to foster investment in a broader range of investments, a new Priority may be required. This Priority should be consistent with the previous Place thematic priority of the region. Potential Fields of Action are described below.

Field of Action 1: Developing Delivering a Portfolio of High Quality Business Accommodation on sites of Regional Importance

88. This Field of Action would focus on the development of regionally significant high quality sites and premises in order to support growth in knowledge-based businesses and high value added sectors. It is important that there is a strong market failure argument for intervention, and the intended end use should not general industry and distribution, but sites which have the potential to encourage the expansion of the region's knowledge economy and high value sectors. The Field of Action is aimed at the following eligible activities:

- Interventions that support the delivery of the sites of regional significance, including the clearance of derelict land and treatment of contaminated land, provision of site servicing and related site infrastructure.
- Activities that support the development of the high quality business environments, including premises, landscaping, public realm and gateway features, energy and resource use and management, including green infrastructure, and site specific IT/broadband infrastructure[6].
- Support for marketing and promotion of specific sites whose role is supporting innovation and cluster development.

89. The following approach should be used in determining those which are suitable for support:

- Only those sites where there is a strong market failure argument for intervention should be supported.
- The sites need to have the potential to directly encourage the expansion of the region's knowledge economy and high value sectors, rather than being for general industry or distribution uses.
- The sites should be in close to or have the potential to provide employment to areas of regeneration priority.

6 Investment in wider broadband network infrastructure is not an eligible activity under the Competitiveness Objective.

- In addition, it is highly desirable that the sites are sustainable in environmental and economic terms and consequently and ERDF funded activity will need to be appraised according to best practice guidance.

Field of Action 2: Supporting Employment Creation among Residents in Areas of Deprivation

90. This Field of Action would seek to create access to employment among residents of deprived communities by i) linking them to other area of employment growth and ii) supporting employment creation through local regeneration. The Field of Action is aimed at the following:

- Support for development of employment sites providing employment for residents of target areas, including environmental improvements, energy and resource use management and site specific IT/Broadband infrastructure which help to create an appropriate business environment and support the development of knowledge based industries at the local level.
- Brownfield land reclamation.

91. These types of investment would also appear to be a strong fit with the Regional Growth Fund. The creation of a new Priority would require formal public consultation with regional partners and sign off from the European Commission. This process could take six to nine months, but with such a small programme pipeline, it could provide greater opportunities to fund investments from 2012 onwards.

92. An additional Priority would also increase the feasibility of a JESSICA initiative, although this would be challenging in the timescale available. Overall, the concept has strong support in the region and a fund with £20 million ERDF contribution is still appropriate and achievable. Progress with developing JESSICA in the region has stalled, given the uncertainties in the future management arrangements for ERDF, the role of LEPs and the availability of match funding. The current two priority structure and investment focus of the Operational Programme is somewhat restrictive since it does not contain a specific priority for urban/physical development. This makes it harder to bring forward as wide a range of schemes as has been the case in other UK regions.

93. However, the creation of an additional priority and development of JESSICA will require consultation and EC approval, all of which takes a lot of time. All investments would need to be made by 2015, and the North East would have until 2017 to achieve any contracted outputs. Should partners decide that an additional priority is required, initial consultations should take place with the European Commission to determine the likely timeline for achieving this, and a revised timeline for bringing forward JESSICA.

Priority 1: Exploiting Innovation and Knowledge

Recommendation: Refine the Priority Strategy and focus resources on Innovation Connectors and priority sectors

94. While there is no obvious need to substantially reconfigure Priority 1 (subject to the points raised above), there is not a strong case for retaining Field 3 given the volume of activity

linking the research base to industry that is being delivered through projects in Fields 1 and 2. The Programme should however maintain the focus on Innovation Connectors and priority sectors. Constraints on future public sector funding reinforce the case for concentrating ERDF investment on projects which will deliver the highest impacts (jobs and GVA). The Programme should also continue to ensure that the Programme invests in a mix of higher risk and more speculative innovation activity along with safer bets. The role of JEREMIE in providing the finance to support this portfolio approach will be critical.

Recommendation: Review the future funding requirements of the seven Innovation Connectors

95. While the evaluation has assessed the Priority 1 projects as having broadly sound approaches to their long term sustainability, significant reductions in the availability of public sector funding has important implications both for future capital and revenue requirements, in particular the operating costs of the Innovation Connectors. The Programme should now consider a stock take of the Innovation Connector investment plans to establish the potential impact of funding changes and the prospects of securing alternative sources of funding (eg. Technology Strategy Board funding, Technology and Innovation Centres initiative, Higher Education funding). The Programme should also consider how best to work with partners in developing solutions to continuing their programmes of activity.

96. In light of a constrained funding environment and the associated risks for some of the Innovation Connectors, the Programme might consider concentrating its resources on a narrower range of Innovation Connectors as part of a risk minimisation strategy. In other instances it might be sensible to earmark future revenue investment to strengthen the delivery capacity of key Innovation Connectors if other sources of funding are withdrawn.

Recommendation: Actively engage the Technology Strategy Board and examine other sources of match funding

97. The Programme should consider a strategy for positioning Priority 1 to maximise its potential to secure future investment from the Technology Strategy Board, Regional Growth Fund, and other sources of match funding which will support the Programme in achieving its objectives for science and innovation. In view of what is likely to be stiff competition for TSB resources, the Programme should now look to engage the organisation in the process of identifying opportunities to secure match funding for its priorities for developing technologies in the North East.

Recommendation: Ensure suitable arrangements are in place to evaluate the Innovation Connectors and JEREMIE

98. While there are arrangements for evaluating individual projects, there will be benefit in carrying out evaluations of the Innovation Connectors in their own right (individually and/or collectively) and in JEREMIE. For the Innovation Connectors, evaluation could assist in the further refinement of investment activity over a period when public sector funding will be much scarcer. For JEREMIE, its contribution to key Programme targets (eg. jobs created) is critical and it will be important to provide the Funds and the ERDF Programme with an assessment of performance, strengths and weaknesses etc. that can help to maximise the

efficiency and effectiveness of future investments.

Recommendation: Continue to ensure that community engagement activity in P1 delivers economic benefit to the North East and that it directly contributes to the activity of the Innovation Connector

99. The ERDF Programme and One North East have clearly sought to work with project developers to sharpen the focus of community engagement projects. The Programme should continue to ensure that the primary purpose of this type of project is to underpin the core activity of the Innovation Connector, and that projects deliver tangible benefits including equipping residents of local communities with the skills to enter knowledge intensive sectors of the economy.

Priority 2: Stimulating Enterprise and Supporting Growth

Recommendation: Actively engage BIS to look for opportunities to support existing and potential new region-wide project activity

100. Little detail has emerged as yet from BIS about its commitment to the continuation of existing major ERDF regional projects (eg MAS and BENE). Given the closure of ONE, the Programme faces two major challenges: a reduction in match funding; and the removal of the existing regional delivery infrastructure. We understand that BIS is keen to continue with a Manufacturing Advisory Service (MAS) at national level and an early dialogue is needed about possible extension of the current MAS, BENE and other regional Priority 2 projects (eg. by novation of the contracts to BIS).

Recommendation: Assess how best to continue to support local enterprise project activity

101. The Programme has been successful to date in supporting local enterprise, and has made good use of the matchable LEGI and WNF resources available to the most deprived local authorities to support self employment and local business competitiveness. There is now an emerging thrust in the Government's approach to economic development and regeneration towards local action, most visibly through the creation of Local Enterprise Partnerships (LEPs); although the geographical boundaries of the two area based LEPs in the North East covers multiple local authority areas. However, both LEGI and WNF will cease to be available after March 2011, with no successor funding. On a more positive note, local authorities do now have greater flexibility on how they spend their core grant (but it has clearly decreased).

102. The Secretariat should continue to encourage LEPs and local authorities to bring forward local enterprise projects and, given the current uncertainty about the future of the Programme's major regional start up and business support programmes, provide greater scope for local high growth business support projects to secure ERDF (and also in Priority 1 support locally based innovation projects). It must remain important, however, that such projects still deliver value for money in terms of expected impacts and return on investment compared to cost.

Recommendation: Ensure that there continues to be resource available to invest in support for export development activity

103. The policy context for trade and inward investment promotion has changed, but export led growth will be critical to the UK's economic recovery and that of the North East region. The Programme will need to maintain resource to invest in internationalisation activity, despite current uncertainty about the policy and funding landscape. For example, as UKTI's future funding and activity is settled, the Programme should look to opportunities to match ERDF in order to support the NEOP's priorities for external trade (especially increasing trade with the emerging BRIC[7] economies). UKTI appears to have been hit less hard in the CSR than other potential programme funding streams.

Recommendation: Consider an open call for low carbon projects in Priority 2

104. While there has been some project activity, there has been little investment in Priority Two to date which will help the North East to develop commercial strengths in low carbon technologies within its SME base. The Programme will need to think creatively about how it encourages a stronger flow of potential projects in this area. Opening a call across the Priority could help to address the relative lack of funded project activity. At the same time, the Programme may also need to consider adjusting the value for money benchmarks for this activity to reflect the fact that higher cost and higher risk investments may be required to generate new employment in this emerging sector.

Cross-Cutting Themes

Recommendation: Considering focusing post-contract support resources on key projects

105. In view of likely future resource pressures on support for CCT delivery in the NEOP and the loss of expertise from ONE, there is a case for the Programme to focus post-contract support activity where it is likely to generate the biggest value-added impact on at least one of the CCTs. This is not to suggest that the Programme should reduce its commitment to implement CCTs across the Programme, but it may be a more realistic approach to focus (beyond simply meeting the minimum requirements) attention on specific parts of the Programme.

106. For environmental sustainability these may include extra, focused support for projects in energy and environmental technologies and developing high quality sites and premises. For equality and diversity and spatial cohesion, this would focus on developing high value new enterprise (potentially targeted at particular groups and communities) and stimulating enterprise in disadvantaged communities and under-represented groups.

Recommendation: Consider using Technical Assistance to fund the modelling of the Programme's carbon footprint

107. Whilst the NEOP contains several Priority level indicators relating to the numbers of firms receiving environmental support, capturing the full carbon impact of all of the economic activity generated by the Programme is a much more complex undertaking. To generate the most robust estimates would require each beneficiary across the entire Programme to capture and report the carbon outputs they have generated (or saved) as a result of ERDF support. Given the practical difficulties that doing this would entail, there may be a case for

7 Brazil, Russia, India and China

using some Technical Assistance resource to fund a more sophisticated modelling of the Programme's net carbon footprint, and in doing so, to equip it with the information to better understand how it might contribute to reductions in carbon emissions.

Match Funding

Recommendation: develop a match funding strategy for how the Programme will secure the required match for successful delivery over the remaining Programme period.

108. In the absence of further Single Programme investment and in the context of reduced public sector funding for other key partners, such as universities and local authorities, it will be necessary to maximise all opportunities for match funding. Alongside strategic decisions on any changes to programme structure and on future programme direction, a match funding strategy should be drawn-up. This should closely involve regional partners and set out how much match funding needs to be secured from each source over the remaining programme period, and its progress should be overseen by the PMC.

109. Where necessary this may involve further work by the Secretariat to drive forward participation in the Programme, clarify eligibility criteria around specific types of projects and funding sources (eg HEIF and HEFCE), and work most closely with those stakeholders whose funding could match projects that could fill programme gaps or underperformance on key indicators.

Recommendation: Work with BIS to maximise alignment between the ERDF Programme and the Regional Growth Fund (RGF), as well as other activity that will move to national level co-ordination / delivery.

110. The Regional Growth Fund is worth some £1.4bn over the three financial years 2011/12 to 2013/14 across England. Whilst some £300m has been made available in the first round following, with bids due by January 2011 there has been little opportunity for the ERDF Secretariat to influence the focus of the first round (alignment with the ERDF Competitiveness Programme was modest) or to help shape first round bids from the region.

111. With RGF Round 2 provisionally scheduled to open in April 2011, there is a window of opportunity for the Secretariat to work with BIS to increase this alignment for this and future rounds. In addition, the Programme's investment strategy should now start to reflect how RGF might support future ERDF project activity and how to encourage partners to seek and secure RGF funding. The White Paper on Local Growth specifically encouraged the coming together of RGF and ERDF. However, RGF can only support ERDF projects which are both eligible and contribute to the targets and offer value for money from an NEOP perspective.

112. This is particularly important in light of expectations that large areas of the North East will be especially hard hit by cuts in public expenditure and may emerge from recession more slowly than more prosperous parts of the country. RGF is intended to mitigate these impacts through investments to stimulate private sector employment creation.

113. In taking forward this recommendation, it should be remembered that RGF is a much smaller potential source of funding for the North East and other English regions (c.£470m per annum

with no regional allocations) than Regional Development Agencies (ONE alone had an annual investment budget of more than £200m). Furthermore, competition for RGF resources is likely to be intense. Even assuming that the North East is able to secure its equivalent regional share of the RGF, greater alignment of ERDF and RGF alone will not provide sufficient resources to fill remaining NEOP headroom.

114. Beyond RGF, as the transfer of economic activity currently delivered through RDAs migrates to national level co-ordination / delivery, the Secretariat in the North East, and in other regions, will need to continue dialogue with BIS and other departments, to ensure that opportunities for matching ERDF are enabled and maximised.

Recommendation: Explore further the opportunities for the Programme to secure private sector match

115. The ERDF Secretariat, in line with its counterparts in other regions, has already considered the scope for introducing more private sector match. Good progress has already been made with JEREMIE and there is potential for obtaining further match through JESSICA. The new White Paper on Local Growth also explicitly encourages a greater share of private sector match in ERDF Competitiveness Programmes.

116. The need to re-examine the use of private sector match is important, as the reductions in available public sector match funding presents a major challenge to the successful delivery of the Programme. Reductions in or the loss of Single Programme funding are affecting a number of projects, including those larger scale regional projects expected to make contributors to outputs and results targets (and in turn to the generation of economic impact). At present, the extent to which BIS is willing to provide continuation funding for the major regional projects is unclear.

117. The time is right to re-examine the role of private sector match, especially in the light of the changed business support infrastructure. However, we acknowledge that there are considerable hurdles if the Programme is to secure more private sector match in ERDF projects, whilst still meeting the eligibility requirements and Article 55 restrictions. One possible solution would be to consider creating a vehicle (or using existing bodies) to act as an intermediary body between ERDF and SMEs supported.

118. Given that there does not appear to be a common understanding across the English regions about whether and how private funding can be employed as match, and concerns amongst partners about auditing requirements, there may be a need to work with CLG and other regional partners to develop clearer guidance and consider setting out examples of delivery models that could be used to successfully employ SME contributions as a major element of project match funding. LEPs may be well placed to feed into the thinking on funding/business models, linking understanding of local business needs with organisations that could co-ordinate delivery.

Recommendation: Review minimum project value thresholds in order to help boost the project pipeline

119. A decrease in the Programme's threshold for minimum size of ERDF grant (either across the Programme or in specific Fields of Action) could help smaller organisations/communities

bring forward projects and help to rebuild the project pipeline. This may be of particular relevance for VCS organisations and smaller local authorities, and may be more appropriate for some Fields of Action than others, such as Priority 2 Field A (enterprise in disadvantaged areas).

120. The Secretariat may need to provide advice and guidance to smaller organisations, including those from the VCS and other local partners, on how to form consortia to fund and/or deliver ERDF activity. The consortia approach has the potential to foster a greater strategic approach to engaging and reaching hard-to-reach groups, and help to reduce (if not eliminate) duplication or overlap of activities in local areas, achieve economies of scale by combining administrative functions, and potentially increase available match funding. Contractual aspects would be especially important in order to limit the number of Article 13 visits that are required.

121. It has been suggested by some partners that a smaller project value threshold would not only increase the number of ERDF project applications, it could also increase the degree of innovation and novelty in programme activity. However, there is no firm evidence that suggests any causal links between project size and degree of innovation/novelty.

Financial Commitments

Recommendation: Explore the potential to relax the rules governing N+2 and the Programme’s financial commitments

122. The programme has made good progress to date on N+2, comfortably meeting targets in both 2009 and 2010, and it is on course to meet the 2011 target. However, given the very small programme pipeline and match funding concerns, achieving the N+2 targets from 2012 will be much more challenging. There are two potential flexibilities which if adopted could alleviate some of the short term pressures facing the Programme. **However, both would require EC approval and would most likely only be possible on a EC wide basis, rather than for individual Member States (and not for individual regions)**:

- Revisions to the ERDF intervention rate (ie relaxing the requirement that ERDF must be matched pound for pound by a match funding source). Again, this could potentially increase the volume of projects coming forward, although it would also require national/EC approval and would have to be applied across all EU regions (ie so not a North East alone solution), and in addition would result in a shrinkage in the overall Programme (ie ERDF plus match).

- Relaxation of the N+2 rules, for example converting N+2 into N+3 to allow more time for match funding to be secured. The Commission has already re-profiled the N+2 targets for individual years (for all EU regions) to reduce the short term challenges, although the final N+2 deadline of December 2015 remains in place. Adoption of N+3 would ease the short term pressure on the Programme and help it to meet regulatory requirements on spend, although the overall scale of match funding challenge would remain.

Indicators and Targets

Recommendation: Continue to work closely with project deliverers to ensure contracted spend, output and result targets are met

123. The ERDF Secretariat should keep close to and support the suite of contracted projects, in particular strategic projects with high spend / outputs & results. Where possible the Executive may need to allow projects the flexibility to refocus their activity to target groups where there is greatest demand for support. Where needed, the Executive should also offer flexibility with reprofiling project spend / outputs to take account of difficulties encountered. There will also be a need to intervene or stop projects that are not delivering and show little prospect of turning round their performance. Finally, the Executive should continue to seek to minimise the burden and uncertainty for projects, to enable them to focus on successful project delivery.

Recommendation: Consider renegotiation of key output and result targets with the European Commission

124. A number of indicators are significantly lagging (eg. private sector R&D leverage, brownfield land development). Depending on the direction that the PMC seek to take the Programme over the coming years, it may be appropriate to seek to negotiate down indicator targets that are likely to be unmet. If, for example the PMC opted to add a physical regeneration priority, and reduce Priority 1 funding, it may be appropriate to retain or enhance the brownfield land target, but reduce the R&D leverage target. Further investigation is required to assess the extent to which a lack of progress on some indicators is due to a lack of activity in particular fields of action or over optimism in the setting of targets given available resources.

Recommendation: Consider including ESF indicators for higher level skills support funded by ERDF under Priority 1

125. The use of ERDF to fund ESF type activities is permissible under EC Regulation No. 1083/2006 Article 34. The North East Competitiveness ERDF OP indicates that it is allowable (up to a maximum of 10% of resources in each priority) where it can be demonstrated that it is an integral part of a broader ERDF project and/or where provision is not adequately covered within the existing ESF regional programme. In practice, it has been very difficult (both in the North East and elsewhere) to demonstrate the additionality of ERDF.

126. However, given the challenging match funding environment, the Programme could more vigorously pursue the potential to use ERDF to fund ESF type activities. In our view, this is likely to be most appropriate at higher skill levels (ie NVQ level 4 and 5 equivalent), in order to support key knowledge intensive sectors. The current output indicators reflect support for SMEs, including integrated development of workforce skills. However, the addition of an "individuals assisted to achieve a level 4 or 5 qualification" output in Priority 1 would more fully reflect the range of ERDF activity that could support ESF interventions.

Programme Delivery Capacity

Recommendation: Prioritise the generation of new project applications and a healthy project pipeline

127. It is critically important for the Programme to maintain the flow of pipeline projects, which is currently very low. Based on our analysis of timescales, the Programme effectively has three more years, at most, to receive project applications, in order to give sufficient time for projects to go through the system and actually deliver outputs. For projects running over several years, there will considerably less time.

128. The Programme will need to continue to promote new applications during the transition to new governance arrangements, supporting partners in identifying match funding and navigating new delivery mechanisms. Ensuring sufficient numbers of project applications continue to come forwards is possibly the biggest challenge facing the Programme.

Recommendation: Consider using future Technical Assistance to fund project development and the investigation of match funding opportunities

129. The Programme should now start the process of helping partners to identify how Technical Assistance (TA) will secure match funding in future. For example, this might include assistance identifying opportunities generated through the resources allocated to LEPs and the potential to secure resources from the Regional Growth Fund. This may require changes need to the framework for monitoring and measuring the performance of Technical Assistance projects. In particular, targets relating to the development of projects could play an increasingly important role in the absence of Single Programme funding. Organisations securing Technical Assistance would be expected to bear a much bigger share of the responsibility for supporting the development of future ERDF projects.

Procurement

Recommendation: Review and deploy the most appropriate procurement methods that help deliver investment in line with the overall programme strategy

130. The Secretariat should continue to pursue a balanced approach to bringing forward projects, deploying open bidding, restricted bidding and non-competitive selection as required, according to decisions made on the future programme direction. This should be considered strategically as part of developing a future match funding strategy and, where necessary should form part of any negotiation with the European Commission on changes to the NEOP eg if a physical regeneration priority is added then the use of non-competitive selection might be advantageous (for Jessica in particular) and would need to be agreed as part of changes to the Operational Programme.

131. The key approaches should be used as follows, in line with the decisions on future strategic direction of the Programme, and a match funding strategy:

- **Non-competitive selection** for major projects where there is a clear single provider. This may include a JESSICA project, and potentially for matching to nationally co-ordinated / delivered activity, such as future Business Link activity and the Manufacturing Advisory Service.

- **Limited bidding**, where there are particular gaps in provision (eg types of activity that the Programme wishes to increase, or particular indicators where there is weak performance), where there are targeted applicants that the Programme is seeking to draw projects from (who may be better engaged by a call for proposals directed to them), and where the Programme wished to continue focused investment to maximise strategic impact, such as around the innovation connectors.

- **Open bidding**, for all other activity, to enable more creative projects to come forward and to avoid any unnecessary limiting of activity that might restrict possible match funding sources from being used.

Governance, Management, Systems and Processes

Recommendation: Review the composition of the Programme Monitoring Committee

132. The evaluation evidence suggests that the size and composition of the PMC, coupled with the effective support from the ERDF Secretariat and the PEG, has been appropriate to date and has enabled the PMC to operate strategically. However, public sector funding cuts and a need to find alternative, substantial sources of match funding to replace Single Programme funding will put pressure on the Programme to increase representation from the private sector, higher education institutions, as well as to replace existing PMC Members from ONE and GONE. The new Local Growth White Paper also set out some clear steers on the future roles of LEPs that need to be taken into account in considering the most appropriate sub-regional representation.

Recommendation: Work with CLG to ensure that key specialist advice is provided to the Programme

133. While it appears that the position on the future ERDF governance and management will only become clear following the 2011 Budget, the North East needs to make provision now to ensure that it is able to retain the considerable expertise in ERDF issues and programme management it has built up through the delivery of the Programme to date. The Secretariat contains a great deal of ERDF expertise and knowledge, but it will not be able to provide the level and quality of project development support that applicants so far have received from the ONE Project Developers. The Secretariat has also benefitted from specialist advice and guidance from experts on issues such as State Aid, Procurement and Article 55 compliance.

134. It is vital that this dedicated support is continued after transition, and that an appropriate solution is found, given that no further posts can be created using Technical Assistance over and above those posts being transferred to CLG. One potential solution would be to create regional panels of project development and other specialist areas of the Programme, although these would require partner commitment and may absorb running costs.

Recommendation: Ensure that best practice continues to be adhered to in relation to support to projects across the whole of their life cycle

135. The management and governance of the North East ERDF Programme is regarded by CLG and the European Commission as one of the most effective of all of the regional programmes, and therefore should have a large amount to contribute as the post-transition

arrangements are developed. The Secretariat should ensure that best practice from its processes and governance arrangements helps to shape the consistent national arrangements. In particular, key strengths that the Secretariat should seek to retain include:

- A project development process that has been refined such that it currently manages the balance well between minimising bureaucracy yet maintaining compliance with regulations
- Having a single point of contact for projects from project development through to delivery
- Facilitating peer support and deliver training through the practitioner network
- Using management information systems that draw on MCIS data and allows more sophisticated data analysis to inform strategic decision making
- PMC and PEG group composition that manages the balance well between partner representation and a manageable sized group for decision making
- Retention of experienced and well-connected ERDF Secretariat officers.

136. Equally, the management and governance of the Programme does also have areas of weakness, in particular around the functionality of the MCIS system and the co-ordination of project evaluations. In these areas, the Secretariat should use the discussions on post-transition arrangements to seek to find new solutions to addressing these weaknesses.

1. Introduction and Overview

Purpose of the Mid-Term Evaluation

1.1 The North East ERDF Operational Programme (NEOP) 2007-13 has £324m of ERDF resources supported by an equivalent amount of match funding. Given the scale of resources and potential impact on the region's economy, a mid-term evaluation of the Programme was commissioned by One North East (ONE). The evaluation is being managed by a Steering Group comprising officers from the ERDF Secretariat, other ONE Directorates and strategic partners.

1.2 By establishing an evaluation plan for the programme, partners in the region have in principle committed themselves to a programme of performance assessment which can support strategic management, help partners understand what has been achieved to date and identify what steps are required to improve effectiveness. The Mid Term Evaluation (MTE) is intended to answer the following questions:

- Is the original programme strategy and investment focus still relevant to the region's socio-economic conditions and consistent with policy?
- What progress has been made towards the programme's quantified targets for spend, outputs, results and impacts, and are these targets realistic and achievable?
- How effectively is the programme being managed and how robust are the systems or processes that underpin programme implementation?
- What impact has the programme made to date and how can it maximise future impacts on beneficiaries and the wider economy?

1.3 In light of the subsequent changes in government policy on regional and local economic development[8], the evaluation has an additional role to play in providing partners with insights to inform future management of the NEOP.

Broad Evaluation Approach

1.4 An initial scoping phase of the evaluation[9] set out a five strand approach to the mid-term evaluation in order to deliver on the evaluation objectives set by the ERDF Secretariat. Each Strand is underpinned by specific tasks[10]:

- **Strand One: Assessment of Programme Relevance**. This involved a detailed review of the strategic, policy, funding and economic environment.

8 Including the closure of Regional Development Agencies and Government Offices by March 2012, the creation of Local Enterprise Partnerships and the abolition of regional business support frameworks (see Chapter 2 for more detailed discussion).

9 A Scoping Paper was produced in August 2010.

10 The full evaluation methodology and workplan is described in more detail in Appendix A.

- **Strand Two: Review of Programme Progress and Performance**. A detailed quantitative analysis of the programme performance and position on spend and outputs and the extent to which the procurement approaches adopted are helping to generate an efficient throughput of projects.

- **Strand Three: Review of Project Engagement, Progress and Performance**. Detailed reviews of ERDF projects to understand `how the Programme is operating on the ground and to identify gaps/opportunities in the programme investment portfolio.

- **Strand Four: Assessment of Emerging Programme Impacts**. Quantitative estimates of gross outputs and net additional impact at the level of each Priority and the overall programme, generated in part via a survey of programme beneficiaries to date.

- **Strand Five: Assessment of Systems and Structures**. A review of the systems and structures that are currently in place and an assessment of how partners can most effectively prepare for the transition to new programme management arrangements.

Purpose of the Draft Report

1.5 This Draft Report has been prepared for circulation to the evaluation steering group and the PEG. It contains analysis from evaluation strands one, two, three and five[11], and draft conclusions and recommendations. A briefing paper containing headline findings, conclusions and draft recommendations has already been provided to the PEG, prior to its meeting on 19th January 2011.

11 At the time of writing, Strand Four of the evaluation is still ongoing.

2. Economic Context

Introduction

2.1 This chapter provide an update of the North East Operational Programme baseline and highlights the implications for the programme. It sets out the progress being made in the region on rates of enterprise, employment and productivity and other key economic indicators.

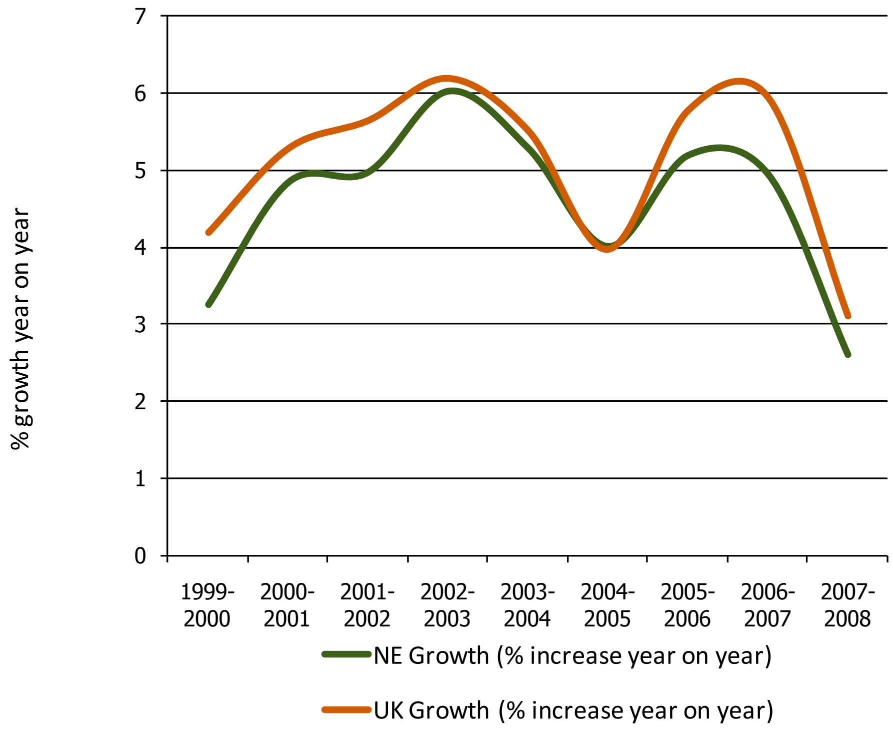
2.2 The chapter provides a detailed update of the programme baseline to give an overview of the region's performance on a variety of indicators. Where possible, these are benchmarked against the national/UK average and other English regions and are shown in terms of their change over time. The explorations of each theme examines each indicator and related ones in more detail, whilst the table gives a summary of the implications for the Programme of performance against each of the pertinent socio-economic indicators in the region.

Overview

2.3 The North East is the smallest region outside of London in terms of area, stretching 100 miles north-south from Berwick-upon-Tweed to Darlington. It has a high proportion of land within national parks and areas of outstanding natural beauty, has the lowest population, at 2.6 million (2008), of the English regions and has experienced the slowest rate of growth for the past decade.

2.4 The past three years have seen significant deterioration in the socio-economic performance of the region compared to that prevailing at the time of the development and negotiation of the North East ERDF Operational Programme 2007-2013. In spite of significant lags behind the UK economy on certain indicators, the region's GVA growth at the time of the Programme drafting was similar to that of the UK (see Figure 2-1 below), whilst business start up and survival rates had been increasing and the region had experienced a higher decline in the unemployed and economically inactive than England as a whole. The global financial recession has depressed some of this progress, however, and intensified the poor performance of a number of other indicators.

Figure 2-1: UK and North East GVA Annual Growth 2000-2008



Source: ONS, Headline Workplace Based GVA, downloaded 2010.

2.5 The recession hit the headlines in the region with Northern Rock, the first UK Bank to face liquidity problems and require assistance from the Government; around 2000 jobs have been lost subsequently. In January 2009, Nissan announced cuts of 1,200 jobs at its plant in Sunderland whilst at the end of the previous year, BAE systems and GlaxoSmithKline each announced a series of 200 job losses from their North East manufacturing sites.

2.6 Whilst a lag in the publication of National Statistics data means performance on a number of official indicators does not yet reflect fully the impact of the UK recession, nor allow for the possibility of a double-dip slump, there is enough anecdotal evidence to indicate that the recession will affect the achievability of Programme objectives. With ONE North East announcing a £32.9m package of cuts to its budget for this financial year and the termination of the Single Programme funding stream, anticipated individual ERDF project challenges reflect regional and national economic pressures.

2.7 Table 2-1 below, gives an overview of performance in the region on the key indicators explored in the Operational Programme Document 2007-13. This gives current performance and change from the baseline of 2004-5, where published data permits.

2.8 Appendix C provides a full analysis of economic, social and environmental trends.

Table 2-1: Economic Summary for the North East – Key Indicators, Comparison with UK/English Regions and Change Over Time and Implications for Programme

Indicator	Regional Performance	Change over time		National status	Implications for Programme
Total GVA	£36.2 billion (2005) £40.9 billion (2008)	Increase since baseline (2005): £36.2bn (13% increase 2005-2008, 45% increase 2000-2008)	Outpaced UK GVA growth 2005-8	3.2% of national GVA (£1,081.4bn) Lowest of all regions (half that of next lowest, EM)	Lowest levels of total GVA relative to other English regions means the NE is the least able to contribute to the nation's competitiveness. It is important that the Programme continues to stimulate growth and capacity among the region's business base to help support their contribution to national value added. This will depend upon the Programme's ability to target and engage specifically with high growth/potential SMEs, as well as encourage those stagnated by historically low levels of GVA to innovate and develop. Recent growth has been positive, at a rate greater than that of UK over the period 2005-2008.
GVA per capita	£15,887 per resident (2008)	Steady increase (16% 2004-8, 43% increase 2000-8)	Lowest of regions, though increasing	77% of UK average; lowest of all English Regions	Productivity (GVA per hour worked) is relatively low in the NE, pointing to lower levels of participation in the labour market, and the production of lower value goods and services. The Programme needs to ensure it is stimulating appropriate enterprise growth, leveraging investment by regional and non-regional businesses, as well as providing SME support which encourages business efficiency and the adoption of new and innovative processes. This could include knowledge transfer and environmental performance. Slight decreases since the baseline on GVA per hour worked mask some increase from 2006. A steady increase on GVA per capita 2004-8 is more positive.
GVA per hour worked (Productivity)	90.1% of UK £91.2 (2007)	In 2008, 153.5% of 1996 levels (index 1996=100) -2.5% change 2005-7. Increasing from 2006 onwards	Average performance c/f to English regions, small increase since 2007.	Higher than NW, Y&H, WM 2008.	
Sub-regional GVA	Tees Valley and Durham: £16.7m	Similar increases of 18% between 2004-2008 for both NUTS3 sub-	Sub regional increases on a par with region,	GVA per head increased from 86% (1997) to 92% (2007) of UK.	Reducing disparity across the region in terms of production and output is vital to fulfilling the Programme's commitments to spatial cohesion and

Table 2-1: Economic Summary for the North East – Key Indicators, Comparison with UK/English Regions and Change Over Time and Implications for Programme

Indicator	Regional Performance	Change over time		National status	Implications for Programme
	Northumberland & Tyne and Wear: £ 24.3m (2008). Tyneside – largest GVA in region: £14.7bn 2007 Spatial disparity (c. 1/3 GVA from Tyneside)	regions. Darlington has shown the greatest increase in GVA 2004-2008 (22%), Northumberland the least (10%) followed by Sunderland (15%)	although some way behind UK increase 05-08. 2004-8 increases are more positive. ⇧		equality. The Programme needs to continue to embed its activities within economically inactive and deprived communities to ensure greater access to communities otherwise isolated from the possibility of enterprise and innovation. Infrastructure projects and the network of Innovation Connectors aspire to enhance this activity, although it is important job creation outputs are manifesting themselves fully in disadvantaged areas rather than being lost through lack of follow up/Programme focus. The rural periphery areas are likely to be able to benefit from intensified Programme activity. Increases over the past four years, 2004-8 have been good, although sub-regional disparities are high; Northumberland with the lowest increase of 10% and Darlington with the highest at 22%.
Business Density (Stocks per 10,000 population)	249 per 10,000 population (start 2008)	Decrease since OP levels of 266 per 10,000 compared to increases at national level.	Decrease on OP baseline levels. ⇩	Lowest business density of all regions (less than half that of London).	Propensity for entrepreneurship is increasing in the north east, even where business density has decreased since the baseline. Although the recession is likely to have had an impact on efforts to raise the number of stocks, levels are extremely low compared to other regions and significant inroads into enterprise levels need to be made to improve on this.
Total Entrepreneurial Activity (TEA) total entrepreneurship activity as a % of total adult population	5.10%	Increase on the 2007 (OP baseline) level of 4.8%. A change of 76% over the period 2000-2008 is significantly higher than all regions.	Some increases in TEA since the baseline – significant improvement on 2002 levels. ⇧	Change 2002-8 is significantly higher than all other regions, although the % of TEA is second lowest of the regions, just ahead of Y&H.	

Table 2-1: Economic Summary for the North East – Key Indicators, Comparison with UK/English Regions and Change Over Time and Implications for Programme

Indicator	**Regional Performance**	**Change over time**		**National status**	**Implications for Programme**
New Enterprise Births	36.7 (2008) Start up rate 9.44 per 1,000 WAP (2009)	New VAT registrations: 15.2% increase 2000-8 9.2% increase 2004-8 3.3% increase 2007-8	More recently increases have been slight, although this ignores stronger increases over the longer term. ⇧	Lowest rate of all regions in 2008 – almost half that of Lon/SE	Low levels of new enterprise registrations provide a strong rationale for interventions from the Programme in the region. There is a low existing SME base and low propensity to participate in entrepreneurial activity or self-employment due to low perceived opportunities and lack skills/knowledge/experience. Whilst there have been some improvements over time since the baseline of the OP, recent changes have been modest, and therefore the Programme needs to ensure it is continuing to support projects which encourage entrepreneurism and innovation, leading to possible spinouts and KT activity.
VAT registered businesses	249 per 10,000 popn (2008)			Lowest of UK regions	
Total R&D investment	Total: 1.3% of GVA. Business R&D 0.8% of total GVA (2007)	Up 3% pts since 2000, but remained constant since 2005.	No change since the baseline. Lowest rates of all other regions. ⇔	Total investment c/f England average: 2.1% Business investment c/f UK average of 1.5% - 3rd lowest region	Low innovation levels and investment in R&D means the Programme is likely to get the greatest returns where there is existing activity and focus. Clusters of projects linked to the Innovation Connectors and other regional centres of excellence/research provide resource, and facilities to undertake further activity. It is important the Programme remains focused and targeted in its investments in these areas – whilst promoting new and innovative activity, yet ensuring it is within areas where the region has an strong base or potential to reach international markets. The benefit of embedding innovation activity and approaches is to be highlighted here rather than supporting merely easy wins.
Sectors	Dominated by public sector (332,300, 32%)	Remained largely similar, increase of public sector. Biggest		Public Admin 8.4% in NE c/f to 5.3% UK.	The region has a long dependency on the public sector both in terms of employment and funding, which is set to be impacted significantly by spending cuts. This

Table 2-1: Economic Summary for the North East – Key Indicators, Comparison with UK/English Regions and Change Over Time and Implications for Programme

Indicator	Regional Performance	Change over time		National status	Implications for Programme
		increases in Real estate/Renting/business activities (21% 2004-8) followed by hotels and restaurants (13%). Decrease of 10% in Manufacturing.			coupled with low private sector investment propensity poses a threat to the Programme in terms of securing match funding for those projects expecting to receive Whilst the two Programme priorities provide a narrow (even if not necessarily sectoral) focus to the Programme, it is clear within this precedence needs to be given to projects operating in those sectors poised for considerable growth or impact.
Employment Rate	69% WAP employed (Q4 2009)	2000: 68%, 2009: 69%, peaking mid 2006 at 72%.	Slight decreases since 2006, although longer term increases since 2000. Still lowest bar London.	Lowest of all regions bar London; UK average 72.4%	Low levels of working age people in employment have suffered as a result of the recession, although a peak at the time of the start of the OP 2007-13 took the region to the level the UK was at in 2009. Correspondingly, unemployment has risen by 4.1% since the baseline at the start of the Programme. Ambitious new jobs created targets may pose a threat to the Programme's performance in the wake of the recession, whilst focusing on innovating, new processes and growth is likely to be less of a priority for businesses concerned with survival. It is possible the Programme can highlight new routes back into the labour market for those out of work by investing in projects to enhance entrepreneurism and community engagement.
Unemployment Rate	9.3% (Q4 2009). Ranges from 4.8% in Alnwick to 11% in Newcastle.	4.1% increase 2004/5 to 2009/10.	Increase in unemployed since baseline of 2004/5.	Similar to West Midlands 9.4%, compared to 7.8% UK.	
Median Weekly Pay	£420.6 per week per full time worker, residence based (2008) Increased to £427.80 per	27% increase 2004-8 28% increase 2000-8	Small but steady Increases since the OP baseline of 27%.	Lowest of all regions. c/f to English average of £483.1	At around £60 behind the English average, the NE has a dearth of high earners (e.g. 'health professionals', 'corporate managers', and 'science and technology professionals' – occupations with the highest earnings nationally). Although there has been significant increase in this figure since the start of the OP 07-13

Table 2-1: Economic Summary for the North East – Key Indicators, Comparison with UK/English Regions and Change Over Time and Implications for Programme

Indicator	Regional Performance	Change over time		National status	Implications for Programme
	week (2010).				(27%), further work is required to develop the types of jobs and businesses which are likely to stimulate an increase in higher level occupations in the NE. Ensuring the NE is able to attract and retain highly skilled individuals is a challenge for the Programme, although its focus on high technology areas and R&D is likely to provide the basis for growth in emerging sectors such as printable electronics, renewable energy, healthcare.
Occupational Sectors	Top 3 Occ Sectors in NE: 40% of WAP, bottom 3 Occ Sectors in NE: 29% of WAP (2009-10)	Top 3 Occupational Sectors 37% in 2004-5 compared to 40% in 2009-10. Bottom 3 Occupational Sectors 31% in 2004-5 compared to 29% in 2009-10.	Increases in proportion of managerial and professional and decreases in % of lower grade occupations since the baseline (2004-5)	Lower proportions of managerial and higher proportion of elementary and process occupations than at UK level though improvement over time.	The North East is characterised by a low demand for higher level skills. A higher proportion of the North East workforce is qualified to Level 4 than the occupational structure requires. Consequently, the lack of opportunity in the region discourages young people from progressing to higher level skills, existing skills are under-utilised and it is difficult to attract highly skilled individuals to the region. There are promising advances in increasing the proportions of high level and decreasing the proportions of lower level occupations however over the period since a baseline of 2004-5.
No Qualifications	12.5% of WAP (2009)	2000: 20% of WAP has no qualifications 2006: 13.3% of WAP has no qualifications 2009: 14.8% of WAP has no qualifications	Decreases in the proportion of WAP with no qualifications since 2000 and 2006, although more recently increases and % remains high relative to other regions.	Greater % than all other regions excl. WM.	Significant disparity across the region on this indicator: from 21.5% in Easington to 8.9% in Durham. This high proportion gives the Programme a demanding base to work from, although there have been modest decreases in recent years pointing to a need to stimulate activity around up-skilling, education and training to support this tentative achievement. Higher level qualifications are low; although there has been some increase since the baseline of the OP. It is likely the Programme is better

Table 2-1: Economic Summary for the North East – Key Indicators, Comparison with UK/English Regions and Change Over Time and Implications for Programme

Indicator	Regional Performance	Change over time		National status	Implications for Programme
					placed to support jobs generation amongst those with higher qualification levels, given the nature of its priorities, although if it is able to promote growth amongst knowledge based firms, this is likely to improve the competitiveness of the NE in attracting higher skills levels and encourage raised levels of educational attainment in general.
NVQ Level 4	24% (2008/9)	3.2 % pt increase 2003/4-2008 5.4 % pt increase 2000/1-2008	Good increase since the baseline (2004), although remains persistently high compared to UK/regions.	Lowest of any English region, well below UK average of 30%	
JSA Claimants	3% of WAP (Dec 2005) 5% of WAP (Oct 2008) 4.7% of WAP (Sept 2010)	Largest recent regional increase in claimant rate - up 2.8 % pts 2008-9.	Recent increase in claimants highest of all regions. Over longer term a 79% increase in total JSA claimants (2005-10).	NE proportions higher than UK - in Dec 2010, NE JSA 4.7% of WAP c/f to UK JSA 3.6% of WAP.	Entrenched benefit dependency in the NE is a concern for the Programme, especially given its lack of skills activity (which is encompassed instead within ESF). The aspects of Priority two which attempt to stimulate levels of enterprise in deprived communities will have the greatest impact here, although it is important that the Programme ensures jobs are generated through those recently made redundant *as well as* those long term dependent on benefits with lower employment prospects.
All Benefit Claimants (as % of WAP)	2009: 20.5%	1.3 % pt decrease 2002-9, 2.1 % pt increase 2008-9 2005: 19.5%		Highest of all regions, c/f English average 15.3%	

Implications of the Economic Context

2.9 The response of the Operational Programme to the region's poor performance relative to the UK and other English regions becomes even more relevant in the context of a global recession.

2.10 Clearly the socio-economic context is much changed since the Operational Programme was developed during 2006 and 2007. The recession (and its after effects) will continue to affect the achievability of programme objectives and targets during 2010 and 2011 (as it did in 2008 and 2009), which is likely to have implications for the achievement of overall programme targets for the whole programme period.

2.11 We have translated the Operational Programme strategic priorities into a number of underpinning objectives and considered the risks which may arise as a consequence of the economic recession and subsequent reduction in public sector expenditure:

Table 2-2: Programme Priorities and Objectives

Priority	Objectives	Risk to Programme (high, medium or low)
Priority One: Enhancing and Exploiting Innovation	Stimulate and facilitate increased investment in innovation and R&D	**Medium-High**: private sector likely to have spent less on R&D and innovation during recession, further constraining potentially limited absorptive capacity for innovation. Some SMEs still likely to be more risk averse to investment, and therefore demand for some Lisbon type business support may remain modest, although it should increase as economy begins to grow again.
	Provide and support the infrastructure needed to stimulate innovation and R&D	**Medium**: may be constrained by HEIs' ability to engage and generate eligible match funding for business-facing activities.
	Support the commercialisation of knowledge and spin-out of SMEs from universities and other organisations which conduct primary research.	**Medium-High:** private sector likely to have spent less on innovation during recession and fewer new businesses likely to start-up in weaker economic climate. Greater reluctance of private investors to fund spin-outs. Strength of recovery key to ensuring demand for services grows.
Priority Two: Business Growth and Enterprise	Underpin the future sustainability and growth of new and existing businesses and target sectors	**Medium**: business environment remains challenging but private sector should start to grow in the next year; potential stronger demand for some types of support (eg debt finance).
	Promote a more enterprising and entrepreneurial culture and support the growth of businesses at start-up and early stage and those with growth potential.	**Medium:** encouraging new enterprises significantly more difficult in an economic downturn, but opportunities should emerge as economy pulls out of recession.
	To create sustainable jobs in the social economy supported by existing and new social enterprises.	**Medium:** new job creation difficult in downturn.
Cross-Cutting Theme:	Ensure that all new buildings conform to the highest standards of	**Low**: green issues likely to remain an important element of government policy, but cost pressures

Table 2-2: Programme Priorities and Objectives		
Priority	**Objectives**	**Risk to Programme (high, medium or low)**
Environmental Sustainability	environmental sustainability	could result in some energy efficiency measures being viewed as unaffordable.
	Ensure that business growth supported by the Programme takes account of CO2 emissions and adopts environmental best practice.	**Medium**: green issues likely to have been lower priority for many firms in tighter economic climate, but an increasingly important element of central government policy.
Cross-Cutting Theme: Equality & Diversity	Ensure that employment opportunities created are accessible to women, BAME groups and disabled people	**Medium**: impact of public sector spending cuts likely to have a disproportionately high impact on women and disabled groups which have a high presence in the public sector and part time work.
	Ensure that enterprise and business development support is open to all sections of the community	**Medium:** cuts in funding for business support could make it harder to ensure services are tailored to all sections of the community.
Cross-Cutting Theme: Reducing Spatial Disparities	Promote active participation in the development of a knowledge driven economy in deprived communities	**Low**: This is a major challenge irrespective of wider economic conditions.
	Increase economic activity and entrepreneurship within deprived communities.	**High**: difficult to increase entrepreneurship and business formation when economic confidence is low, and key dedicated central government programmes/funds (eg LEGI and WNF) come to an end.
	Support the development of local supply chains	**Medium:** Some larger firms may be less willing to develop links with local firms as cost pressures lead them to source from low-cost suppliers.

2.12 The programme's overarching quantitative target is **an increase in Gross Value Added per capita in the North East to 90% of the UK average by 2015**. This was a challenging target at the time it was set in 2007. The recession and the programme of public sector expenditure cuts (and national policy changes) are likely to make it impossible to achieve this and the range of output and outcomes targets, and could put upwards pressure on the cost of achieving each output.

Table 2-3: Key Programme Targets			
	Target Area		**Risk to Programme**
	North East region	**Disadva-ntaged areas**	
Increase business density as a result of the creation of 3000 new businesses, of which 15% in disadvantaged areas	3000	450	**Low-Medium**: regional economy still recovering from downturn; consumer and business confidence is still very low. Potential entrepreneurs still face restrictive lending conditions. However, the programme has made good progress to date; 45% of regional target has been delivered and the disadvantaged areas target already exceeded.
Creation/safeguarding of 28,500 gross jobs of which at least 10% in	28,500	2,850	**Medium**: employment levels seem to have levelled off and private sector services have

Table 2-3: Key Programme Targets			
	Target Area		**Risk to Programme**
	North East region	**Disadva-ntaged areas**	
disadvantaged areas			grown slightly, but danger of knock on effect from public spending cuts.
Increase in R&D expenditure as a percentage of regional GVA of 0.2%	0.2%	N/A	**Medium:** Businesses likely to have cut back on R&D spending during downturn but should increase as the regional economy recovers.
Improved environmental management and energy efficiency in 2,850 assisted businesses	2,850	N/A	**Low:** Green issues lower priority during the downturn but likely to remain an important policy issue for Coalition Government.
Increased productivity among the region's businesses resulting in an increase in £1.1bn in regional GVA per annum	£1.1bn	N/A	**Medium**: Likely to be very difficult to achieve in challenging economic conditions. In addition, the ex-ante evaluation stated that the overall net additional GVA target at £1.1bn pa (or a 3% increase on current regional GVA) was very ambitious even at the time the programme was being developed, and may need to be reviewed.

Conclusions

2.13 The socio-economic context is much changed since the Operational Programme was developed during 2006 and 2007. The recession and its after effects will continue to affect the achievability of programme objectives and targets during 2010 and 2011 (as it did in 2008 and 2009), which is likely to have implications for achievement of overall programme targets for the whole programme period.

2.14 Whilst we believe the underpinning programme strategy remains relevant, the key issues for the programme are:

- The private sector business environment is less challenging than it was during 2008 and 2009, but it remains more difficult than when the programme was developed. There is evidence that fewer new businesses are being created in 2010 than in the years preceding the recession, survival rates are lower, and net employment creation has been modest at best. Given the scale of public spending cuts (see Policy Context below) and the dependence of the North East economy on the public sector (for employment and demand for goods and services), a double dip recession cannot be ruled out. Perhaps the biggest issue is the extent to which certain localities across the North East are particularly vulnerable to a reduction in the public sector.

- The harsher business environment, credit crunch and business cash flow issues (and the knock on effect on business confidence) during the past two years may continue to make many local businesses more risk averse in terms of their growth plans and when it comes to making new investments. It may also make it harder to engage firms in programmes and projects, especially where the payback may take some time to emerge.

- A major issue for SMEs pretty much since the effective start of the downturn has been access to finance as banks became increasingly unable or unwilling to lend to SMEs and credit terms became more onerous. Credit conditions have improved, although the volume of lending is still much lower than before the recession. The constraints on the availability of finance through the banks is likely to encourage firms to look to the JEREMIE funds for finance.

- One consequence of the deterioration in UK economic performance and change in credit conditions has been a marked depreciation in the value of sterling compared to other major currencies (the dollar and Euro in particular). As world growth and export demand has risen during 2010 this has, and will, provide a boost to the opportunities for export sectors (manufacturing and service sector invisible exports such as tourism, education, transport and business services).

- The sector that felt the most immediate effect of the credit crunch and entered recession first was the property and the construction industry. The ability of property values to help fund development in the more difficult sites and locations has been especially impaired. This has impacted on the ability to progress property schemes that lead directly to the creation of new floorspace, and could constrain the potential to fund a JESSICA initiative using ERDF. Pretty much all parts of the region have suffered from the recession, even previously very buoyant local economies. However, in absolute terms the recession has impacted on those locations which already had weaker economies, suggesting that efforts to create jobs and businesses in the targeted areas of deprivation may prove especially challenging.

- The most recent longer-term forecasts suggest that the region will continue to struggle to make up any ground on the UK as a whole and that, in relative terms, it will see the GVA gap widen. This reinforces the need to focus on investments to improve long-term regional competitiveness, in spite of the short-term cyclical challenges posed by the recession.

3. Strategic and Policy Context

Programme Strategy

3.1 The 2007-13 Programme is very different to its predecessor (North East Objective Two Programme, 2000-06). Some of the key characteristics of the Operational Programme are:

- The centrality of the Lisbon agenda and what is in the North East programme a particularly strong focus on R&D, innovation and intensive/advanced business support.
- The role of the Programme in adding value to the (then) Regional Economic Strategy whilst maintaining a distinct strategic framework and striking a balance between the chosen programme priorities.
- A shift in emphasis towards capitalising on assets and opportunities and away from tackling disadvantage in a region where this is a major challenge.
- The aspiration for fewer, more strategic and regional projects with implications for the ability to match fund and, in the case of Major Applications, timescales for approval. Related to this, a much more strategic and widespread approach to the direct commissioning of activity.
- A firm resolve to ensure CCTs are genuinely embedded into programme delivery and the achievement of projects and are not just ‘add-ons’ (although it is proving difficult to achieve this in practice).
- Fundamental changes to the management arrangements, with One North East (rather than Government Office North East) having a major role as both the intermediate body and provider of match funding, and therefore needing to maintain a degree of separation from other RDA functions.

Programme Vision and Objectives

3.2 The 2007-13 North East ERDF programme vision is:

The North East Competitiveness OP will by 2015 have made the region a more cohesive, ambitious and attractive place in which to invest and work based on the creation of a modern, innovation focused economy that is well placed to exploit the economic and social opportunities associated, in particular, with renewable energies and technologies that contribute towards a healthy environment. It will strengthen the region’s entrepreneurial culture and grow the region’s business base resulting in an outward facing regional economy and society that is self reliant and confident of its ability to compete in the global market place.

3.3 This vision has been translated into a number of quantified global objectives. These include, by 2015:

- The creation of 3000 new businesses, with at least 15% in disadvantaged areas
- The creation/safeguarding of 28,500 gross jobs, with at least 10% in disadvantaged areas
- An increase in R&D expenditure as a percentage of regional GVA to 0.2 %
- Assisting 2,850 businesses to improve environmental management and energy efficiency
- Generating a £1.1bn increase in regional GVA
- Generating a sustainable uplift in regional GVA per annum equivalent to 3% of the 2004 level.

Priority Objectives and Targets

3.4 The NEOP has total available ERDF funding of €376m (£320m at current exchange rates), and took an early strategic decision to focus its available resources on just two main priority areas (which are supported by a third priority providing technical assistance):

- Priority 1: Enhancing and Exploiting Innovation
- Priority 2: Business Growth and Enterprise

Table 3-1: Summary of Priority Axes One and Two

	Priority 1: Enhancing and Exploiting Innovation	Priority 2 Business Growth and Enterprise
Axis Level Aims	*The focus of this priority is to promote and embed 'opportunity' by advancing science, technology and innovation within the region's business base and broader communities.*	*In order to address the relative underperformance of the North East in terms of business formation and sustainability the focus of this priority will be to address 'need' by developing the enterprise base of the region, in particular in disadvantaged parts of the region, and to support a more dynamic, growing business base across the region as a whole.*
ERDF Funding	€199m (currently £165m)	€162m (currently £135m)
Fields of Action	Investment in Innovation Connectors (40-55% funds) Support for innovation and technology-led sectors (40-55% funds) Exploitation of Science base (5-10% funds)	Cultivating and sustaining enterprise (including social / community based enterprise) in disadvantaged areas (30-40% funds) Enhancing the competitiveness and growth of existing SMEs (including social/community based enterprises) (60-70% funds)
Headline Targets	By 2015, to enhance the exploitation of science, technology and other innovation through actions leading to: • 6,708 new and existing SMEs being assisted to improve their performance • an increase in R&D expenditure as a percentage of regional GVA of 0.2% • the creation / safeguarding of 12,016	By 2015, to contribute to increased business density and higher levels of productivity and competitiveness within the business base through actions leading to: • the creation of 3,006 new SMEs, of which a minimum of 15% will be in disadvantaged areas • the creation/safeguarding of 16,450 gross jobs of which up to 15 % in disadvantaged areas

Table 3-1: Summary of Priority Axes One and Two		
	Priority 1: Enhancing and Exploiting Innovation	Priority 2 Business Growth and Enterprise
	gross jobs of which 5% in disadvantaged areas • The generation of £545/0m in net additional GVA per annum.	• improved environmental management and energy efficiency in 2,178 assisted SMEs • the generation of £538.9m in net additional GVA per annum.
Target beneficiaries	Prospective entrepreneurs New and existing SMEs Inward locating SMEs Sector interest organisations	Prospective entrepreneurs New and existing SMEs Inward locating SMEs

Cross-Cutting Themes

3.5 The programme is underpinned additionally by three cross cutting themes:

- **Environmental Sustainability**: improving the impact of economic activity on the environment and recognising the potential economic benefit that the environment can bring. A subset of environmental sustainability indicators is set out in the Operational Programme.

- **Equality and Diversity**: ensuring that the interests of different groups are represented in programme administration, that programme implementation takes account of the existence of different minority groups in its targeting, and that the Programme positively influences other partners to take action to reinforce equality and diversity.

- **Addressing Spatial Disparities in Economic Inclusion**: addressing the spatial variations in social and economic conditions. This will particularly be delivered through activity in both priority axes that reaches disadvantaged communities by building on innovation connector projects, but also through using commissioning approaches and incentives, such as varied intervention rates, to encourage new projects and developments in disadvantaged areas.

Policy and Strategic Context

3.6 The Operational Programme (like all English ERDF programmes) was developed in a policy and funding context which was, in important respects, more favourable for the strategic priorities set by the partners in the region than the current context. Strong economic performance in the UK over the course of the 2000s had helped to ensure a reasonably stable supply of public sector match funding, while national policies on enterprise, innovation, the low carbon economy and infrastructure investment showed a strong degree of alignment with the objectives set for EU regional policy.

3.7 However, when the UK entered a deep economic recession in 2008, the policy and funding landscape for ERDF began to change significantly as rising unemployment and business failure rates created pressure for publicly funded measures to respond to the recession. In addition to the change in economic conditions since the NEOP was signed off, there have been some important policy developments at national level which have implications for the programme. Some of the changes in policy had been made by the previous Labour Government during 2008 and 2009, and have impacted upon the design, delivery and focus of ERDF projects.

3.8 More radical changes to regional economic development policy and organisational arrangements have been proposed by the Conservative-Liberal Democrat Coalition Government since it came into office in May 2010. The full details on the new regional and sub-regional arrangements for both economic development and ERDF programmes have yet to be published. However, the major announcement soon after the General Election that Regional Development Agencies (RDAs) are to be closed by March 2012 (and their investment capabilities substantially reduced in the interim period) has had significant implications for the management, funding and delivery of the remainder of the ERDF programme. The Government confirmed that as from June 2010 that Single Pot cannot now be used as match funding for any project yet to be contracted.

3.9 The programme is now operating in what is expected to be a lengthy period of austerity in public policy, following the announcements in the Comprehensive Spending Review (October 2010) of £81bn of cuts over the next four years up to 2014/15. Whilst the precise nature of public spending cuts will not become clear until individual departments publish their own spending plans, it is clear that the overall pot of potential match funding will be much reduced.

Policies Impacting on Programme Design and Delivery

Policy Changes Prior to the 2010 General Election

3.10 In the period immediately leading up to the NEOP and since the launch of the Programme, a number of important policy and funding changes altered the landscape in which ERDF operated and the opportunities available to the Programme. This included the Business Support Simplification Process (this commenced during NEOP development, but was not completed until April 2009), measures to improve decision making across local authority boundaries and to target economic spatial disparities. In addition, innovation and the low-carbon economy have become increasingly important planks of national economic development policy. The most of notable of these policy developments included:

- **European Union Lisbon Agenda:** brought about greater focus on developing competitive and dynamic knowledge-based economies which has naturally led to greater strategic and investment focus on business support and innovation. ERDF programmes across the EU, including the NEOP, were required to demonstrate strong fit to the Lisbon criteria.
- **European Union's Economic Recovery Programme**: issued in 2008, it led (among other initiatives) to agreement that a proportion of ERDF programme funding could be allocated to activities which responded to recessionary conditions (eg. weakness or failure of commercial property markets). This enabled investments to be made in housing, public realm and land remediation, although these still needed to be made in line with the ERDF regulations governing the implementation of the Operational Programme.

- **Europe 2020 strategy**: Launched in 2010, the Europe 2020 strategy was intended to inject new momentum into the Lisbon agenda and to reflect the growing priority attached to climate change and lower carbon emissions. Ambitious targets are set for employment, R&D, climate change, education and social inclusion, with ERDF programmes seen as having a contribution to make to achieving them. Europe 2020 reinforces the EU's emphasis on innovation, employment and low carbon activity, and it is likely that the remaining period of the 2007-13 programmes and any successor arrangements will need to be strongly aligned with the strategy.

- **The environmental agenda:** a series of low carbon policy initiatives which saw a growing focus on the commercial opportunities tied up in the shift towards a low carbon economy. In the UK, these included the Low Carbon Industrial Strategy and Transition Plan, the Building a Low Carbon Economy initiative and measures such as the UK Environmental Fund transition strategy which was seen as a potential source of match funding.

- **Business Support Simplification Process:** the BSSP ran in parallel to the design of the NEOP but was able to influence the range of initiatives and services proposed under Priorities 1 and 2 in particular. The Solutions for Business portfolio as it became, not only set the parameters on the range of products to be supported, it also dictated how they should be contracted (i.e. often regionally), branded and marketed to clients. It has played an important role in the type of business support activity which has emerged during the Programme.

- **Development of Multi-Area Agreements:** which provided local stakeholders with a framework against which to set sub-regional priorities for economic development and focused mainly on employability issues with some emphasis on enterprise stimulation and support. This was one of a series of initiatives which helped to establish a clearer set of economic development and regeneration priorities for particular localities in the North East.

- **Introduction of Working Neighbourhoods Fund:** focused on local areas with the highest concentrations of worklessness and lowest levels of skills and enterprise and offers a potentially important source of match funding for stimulating enterprise in the region's most deprived communities. WNF is being discontinued in March 2011.

- **Innovation Nation:** the UK Government's White Paper set out a broad framework of themes for UK innovation challenge and the need for UK business to invest more, engage with knowledge more and become better at integrating innovation into the management of their businesses. The Higher Ambitions proposals (2009) to strengthen higher education reinforced this policy drive to better harness the knowledge base to the needs of the UK economy (higher skills, more innovative enterprises).

- **The Equality Act:** this key piece of legislation required equality to be treated as an integral consideration in mainstream policy formulation, workforce issues and service design and delivery and accords closely with the CCT Equality objectives.

Table 3-2: Policy Changes Prior to the 2010 General Election			
Theme	Policy Initiatives [brief description]	Relevance to NEOP	Impact of Post-Election Policy Change
Business Support Simplification Process	Aiming to improve targeting of and access to business support by reducing the number of different schemes to a limited portfolio of products under the Solutions for Business banner	All ERDF funded interventions must be compliant with eligibility and delivery arrangements of the product portfolio and demonstrate their added value to existing services and investments	Scrapping of regional business support frameworks and responsibility for many aspects of business support to be taken in-house by BIS. This could have implications for the continuation of existing region-wide business and enterprise support programmes.
Development of Multi-Area Agreements	Provide local stakeholders with a framework for developing partnerships spanning more than one local authority area in order to promote econ. development at wider geographies	MAAs mainly focussed on tackling employability issues rather than business competitiveness, but some focus on local enterprise stimulation and support	LEPs (see below) could take on many of the functions of MAAs and could potentially coordinate delivery of NEOP activity in their areas.
Introduction of WNF	Provides support to local authorities that have highest concentrations of worklessness and lowest levels of skills and enterprise	WNF provides a potentially important source of match funding for stimulating enterprise in Priority 2 in some of the region's most deprived communities	WNF is being discontinued in March 2011, and this may make it more difficult to achieve NEOP targets in deprived areas
UK innovation policy	Policies to assist businesses to improve productivity and access new markets through increasing R&D spend and adoption of new technologies	Supports Priority 1 interventions around innovation and research and development	Abolition of RDAs which, along with universities, have had a key strategic and funding role in strengthening the regional innovation infrastructure. Innovation likely to remain high on government agenda and potentially funded nationally rather than regionally
UK enterprise policy	Increasing the start up of new businesses, growth of existing businesses and improving productivity	Supports Priority 2 interventions around enterprise	As above – respective roles of BIS in relation to business start up generally and LEPs with regard to local enterprise could determine future focus of the programme
Increased emphasis on the low-carbon economy	New legislation includes legally binding targets to reduce carbon emissions	NEOP interventions should be designed to help reduce carbon impact of businesses and prepare businesses for the opportunities/threats arising from climate change	Likely to remain an important priority under Coalition Government
UK Equalities Legislation	Require that equality be treated as integral consideration in mainstream policy formulation, workforce issues and service design and delivery	Equality should be built in from the start of the ERDF policy and planning cycle and should be explicit in all activities through to delivery. Strong focus on	Likely to remain a priority under Coalition Government, although less emphasis expected on targets for specific groups.

Table 3-2: Policy Changes Prior to the 2010 General Election			
Theme	Policy Initiatives [brief description]	Relevance to NEOP	Impact of Post-Election Policy Change
		cross cutting themes in the OP appears consistent with the EHRC's aims	

3.11 To a significant extent, the North East's contribution to delivering these policies has been set out in a range of strategies and initiatives under the umbrella of the Regional Economic Strategy. The RES was pivotal to the setting of the NEOP's aims and objectives, and has played a decisive part in shaping the investments made by ERDF over the period between 2008 and 2010. Although there have been shifts in the policy landscape between 2008 and 2010, these did not require substantive changes to be made to the NEOP strategy. Where responses to the recession were necessary, the Programme was able to respond through existing activities supported (e.g. a Recession Response Call for Proposals).

Changes in Government Policy since the 2010 General Election

3.12 The Coalition Government, formed in May 2010, has set out a plan for radical reform of public services alongside extensive cuts in the budgets of almost all government departments as part of its plans to reduce public debt. Some targeted initiatives that provide resource to deliver on specific programme objectives (eg Local Enterprise and Growth Initiative (LEGI) and Working Neighbourhoods Fund (WNF)) in relation to enterprise stimulation and employment growth in deprived communities will come to an end in March 2011, and it is unlikely that any comparable scale successor funds/initiatives will be rolled out.

3.13 The previous administration's ambition to achieve a better balance in economic growth across sectors and regions remains, although the institutional arrangements are being completely remodelled. The main thrust of the Coalition Government's plans is the removal of the regional tier of economic development and spatial planning, and an increased emphasis on sub-regional and local decision making. In addition to the abolition of Regional Spatial Strategies and Government Offices, the most important announcement for the NEOP is the abolition of RDAs and their replacement (albeit with fewer powers and very little resource) by Local Enterprise Partnerships (LEPs).

3.14 LEPs will be partnerships of local councils and businesses who will inherit some RDA responsibilities in relation to local enterprise development and business competitiveness. There is still some uncertainty over what influence they will have over certain key policy areas such as business support and innovation, which are now to be led from the centre by BIS.

3.15 The White Paper "Local growth: realising every place's potential"[12], published on 29th October provided further detail on the role that Local Enterprise Partnerships (LEPs) are expected to play; largely a strategic and leadership role, with no central government funding

12 CLG (2010).

and no programmes or projects that central government is expecting or asking LEPs to run on their behalf. Looking to the future, LEPs may have important (but as yet unspecified) roles in strategy, delivery and funding as the Coalition realises that its needs to fill the "sub-national space" between national bodies and local authorities. However, as far as ERDF is concerned there may be a potential funding and delivery gap for economic development investments in the short term whilst the role of LEPs (and the regional LEP map) is still evolving.

3.16 There is also a strong message that local authorities and LEPs will need to play a more prominent role in the overall governance and decision-making around ERDF programmes. This is sensible in principle, but there is clearly a potential for intra-regional competition over geographical resource allocations.

3.17 Clearly the change of government has brought about a huge and very immediate change in the economic development landscape. Although it is still too early to assess the full ramifications of these changes (as departmental spending plans have yet to be published), it is clear that the institutional backdrop and match funding context are going to change very quickly and that there will be further policy changes forthcoming downstream. At the time of writing the Coalition Government has pledged itself to a progressive approach to cuts which includes endeavouring to support areas dependent upon public sector employment to make the shift towards private employment and to re-balance the UK economy away from a dependency on the financial sector.

Table 3-3: Policy Changes Since the 2010 General Election

Theme	Policy Initiatives	Relevance to Operational Programme	Impact on Operational Programme
Abolition of Regional Development Agencies	RDAs to be abolished by March 2012. Some powers expected to be handed over to Local Enterprise Partnerships, while others assumed by central government.	Fundamentally affects RDAs' role as the principal source of match funding and as the overall Programme management authority. Also loss of regional strategic guidance and insight which has shaped the OP and investments.	Creates considerable uncertainty over the future arrangements for managing the OP and securing match funding. Possibility that some funding will come from Regional Growth Fund (RGF), but not clear yet.
Abolition of Government Offices	Government Offices (GO) will be abolished, by the end of the current financial year.	GOs responsible for overseeing European Social Fund, and coordination of future activities by DWP may make alignment with ERDF more difficult.	Impact not as substantial for NEOP as abolition of RDAs but questions over new arrangements for managing ESF and how it is aligned with ERDF in the NEOP.
Creation of Local Enterprise Partnerships	New or modified public-private partnerships of local authorities, partner organisations and businesses to be created and then endorsed/approved by Government. Two LEPs now formed - Tees	Clear expectations that LEPs may play a significant role in the future decision-making processes of the NEOP (eg. on the PMC). However, LEPs will be receiving no direct funding from central government, although they may possibly take on some existing RDA assets. They are therefore unlikely to provide a significant	Much would depend on the LEPs which form in the North East. White Paper is clear that the main driver of policy on business innovation and knowledge transfer will be BIS and TSB, not LEPs. However, LEPs encouraged to get involved in local enterprise and business

Table 3-3: Policy Changes Since the 2010 General Election

Theme	Policy Initiatives	Relevance to Operational Programme	Impact on Operational Programme
	Valley and the rest of the North East.	source of match funding in themselves, and they will have substantially less resources than RDAs.	support activity, even though they will receive no direct central government funding.
New arrangements for the delivery of business support	BIS to take in-house (or via arms length bodies such as UK:TI and TSB) future design and coordination of Lisbon type business support (sectors, innovation, trade and inward investment etc). Business Link to be replaced by national call centre and web site.	Uncertainty about future funding and organisation of existing regional schemes, especially where contract is with and the majority of match funding comes from ONE.	Threat to the continuation of major regional projects, although they could continue providing central government makes match funding available and is prepared to novate existing contracts from ONE (such as for the Manufacturing Advisory Service).

Comprehensive Spending Review

3.18 The Comprehensive Spending Review (CSR), published by the Coalition Government on 20th October 2010, sets out the Government's departmental spending plans for the next four years. Total annual government spending is to be cut by £81bn between 2010/11 and 2014/15. The average departmental budget reduction is 19% during this period.

3.19 Much of the content of CSR is fairly high level, although some specific points of policy were announced. Greater clarity on the precise nature of the spending cuts will follow when departments publish their own individual spending plans. Nevertheless, some of the key announcements contained in the CSR could impact upon the North East economy and the ERDF programme. Some of the key announcements and their implications for the North East Programme are:

- A 25% cut in funding for BIS (which funds much Lisbon-type business support) up to 2014/15, although the science budget has been protected (in cash terms); investments in green technologies should safeguard the North East's commitment to low carbon economy and renewable energy. No further detail was given on BIS's preferred approach to the novation of ERDF contracts with Single Programme (eg the major regional Business & Enterprise North East and Manufacturing Advisory Service projects).

- Reform to the Higher Education Innovation Fund (HEIF) to provide an increased focus on commercial interaction between research base and business, although overall Higher Education Institutions (HEIs) will have less grant to work with SMEs.

- CLG is to link "wherever possible with the Regional Growth Fund"; the fund is worth £1.4bn over four years, although its very strong capital regeneration focus may limit the potential to use the fund as match funding for ERDF in the North East given the current structure of the programme.

- On average, local authorities will see a 7% annual fall in their budgets, although the ring-fencing of local authority revenue grants will end and councils will have freedom to borrow against their assets. Whilst this may widen the potential to bring forward local authority-led projects, the 45% drop in capital funding from CLG to local authorities may make it difficult to increase the scope for investment in capital projects.
- Up to 500,000 public sector jobs could be shed over the next four years across the UK (a figure that has been widely reported for some time and equates to about 9% of the public sector workforce). Given the concentration of public sector employment in the wider North East, the region's economy is particularly vulnerable to a reduction in the public sector workforce (as well as the knock on effects on consumer spending and local supply chains). The reduction in public sector jobs is expected to disproportionately affect women in the workforce. On average, twice as many women as men work in the public sector, which accounts for around 40% of all female workers.

Impact of Policy Changes

Relevance of Programme Strategic Focus

3.20 It is clear that the recession and the policy changes it has triggered represent the most significant challenge to the NEOP Programme and its ability to meet its original objectives and targets. Despite signs (before the publication of the CSR) that employment is beginning to recover, the regional economy still faces very challenging conditions. Most notably, low business and consumer confidence and continuing tight lending conditions, which will make the objectives and targets for increasing rates of enterprise particularly difficult to achieve. The public spending cuts are likely to exacerbate these challenges, given the region's dependence on public sector employment.

3.21 Investment in R&D and rates of innovation are likely to have suffered during the recession as businesses have focused their efforts on survival rather than expansion. The strength of the recovery will determine the extent to which this trend is reversed and businesses begin to invest in R&D and exploit new technologies and processes. However the very challenging conditions which firms continue to face at the moment may make it harder to get local businesses to make major investments and to engage firms in programmes and projects, especially where the payback (i.e. financial return) may take some time to emerge. This is a particular challenge to Priority One of the programme.

3.22 Reducing carbon emissions and improving environmental standards may have slipped down SMEs' list of priorities during the recession. However these appear to be important policy priorities for the new Coalition Government, which should provide the support necessary to help achieve these targets and objectives. Likewise, equality and diversity is likely to remain an important theme for policy and the Programme, although the public spending cuts are expected to have a disproportionate impact on key groups such as women and disabled workers, which may present challenges for achieving these cross-cutting theme related targets and objectives.

Impact on Programme Management and Delivery

3.23 The recent changes to government policy are likely to have a major impact on the management and delivery of the Operational Programme. In particular, the abolition of RDAs and their replacement with LEPs raises a number of questions about the future management of the Programme and the potential sources of match funding. At this point, it appears likely that LEPs will not inherit all of the previous powers and responsibilities of RDAs, especially in key policy areas such as innovation and business support, which are expected to be coordinated and funded centrally.The White Paper states that final decisions on future management of ERDF programmes will be announced in the 2011 Budget. The White Paper also makes it clear that there will be no central government funding for the operation of LEPs nor will any national programmes of activity be managed by LEPs.

3.24 The Programme may therefore have to look increasingly to central government sources for potential match funding. There are two main sources. The new **Regional Growth Fund** (RGF) represents an important potential source. A total of £1.4bn has been allocated for the three years 2011/12 to 2013/14 (with roughly equal amounts in each year), it is a mixture of revenue and capital funding. The first round of funding will be for £250m and will be allocated on the basis of bids by January 2011. The White Paper encourages the "alignment" of RGF and ERDF, but with no practical suggestions on how this is to be achieved. There is no earmarked allocation for any region or type of activity:

- The twin objectives of RGF are: (1) Contribution to growth; and (2) Rebalancing the economy - supporting in particular "*those areas and communities that are currently dependent on the public sector make the transition to sustainable private sector-led growth and prosperity*". There is strong emphasis on the need for the bids to the RGF to be led by the private sector and indeed to <u>directly</u> support additional private sector investment. The key metric for value for money will be public sector cost per **net additional private sector sustainable job.**

- On the face of it the North East should be well placed to access RGF on the basis of need and dependency on the public sector. However, there are many possible activities that could be funded by RGF from direct investment by businesses, to infrastructure project and even housing. There is therefore no guarantee that RGF will become available for projects as a source of ERDF match. As a ball-park figure if the region's bidders were successful pro-rata to the region's share of all likely public sector jobs losses in England then around £200m might become available. However, there is no guarantee that this will be the case.

3.25 The second source of funding will be national **BIS investment streams**. There have been some announcements about future funding, including the proposal to support a network of "elite Technology and Innovation Centres" through the Technology Strategy Board (TSB). The White Paper also mentions support for a series of Growth Hubs for specialist business support, but there are no details as yet on these.

Mitigating Actions

3.26 Given that the major challenges are driven mainly by external factors, and above all the changes in national policy (eg regional economic development infrastructure) and funding, some of the key decisions that could affect the future success of the programme are being taken outside the region and largely beyond the control of the region. The result is that the programme pipeline now is a cause for concern and it remains unclear how the major regional projects will be delivered once ONE is closed. It is vitally important that programme partners (working with other regions as appropriate) continue to work closely with both CLG and the EC to agree workable solutions. Whilst there are no easy answers, potential solutions could include:

- Revisions to the programme (to maximise alignment with new initiatives/funds such as RGF) in order to attract potential funders and projects. Major changes to programme structure will require public consultation and Commission approval (depending upon the extent of any changes put forward).
- Revisions to the ERDF intervention rate (ie relaxing the requirement that ERDF must be matched pound for pound by a match funding source). Again, this could potentially increase the volume of projects coming forward, although it would also require national/EC approval and would have to be applied across all EU regions (ie so not a North East solution alone), and in addition would result in a shrinkage in the overall programme (ie ERDF plus match).
- Relaxation of the N+2 rules, for example converting N+2 into N+3 to allow more time for match funding to be secured. The Commission has already re-profiled the N+2 targets for individual years (for all EU regions) to reduce the short term challenges, although the final N+2 deadline of December 2015 remains in place. Adoption of N+3 would ease the short term pressure on the programme and help it to meet regulatory requirements on spend, although the overall scale of match funding challenge would remain.

Conclusions

North East Economic Needs

3.27 Subject to the changes in policy and delivery which emerge in the coming months, our current view is that the Operational Programme strategy (with a strong focus on long-term competitiveness and a strong Lisbon Agenda) continues to be relevant and appropriate to the region's needs and consistent with the broad thrust of central government policy. The region continues to need strong support for knowledge transfer, R&D, innovation and enterprise, and the likely effect of the recession has been to exacerbate/deepen the structural challenges facing the region.

3.28 The need to put the North East economy onto a more competitive footing therefore remains, with the headline objectives and priorities continuing to be as relevant as ever. Although the context of rising unemployment, stagnating start-up rates and falling investment will make it harder for the Programme to achieve its objectives, these goals remain valid.

3.29 The programme strategy has been also been flexible enough to adapt to the change in economic conditions since the programme was signed off, a specific Recession Call for Proposals provided specific support to firms to help them through the economic downturn, but the Programme has remained focussed, rightly, on long term challenges and has not been over-reactive in response to cyclical patterns.

3.30 The programme currently has little scope for development of underpinning economic infrastructure which support opportunities for economic growth. Development of strategically important sites that support the development of the region's high value and knowledge based sectors would be consistent with the Place theme of the Regional Economic Strategy, with European Community Strategic Guidelines (CSG) and with the National Strategic Reference Framework (NSRF) Building Sustainable Communities Priority.

3.31 In addition, the programme could support direct efforts to link job growth to areas and/or groups of people where there is a need to increase economic participation. This is currently partly address by Priority Two through local enterprise investments, and the overall investment packages could be strengthened by including support for people in areas of high worklessness to benefit from jobs being created in the wider economy the regional economy or direct support for employment creation in areas of need. Such interventions would link to CSG 1.3 (More and Better Jobs) and also to the NSRF Pillar of Sustainable Communities.

Implications of Spending Constraints on Programme Strategy

3.32 However, the programme does face a challenge to meet its spending commitments and to fund projects in the coming years, given the dearth of public sector resources now available. From a more practical delivery perspective, the programme focus may need to shift to some degree. The general reductions in match funding are starting to impact now, and in particular the moratorium on the use of Single Pot to match fund new investments.

3.33 The nature of the Competitiveness Strand under which the Operational Programme is funded requires by legislation at least 75% of ERDF resources to be spent against the Lisbon Agenda for Growth, Innovation and Jobs. As such, this is reflected in the high proportion (estimated at around 80%) of match funding to date that has come from ONE's Single Pot. This greater reliance may present a greater challenge for the North East than some other regions as a consequence.

3.34 Whilst RDAs emerged as major providers of match funding across all English ERDF programmes, the strong innovation and business development focus of the North East Operational Programme will constrain its ability to use other sources of funding that may be open to other regions in the absence of further Single Programme (eg greater use of local authority funding for local interventions).

3.35 In particular, the modest capital focus could constrain both the ability to draw on the Regional Growth Fund (eg LEP bids) as match and the potential to fund a JESSICA project across Priority One and Two. Creation of an additional Priority with an emphasis on physical investment could provide the scope for additional land and property economic development investments (both Lisbon and non-Lisbon compliant), although any major changes to the programme structure would require consultation and EC approval.

3.36 Related to the above, the creation of an additional Priority could facilitate JESSICA-type investment, as long as there are investment ready projects. The North East programme is estimated to be 83% Lisbon compliant (above the 75% minimum threshold), and so there is scope to fund some physical investments that are aligned with the Competitiveness Objective, but are not in line with Lisbon spending codes. This could potentially free up to £25m of ERDF to spend on non-Lisbon activity.

3.37 The North East cannot, however, bring forward as wide a range of physical schemes as has been the case in the North West ERDF programme, which has already approved a JESSICA project. The North West programme includes the Merseyside Phasing-In (ie former Objective One) area, where it can fund physical investments in line with Convergence Objective investments (which provides more scope for physical infrastructure initiatives).

Aligning ERDF with the Regional Growth Fund

3.38 The recent White Paper encourages "alignment" of the RGF and ERDF, but with no practical suggestions on how this is to be achieved. In practice this will be challenging, but not impossible, because of different eligibility issues and timing issues. There is an emphasis in the White Paper on increasing private sector match funding, which again could prove a major challenge given the regulations governing the use of private sector match.

3.39 Steps to better align ERDF with Regional Growth Fund would be very welcome and help the ERDF Programmes secure much needed match funding. Achieving this in practice should not be under-estimated. There have been attempts over several Programme cycles to better integrate ERDF with ESF and, most recently, with Single Programme. While some progress has been made, ERDF has proven itself to be difficult to integrate in a substantive fashion. Given the pressure to secure match funding, it is essential to achieve this alignment.

3.40 There is scope to better understand the challenges encountered but this will require a substantial shift in the way Round 1 of RGF has been handled. The RGF emphasis on direct jobs and private sector leads does not currently easily align with ERDF. However, it is the decision-making processes which would require most attention. Regional allocations of RGF and delegated decision-making to the new ERDF teams may be required if we are to see substantial amounts of RGF being matched with ERDF.

4. Review of Programme Performance

Purpose of Chapter

4.1 This Chapter sets out the current position of spend and output indicators in the contracted, committed and pipeline projects for Priorities 1 and 2, including the progress against N+2 targets. It then goes on to consider the impact of a number of scenarios upon the future ability of the programme to meet its spend and indicator targets and suggests courses of action for programme decision makers to mitigate against the risks identified.

Assessment of Programme Spend and Commitments

Current Programme Spend and Commitments

4.2 The current position of the Programme is made up of:

- **Contracted Projects:** which are delivering outputs, incurring expenditure and making claims. This also includes a small number of already completed projects.
- **Committed Projects:** which have received approval for funding but are not yet fully contracted.
- **Pipeline Projects:** which have received approval of their Project Implementation Plan and are in the full project development and appraisal stages.
- **Headroom:** the resultant available spend in the Programme.

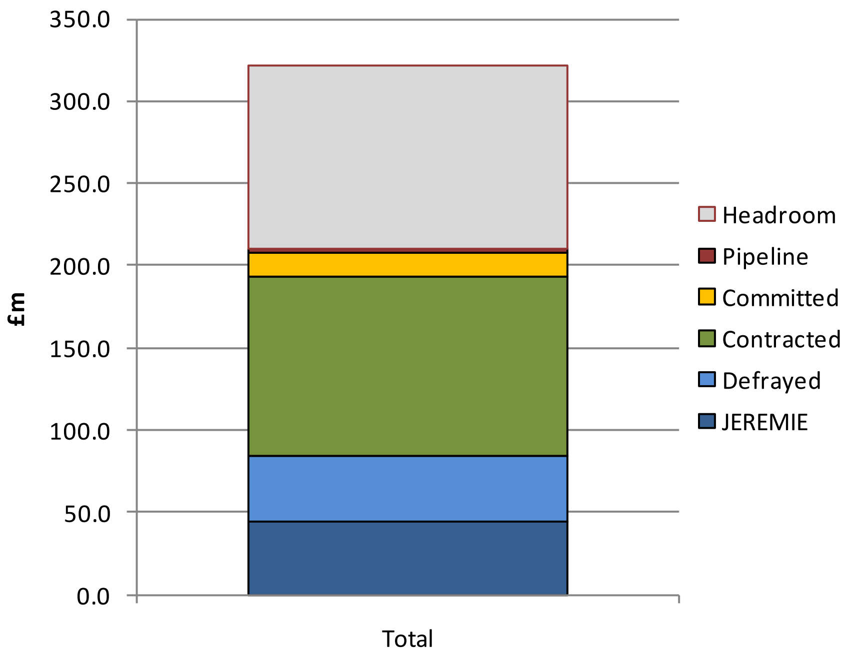
4.3 Where ERDF values have been required to be converted into pounds sterling for this analysis, the exchange rate used has been £1 = €1.17, the exchange rate at the time of analysis (January 2011).

4.4 Figure 4-1 below shows the overall programme position with regard to spend. A total of £85m has been defrayed[13] to date, of which more than half (£44m) is made up by the JEREMIE venture capital project. With a further £108m of ERDF in contracted projects, the programme has a total of 60% of its funding now contracted or defrayed (at current exchange rates).

4.5 There is a low level of projects currently in the development, appraisal and approval system, with only £15.0m worth of projects at committed stage and a further £1.9m at earlier pipeline stage. The limited number of projects coming through this system is a key concern for the programme going forwards.

13 Defrayment is taken to mean funding spent and claimed by projects. In the case of the JEREMIE project however, this funding is regarded as defrayed as it has been claimed from ONE and put into the JEREMIE fund, even though it has not been spent in terms of its end use.

Figure 4-1: Overall Programme Spend, December 2010.



Source: MCIS data, December 2010.

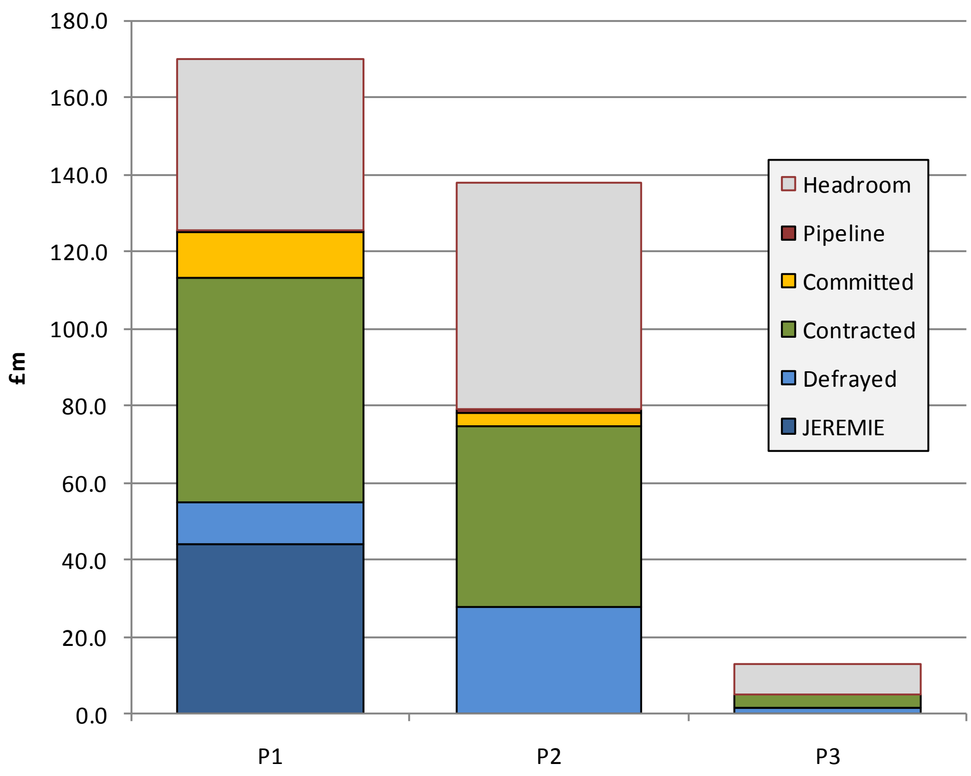
Table 4-1: Overall Programme Spend, December 2010.

	JEREMIE	Defrayed	Contracted	Committed	Pipeline	Headroom
P1	44.3	10.9	58.0	11.8	0.7	44.6
P2		27.9	47.0	3.2	1.2	58.8
P3		1.6	3.3	0.0	0	7.9
Total	44.3	40.4	108.3	15.0	1.9	111.3

Source: MCIS data, December 2010.

4.6 Figure 4-2 breaks down the programme spend by priority. Progress is relatively similar across the two main priorities, however it is particularly notable that there is little defrayed expenditure in Priority 1 beyond the JEREMIE project (only £10.9m) and that the limited number of projects at earlier stages in the system is a greater issue for Priority 2 (with only £4.4m of committed or pipeline projects).

Figure 4-2: Programme Spend by Priority, December 2010.



Source: MCIS data, December 2010.

Scale of Project Investments

4.7 There is a fairly even number of projects at all development stages across Priorities 1 and 2, and the average project size across both priorities (excluding JEREMIE) is very similar (£2.0m and £2.2m). Across priorities 1 and 2 there is a significant range of project sizes, with a small number of large projects (over £5m), listed in the table below, as well as a large number of smaller projects. Priority 3 is much smaller and the technical assistance projects within this are mostly smaller projects, under £500k ERDF funding.

Table 4-2: Summary of Suite of Projects by Priority.

	Priority 1	**Priority 2**	**Priority 3**	**Total**
No. of Projects Contracted	**35**	**34**	**7**	76
..Of which over £5m	*3*	*3*	*0*	*6*
..Of which £1m-£5m	*13*	*12*	*1*	*26*
..Of which £0.5m-£1m	*16*	*15*	*0*	*31*
..Of which under £0.5m	*3*	*4*	*6*	*13*
No. of Projects Committed	5	4	0	9

Table 4-2: Summary of Suite of Projects by Priority.				
	Priority 1	**Priority 2**	**Priority 3**	**Total**
No. of Pipeline Projects	3	5	0	8
Average Value of Contracted Projects	£3.2m (£2.0 excluding JEREMIE)	£2.2m	£0.7m	£2.5m
Range of Project Values Contracted	£0.2m-£44.3m	£0.1m-£18.3m	£0.02m-£4.4m	£0.02-£44.3m
Major Projects	JEREMIE (£44.3m); JEREMIE Product Fund Management (£11m); PETEC Facility (£8.5m); NETPark Large Grow-on Space (£5m).	BENE IDB 2010-12 (£18.3m); BENE IDB 2008-10 (£10.5m); BENE International Trade (£6.0m)	ERDF TA (£4.4m)	
Source: MCIS data, December 2010.				

Loss of Single Programme Funding

4.8 With the closure of RDAs (by March 2012 at the latest), there is a key issue around those projects with Single Programme match funding profiled beyond this date, with the potential that already contracted projects may have funding reduced or be withdrawn altogether. A review of the projects that this may affect highlights the following projects as at risk.

Table 4-3: Projects at risk from loss of Single Programme funding post March 2012.				
Name of Project	**Project Priority**	**Applicant**	**End Date**	**ERDF Spend 2012-15 (£m)**[14]
Jeremie Product Fund Management	P1	North East Finance (Holdco)	Dec 31, 2019	£6.85m
JEREMIE - Holding Fund	P1	North East Finance (Holdco)	Dec 31, 2019	£2.49m
ERDF IDB 2010-2012	P2	Business & Enterprise North East	Mar 31, 2013	£2.27m
Sunderland Software Centre	P1	Sunderland City Council	Dec 31, 2015	£0.54m
Newcastle Innovation Machine (NIM)	P1	Newcastle Science City Company Ltd(NSC)	Sep 30, 2012	£0.48m
Total				**£12.63m**
Source: MCIS data, December 2010.				

14 Note that these figures cover calendar years for 2012-15, so some or all of the 2012 spend may be defrayed before March 2012, and therefore be spent before the closure of RDAs.

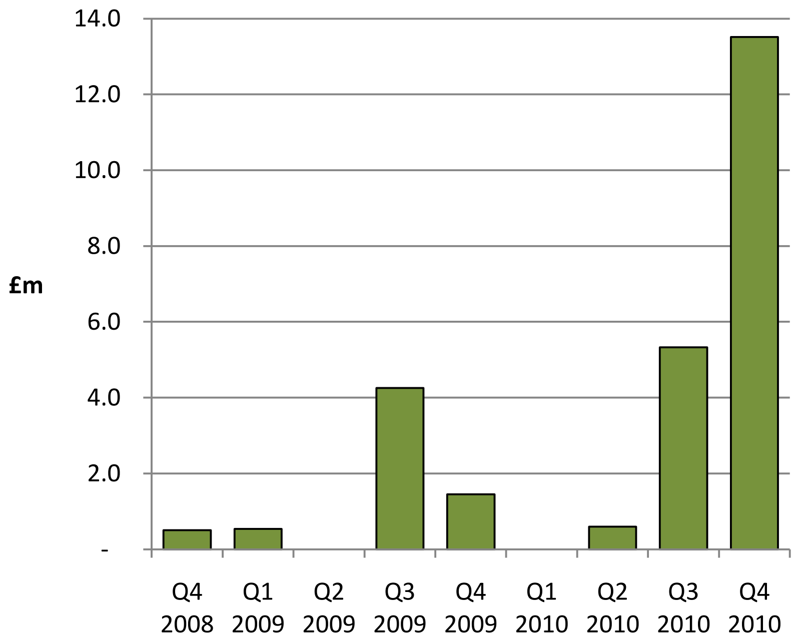
4.9 The two largest projects shown here (linked to JEREMIE) will be protected by an agreement between CLG and BIS to provide continued match funding to this project after the closure of RDAs. The other three projects cover BENE and innovation connector projects, and if it is not possible to protect this funding, then it will be important to manage the withdrawal of Single Programme funding to avoid loss of projects and disruption to progress of the programme.

4.10 Reviewing projects at committed and pipeline stage, there are none with major Single Programme commitments beyond March 2012, and projects would not now be contracted if they did.

Programme Pipeline

4.11 The charts above showed a current total value of £15m in committed projects and £2m in earlier pipeline projects. This is a particularly low level of overall pipeline projects, and represents a significant risk to the programme. A key cause of this has been the withdrawal of Single Programme funding as available match for new projects coming forward, imposed following the election of the new Coalition Government. Figure 4-3 shows the value of project withdrawals by quarter, and highlights that projects with around £19m of ERDF value have been withdrawn in the last six months of 2010. These included 12 projects, several of which were around £2-3m of ERDF funding.

Figure 4-3: Value of Project Withdrawals by Quarter



Note: Analysis based on 25 out of 35 project withdrawals, for which project details were available. This included projects at committed and earlier pipeline stage.
Source: MCIS data, December 2010.

4.12 In light of the low project pipeline at this stage, and assuming that the process from initial PIP submission to contracting is around 12 months, the programme does not now look likely to contract a high value of further projects during 2011. In light of the loss of Single

Programme funding, as well as reductions in a wide range of other potential match funding sources, the strengthening of the project pipeline will continue to be a significant challenge for the programme in the coming years.

4.13 In Figure 4-4 below the rate of new contracting by quarter is shown, with the decline in project pipeline reflected in lower levels of contracting over the last six months. The trend lines for the period to date show an overall average of £27m of ERDF contracted per quarter. Even excluding the JEREMIE and BENE projects, there is an overall average of £15m contracted per quarter.

4.14 The forward looking projections show the average value of ERDF which would need to be contracted in projects per quarter over the remainder of the programme in order to meet total programme spend. This shows that an average of £8m of ERDF would need to be contracted in projects per quarter, with a reduced £4m per quarter in 2014 (given that projects contracted at this stage would only have a maximum of two years to run and therefore would be likely to be smaller). Realistically, projects would be unlikely to be able to commence after the end of 2014 given delivery times.

4.15 At face value, this does not appear too challenging, however with the currently weak project pipeline, it is likely to be difficult to achieve this profile in 2011. This will therefore increase the challenge from 2012-14, and it is not currently clear how realistic this level of commitment might be in this period.

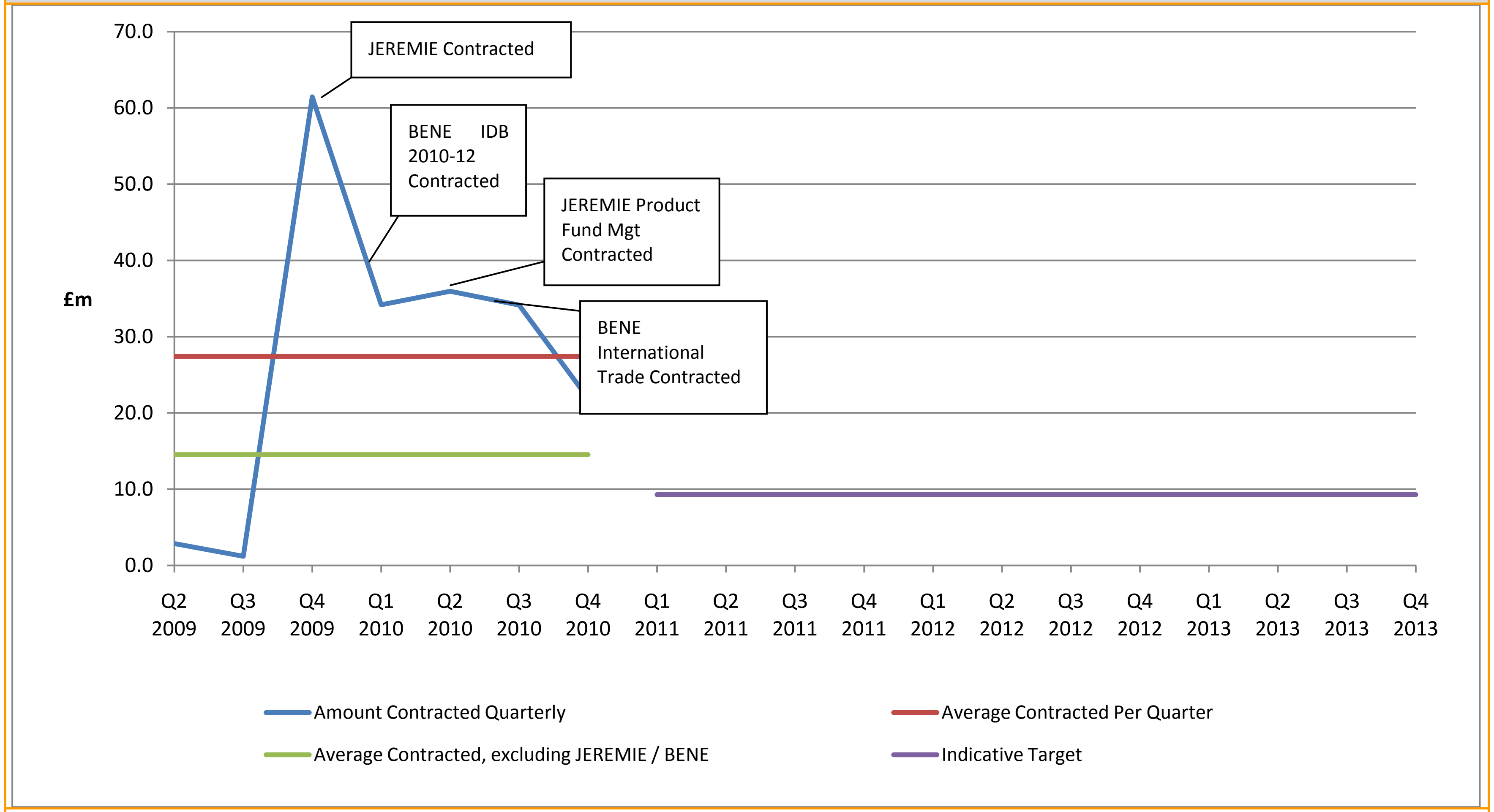
Programme De-commitment Targets

4.13 Figure 4-5 shows the progress towards N+2 targets for 2010-15. The actual spend is based on defrayed spend to date, while the contracted, committed and pipeline figures are based on the anticipated annual spend profiles of projects at each stage.

4.14 As the chart shows, the actual spend of the programme to date comfortably exceeded the 2010 N+2 target. Looking ahead, the target for 2011 also looks very achievable given the level of anticipated spend in contracted projects.

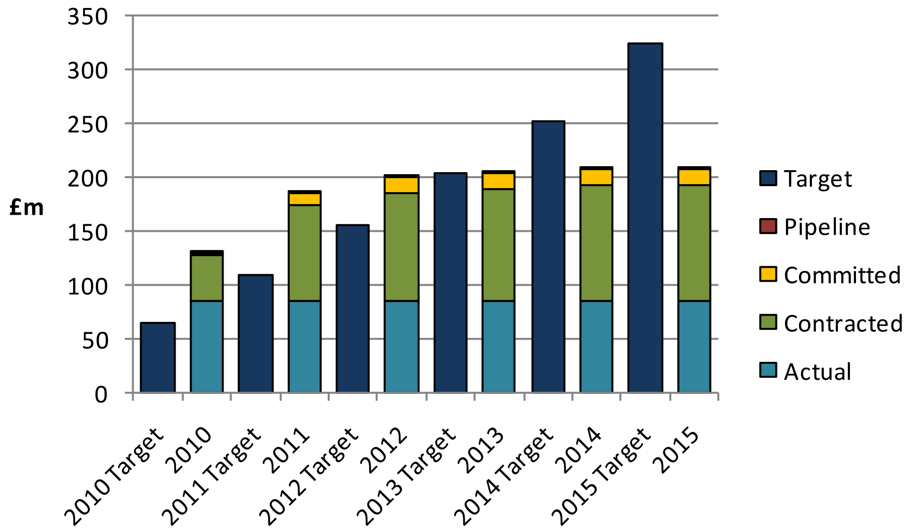
4.15 As would be expected, the 2012 and 2013 targets appear more challenging based on the current position and it will be important over the next year to continue to bolster the number of projects coming through the system at earlier stages. This is particularly the case given the risk of projects failing or spend profiles slipping, which will be increasingly likely as match funding issues continue in the coming years.

Figure 4-4: Rate of Contracting of the Programme to Date and Future Rate of Contracting Required.



Source: MCIS data, December 2010.

Figure 4-5: Progress against N+2 Financial Targets 2010-15



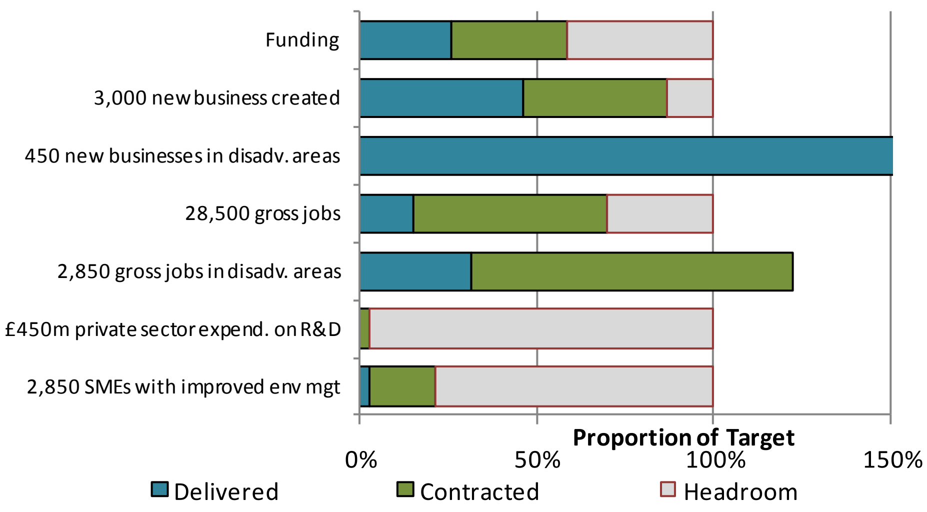
Source: MCIS data, December 2010.

4.16 As the ERDF programme progresses, regions in the UK are likely to continue to struggle to meet N+2 targets in light of a difficult economic climate and in many cases reduced match funding availability. This may lead to additional flexibilities being negotiated centrally between CLG and the EC, e.g. reducing N+2 targets, shifting to an N+3 model, etc. Even if this is the case however, back-loading funding to the end of the programme will only store up the challenges presented by these match funding problems. It must therefore remain a high priority for the programme management to both continue to boost the project pipeline at this stage and over the coming year and ensure projects are continuing to deliver in line with their spend profiles. The limited pipeline should be seen as a significant risk to meeting future N+2 targets beyond 2012.

Programme Outputs

4.17 Figure 4-6 shows the overall progress against the key headline programme indicators. The chart shows a mixed picture with gross jobs created and safeguarded and new businesses created both having made significant progress. Both indicators have a greater proportion contracted (70% and 87% respectively) than the proportion of programme spend contracted (60%). Similarly the respective sub-targets of these indicators relating to disadvantaged areas have already contracted more than their full programme targets. Business and job creation are particularly key targets for the region, and the progress made on these is a significant positive for the programme.

Figure 4-6: Progress against Headline Programme Outputs



Source: MCIS data, December 2010.

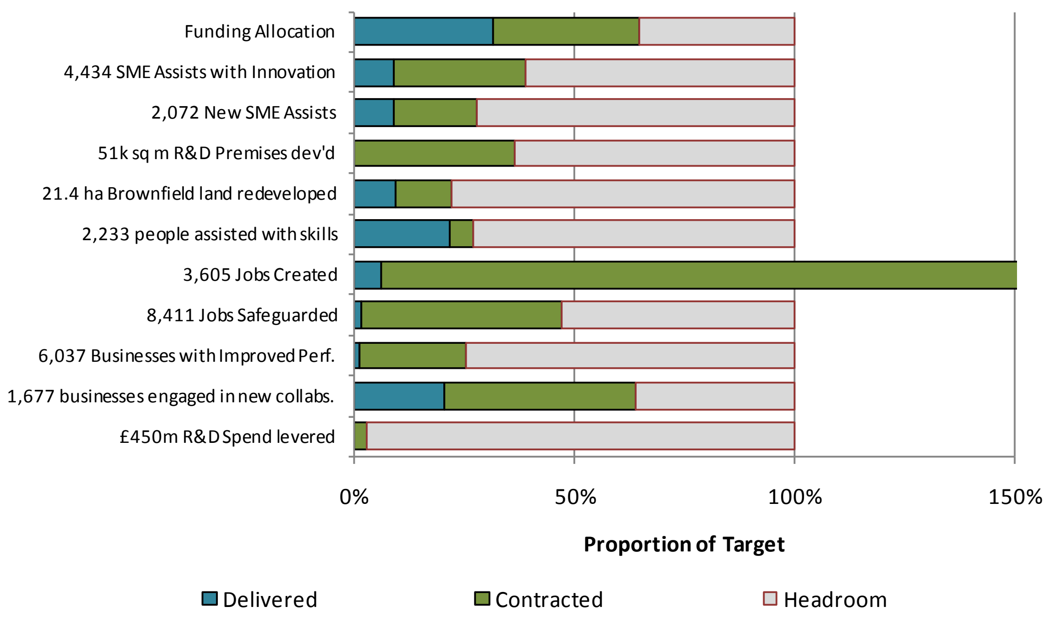
4.18 Clearly, the result indicators for private sector investment in R&D and for SMEs with improved environmental management are significantly behind the proportion of programme spend contracted, having very little results delivered to date, and only 3% and 21% of their targets contracted respectively. As headline indicators, it will be important to increase the focus on supporting projects to come forward that will contribute to delivering against these indicators.

Priority 1 Outputs

4.19 Priority 1 focuses on enhancing and exploiting innovation, and its main indicators are linked to business assists with innovation, R&D premises developed, jobs created and safeguarded, businesses with improved performance and R&D spend levered. Figure 4-7 shows progress against Priority 1 indicators.

4.20 The chart shows significant success in contracting targets against the jobs created indicator (180% of target contracted), however significantly lower performance in contracting other output and result indicators, with the majority falling short of the proportion of funding contracted in Priority 1. Given the amount of funding already contracted from Priority 1, the targets for output and result indicators across this priority look very challenging.

Figure 4-7: Progress against Priority 1 Targets



Source: MCIS data, December 2010.

4.21 Overall, the Priority 1 indicators are heavily skewed by the JEREMIE investment at this stage:

- The jobs created target is heavily reliant on delivery by JEREMIE which makes up the vast majority of the contracted jobs created figure (around 5,000 out of the 6,500 contracted).

- The weaker performance of contracting new and existing SME assist output indicators reflects the large spend allocation to JEREMIE, as JEREMIE has no targets against these outputs. The main output indicator for JEREMIE is the more minor "SMEs receiving financial assistance" output, which only had a target of 202 assists for Priority 1, and which has been exceeded by JEREMIE alone, which has contracted 850 assists against this indicator.

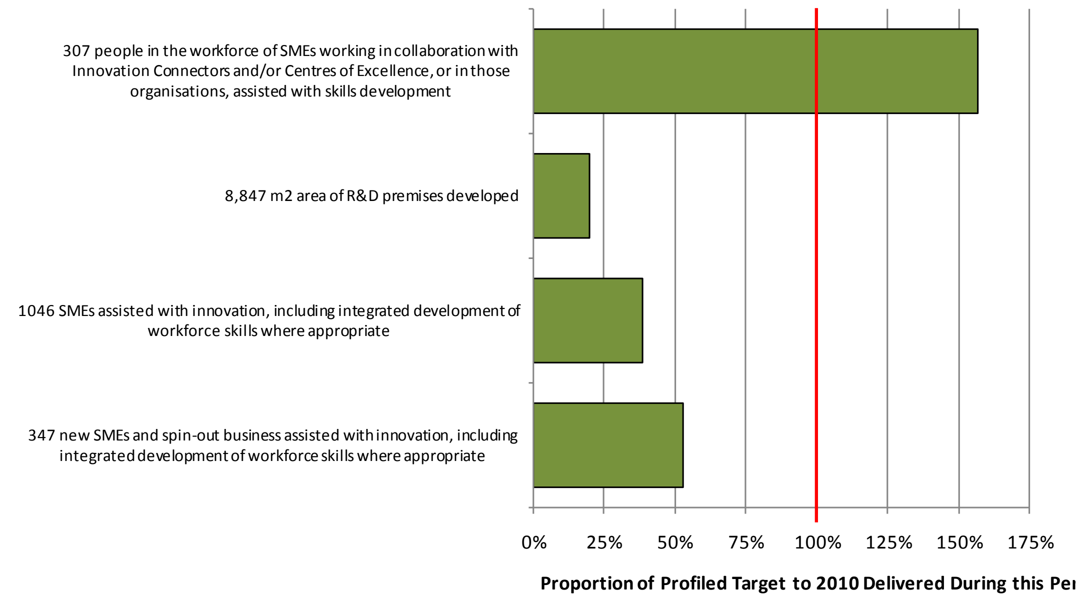
- Whilst other targets are supported by JEREMIE, it is clear that the highest priority was in contracting large job creation targets.

4.22 The indicator of greatest concern in Priority 1 is the figure for private R&D expenditure levered, which looks highly ambitious. Against a target of £450m, only three projects to date have contracted over £1m leverage against this indicator. In total, only 3% of the target for this indicator is currently contracted.

4.23 More detailed analysis of the indicators and targets for Priority 1 is set out in the Priority 1 chapter of this report.

4.24 Figure 4-8 gives a picture of how actual performance is measuring up to planned performance, by showing the proportion of profiled output targets up to the end of 2010 that were delivered[15]. The chart shows that projects exceeded their targets for skills development (157% of target delivered), but underperformed on SME assists and new SME assists (38% and 53% of targets delivered respectively). Projects also delivered only 20% of their targets for R&D premises developed.

Figure 4-8: Progress against profiled targets in Priority 1 up to End of 2010.



Source: MCIS data, December 2010.

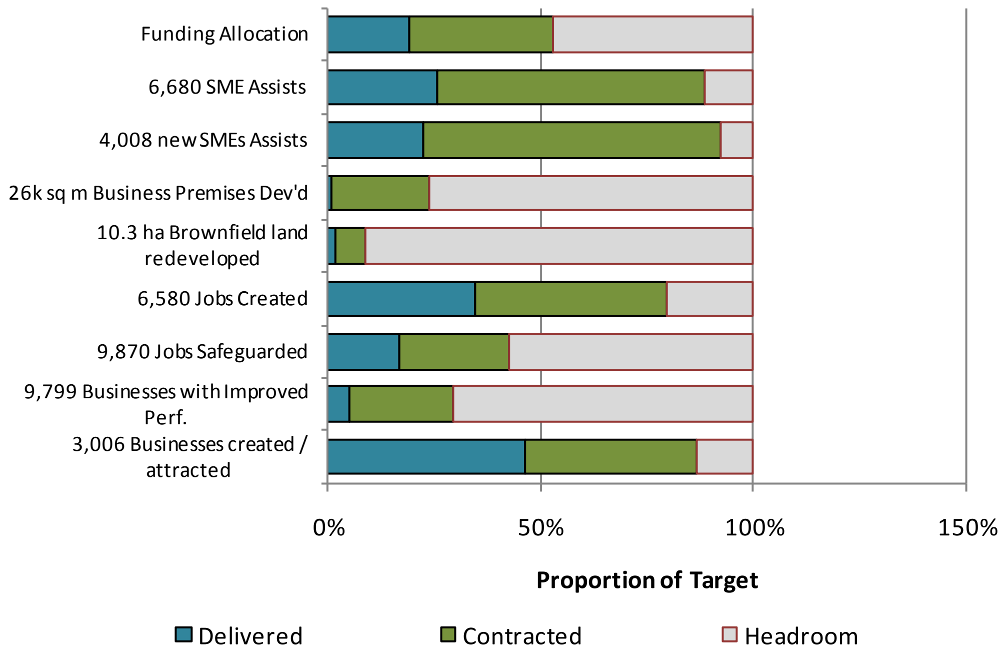
4.25 The end of 2010 is still a relatively early stage in the delivery of many projects and levels of underperformance at this stage may be down to project slippage. However this does give an early warning sign that some of the contracted targets for projects may be over-ambitious This will need to be closely monitored as the programme progresses and projects will need to be supported to ensure that they hit their contracted targets.

Priority 2 Outputs

4.26 Priority 2 focuses on business growth and enterprise, and its main indicators are linked to business assists, business premises developed, jobs created and safeguarded, businesses with improved performance and businesses created. Figure 4-9 shows progress against Priority 2 indicators.

15 The indicators shown are the only ones for which significant targets had been profiled to be achieved by the end of 2010.

Figure 4-9: Progress against Priority 2 Targets



Source: MCIS data, December 2010.

4.27 The chart shows a mixed picture for Priority 2. In key indicators, projects have contracted significant proportions of the targets for this priority, notably SME assists (89%), new SME assists (92%), jobs created (80%) and businesses created (87%). These are all significantly higher than the 53% of Priority 2 funding that has been contracted.

4.28 A further positive is that a good proportion of these targets have actually been delivered at this stage, including 25% of the SME assists target, 22% of new SME assists target, 34% of the jobs created target, 17% of the jobs safeguarded target and 46% of the business created / attracted to the region target.

4.29 The key SME and new SME assist indicators both have a higher proportion of their target contracted than the proportion of spend contracted, however this has not translated into the same proportion of results being contracted, with all result indicators having a lower proportion contracted than the SME assist output indicators. This may reflect a lower anticipated conversion from outputs to results in the economic downturn than was expected at the outset of the programme.

4.30 The BENE projects make up over half of the funding under Priority 2 and correspondingly provide around half of the SME assist outputs and in the region of half of the jobs created and safeguarded and businesses created results.

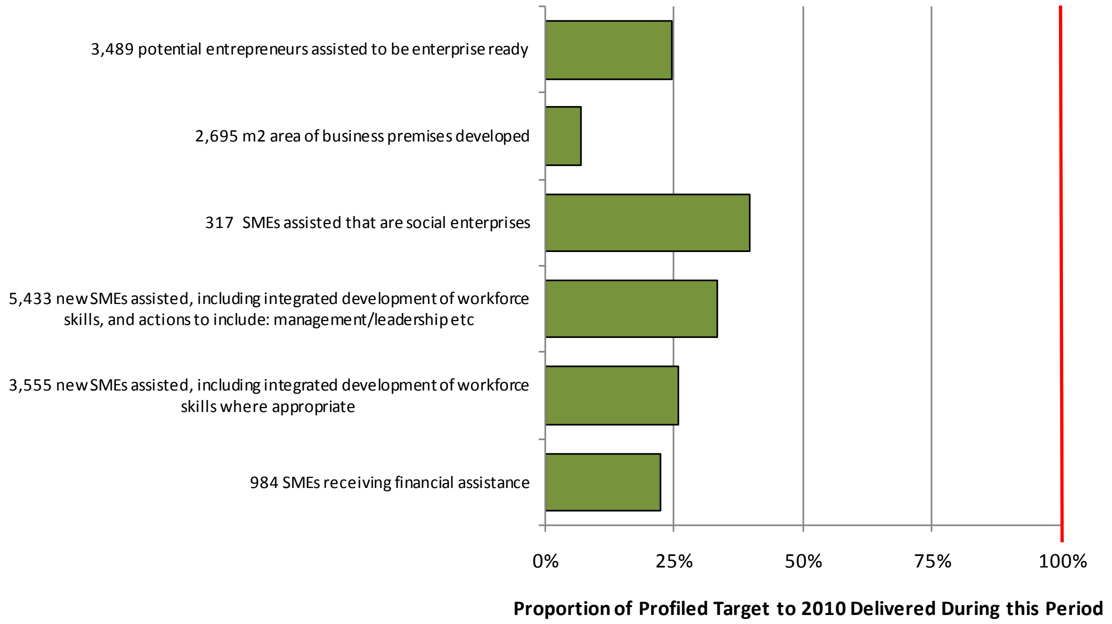
4.31 The weakest areas of performance have been around the physical development indicators – brownfield land and business premises developed, which may reflect the development slowdown over the recession period.

4.32 More detailed analysis of the indicators and targets for Priority 2 is set out in the Priority 2 chapter of this report.

4.33 Figure 4-10 again gives a picture of how actual performance is measuring up to planned performance, by showing the proportion of profiled output targets up to the end of 2010 that were delivered. The chart shows that the suite of projects in Priority 2 failed to hit their profiled targets, or even 50% of these profiled targets, across all indicators.

4.34 Again, this may be down to slow starts for projects, however raises the concern that some of the contracted output targets for projects may be over-ambitious, which would in turn threaten the viability of delivering the result targets for the programme.

Figure 4-10: Progress against profiled targets in Priority 2 up to End of 2010.



Source: MCIS data, December 2010.

Appropriateness of Indicators

Priority 1

4.35 In broad terms, the key indicators for Priority 1 provide a good range of measures to capture the effects of ERDF investments. The emphasis is on jobs, business assists and R&D activity, and this is a fair reflection of the objectives and activities of Priority 1 projects to date, while indicators to measure the effects of capital investment (eg. R&D floorspace developed) are entirely reasonable. The evaluation has drawn a number of conclusions about the appropriateness of Priority 1 indicators:

- Although substantial job creation is critical to the economic impact of the ERDF Programme as a whole, it presents particular challenges for projects which deliver facilities and support for innovative companies. Supporting the process of bringing new products, processes and services to market tends to occur over a longer period than other forms of business support, and there is less certainty about how and when jobs will be created. The tendency is to assume small numbers of jobs will be created over a long period, making it less likely that projects will commit to higher volume job creation targets.

- The businesses assisted indicator for Priority 1 is essential, since it reflects the core function of many of the projects that will emerge over the course of the Programme. The question here is whether or not continued recessionary conditions will result in levels of demand for ERDF funded services that are below expectations, compromising projects' ability to deliver the targets they have been set. The picture will become clearer as larger numbers of projects become operational at full capacity.

- Generating additional R&D investment and encouraging more collaborative activity between SMEs and the region's research base are key priorities for the Programme. While it is sensible to use indicators to capture progress towards these objectives, the Priority 1 target for private sector R&D investment levered (£450 million) appears to be excessive, given the dependence of projects on securing investment by beneficiary SMEs to complement ERDF and Single Programme support. The Programme should consider rethinking this target.

4.36 The programme could consider including ESF indicators for higher level skills support funded by ERDF under Priority 1. The current programme output indicators reflect skill-type support for SMEs, including integrated development of workforce skills. However, the addition of an "individuals assisted to achieve a level 4 or 5 qualification" output in Priority 1 would more fully reflect the range of ERDF activity that could support ESF interventions.

Priority 2

4.37 Priority 2 main indicators relate to business assists, business premises developed, jobs created and safeguarded, businesses with improved performance and businesses created. These indicators are appropriate and capture most activities being delivered. However, the current suite of Priority 2 indicators does not provide a sufficiently accurate representation of the range of enterprise activity contained under Field of Action 1.

4.38 The inclusion of a "potential entrepreneurs assisted to be enterprise ready" indicator in Priority 2 would enable the programme to capture better pre-start enterprise related activity which seek to address the region's enterprise deficit by encouraging activities that lead to greater business start-ups. This indicator fits directly with the strategic objectives of the programme and the activity form a critical component of the programme's enterprise package.

Projections of Future Programme Performance

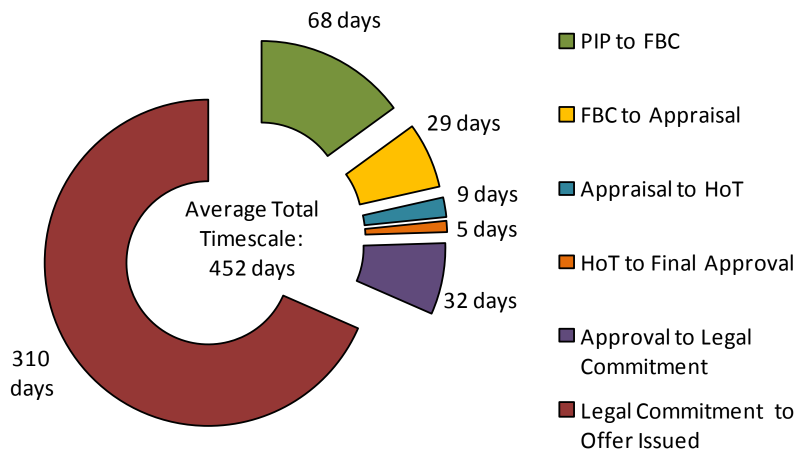
4.39 Looking forward (and leaving to one side discussions about future management arrangements) new investment proposals will continue to come into the programme for consideration and approval. It is also likely that some of the proposed commitment in existing contracted projects will prove to be heroic, particularly when they were launched during a recession and much delivery is scheduled to occur during a period of weak recovery. A further consideration is the impact on all projects from the abolition of RDAs and moratorium on use of new Single Programme funding. This next section explores what the possible impact of these factors might be.

New Project Development & Approval Timescales

4.40 Figure 4-11 shows the timescales for projects to work through from PIP stage to issuing of offer. This is taken as an average of projects contracted to date, and appears a very lengthy process at just under 15 months. The real picture however is that several earlier projects were significantly delayed, pushing up the average, and as the programme has developed, the process has become more efficient and timely, with the quickest recent projects having gone through the process in as little as four months.

4.41 On average projects are now taking around 6-9 months to go through the project development, appraisal and contracting system. Assuming that projects would need at least 12 months' delivery time, the latest time for new project proposals to enter the system would be Q1 2014.

Figure 4-11: Project Development, Appraisal and Contracting Process Timescale[16]



Note: Analysis based on 17 projects for which full information on timescales was available.
Source: MCIS data, December 2010.

Exploring Potential Impacts on the Programme from Future Uncertainties

4.42 Under other circumstances we would use the scenarios as an opportunity to project forward current performance across the remainder of the programme period to give an assessment of what would be delivered across the programme lifetime if it continues at its current rate of progress. However, given the vastly changed circumstances as a result of the match

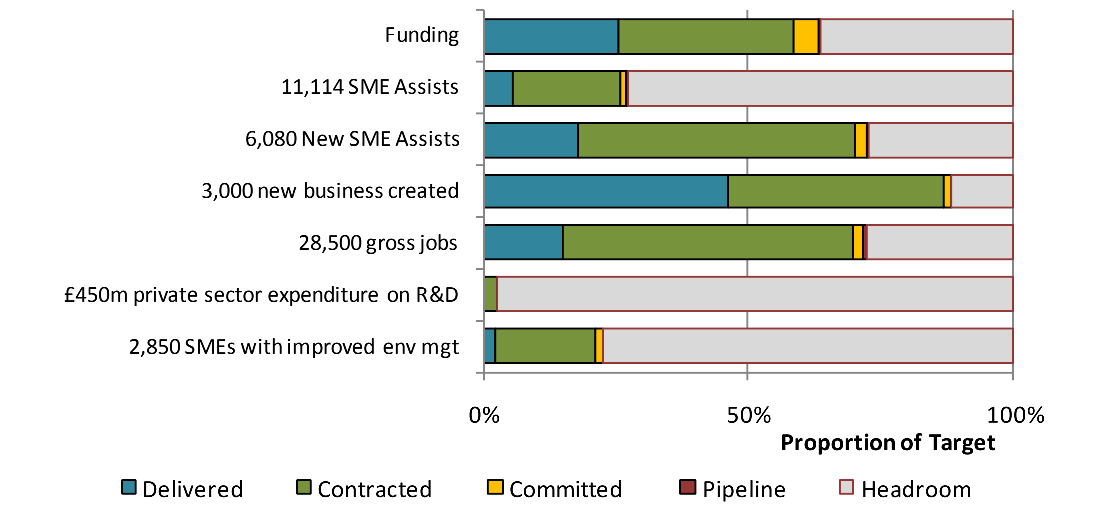
16 In the Chart PIP refers to Project Initiation Plan stage; FBC is the Full Business Case stage and HoT is approval by the ONE Heads of Team group.

funding losses and changing ERDF management structures, the rate of progress to date will clearly not continue as at present, and so it would not be sensible to do so.

4.43 The following scenarios will therefore explore the impact of changing external circumstances on the current level of progress made by the programme against spend and output/result indicators. They will show the impact of a range of changing circumstances on the current spend and output/result indicators for projects that are contracted as well as those at committed and pipeline stage.

4.44 Figure 4-12 below shows a chart of key funding, output and result indicators at present. The scenarios that follow will cover reduced match funding availability, reduced demand for services, and reduced returns from business assists, as well as a final combined impact scenario.

Figure 4-12: Current Spend, Output and Results as a Proportion of Lifetime Targets



Source: MCIS data, December 2010.

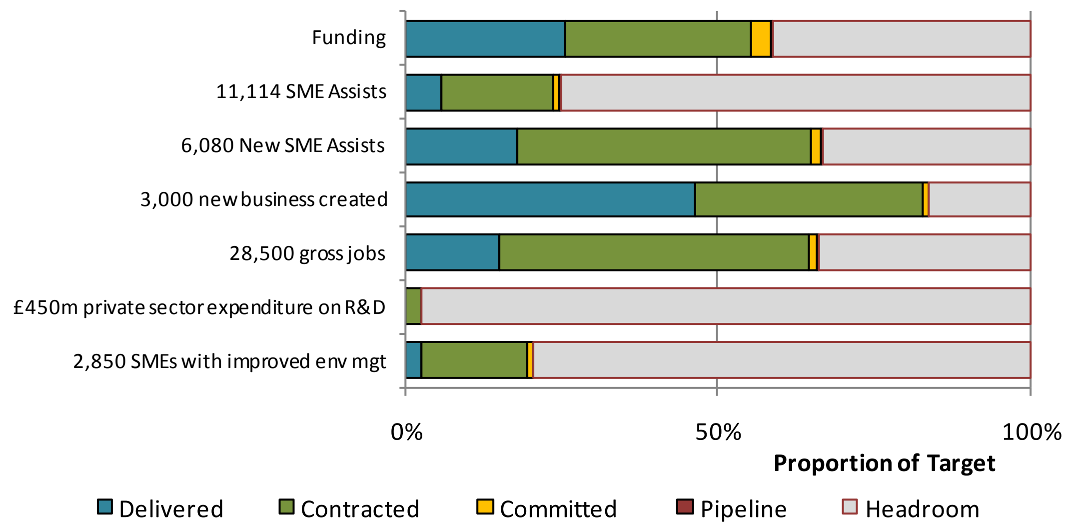
Scenario 1: Reduction in Match Funding

4.45 A reduction in match funding for ERDF projects will not only reduce current funding in the programme (particularly for projects at committed and pipeline stages), it will also reduce the number of new projects coming forward.

4.46 This scenario assumes a general reduction in match funding across all priorities, affecting 10% of contracted spend, 25% of committed spend and 50% of pipeline spend. It is assumed that contracted projects may have to downscale activity due to lost match funding, whilst some committed and pipeline projects would be withdrawn and others downsized due to loss of match funding.

4.47 The scenario assumes that outputs and results at each stage will be impacted at the same rate. The impact of this scenario is shown in Figure 4-13 below.

Figure 4-13: Scenario 1 – Impact of Reduced Match Funding



Source data from MCIS, December 2010.

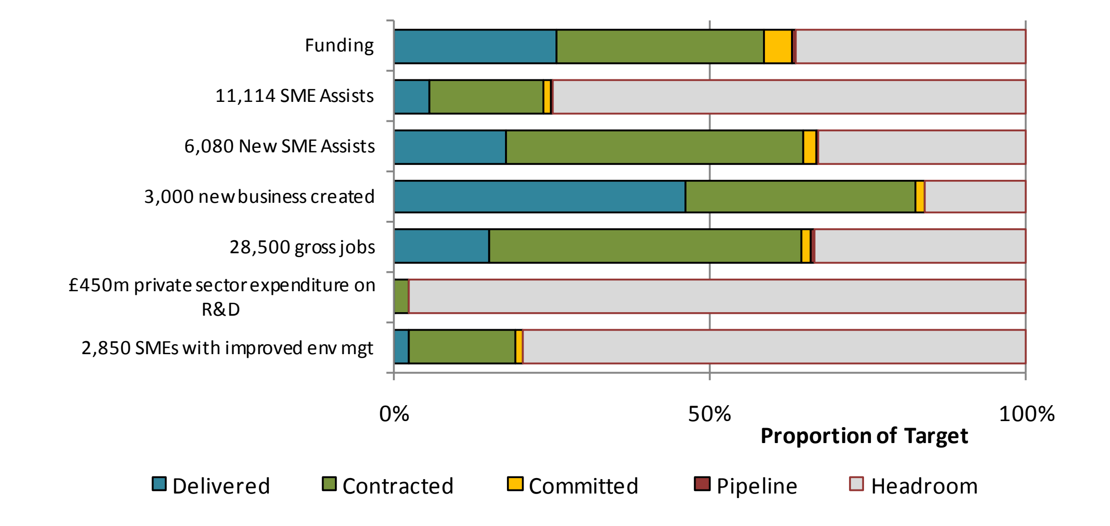
4.48 Given that there are relatively few projects at committed and pipeline stages, the impact of a match funding reduction on the present picture is not as vast as it might have been, although would reduce contracted spend and outputs/results to some extent. This can be seen most clearly above in the indicators with the greatest contracted figures, when compared with the baseline chart at Figure 4-12. The greater risk to the programme is the fact that there is so little at committed and pipeline stage, and that there will be less match funding availability going forwards.

Scenario 2: Reduced Demand for Services

4.49 In a time of weak recovery, demand for the services supported by the Programme may be lower than anticipated. A reduction in outputs among contracted/committed projects (for the same value of ERDF) would further raise the existing threat to certain programme targets.

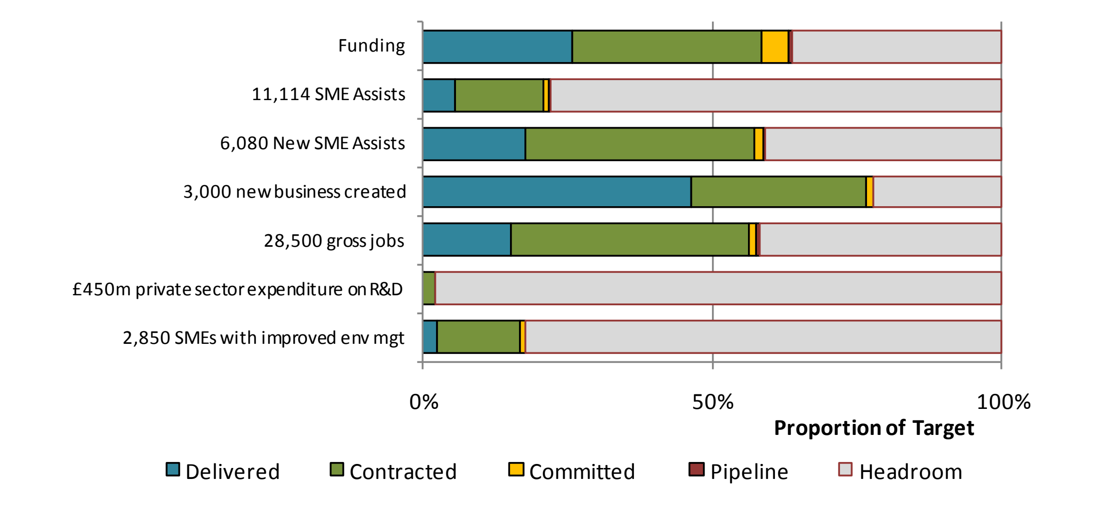
4.50 This scenario is modelled based firstly on a 10% reduction in outputs, with a corresponding 10% reduction in results, and then secondly on a 25% reduction in outputs, with a corresponding 25% reduction in results. The two versions of this scenario are shown below in Figure 4-14 and Figure 4-15.

Figure 4-14: Scenario 2A – Impact of 10% Reduction in Demand for Services



Source data from MCIS, December 2010.

Figure 4-15: Scenario 2B – Impact of 25% Reduction in Demand for Services



Source data from MCIS, December 2010.

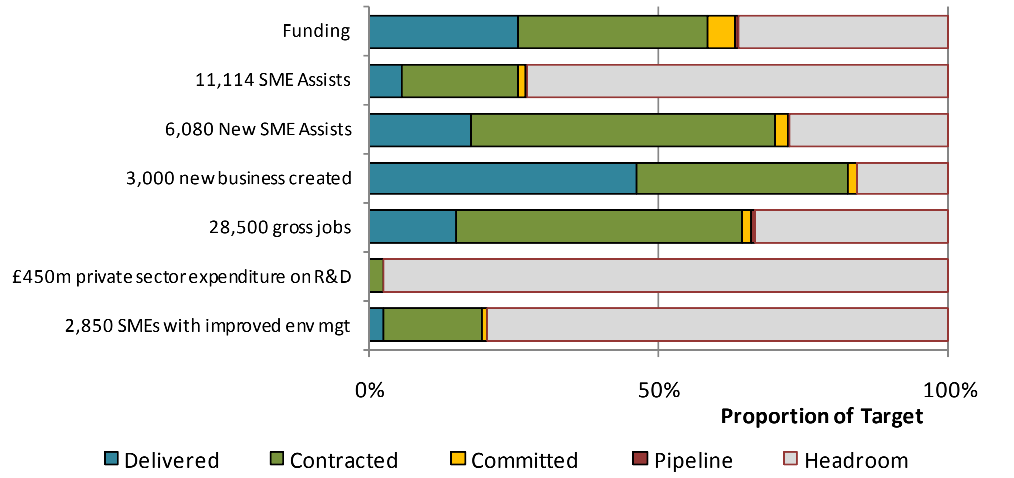
4.51 The charts show the additional challenge placed on the programme in the scenario that take-up of support is lower than anticipated, particularly in the second scenario of an assumed 25% reduction in demand. The businesses created indicator is less affected by this scenario, given its strong base of achieved results, however the 25% reduced demand scenario would mean 560 fewer SME assists, 800 fewer new SME assists and 3,900 fewer gross jobs in contracted projects. Given the overall weaker performance on Priority 1 indicators discussed above, this reduced demand scenario would further compound the difficulties for the programme in hitting those targets.

4.52 Not all business support will suffer reduced demand in a weaker economic climate, and indeed some will face increased demand eg. loan finance support, assistance to return to growth following recession etc. The ERDF programme will need to be as flexible as possible in allowing projects to focus their support on activities for which there is greatest demand. Given the difficulties of running a project in the current weak economic and changing political climate, the programme will need to similarly allow flexibility for projects to re-profile spend and outputs if this is needed.

Scenario 3: Different Returns from Business Assists

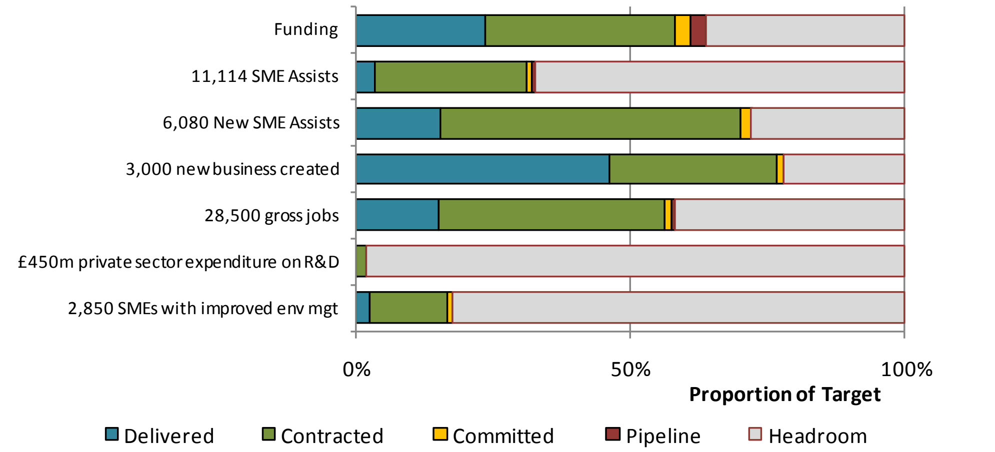
4.53 In times of weak growth, each beneficiary assist may well generate fewer jobs and less GVA than originally expected. We have modelled the third scenario assuming that each assist output generates fewer results than have been contracted. In the first scenario the conversion from outputs to results is reduced by 10%, and in the second scenario it is reduced by 25%. The impact of the scenarios is shown in Figure 4-16 and Figure 4-17 below.

Figure 4-16: Scenario 3A – Impact of 10% Reduced Returns from Business Assists



Source data from MCIS, December 2010.

Figure 4-17: Scenario 3B – Impact of 25% Reduced Returns from Business Assists



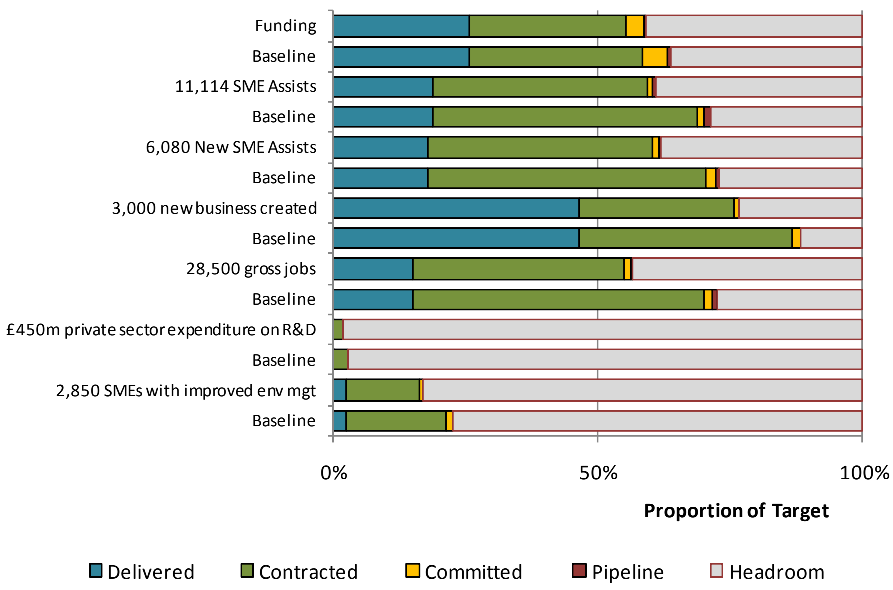
Source data from MCIS, December 2010.

4.54 The charts show unchanged levels of commitment around funding and business assists, but a significant reduction in results as a result of the lower conversion rate scenario. This is particularly clear when comparing the 25% reduction model with the baseline, and particularly for the gross jobs created and safeguarded indicator which would drop from 20,000 gross jobs contracted to 16,000 in the 25% reduced returns scenario[17]. Clearly, this would significantly increase the challenge of achieving the programme target for this key indicator, and would either require generating additional business assists in order to hit programme result targets, or reducing the overall result targets in light of lower conversion rates.

Combined Scenarios

4.55 This final scenario looks to bring together the three scenarios set out above, and review their combined impact on the current programme progress. This scenario therefore includes the assumptions made on match funding reduction, the 10% reduction in outputs and results due to reduced demand, and the 10% reduction in results due to reduced conversion rates from business assists to results. Figure 4-18 shows the impact of this combined scenario, and under each indicator we show the current baseline position, in order that the impact of the scenarios can be seen.

Figure 4-18: Combined Scenario



Source data from MCIS, December 2010.

4.56 The combined scenario, which may remain a fairly realistic picture of programme position, shows a less positive snapshot of current progress. Overall, business assists would be significantly lagging progress on contracted spend, and the positive progress on businesses created and jobs created/safeguarded is somewhat reduced, although would still be close to

17 Note: the 25% reduction scenario only applies to contracted figures that are not yet delivered (the green bar but not the blue bar in the chart). The gross jobs indicator therefore decreases by only around 20%, as the already delivered results are unaffected.

or ahead of progress on contracted spend.

4.57 The key conclusion from the combined scenario is that the generally positive picture of programme progress shown in our baseline analysis may be a slightly optimistic picture. Given the assumptions in these scenarios, the delivery of the current suite of projects may be less than is anticipated in contracted figures, and thus the programme cannot afford to be complacent even in the indicators which appear to be over-achieving e.g. business creation and jobs created/safeguarded.

4.58 This chart highlights again, with the impact of the combined scenario, there would be even less projects at earlier stages of project development coming through the pipeline, and this should be a key concern at this stage.

Conclusions

4.59 The programme has made good progress to date on contracted spend, helped by a varied approach to procurement (ie the use of non-competitive selection for major regional projects and limited bidding for specialist investments such as Innovation Connectors, in addition to the traditional open bidding approach). Around £190m (60%) of programme value has been successfully contracted and committed, and the programme has met its 2009 and 2010 N+2 target.

4.60 However, progress on defrayment has been more modest, standing at around £85m in total (of which £44m is JEREMIE). In addition, in light of the current fiscal climate, the project pipeline is shrinking rapidly, as current projects are withdrawn and very few new projects have entered the system since an Open Call for Tender was published in July. As is the case elsewhere, the programme's N+2 targets could begin to become a major concern from 2011 onwards as the cuts announced in CSR translate into reductions in match funding for existing projects and an even smaller project pipeline.

4.61 In light of reduced sources of eligible match funding and disruption from the transition to new management arrangements, increasing the project pipeline and ensuring the programme remains on course for future N+2 targets will be challenging. There are potentially three years of contracting time remaining for the programme, but the next six months may be a critical time. The programme should use the opportunity now to review future direction, ensuring that it is aligned in such a way as to be able to draw on available match funding for projects going forwards, and ensure that the structures and processes are in place to begin to rebuild momentum in pipeline generation following transition out of ONE. If it is able to achieve this, then the progress of the programme to date in contracting spend mean that the overall spend targets should remain realistic and achievable.

4.62 With respect to outputs and results, the programme to date has prioritised contracting for jobs created and businesses created; two key programme indicators, although perhaps the most challenging to achieve in the current economic climate. However, the programme has made good progress on businesses created (46% of overall programme target already achieved), especially in disadvantaged areas (target already exceeded).

4.63 A high proportion of jobs created and safeguarded results have also been contracted (70% of target), but modest numbers achieved (15% of target). The over-profiling of this indicator is sensible, although this does raise the question of whether the contracted jobs targets in individual projects are realistic. In addition, the programme is very dependent on a small number of projects (Business & Enterprise North East and JEREMIE especially) to deliver on new business and new jobs targets. There is a major timing issue given the importance of JEREMIE, in that results and impacts are loaded towards the latter stages of the programme period.

4.64 Significant gaps remain on several contracted and claimed output and result indicators. Very few investments to date have sought to stimulate private sector expenditure on R&D and very few firms have been assisted to improve their environmental performance. This could present a challenge to the programme in achieving its headline Lisbon objectives and suggests that the environmental cross-cutting theme is not being sufficiently well embedded in programme delivery.

4.65 Our scenario analysis has also allowed us to consider the impact on progress under a number of realistic assumptions about reduced match funding, reduced demand for business support and reduced conversion rates from business assists to results. In light of a combination of these factors, progress against programme output and result targets looks more modest, and would further challenge the ability of the programme to meet the targets set out in the Operational Programme, as well as meet the challenging N+2 targets for 2012 onwards.

4.66 Overall our assessment of headline output and result indicators are as follows:

- Contracted business assist outputs (contracted 41% of target) are overall slightly behind target, compared with contracted spend figures (contracted 60% of target), although breaking this down, contracted assists to new SMEs are actually slightly ahead of target (70% of target contracted). Reported targets furthermore show that the profiled targets for business assists up to 2010 have not been hit. In a continuing difficult economic climate, it appears likely that the business assist output targets for the programme will not be fully achieved.

- Other output indicators across both priorities are more significantly lagging the spend targets, in particular the targets for brownfield land redeveloped, business premises developed and R&D premises developed. To date, these more physical outputs have been less of a focus for the programme, and correspondingly have weaker achievements. Without a significant shift in emphasis to focus on these outputs, the programme is unlikely to come close to meeting the targets for these indicators.

- The headline result targets around businesses created and jobs created and safeguarded are well advanced, and ahead of target compared with spend, with respectively 87% and 70% of result targets contracted, compared with 60% spend contracted. With high numbers already achieved, business creation targets look strongly on track, and assuming the programme continues a stong focus on creating and safeguarding jobs in new projects contracted, this target for the programme should also remain realistic.

- Again, other result targets have received less attention in the programme to date and consequently are significantly behind target. These include R&D spend levered, business with improved performance and the cross-cutting theme target of businesses with improved environmental performance. Again, without a significant shift in emphasis to focus on these results, the programme is unlikely to meet the targets for these indicators.

5. Priority 1 Enhancing & Exploiting Innovation

Introduction

5.1 This chapter provides an assessment of performance and progress in Priority 1 (P1). The analysis is based on a combination of a review of programme level data about investment in Priority 1 and a series of project reviews drawn from the full range of live projects.

Priority Objectives and Context

5.2 Priority 1 is critical to achieving the vision for the North East Operational Programme. It is expected to directly and significantly contribute to the North East becoming a more '*innovation focused economy*', and particularly to build on the region's strengths in renewable energy and other environmentally sustainable technologies. Developing commercial strengths in innovative technologies and services is in turn expected to contribute to the region becoming more export oriented and more competitive in global markets.

5.3 The NEOP describes the overall aim of Priority 1 as '*to promote and embed opportunity by advancing science, technology and innovation within the region's business base and broader communities*'. It responds to a substantial amount of evidence showing that the region performs comparatively weakly in private sector research and development expenditure, and that its performance in generating and sustaining higher value business is also lagging. The focus of P1 is on the further development of the North East's strengths in specific technologies and broader sciences, and on action to strengthen the region's approach to their commercialisation. At the same time, Priority 1 is also seen as a key mechanism for extending the reach of the European Union's Lisbon Agenda into the region's communities and for the promotion of the North East's new and renewable energy strategy.

5.4 The primary focus for investment in Priority 1 (Field 1) is the region's 7 Innovation Connectors. These are the initiatives across the North East earmarked as the physical hubs for the commercialisation of science and innovation activity. Identified as investment priorities in the North East Regional Economic Strategy, they are seen as both the drivers of the region's efforts to secure a bigger share of high value global markets and to encourage a change in culture in the region's communities towards higher skilled, more knowledge intensive employment. Specifically, the Innovation Connectors are intended to:

- Provide leading edge facilities for business and university research and development (R&D) and commercialisation.
- Create and promote employment opportunities.
- Use innovation-focused and tailored support geared towards the needs of SMEs with high growth potential and their supply chains.
- Facilitate networks to enhance co-operation between SMEs in key sectors.

- Engage in community awareness and engagement actions related to science, energy, technology and innovation.

5.5 Two additional fields of action were identified for Priority 1 with a focus on revenue investments to provide backing for innovative activity by SMEs (Field 2) and to support the commercialisation of the region's science base (Field 3). While Fields 2 and 3 were intended to make NEOP resources available to a wider range of activities, the NEOP has sought to maintain a focus on both priority sectors (process industries, energy and the environment; healthcare sciences) and on action which supports the Innovation Connectors. The NEOP also touches on the potential of JEREMIE to contribute to the levering in of private sector funding to support Priority 1 (along with Priority 2), although its role is not spelled out.

5.6 The key indicators for Priority 1 reflect the significant impact it is expected to deliver in terms of improved business performance, increased research & development spending and employment. They include:

- 4,434 SMEs assisted with innovation
- 2,072 new SMEs assisted with innovation
- 1,677 businesses involved in new collaborations
- 51,000 sq m of R&D floorspace developed
- £450 million of R&D expenditure levered
- 3,605 jobs created, of which 5% in disadvantaged areas
- 8,411 jobs safeguarded, of which 5% in disadvantaged areas
- 2,233 people assisted with skills.

5.7 The Operational Programme also highlights two key outcomes for Priority 1 investment. These are the generation of £545m in net additional GVA per annum, and an overall increase in private sector R&D expenditure as a percentage of regional GVA of 0.2%. The performance of P1 against these targets is seen as critical to raising productivity in the North East and continuing the process of restructuring the region's economy.

5.8 However, the key output and result indicators for P1 ERDF investments are not in our view particularly well matched to the types of activities that will be delivered to SMEs. While business assists, job creation and increased GVA are important in the wider context of the North East economy, these indicators do not readily capture the intensity and quality of innovation support and network development, the effects of investments on the region's innovation culture or the flow of new intellectual property that is being generated as a direct or indirect result of ERDF interventions.

5.9 Equally, the emphasis on commercial innovation that can help the North East to increase its share of export trade is not captured by Programme indicators. This is not an issue specific to ERDF in the North East, but is symptomatic of a broader problem with the way that ERDF performance frameworks measure the impact of investment in science and innovation, particularly where these investments are in early stage and/or riskier innovation.

5.10 The target for private sector R&D investment levered (£450 million) appears to be particularly excessive. Evidence for the evaluation suggests that the Programme has so far only contracted for a fraction of this target, and that this comprises assumptions by projects that businesses they work with will require and secure private investment to support product development, expansion etc. It would appear unrealistic to expect the Programme to achieve this target.

5.11 Beyond the impacts of P1 on SMEs, the NEOP identified a need to promote awareness of science and innovation, and engage local communities in project activities. This particularly applies to the work of the Innovation Connectors. While the objective of this requirement is ultimately to improve the employment prospects and skills of the North East's residents through a range of outreach and engagement activity, it is not clear that the Programme has a set of indicators it can readily use to measure these activities. Nor has the evaluation established that these activities will have significant and measurable economic benefits over the lifetime of the Programme.

Innovation Connectors

5.12 The Innovation Connectors were earmarked for the majority of P1 capital investment, chiefly to continue the process of developing specialist premises and related facilities for innovation and commercially-viable research. However, they have an important partnership function and are expected to support knowledge transfer into SMEs, build connections with universities and undertake wider outreach work into local communities, since many are located in and around deprived areas of the region.

5.13 Investment plans for the seven Innovation Connectors were completed in September 2008. These cover ERDF funded activity and were developed as a response to the call for Innovation Connector projects, with some projects in the ERDF pipeline even as the Investment Plans were being drafted. To this end, the Investment Plans represent summaries of current and future planned activity, bringing structure to the Innovation Connectors' role in the Programme but stopping short of setting in detail the strategic direction for the initiative. Their function appears to have been to inform rather than drive P1 ERDF investments.

5.14 The Investment Plans themselves cover the wider range of activities supported by Single Programme and other sources of funding. While each of the investment plans followed an identical structure in specifying objectives, rationales, proposed activities, governance structures, outputs and investment requirements, they are reflective of the broad mix of organisations and initiatives which are brought together under the framework of the Innovation Connectors, as well as their different histories.

North East Innovation Connectors

- **NaRec** – The New and Renewable Energy Centre at Blyth was created in 2002 and had become established as a centre for excellence in renewable energy technologies, specifically wind, wave and tidal power. The development of an Innovation Connector programme centred on NaRec set out to expand the reach of the Centre, focused on both the creation of new businesses and activity to stimulate awareness and interest in renewable energy amongst schools and communities in the wider area. The ERDF programme and contributions by other partners expected to support the development of the wider network of renewable energy research and development facilities in the North East.

- **Newcastle Science City (NSC)** – The NSC's Innovation Connector investment plan describes how ERDF will support the significant investment already committed to the initiative by the core partnership of Newcastle City Council, One North East and the University of Newcastle. As part of the national Science Cities programme, NSC was developed over a 3 year period prior to 2008 to bring together the city's science and innovation base, its businesses and the local community focusing on ageing and health, stem cells and genetic sciences, molecular engineering and energy and the environment.
- **The Design Centre for the North** – This is one of the newest Innovation Connectors, with the investment plan setting out how ERDF would contribute to the One North East led initiative to develop a strong skills base, higher awareness and greater capacity in the use of design technologies. Centred on Gateshead, this initiative is intended to improve the way that businesses are able to access the region's strengths in design, research, engineering, technology and science to develop new products and services.
- **Digital City** – The Digital City Innovation Connector builds on an established programme of activity led by the Institute of Digital Innovation (IDI) at the University of Teesside and DigitalCity Business (DCB), part of Middlesbrough Council. Located in Middlesbrough, this Innovation Connector seeks to capitalise on the University of Teesside's emerging strengths in computing, games development, animation and digital technology. It is also designed to extend the business start up and business support activity already provided through DCB. The investment plan sets out how the reach of this activity will be extended further into the Tees Valley area and particularly into deprived communities in the sub-region.
- **The Wilton Centre** – The Wilton Innovation Connector is another example of ERDF investment having been harnessed to a well established industrial and research base (of process industries) in the North East, with the Wilton Centre itself having been created in 1974. The investment plan for the Innovation Connector identifies the need for further support to expand the business and skills development activities carried out by those organisations and business involved in the process industries cluster.
- **Sunderland Software City** – The Sunderland Software City Innovation Connector sets out to establish an international reputation for Sunderland as a location for the development of the software industry. It builds on the city's initiatives to further develop its base of software SME and a partnership spanning the local authority, University of Sunderland, One North East and major private sector players.
- **NETPark** – The NETPark Innovation Connector investment plan sets out how the partnership which has driven the development of this Sedgefield based science park (Centre for Process Industries, County Durham Development Company, One North East, University of Durham) will enhance the facilities offered on the site and extend its reach into local communities. NETPark has become a centre for research in electronics and electronic engineering, particularly printable electronics, and is home to the Printable Electronics Technology Centre, a branch of the CPI.

5.15 While the Innovation Connectors are based on different geographies, sectors and organisational structures, they have a number of common elements which have shaped the way they have developed and their engagement with the North East ERDF programme. They have enabled packages of projects to be developed, with ERDF being a critical source of investment aligned with the contributions of a wider range of partners. These packages comprise:

- **Capital investments in infrastructure and facilities**. The majority of live projects and the lion's share of investment have been allocated to capital investments by the Innovation Connectors. ERDF investment has principally been targeted towards securing development land, the provision of new buildings or floorspace and funding for some of the specialist facilities which are critical to the physical hub function of the Innovation Connectors. Of 32 live projects in Priority 1, around 50% involve investment in land, leases, buildings and specialist facilities.

- **Revenue investments** in business start up, associated innovation support services and the further development of the networks of businesses, HEIs and other partners to underpin the Innovation Connectors. Examples of the types of project which have secured ERDF investment include NaRec's business support service and the Healthcare Technology Development Programme (University of Newcastle) which is one component of the Newcastle Science City initiative. It is also clear that ERDF capital investments are providing the facilities in which partners are offering related business support services, some of which are not directly funded by the Programme.

- Outreach activity aimed at **engaging local communities in the work of the Innovation Connectors and** providing learning opportunities to encourage people to develop the skills to enter the industry or start a business in the sector. Since many of the Innovation Connectors are located in or adjacent to deprived communities, much of this activity directly addresses the spatial cohesion CCT since the beneficiaries of this element of the Programme tend to be residents of those communities. Of the 32 currently live projects in P1, only 5 are explicitly designed to deliver this type of activity, all of which are tied to individual Innovation Connectors. Examples include the NETPark Connector Embedding the Benefits in Disadvantaged Communities project, Sunderland Software City's Education and Innovation Activity project and the Community Engagement in Newcastle Science City project. A wide range of activities are undertaken by these projects including visits to schools and colleges to promote STEM subjects, open days at the individual facilities, drop in centres for local people to use ICT, work with other partners to promote employment opportunities. It is understood that the NSC project team have contributed to healthy eating initiatives in the local area (dealing with the scientific questions) and have launched a grant scheme which funds local organisations to deliver careers advice, support in accessing science related employment and other forms of outreach activity.

5.16 Community engagement has proved to be one of the more challenging elements of the Programme, since it can involve training and skills development which is best suited to the European Social Fund. It is understood that a number of projects have had to be adjusted and revised to ensure that they are not supporting activity which either should be funded by the ESF mechanism, or which were deemed insufficiently connected to the Innovation Connector's core activity. For this reason, some Innovation Connectors have taken considerable time to develop projects which meet these conditions and there are a number in the pipeline which may now be adversely affected by cuts in Single Programme funding.

5.17 This consistency across the Innovation Connectors, particularly the package based approach to investment, was deliberately encouraged by One North East and the ERDF Programme Executive. The decision to proceed on the basis of investment plans, limited calls for project bids and expressions of interest driven by the investment plans has brought together what might otherwise have been a disparate set of projects and enabled the ERDF programme, ONE leads and partners to adopt a coordinated approach to the activities of the Innovation Connectors.

5.18 One of the benefits of the Innovation Connectors approach is the extent to which it has ensured ERDF investment is harnessed to a range of investments by public and private sector partners in facilities, services and related activities. Clearly, Single Programme investment channelled to the Innovation Connectors by One North East has been particularly critical in supporting the full range of activities they deliver. Single Programme combined with ERDF funding has accounted for the overwhelming majority of total funding to date in the Innovation Connectors. However, substantial investment by local authorities, the region's universities, central government (eg. through knowledge transfer programmes) and the private sector is integral to each of the Connectors and will play a key part in ensuring their future sustainability. For example, in July 2010 the PeTec facility secured a share of UK Government funding of £8.4 million for plastic electronics technologies. Investments by universities in new facilities (eg. Sunderland Health Sciences Complex) are also a feature of this component of the Programme.

5.19 Understanding the strengths and limitations of the Innovation Connectors approach is critical to the assessment of the Programme's performance and progress in Priority 1.

Table 5-1: Innovation Connectors Successes and Areas for Improvement

Key Successes	Weaknesses
Well structured approach to investment planning, project development and coordination	Capacity to coordinate large scale project activity has been an issue for some Innovation Connectors, with need for additional effort to develop capacity in management organisations
Building on established organisational infrastructure and cluster development initiatives has ensured focus on key science and innovation strengths	Some potential for path dependency in working with largely tried and tested initiatives ie tendency towards continuity of structures and activities rather than organisational innovation and risk taking.
Strength of Innovation Connector partnerships, with Programme having worked with existing partnership arrangements	Risk of focusing on Innovation Connectors to exclusion of wider innovation activity or other sectors, with limited project activity to date outside Innovation Connectors
Focus on commercial innovation with capital investments linked to provision of support services to encourage enterprise and product/service innovation in existing business base	Challenges in embedding commerciality in HEI research base given multiple missions of universities and pressure on resources
Engagement with communities systematically built into the Innovation Connector approach has potential to directly contribute to achieving spatial cohesion CCT objectives	Difficult to ensure that community engagement activity delivers requirements of ERDF, and highly specialised nature of scientific research and innovation not straightforwardly translated into interaction with local communities

JEREMIE

5.20 The North East was the first English region to approve a JEREMIE venture capital fund initiative in the current programme period. The fund is intended to provide loans and equity investments into 850 firms, initially over a five-year period, and is anticipated to create more than 5,000 jobs. The fund comprises £18.5m of ONE funding and £44m of ERDF money, matched by the European Investment Bank (EIB). Finance is being pumped into North East firms in three specific areas:

- New start ups
- Technology-based businesses
- Growing smaller businesses.

5.21 Any return on investments are channelled back into JEREMIE to support more regional firms in future. The six initial funds are now fully operational and all have now commenced investment activity. There has now been progress towards the establishment of a Micro Loan Fund, which should be investing by April 2011.

5.22 Twenty six investments totalling £4.6m were completed in the quarter up to September 2010, taking the total deals done to £8.7m (44 investments). This is slightly behind the business plan targets of £9.7m in 49 SMEs. The slight underachievement is due to the Technology Fund and the Growth Plus Fund being behind their planned investment schedule. The monitoring report and review suggests this is a timing issue, with the fund managers for both funds being confident that they will be back on track by the end of the December quarter.

5.23 A major issue for SMEs pretty much since the effective start of the downturn has been access to finance as banks became increasingly unable or unwilling to lend to SMEs and credit terms became more onerous. Credit conditions have improved, although the volume of lending is still much lower than before the recession. The constraints on the availability of finance through the banks is likely to encourage firms to look to the JEREMIE funds for finance.

5.24 The cumulative investment target to the end of December is £15.5m, with the fund managers forecasting total activity of £8.8m. If looks stretching but achievable - if achieved it would take total deal completions to £17.5m.

5.25 The Holding Fund and the fund managers have been busy undertaking the necessary marketing and awareness raising activity with SMEs and intermediaries. The monitoring reports show a steady but healthy flow of enquiries and applications (converting one in every twenty applications). The SME assisted output is slightly behind schedule, whilst it is too early to judge jobs related targets.

5.26 The funds are already showing a flow of Investment returns (£0.3m), although as we would expect these are modest at this early stage. Delivery of the JEREMIE project will ensure that the North East levers in substantial funding from the European Investment Bank, and this in turn is expected to stimulate the private sector venture capital market in the region, drawing in additional private sector investment as a result.

Beneficiaries

5.27 The target beneficiaries for Priority 1 interventions reflect the need to invest in both the region's research base and its SMEs. The NEOP specifies that P1 beneficiaries will include:

- Prospective entrepreneurs with the potential to bring commercial innovations to market
- New and existing SMEs operating in and around priority sectors and the Innovation Connectors
- SMEs which might be considering locating in the North East
- Sector development organisations.

5.28 This approach to the targeting of beneficiaries is intended to support the growth of SMEs that have the potential to become internationally competitive as well as the development of wider supply chains which feed into this activity.

Scale of P1 Investment

Financial Commitments

5.29 Priority 1 was allocated a total of £174 million of NEOP resources, around 53% of overall Programme resources. To date, defrayed expenditure stands at £52.7 million (30% of total allocation), although £44.3 million (84%) of this total is accounted for by funding for JEREMIE. A further £53.8 million is contracted for, and £9.1 million has been allocated for committed projects. This gives an overall commitment (defrayed, contracted and committed) total of £115.6 million, around 66% of the total Priority 1 allocation. There is a small allocation to pipeline projects with a value of £6.5 million, leaving headroom in P1 of £52.6 million (c.30% of total P1 allocations). The indicative allocations for the three Fields of Action are as follows:

- Field 1 Innovation Connectors – 40-55% of allocation
- Field 2 Support for Innovation and Technology Led Sectors – 40-55% of allocation
- Field 3 Exploitation of the Science Base – 5-10%.

5.30 Given the focus on capital investment in Priority 1, there are a substantial number of large projects, with 15 live or committed projects allocated more than £1 million and 6 of these allocated more than £4 million (excluding JEREMIE).

Investment Portfolio

5.31 To date, there are 32 live projects in Priority 1, together with an additional project with offer issued status, one project for which an offer has been accepted and one which is under amendment. Analysis of the investment portfolio to date suggests a number of features about the way that the Programme's investment has developed in P1:

- Confirmation of the strong emphasis on the Innovation Connectors' investment plans, consistent with the decision to proceed on the basis of limited calls for Connector projects as the key mechanism for bringing forward projects in P1. Around 70% of all live projects are associated with one of the Innovation Connectors.

- The limited volume of project activity which does not stem from the Innovation Connectors. Only 25% of projects appear to originate outside the Innovation Connectors, although most involve activity related to one or more of the region's priority sectors.

- The importance of capital investment in sites, premises and other capital works which accounts for 93% of all funding allocated to live projects in Field 1, and 26% of total funding allocated to live projects in Priority 1 as a whole.

- The critical role played by JEREMIE, which accounts for 27% of the total investment allocated by the Programme (Fields 2 and 3).

- The negligible project activity to date in Field 3, in which the only currently live project is JEREMIE (Field 2 and 3). Although Field 3 was indicatively allocated 5-10% of all Programme resources, this suggests that a combination of the considerable requirement for funding to JEREMIE and the extent to which commercialisable research has been a main focus of the Innovation Connectors (ie Fields 1 and 2) has reduced the potential to generate project activity exclusive to Field 3. As JEREMIE comes on stream, the earlier stage investments (eg. proof of concept) which were to be the focus of Field 3 are likely to emerge, since this is one of the key investment areas for the fund.

5.32 Overall, analysis of the investment portfolio for P1 points to a reasonably well balanced suite of projects to date with strong emphasis on supporting the continued activity of the Innovation Connectors. Given the extensive range of sectors covered by the Connectors, many of the North East's scientific and technological strengths are captured by ERDF investments. Ongoing public sector funding cuts, including the closing down of the single programme and cuts to university budgets probably reinforce the case for an approach which concentrates resources on established sectors with a track record of commercial innovation.

5.33 However, there may be scope within the Programme to offer a wider range of support for projects which aim to support new commercial innovation. Schemes such as innovation vouchers have been a feature of several ERDF programmes, and a number of these programmes have put in place Phase 2 or successor schemes in response to strong demand from SMEs. The North East Programme should ensure that it has the ability to commit resources to projects of this type as they come forward over the period through to 2013.

5.34 There are also examples of North East ERDF investment in institutions which are seeking to build on niche strengths (eg. health sciences investments), but which are not necessarily an integral part of an Innovation Connector. The Programme should also consider how best to continue this type of activity, albeit it in a funding climate in which it is becoming more difficult to secure match funding. In this respect, the Programme will need to ensure that it is able to contribute where new funding mechanisms for innovation (eg. Technology Innovation Centres) create opportunities to secure further investment in the region's research base

Market Failure Case

5.35 A consistent picture has emerged from the project reviews about the key market failure rationales for Priority 1 projects. They revolve around the need to tackle the North East's lagging performance in higher value business activity, together with the broader challenge of generating greater density in the business base (more businesses, more private sector employment). Barriers to engagement are clearly spelled out in the NEOP and include the costs of investment in research to improve products or service, the perceived risks of this type of collaboration, access to finance problems and a lack of the relevant skills within SMEs to undertake this type of activity. Enabling researchers (academic, specialist centres) to work with SMEs is a feature of P1 and has the potential to reduce or remove a number of these barriers both by improving access to specialist knowledge and potentially boosting the capacity of SMEs to innovate by having researchers work within the SME.

5.36 These issues are evidently well understood by the reviewed projects as drivers for the activities that they are delivering. The following points have emerged from the project reviews:

- Capital investments designed to bring SMEs physically closer to specialist research and to strengthen networks of SMEs working with researchers are a feature of the projects we have reviewed. The stated rationale for this type of intervention centres on evidence that additional investment is required to achieve the scale and quality of research and development facilities required to compete in global markets. Project reviews have also pointed to the potential benefits of co-locating research expertise with commercial activity, enabling SMEs' misperceptions about collaboration with the knowledge base to be addressed (information failures) and reducing costs to SMEs by enabling them in effect to draw on third party research resources (eg. academic researchers). For example, the University of Newcastle's Translational Research Building project and the University of Sunderland's Health Sciences Complex Continuation project are both designed to provide space in which academic researchers and SMEs can be brought together.

- The impact of the recession on the commercial property market has had a bearing on capital investment in Priority 1, further reinforcing the need for public sector funds both to pump prime future investment and to enable large scale capital projects to be completed in the absence of private sector funding. Reasonable assumptions that early phases of investment would stimulate private sector interest in future investment, encouraging them to speculatively build, have been severely tested by a very weak commercial property market, with apparently little sign that interest is quickly returning. In turn, this is likely to affect the long term sustainability of investments in this type of facility. In this case, there appear to be reasonable grounds to assume that a lack of private sector finance together with the higher risks associated with such investments presents a strong rationale for ERDF and other public sector funding. The continued programme of investment in NETPark is a good example of the Programme's role in addressing this problem.

- The market failure rationale for Priority 1 investments which improve SMEs' access to finance – notably through the JEREMIE project – has become even stronger as a result of the recession's impact on the banking sector. Barriers to SMEs seeking venture capital finance to develop new products and services tend to be higher than is the case for other types of business investment, and in the North East this has historically been exacerbated both by a lack of supply of venture capital providers and the effects of the recession. Harnessing JEREMIE to the SME beneficiaries that P1 and P2 are generating will be important for the Programme, and a number of the projects reviewed have recognised the need to support SMEs in accessing this and other potential sources of finance.

5.37 A key issue for Priority 1 will be the extent to which Programme investments secure a mix of higher risk innovative activity with lower risk investments in more established products, services and enterprises. Clearly, market failures in terms of access to finance and other forms of support are more apparent where the market for new innovation is more uncertain and where dividends are expected over a longer period. ERDF is seen as a risk averse funding regime, and the Programme will need to monitor the spread of beneficiaries it is supporting to ensure that it is backing higher risk investments which could generate bigger returns for the region in terms of future employment and GVA. In this respect, working with organisations with a track record of commercial innovation support should be an advantage, since they would be expected to understand how to approach this issue and how to identify higher impact SMEs to support.

Assessment of the Investment Portfolio

5.38 A total of 19 project reviews were completed as part of the mid-term evaluation covering £81.6 million of Priority 1 expenditure (including £44 million ERDF for JEREMIE). A summary of the main findings of this assessment is provided in the table below.

Green	Positive assessment with minor issues to consider
Amber	Mixed assessment with significant challenges for Programme to consider
Red	Significant problems for Programme to address

Table 5-2: Summary Assessment of Priority 1 Projects Reviewed for Evaluation

Review Question	**Assessment**
Clarity of market failure rationale and related evidence	Overall, rationales for projects well evidenced and articulated, built on research highlighting weakness of private sector R&D in North East. Good evidence on strengths of NE (eg. PeTec) to focus intervention in facilities where comparative advantage exists. More limited understanding of theoretical market failure arguments in project applications.
Fit between project objectives and those of its Priority/Field of Action	Role of Innovation Connectors in driving project development has been central to ensuring good fit between Priority, Field and project. Projects benefited from having generally well established objectives around which the Innovation Connectors element of the Programme has been constructed.
Clarity of definition of project activities	Overall, very clear with activities well defined and understood by delivery partners. Highly structured approach to Innovation Connectors, with common investment plan template, has assisted here. Capital elements of projects clearer than revenue elements, with some projects still developing innovation support services to SMEs.
Strength of links between project activities, other NEOP and mainstream interventions	Generally strong. The Programme has again benefited from the established role of Innovation Connector facilities in the North East and from the strength of partnerships behind them. Links with universities and research facilities are particularly strong, and local authorities play central role in number of projects (eg. Sunderland Software City, Newcastle Science City). In both cases, these partners commit significant resources to projects.
Robustness of objectives in light of changing economic conditions and policy context	Objectives reasonably robust but changing conditions have created uncertainty for project delivery partners. Recession has hit demand for business support, with SMEs less willing to engage in long-term investment given cash flow and immediate survival issues. Public sector funding uncertainty also affecting expectations about future activities, with capacity of organisations to deliver (ie revenue funding) under pressure.
Strength of fit between project	All project activities are either a good or compelling fit to project objectives. Again, the Innovation Connector investment plans are important

objectives and activities	here, since they provide a framework of activities that project developers appear to have broadly followed. Capital investments and innovation support services are stronger than community engagement, where issues relating to ESF type activities have caused some difficulties.
Delivery progress	Projects report being on track in delivering core activities. Several projects at a comparatively early stage in delivery process, with some capital schemes having experienced delays as a result of planning objections or long procurement process for contractors. One North East and projects appear to have sought to reduce delays (eg. assistance with procurement). Difficult to assess progress on delivery of revenue funded elements. Several projects rely on completion of new facilities to be fully functional.
Robustness of basis for collecting and reporting output and results data	Exemplary and very strong systems and processes in place. Programme has benefited from working with partners experienced in the delivery of ERDF projects and the monitoring systems required. Good evidence base for projects means that targets are grounded in data and are generally assessed as robust.
Prospects for the project achieving or even exceeding its forecast targets	Most project report being on track to achieve targets. However, some indication that initial delays in delivery and long term nature of way that innovation impacts are generated will leave projects short of target. Programme will need to monitor progress of revenue elements of projects which will be required to deliver significant volume of SME assists in a constrained funding climate.
Scale of contribution to relevant priority and programme targets	Generally good or reasonable scale of contribution, although still relatively early in delivery to make a clear assessment. Targets appear to be realistic rather than excessively ambitious. Innovation focus of projects mean that benefits in form of jobs, additional GVA likely to emerge over a longer period than standard business performance assists.
Embededness of CCTs in project plan and delivery	Generally satisfactory, although appears to be limited focus on CCTs beyond meeting the key requirements for Programme in project delivery. Many of projects based in and around deprived areas, and community engagement activities have potential to deliver against spatial cohesion and equality & diversity CCTs. Programme will need to assess actual impacts of projects on CCTs, particularly where these impacts may be indirect rather than direct.
Strategic Added Value contribution of project	Strong evidence of SAV impacts, particularly leadership and influence. This is consistent with the role of Innovation Connectors as hubs of innovation activity. Several centres operate as nationally significant centres, leading commercial research in a particular field (eg. PeTec), while others are building from a more localised position.
Potential to be best practice example or demonstrate innovation	Mixed picture, with some having very strong potential to be exemplary initiatives but others being principally about continuation of existing activity. Programme should be looking to identify where best practice may be emerging and work with projects to develop profile, disseminate approaches etc.
Robustness of exit/sustainability strategy	Assessed as being generally satisfactory. However, at the time of the project reviews several projects were still assessing the implications of public sector funding cuts and the potential for these cuts to result in the downscaling of activity. Several projects indicated that capacity reductions may be the outcome of funding cuts, and little prospect of further, significant capital investment without single programme match.
Clarity and robustness of evaluation arrangements for project	Budget constraints appear to be an issue for some projects and there is an evident need for greater clarity about specific evaluation requirements. Few projects had detailed evaluation plans, but One North East team clearly assisting with advice about evaluation and support for procurement process.

Fit With Priority 1 Objectives

5.39 The project reviews have underlined the central role that the Innovation Connectors play in Priority 1, with the majority of investments either specifically in these facilities or in projects which are directly related to them. Key findings from the reviews include:

- In general, the evaluation found that the projects have a very strong fit to the objectives of Priority 1, and that this is both clearly understood and well articulated by the organisations delivering those projects. An overwhelming majority of the projects reviewed directly contribute to the delivery and further development of the Innovation Connectors and this contribution appears to be well understood.

- A strong focus on some of the North East's research and commercial strengths. Again, the emphasis on the Innovation Connectors helps to ensure that projects fit with a set of established and emerging strengths that are underpinned by evidence and are part of a wider strategy for the region's economy.

- The Programme is supporting a range of diverse of sectors and facilities. Some (eg. NETPark, PETEC, NaRec projects) are linked to technologies in which the North East is building on niche strengths in advanced scientific research and where it has a business base that is already operating in global markets. In other cases (eg. Digital City, Sunderland Software City) investments are helping to capitalise on both commercial strengths in and around the area and on the reputation that higher education institutions have established for producing graduates with skills in sectors which are not necessarily niche strengths of the region, but which are nonetheless high value and knowledge intensive. However, the projects are linked by their emphasis on higher value and technology driven sectors of the economy.

- There appears to be real benefit in the Programme having invested in projects which build on both an established infrastructure of advanced research organisations in the region and on schemes that have secured previous ERDF and public sector investment. This should improve the Programme's prospects of achieving a reasonable mix of higher risk and higher impact interventions with lower risk/lower impact projects, since it is working with organisations which understand where the strengths of the region lay and have past experience of supporting successful commercial innovation.

Strategic Fit and Robustness of Objectives

5.40 The overriding message about the Priority 1 projects we have reviewed is that they have a clearly articulated set of objectives which are a very strong fit with the objectives identified by the Operational Programme. The main findings from the reviews are:

- In general, projects have set objectives and designed activities which are consistent with emerging markets and technologies where some uncertainty remains about the potential demand from services/facilities from North East SMEs and the strength of the markets they are entering. The specialist knowledge and long track record of organisations delivering much of the Innovation Connector activity leaves them well placed to understand the key issues that need to be addressed in the sector, key barriers to innovation and the state of the market.

- Projects did not indicate that recessionary conditions had created fundamental problems for their business support related activities. However, many are at an early stage in delivering business assists, and the levels of demand which can be sustained over the lifetime of the project may not yet have become clear. Projects do recognise that it is likely to be more difficult to generate clients given the financial constraints that many SMEs are operating under, but the indications are that they have geared themselves to respond and that their ability to meet their objectives is not being substantially compromised. An emphasis on quality over quantity may be beneficial in this respect, with several projects showing good awareness of the need to identify SMEs with real potential to innovate and achieve strong growth.

- A good understanding of the economic context which continues to drive the North East Operational Programme. For example, a number of the projects reviewed had sought to engage with companies trading in international markets as a priority amongst their target beneficiaries, reflecting the imperative attached to making the North East a more outward facing economy.

- The JEREMIE project is now approved and the individual funds are established with the exception of the micro fund. Most funds are now starting to invest. This is a very important stage given the need for the available resources to be invested by the end of 2015. Whilst the ability of the project to provide finance to support the development and growth of a broad mix of SMEs, and crucially to secure additional economic impacts, will only be clear later in the life of the programme, the early indications are positive despite the comparatively tough economic conditions in which it is operating.

- Recognition amongst all projects that future public sector funding will be more difficult to secure in a more competitive environment. While the period of austerity in the UK will affect the sustainability of the Innovation Connectors and other initiatives in the regions, the indications from the evaluation are that projects are already considering options to secure alternative sources of income (eg. private sector partnerships) and are assessing how to achieve key objectives with potentially fewer resources for management and administration. Further large scale capital investment is likely to be a particularly difficult challenge given expectations about reductions in funding.

5.41 The project reviews suggest broad recognition that commercial innovation has to be the primary objective for Priority 1 projects. While there are different strategies in play for achieving this objective (eg. focus on finding entrepreneurs with innovative ideas, support for advanced scientific research), the need for investment to generate commercial returns in the form of jobs and GVA is common to all projects and appears to be understood by lead partners.

Clarity and Appropriateness of Project Interventions

5.42 The evaluation has built a positive picture of the specific interventions funded by ERDF in Priority 1. The majority of the projects we have reviewed are capital investments, in line with the overall approach for the Priority and investments in the Innovation Connectors. For these projects, ERDF is principally funding the construction of premises and the purchase of specialist technology. The reviews suggest a rigorous approach is being applied to the design and procurement of these facilities. Investment in already well established facilities and delivery organisations with a track record of successful investments appears to be an important factor in ensuring that project interventions secure their intended impacts. A good example is the Sunderland Software City project, where ERDF is enabling a substantial expansion of the space available to small software businesses with other facilities apparently fully occupied, and strong demand expressed by companies in the area for new space to be made available.

5.43 On the revenue side, projects tend to be at a relatively early stage in their delivery and it is more difficult to assess at this stage how effective the fit will prove to be between the activities that are delivered and the objectives set for the project.

5.44 The project reviews have highlighted some effective approaches to linking ERDF interventions to a much wider network of public and private sector organisations delivering complementary interventions, including other ERDF projects funded in the 2007-13 Programme. Examples include:

- Sunderland Software Centre – In this case, the project is able to describe strong connections to large software companies resulting from a proactive approach to engagement which includes (for example) a role for them on the Sunderland Software City board.

- NETPark Connector, PETEC Displays, PETEC Equipment (LACE) – The three projects are mutually reinforcing, with capital investment to expand the range of business space available on the site in part driven by the opportunity to attract and retain companies seeking to work with PETEC's specialist facilities. Additionally, this suite of investments demonstrates strong fit with the priorities of the national Technology Strategy Board (which funds PETEC).

5.45 The evaluation suggests that the previous experience of many of those involved in delivering P1 projects in providing business support services is an important factor in the progress made to date. They are able to use tried and tested routes to potential clients and in several cases, projects quickly began to work with companies already known to them as means to help secure quick wins in terms of outputs and results. Two examples serve to illustrate this point:

- Translational Research Building (University of Newcastle) – This project has made provision in its budget to deliver a series of events to stimulate SME interest in working with the university's specialist researchers (health and ageing). Evidence on turnout at these events and apparent follow up interest suggests that this should be an effective approach in creating a pipeline of clients for services.

- PETEC Projects – Highly specialised projects of this type tend to work with smaller numbers of clients and the review suggests that PETEC has been quick to recognise the advantage of business development which engages with SMEs that are already aware of the facilities it offers. This has ensured that the project's order books for use of the new equipment have begun to be filled early in the delivery phase.

5.46 Clearly, there are risks with approaches that draw on established contact with SMEs both in terms of the potential for double counting (where businesses have already benefited from a range of ERDF and other publicly funded support) and of failure to reach clients which have not previously drawn on publicly funded innovation support. This points towards a demand stimulation approach which combines existing contacts with more broadly focused outreach work (eg. networking events, press advertising) to raise awareness. There is evidence that a number of the projects reviewed have recognised this and are operating in this way.

5.47 Some projects have also pointed to the need to strengthen systems for referring clients to and from their service and to the risks that organisations delivering business support will face as a result of significant changes to national policy and funding in this area. For example one project indicated that the inflow of referrals from other organisations had been slow, and that additional resources would be allocated to quickly raise the profile of its services. Those projects based in organisations offering longer established SME support services again appear to be at an advantage here, with newer services having to compete for presence in a business support market place which has been relatively crowded. However, with Business Link set to be wound down and other services likely to be cut as a result of public sector austerity measures, there is also a risk that referral networks will be less active and it may become more difficult to reach potential SME clients through traditional channels.

Delivery Progress

5.48 The overwhelming majority of projects reviewed for the evaluation were at a relatively early stage of delivery. In particular, several capital projects had reached either the final stages of planning or the early stages of construction, and it was difficult to assess these activities in the round since services had not commenced within those facilities. Nevertheless, the assessment suggests that, in general, projects were on track in terms of key milestones. The key findings relating to progress included:

- Risks for capital projects in securing the complex range of planning permissions required to begin construction. Several projects (eg. Sunderland Software Centre) reported having to deal with local objections to proposed plans, and this had knock on effects on the completion of the planning process, the procurement of contractors etc.

- Where delays in capital projects had occurred, these had been mitigated with the support of One North East and other project partners. Several projects (eg. University of Sunderland Health Sciences complex, Sunderland Software Centre) had worked with One North East through the design and procurement process, suggesting that this provided valuable additional capacity to support this phase of delivery. No major problems were reported with capital projects once they entered the construction phase.

- It proved more difficult to assess progress on the delivery of revenue projects since most were still in their initial phases of implementation. Several projects suggested that difficulties in recruiting suitably qualified staff to deliver innovation services had been challenging and had slightly delayed progress. There were also clear messages about the importance of refining activities before delivery commenced, with projects highlighting the value of investing additional time to define services, set up systems, recruit staff and raise the profile of the project with the SME community in the area.

- Two projects underlined to the evaluation the importance of preparatory work to identify and filter potential SME clients, even before services were fully operational. For example, the Translational Research Building project had run large scale events to introduce potential clients to its activities, identify good prospects for support and generally establish the project's profile in the area. Teesside's Digital Placement and Knowledge Transfer project drew on a well established range of networking events run by the university and other partners to achieve similar objectives.

- JEREMIE has reached a critical stage where it is promoting the investment funds and starting to make a significant volume of new investment. Whilst it is still relatively early days and some funds are behind their target investment profile, overall progress is satisfactory. The investment rates over the next two years are critical and will need to be monitored by the Secretariat.

- The evaluation found a mixed picture of progress on the community engagement elements of projects. In some cases, partners had experienced delays in securing approval for projects of this type, citing problems with activities that were assessed as being eligible for ESF rather than ERDF. However, in other cases partners had made good progress with community engagement projects. Projects pointed to an extensive array of activities, principally in the form of outreach and accessibility work to introduce local people to the project and to encourage interaction with project facilities and teams.

- However, the economic benefits of this element of Priority 1 activities was not entirely clear to the evaluation. The expectation is that community engagement will help in the long term to improve the employability of local people by raising aspirations, encouraging the acquisition of sector related, higher skills and by assisting in the search for potential entrepreneurs. For several of the Newcastle Science City projects, stimulating widespread interest in innovation is central to their mission, with the initiative seeking to produce a cultural change in attitudes towards innovation in the area. Evidence suggests that the Programme and One North East have scrutinised the community engagement activities of the Innovation Connectors and are pushing for action that has the potential to generate more direct economic benefit. This scrutiny should remain a priority for the Programme.

Measuring and Delivering Outputs and Results

5.49 The P1 project reviews have suggested consistently effective and robust approaches to the recording and reporting of project outputs and results to the Programme.

- The effective use of both past evidence and current market intelligence to inform the setting of output and results targets by projects. Those who have delivered ERDF projects in previous programmes, or who have long term involvement in the delivery of innovation support are able to draw on both client data and a sound understanding of potential client demand to inform the target setting process.

- Well developed systems are the norm for the majority of projects, with partners suggesting that previous experience of delivering ERDF and of meeting reporting requirements is a key asset.

- A clear understanding of the detailed requirements for capturing business assists in a form which meets with ERDF requirements. This is particularly important given the wide range of interaction between P1 projects and SMEs in the region, and evidence from the evaluation indicates that project delivery organisations are well geared up to work with SMEs to ensure that the nature, timing and cost of support is properly captured.

- Evidence that projects have lowered expectations about what might be achieved given recessionary conditions, and that these expectations have informed the project development process and the agreement of contracted for targets with the Programme.

5.50 In general, projects have indicated that they are on track to achieve their output and results targets. A number of issues have been highlighted in the assessment of progress towards output and results targets:

- Several projects have signalled potential difficulties in meeting targets for jobs created. This is partly attributed to an economic environment in which many SMEs have sought to consolidate their market position and secure short term survival, limiting the potential to invest in new innovation. However, it also reflects the long time frame for translating innovation in new products or services into commercial activity which may require additional employment.

- In a small number of projects, early delays in delivery (eg. where capital projects ran into planning objections) are likely to affect their ability to meet output and results targets on schedule.

- Recognition that reductions in match funding (and potentially in ERDF contributions) may lead to the scaling back of some revenue funded innovation support activity, with knock on effects for delivering outputs and results. At the time the project reviews were carried out, there was still some uncertainty about the scale of potential cuts in funding.

5.51 While it is reasonable to expect that substantial capital and revenue investment in P1 should generate commensurate volumes of new higher value jobs and businesses, there are several issues to highlight on the appropriateness of the indicators and targets:

- Several projects have pointed to the challenge of committing to jobs created targets when the primary purpose of the business assist is to support product, process or service innovation. A combination of the higher risks involved in investment of this type, where the commercial outcome is less certain, together with the longer term period associated with brining innovation to market, mean greater uncertainty about when and how many jobs will be created.

- There is a related issue about jobs created targets where projects are driven by university lead partners. This has been less familiar territory for academic institutions than research activity, and this may also result in reservations about the deliverability of jobs created targets.

- At 8,000, the jobs safeguarded target for P1 is also substantial. It will require a number of projects to deliver innovation support and related assistance to SMEs at the larger end of the scale (rather than micro-businesses, sole traders, newer start ups).

- Projects appear to have fewer difficulties with the businesses assisted and businesses engaging in collaborations targets. This is core activity for revenue funded projects and those reviewed for the evaluation suggested that, once the project started to operate at full capacity, the P1 targets would not be unrealistic. However, this is at odds with the currently contracted for position of the Programme against these targets, since well under 50% of the business assist target has been contracted for.

- The private sector R&D levered target (£450 million) also appears to be excessive, although it is in principle a useful yardstick to assess how effectively public sector investment is encouraging complementary investment by beneficiary companies in R&D. This may take the form of the company's own capital, loans, grants and other types of investment from private sector sources. Given the comparatively weak position of the North East in terms of private sector R&D investment, a £450 million target seems optimistic. It would be heavily dependent on a substantial number of beneficiaries investing alongside support provided by ERDF, Single Programme etc.

5.52 Despite a challenging economic climate for investment in specialist premises for innovation, the project reviews indicate that Priority 1 capital investments are generally meeting their key delivery milestones and that where delays are occurring, effective contingency measures are in place. Key points from this component of the reviews include:

- Benefits from working closely with the ERDF programme team and One North East officers on design, procurement and project management. Several projects highlighted useful inputs from One North East. The panel that oversaw the tendering process for Sunderland Software Centre included the City Council, Software City representatives and ONE officers. There is a related point about the efficiencies of using procurement processes (eg. Regional Development Agency panel approach) that have proven to be effective over a long period of time, avoiding the need to start from scratch.

- Further evidence that a proven track record of delivering capital projects has been a useful asset for the Programme. The project reviews suggest that robust project management processes allied to expertise in the commissioning of construction, purchase of equipment etc. are important factors in efficient and effective delivery.

- Some evidence to suggest that where ERDF is retrospectively funding capital investment that is already well advanced in the delivery process or where the investment is one component of a bigger package (eg. Translational Research Building), this inevitably tends to reduce the risks to ERDF from delays or other complications.

5.53 It is more difficult to assess the effectiveness of the revenue element of projects at this juncture, since many are still at a fairly early stage of the delivery process. However, the evaluation evidence reinforces the message that Priority 1 will benefit from the established track record of delivery bodies operating in this area, both in terms of the skills of existing advisor teams and the connections these organisations have with the wider network of public and private providers of innovation support to SMEs. Emerging findings from the project reviews include:

- Consistent views that business development managers, advisors and project managers should ideally have experience in the private sector. Several projects highlighted the importance of having a core team with a background in commercial innovation to understanding what SMEs would require, how best to approach them and to help establish the credibility of the service. The most effective approach appears to be one which marries experience of managing publicly funded business support services with experience gained at senior level in a business.

- The importance of good quality SME diagnostics. Early assessment of a potential client's needs is identified as a key task for projects. It is clearly important in filtering clients which are eligible and appropriate for support from those which might be better served by the support of other organisations. Equally, it helps to establish clarity about expectations about the service on both sides, and the strongest projects are those which set out road maps for the services that SMEs will receive.

- The benefits of identifying commercially minded researchers in developing collaborations between universities and SMEs. With academics facing multiple competing pressures, the past experiences of several projects has moved them towards a recruitment approach to identifying researchers who will work with SMEs.

5.54 Looking forward, projects recognise that securing revenue funding beyond the lifetime of the ERDF project is likely to be more challenging in the face of public sector austerity. However, evidence from the reviews suggest that some projects already have a flexible approach to the provision of their advisor teams, with ERDF buying a proportion of the time of advisors who also have other responsibilities. Clearly, ERDF rules on project costs mean that this approach is strictly policed, but it should reduce the risks to projects if future funding is reduced.

Cross-Cutting Themes

5.55 The project reviews have found a mixed picture on the embedding of the CCTs in Priority 1. The clearest progress is being made on environmental sustainability, with capital investments appearing to have systematically embedded CCT requirements into the design and procurement of schemes. Progress on the E&D and spatial cohesion CCTs is less clear, with little evidence that equality and diversity is regarded as more than a reporting exercise, and apparent uncertainty about what is required for the spatial cohesion CCT. Key points from the project reviews include:

- A consistent view that the Programme has been effective in working with projects to ensure that sustainable principles are an integral part of building and facility design. The project reviews suggest that the ONE has worked closely with project developers to secure BREEAM Very Good or Excellent ratings for buildings.

- A clear view that equality and diversity requirements are already well embedded in many delivery organisations (eg. universities), in part a reflection of implementing statutory obligations.

- The perception that the highly specialised nature of P1 projects does not necessarily lend itself to an inclusive approach to beneficiaries. For example, the targeting of groups that are under-represented in the business base is not seen as appropriate where projects are operating a highly selective approach to identifying SME beneficiaries (eg. where technological innovation is being supported).

- Indications that outreach work with local communities is regarded as a key mechanism for ensuring that projects meet their requirements on spatial cohesion. For example, the Sunderland Software Centre project has designed in space which is intended to allow local people to drop in and observe the work that is being undertaken in the centre. NETPark runs open days for local communities, which bring companies on the site together with residents from the surrounding area to encourage interest in science. The direct benefits to local communities (jobs, improved skills, higher aspirations) from this activity are not clear.

- Suggestions that some projects would benefit from additional support on the implementation of CCTs when they enter into the delivery stage. There appears to be general concern that the guidance could be clearer.

5.56 The issues highlighted by the evaluation in P1 are not uncommon in ERDF programmes. It is difficult to strike a balance between the equity principles set out in the CCTs and the often highly targeted approaches which tend to be the norm in ERDF investments in science and innovation. However, the Programme will need to make an early assessment of the contribution that projects are making to spatial cohesion objectives, and future activities may have to be adjusted to reflect this.

Strategic Added Value

5.57 Most of the projects reviewed are at a relatively early stage of delivery and it is difficult at this stage to provide a substantive assessment of the impacts they are generating., However, an initial assessment of the strategic added value they have the potential to deliver points to the following impacts:

5.58 **Strategic Leadership and Catalyst:** Priority 1 investments are well placed to contribute to strategic leadership impacts. The emphasis on the Innovation Connectors ensures that ERDF investments are being made in specific facilities and initiatives which are already the focal point for research and commercial innovation in the region, and which in many cases have a national or international profile.

5.59 Investments in the Innovation Connectors can also claim to be generating catalytic impacts. These centre on the role they play in bringing together specialist research facilities, SMEs and large companies and university researchers. While the Programme has set out to generate greater interest in these sectors amongst local communities, it is too early to establish whether this will be achieved although it will clearly be a big challenge given the highly specialised nature of much of the activity that is being funded. Beyond the Innovation Connector investments, projects designed to stimulate innovative entrepreneurship also explicitly set out to stimulate a change in attitudes and approaches to this type of activity.

5.60 A successful JEREMIE project would be expected to have significant catalytic impacts in its own right. These centre on the extent to which the presence of a long term supply of venture capital (through legacy funds) and the organisational capacity to deliver it sends out signals to the venture capital market that help to stimulate the development of a stronger venture capital infrastructure in the North East.

5.61 **Strategic Influence:** The project reviews have heard a clear message about the importance that projects attach to activity delivered in partnership. Again, the Innovation Connectors are a focal point for exercising strategic influence, given their role as physical hubs for science and innovation. Emphasis on the need for P1 investments to support the work of the Innovation Connectors is a good indication that strategic influence is fundamental to the way they are expected to operate.

5.62 **Synergy:** The development of synergistic behaviours is critical to the success of P1. A core rationale for ERDF investments to date is to broaden and deepen knowledge transfer activity, with many examples of the expertise residing in Innovation Connectors, universities and other components of the region's innovation infrastructures being made more widely available.

5.63 **Engagement:** Much of the success of investment to date in P1 will be contingent on the ability of projects to nurture networks of SMEs, researchers and innovation support providers. Findings from the project reviews suggest that the need for extensive engagement is widely recognised by delivery organisations.

5.64 **Leverage:** The Innovation Connectors are positioned to assist the North East in securing investment from major national funding streams (eg. Technology Strategy Board). There are several good examples, including the PETEC projects which form part of a larger package of funding that includes TSB's investments in specialist research centres. Delivery of the JEREMIE project will ensure that the North East levers in substantial funding from the European Investment Bank, and this in turn is expected to stimulate the private sector venture capital market in the region, drawing in additional private sector investment as a result.

Evaluation Plans

5.65 There is also a mixed picture on projects' evaluation plans for P1 investments. Some have clearly worked with ONE to establish what is required and to discuss the procurement process for evaluations. In other cases, projects appear to be unclear about what is required at the interim and final evaluation stages, and how this is to be funded. In at least one instance, it is understood that the project will carry out an internal interim evaluation, although it is not clear how this will be accomplished given the need for an external perspective on progress, performance etc.

Future Sustainability

5.66 There is now heightened awareness of the need for projects to secure financial sustainability given the winding up of Single Programme funding and anticipated cuts in public sector expenditure. Generally, the projects have satisfactory approaches to future sustainability, attesting to the need to consider this question as part of the project development process. A number of challenges were identified by projects including:

- Concerns amongst projects which have involved capital investments that the further expansion of facilities and their upgrade is likely to prove difficult in the absence of public sector backing.
- The need to find flexible ways of securing the staff resources to continue revenue funded projects on completion of the ERDF contract. While some projects anticipate new applications for ERDF support, others suggest that they will need to draw on other resources within their organisations if activity is to continue.
- Recognition that a shift to paid-for (part or full) services by SMEs may be necessary. For example, the Newcastle Health Sciences Complex project will test the appetite of SMEs to pay for services during the course of the delivery phase.
- The potential to draw on resources elsewhere in the delivery organisation to ensure that revenue funded activities continues beyond the lifetime of the ERDF contract.

5.67 Clearly, public sector match for large scale ERDF capital investments has become increasingly critical during a recession which has seen the retreat of private sector funding for commercial property schemes. While there will continue to be sources of public sector funding for this type of project (eg. Regional Growth Fund), it is likely that future investments will be increasingly dependent on renewed strength in the private sector. To this end, the Programme should now be considering how best to gear up its strategy to maximise opportunities to secure further investment in the Innovation Connectors, with a particular focus on national policies for science and innovation.

Best Practice and Innovation

5.68 The reviews suggested a mixed picture on the potential of P1 projects to demonstrate exemplary and innovative practices.

- Several projects were assessed as having the strong potential to be regarded as good or best practice. For example, one project indicated that ERDF funding was supporting one of the first tailored undergraduate placement programmes for the digital industry. The Design Centre project has been heralded as the first of its kind to provide a dedicated network and physical hub for design technology.

- Benefits from investing in Innovation Connectors which are already operating in some of the most advanced and innovative areas of science and technology. The PeTec projects are a particularly good example in this regard, but the Programme as a whole will be assisted by its focus on centres for innovation which connect the region's research base to its SME base.

- Evidence that projects were actively seeking to build on potentially innovative practices and roll out models for innovation support if they proved to be successful. In time, this may be an important contribution to the future sustainability of projects if they are able to generate income from these models.

- A number of projects which were assessed as having little potential to demonstrate new and innovative practices, since they were chiefly concerned with the continuation of initiatives already being delivered in the region.

5.69 There is a good case for the Programme to ensure that it is able to identify and capture any best practice that emerges from P1 projects. This could prove valuable both in informing the design of future innovation activity in the North East and as a means to secure a strong profile for the region with a view to securing future investment from the public and private sector.

Conclusions

Headline Conclusions

5.70 Priority 1 is essential to achieving the vision for the North East articulated by the ERDF programme. Partners have set out to achieve a more innovation focused economy which is well placed to capitalise on new economic opportunities in renewable energy and environmental technologies. Equally, creating a stronger business base which is better able to trade in global markets is an integral part of their vision for the North East. The investment priorities identified by Priority 1 are clearly directed towards this vision.

5.71 Overall, investments to date in Priority 1 have put in place strong foundations to achieve some of the key objectives set by the ERDF Programme:

- They focus on strengthening connections between the research base and SMEs, a key P1 objective. In this respect, P1 has the potential to contribute to the process of embedding innovation and research into the North East's SME base in more effective ways than has been the case previously.

- A majority of P1 investment is being made in areas of technology where the North East has established assets and is competitive either nationally or internationally. Focusing on strength was also an objective of P1. The emphasis in this type of investment is on more advanced technologies in sectors (eg. environmental technologies, renewable energy, printable electronics) in which the market is projected to grow over the long term.

- The contribution of P1 to the broader objective of advancing and embedding science and innovation in the region's communities is less clear cut at this stage. Much will depend on whether those communities who are engaging with ERDF projects choose in the future to develop the skills, take up employment or start businesses in innovative areas of the economy. There are unlikely to be substantial effects of this kind prior to the end of the Programme since it implies a significant culture change in the North East, a change which will not take place over a short period.

5.72 A key strength of P1 is its selective approach which has centred on the seven Innovation Connectors, enabling the Programme to target resources from the outset on a comparatively well defined (and often well established) range of initiatives. This demonstrates the value of adopting a consistent framework for much of the investment in P1 through the Innovation Connector investment plans.

5.73 There is strong evidence that the objectives set for P1 are clearly understood and strongly reflected in the suite of investments that the Programme has made thus far. The evaluation has also found that a well evidenced set of market failure rationales have informed the development of P1 project activity. In both cases, a willingness to draw on past experience and exploit a strong evidence base has been crucial. The weight of evidence about the North East's lagging performance in innovation is substantial, and has been a key theme for the Regional Economic Strategy throughout the past decade. Previous investments in centres of excellence for innovation and in the region's research infrastructure have also helped to underpin the long term focus on strengthening the North East's capacity for commercial innovation.

5.74 The P1 investment portfolio largely reflects the focus on the Innovation Connectors. It offers a reasonably balanced mix of capital investments, revenue funding to provide innovation support services and an array of investments to help ensure that innovation activity does not take place in isolation from the communities in which the hubs of this activity are located. While the need to strengthen the region's hard infrastructure has seen particular emphasis on investment in buildings and equipment, the balance of projects across Fields 1 and 2 suggests that the Programme is contributing to improvements in infrastructure and services.

5.75 It is too early to conclude whether the strategy for P1 will deliver an uplift in productivity and performance of businesses in the North East. On the face of it, there is some degree of risk in the Innovation Connectors approach since the focus is on a number of key sectors to deliver this change rather than on the wider business base. Several of the Innovation Connectors revolve around advanced, higher value technologies and it is reasonable to assume that they have strong potential to deliver performance and productivity improvements. However, the uncertainties associated with returns from investment in innovation together with the wider ranging remit of some Innovation Connectors make it difficult to judge at this juncture how substantial these improvements might be.

Key Successes

5.76 While it is too early to fully assess the actual achievements of projects, the evaluation points to a number of strengths in the package of P1 investments to date:

- The benefits of harnessing ERDF investment to organisations and initiatives which are leading the North East's drive to improve its performance in commercial innovation. For example, the Centre for Process Innovation, PETEC and NETPark can all point to their support for SMEs that are trading internationally and are competitive in technologically intensive industries.

- The focus on priority sectors and particularly on areas in which the North East has a mix of research specialisms and a commercial presence which is seen as nationally or internationally significant.

- Signs that the private sector has a central role in the development of projects. Several projects (eg. Sunderland Software City) have highlighted the strategic involvement of large companies in the wider Sunderland Software City initiative.

- Evidence of a strong emphasis on commercialisable knowledge transfer, moving beyond exploratory collaboration between the research base and SMEs. The approach adopted by one project to agree what is expected of an SME by way of results and what the SME should expect of the project by way of support is a good example of how to increase the potential for investments to generate direct and measurable economic benefits.

- The geographic spread of investments, with the Innovation Connectors approach having enabled the Programme to invest in a manner which allows for some degree of equity in the allocation of ERDF resources.

- The establishment of JEREMIE is one of the key successes of the Programme to date, harnessing finance expertise within the North East and farther afield to substantial ERDF, Single Programme and EIB resources. It is arguably one of the most important economic development investments in the North East over the past 2 decades.

Key Challenges

5.77 Key challenges highlighted by the assessment of P1 investments include:

- The extent to which some P1 investment is concentrated in sectors where the North East does not currently have national or internationally recognised strengths, nor the prospect of achieving it.

- The heavy dependence of capital projects on public sector funding, with future investment to improve and expand facilities likely to be much harder to obtain.

- The winding up of One North East has major implications for delivery of the region's strategy for innovation, with action and investment to support higher skills development among the range of activity which is likely to be significantly affected by cuts in public sector funding, changes in the institutional architecture and changes in the UK government's approach to skills policy and funding. The North East may find itself less able to influence the array of interventions which need to be brought together to create a stronger environment for commercial innovation.

- A similar challenge for revenue projects which face both uncertainty about the future institutional landscape for this activity in UK policy and difficulty in securing funding to continue their activity. This is likely to be a significant issue for projects which are reliant on close working relationships with publicly funded business support providers in the region.

- A lack of clarity about what the range of community engagement activity delivered by P1 projects will achieve in terms of direct economic benefits or impacts on the aspirations and attitudes of local communities.

- The challenge of attaining a reasonable balance of investments in riskier innovation activity which may generate higher returns for the Programme with less risky activity which generates lower returns.

- The need to develop a framework which enables the Programme to capture the complex relationships between outputs, results and impacts in P1 and the way that they contribute to the Programme's objectives for science and innovation.

- The need to ensure that the range of innovation support activities being provided by P1 projects works effectively with wider business support and access to finance provision. Clearly, this is a particular challenge given current uncertainty about business support policy and funding, but it will be essential both to avoiding duplication and to enabling the programme to maximise the resources available to the North East's SMEs.

Future Activity

5.78 Maintaining the momentum generated by P1 will be challenging in view of a public sector funding environment currently driven by pressure to reduce expenditure and tackle the budget deficit. In preparing for the next phase of the Programme, partners will need to consider the following issues in building on the platform they have established in P1:

- The need to gear the Programme to respond to new opportunities to secure investment in innovation. The Technology Innovation Centres initiative and the enhanced role of the Technology Strategy Board are likely to be particularly important, but initiatives such as the Regional Growth Fund may also provide an important source of future funding.

- The extent to which the focus on the Innovation Connectors might be further sharpened given funding constraints. Several of the Connectors are now nationally and internationally significant, and there may be advantage in concentrating future Programme investment in these areas. The downside of this approach may be the risks it presents to a broader based approach to stimulating a more innovative enterprise base across all sectors of the economy.

- How best to sustain activity which seeks to engage local communities and strengthen the region's skills base for innovative, technology driven industries. This has proved to be a particularly challenging feature of P1 given the nature of the activities it involves which are, in many respects, only indirectly connected to commercial activity. Funding this element of the P1 is likely to be especially difficult over the remaining period of the Programme.

6. Priority 2: Business Growth & Enterprise

Priority Objectives and Context

6.1 Priority 2 contains investments that are intended to tackle the region's enterprise and productivity deficit. This includes an overarching focus on addressing the region's relative underperformance in productivity, business formation and survival rates, and a spatial focus through prioritisation of enterprise related investment in the most disadvantaged parts of the region. Approximately £140m of ERDF is available under Priority 2 at current exchange rates. Among the specific objectives of the Priority are to:

- Stimulate enterprise among young people
- Increase the penetration of enterprise in disadvantaged areas
- Supporting businesses expand into new geographical markets (domestic and overseas).

6.2 The Priority is expected to contribute to increased business density and higher levels of productivity and competitiveness within the business base through actions leading to:

- The creation of around 3,000 new SMEs, of which a minimum of 15% will be in disadvantaged areas.
- The creation/safeguarding of 16,450 gross jobs of which up to 15% in disadvantaged areas.
- Improved environmental management and energy efficiency in 2,180 assisted SMEs.
- The generation of around £540 million in net additional GVA per annum.

6.3 The North East has by far the lowest level of business density for any region in the UK, at just over half of the England average. While business survival rates are improving and are now close to the national average, business formation remains low with the rate of VAT registrations in England only lower in the South West during 2004.

6.4 There is an enterprise deficit, with self-employment the lowest for any English region, and absolute numbers declining over time. A lower proportion of the businesses generated in the North East are in higher knowledge intensive industries in comparison to England as a whole, with the result that new business formation is not making as much of a contribution to closing the regional productivity gap as might be hoped. Low business formation is a major contributor to the enterprise deficit in the North East.

6.5 The current low level of business density, combined with a number of other factors such as high proportion of public sector employment, low workforce skills and a relatively high prevalence of lower added value employment, contribute to the North East's low productivity levels. As such over the past 10 years there has been a widening in the gap between the North East and England in terms of GVA per head which, although this has stabilised in recent years, remains significant.

6.6 There is an important spatial dimension to patterns in the business base in the North East. Tees Valley fares worst out of the North East sub-regions, with the lowest rate of growth in the number of businesses and lowest level of business density. The rate of VAT registrations is particularly low and has declined in absolute terms over time. As Tees Valley already had the lowest number of VAT registrations per 1,000 population in the North East, the gap between it and the other sub-regions is increasing. The Tyne and Wear sub-region also has a particularly low business growth rate in comparison to the North East average.

6.7 Priority 2 is underpinned by two Fields of Action. These, together with their indicative financial weighting within the Priority are as follows:

- **Field of Action 1: Cultivating and sustaining enterprise in disadvantaged areas**. The enterprise focus of the Business Growth and Enterprise Priority seeks to increase the number of new and start-up businesses in the North East to create an "enterprise surge". The Field of Action is intended to prioritise interventions in disadvantaged parts of the region[18] in order to deepen enterprise and support existing programmes such as Local Enterprise Growth Initiative (LEGI) and transferring LEGI practices to other, non-LEGI, deprived parts of the region. [30% to 40% of Priority 2 resources]

- **Field of Action 2: Enhancing the competitiveness and growth of the region's existing SMEs**. This element of the Business Growth and Enterprise Priority seeks to increase the growth and competitiveness of existing SMEs in the North East through actions tailored to the needs of individual SMEs across all parts of the region. This includes help to identify development needs and support for the improvement of business sustainability and competitiveness. A major focus of support is on strengthening the business survival and growth rates of existing SMEs within the region. As noted below, the priority includes a focus on the priority sectors identified in the regional strategy. [60% to 70% of Priority 2 resources]

Beneficiaries

6.8 Priority 2 focuses on the nine priority sectors identified in the Regional Economic Strategy (2006) for which it is asserted that the region has either a comparative advantage or the potential for more rapid growth in the future. These are: chemicals and pharmaceuticals; automotive; defence and marine; food and drink; energy; knowledge intensive business services; tourism and hospitality; commercial creative; and health and social care. However, in practice there are restrictions on how ERDF can be used to support some of these sectors (eg automotive and some business and personal services) and in practice Priority 2 has supported businesses across a broader range of sectors. Sector specific investments have tended to focus on digital and creative media new starts and potential entrepreneurs.

Scale of Investment

6.9 Priority 2 was allocated a total of £141.7m (at current exchange rate) of NEOP resources, around 43% of overall Programme resources. To date, defrayed expenditure stands at £23.3m (16% of total allocation). A further £56.6m is contracted, although there is no

18 Typically defined as wards that contain Super Output Areas (SOA) that are in the 30% most deprived wards nationally by employment, according to the 2007 Index of Multiple Deprivation (IMD).

further ERDF committed. This gives an overall commitment (defrayed, contracted and committed) total of £79.8m (56% of the total Priority 2 allocation). There is a very small pipeline of projects of just £3.3m, leaving headroom of £58.6 million (c.40% of total P2 allocations).

6.10 The indicative allocations for the two Fields of Action are as follows:

- Field of Action 1: Cultivating and sustaining enterprise in disadvantaged areas (30%-40%).
- Field of Action 2: Enhancing the competitiveness and growth of the region's existing SMEs (60%-70%).

6.11 There are 38 'live' projects in Priority 2 out of 40 projects for which data are recorded on MCIS. The live projects include some major regional business support projects managed by Business & Enterprise North East (BENE) - *ERDF IDB 2010-12*, its predecessor Business Link Branded IDB and Solutions Funding and an Enhancing International Trade project. In addition, ONE is the applicant for a major *Manufacturing Advisory Service* project. Local Enterprise projects vary in size, including the large scale *Be Enterprising* project in Durham (enhancing the County Durham LEGI programme) to the smaller Northumberland Enterprise Bridge Programme.

6.12 *The eligible activities* encompassed across Priority two are summarised below:

Table 6-1 Priority Two Activities

Field of Action 1: Cultivating and Sustaining Enterprise, including Social Enterprise, in Disadvantaged Areas	Field of Action 2: Enhancing the Competitiveness and Growth of existing SMEs, including social and community based enterprises
• Enterprise coaching and mentoring provision • Pre-start-up guidance and assistance, including basic advice and information, business planning and ICT support • Support for high-growth start businesses, including financial assistance and high level coaching. • Creation or refurbishment of premises for business incubation • Environmental management actions including energy efficiency and waste minimisation measures	• Environmental management actions such as energy efficiency and waste minimisation • Environmental management actions including energy efficiency and waste minimisation measures • Post start-up advice, information and diagnostic services; provision of access through brokered services to mentoring and intensive assistance • Financial assistance for specific investments • Supply chain development • Assistance with exporting and other internationalisation. • Non-incubator premises for business, including integrated provision for childcare facilities.

Source: NEOP 2007-13 and individual project business cases and reviews.

6.13 A total of 16 project reviews were undertaken, covering £60m (75%) of committed/contracted Priority 2 ERDF funding. A summary of the main findings of our assessment is provided in the Table 6-2 below.

Table 6-2: Summary Assessment of Priority 2 Projects Reviewed for Evaluation	
Review Question	**Assessment**
Clarity of market failure rationale and related evidence	There are a number of market failures that are apparent and are being addressed by Priority Two projects. For local enterprise projects, there is an equity argument to justify intervention. For sector support and international trade projects, there is a basis for intervention in relation to imperfect information or leadership/coordination failures. However, the market failure case is explicitly cited in only a few cases.
Fit between project objectives and those of its Priority/Field of Action	The various rationales for the investments are well stated and individual projects reviewed generally have clearly defined priorities and a good understanding of the Priority. Local enterprise projects are primarily designed to achieve improved business birth-rates, and the business and sector support projects generally focus on improved business performance and sales. Key objectives articulated by the projects are in line with the main strategic priorities.
Clarity of definition of project activities, and fit to objectives	By and large project activities show a good fit to their objectives and it is clear what they are delivering. However, the level of detail (in project documentation) varies. Greatest clarity is provided by projects that are enhancing existing services (eg regional enterprise and business support projects, and LEGI and WNF funded local enterprise programmes). In some cases, broad outlines of activities have been provided.
Strength of links between project activities, other NEOP and mainstream interventions	Projects are adding value to mainstream programmes. Regional projects demonstrate good fit with and added value to mainstream programmes (eg trade) and there are good links between sector support projects and regional start up and business support providers, and related projects in Priority 1 (eg Codeworks). There is a potential for duplication between some Field of Action 1 projects and the core Business & Enterprise North East offer although the focus on under-represented groups and deprived areas has helped to limit this.
Robustness of objectives in light of changing economic conditions and policy context	Objectives are robust, and remain appropriate given the region's long-term economic structural challenges, which have been exacerbated by the recession (eg the enterprise deficit has now widened). Changing policy conditions and funding cuts have created uncertainty for project delivery partners. This includes local enterprise projects (in the absence of dedicated funding stream such as LEGI and WNF) and regional projects (given the impending closure of ONE and the centralisation of most business support).
Delivery progress	Whilst it is difficult to make firm judgements on delivery efficiency at this time, the use of ERDF to bolster existing large scale regional projects does offer the potential for good economies of scale and greater delivery efficiency (through supporting greater numbers of clients and/or providing a greater intensity of support). This has also enabled the larger regional projects in particular to hit the ground running.
Robustness of basis for collecting and reporting output and results data	The project reviews have suggested that Field of Action 2 projects have consistently effective and robust approaches to the recording and reporting of project outputs and results to the Programme. The large regional projects have invested in sophisticated management information systems to monitor output, results and delivery progress, as have the sector support projects. Local enterprise projects in Field of Action 1 have encountered more difficulties. This partly is a reflection of a mismatch between funding stream indicators, the stricter requirements of ERDF in terms of eligibility and evidencing outputs claims, and different definitions even when the same indicators are used.
Prospects for the project achieving or even exceeding its forecast targets	Most of the projects we have reviewed started behind scheduled and are not as far advanced in delivery as planned, although most regional projects remain confident that they will deliver on their objectives and targets. Some projects have fallen behind due to insufficient demand to date from eligible businesses (loan fund project), and performance of the local enterprise projects is mixed.

Table 6-2: Summary Assessment of Priority 2 Projects Reviewed for Evaluation	
Review Question	**Assessment**
Scale of contribution to relevant priority and programme targets	Priority performance is heavily dependent on the successful delivery (of job/business outputs) from a small number of large projects or specific intervention areas. The success of the programme in supporting the growth of sustainable new businesses will be dependent upon the performance of the *Business Link Branded IDB & Solutions Funding* and *Business Growth & Support for Enterprising Young People* projects. To date, progress on these projects has been good.
Embededness of CCTs in project plan and delivery	There is a mixed picture on the embedding of the CCTs. Some projects had clearly taken CCTs on board in early project design and have integrated at least one of themes well. Some projects appear to be paying lip service to the CCTs, with no associated delivery targets. The clearest progress is being made on the spatial disparities CCT, which is perhaps not surprising given the strong spatial focus of the local enterprise funded projects.
Strategic Added Value contribution of project	Because a large proportion of ERDF to date has been used to support existing projects and programme in the region, the Strategic Added Value (SAV) of ERDF itself is likely to be fairly limited. Nevertheless, the SAV demonstrated by those projects that have drawn down ERDF includes: strategic leadership (BENE has worked with other business networks to support efforts to boost small firm productivity in accordance with the Business Link National Framework; strategic influence (international trade projects are able to influence the overall approach to marketing the region both internally and externally); and engagement (local enterprise programmes are explicitly seeking to increasing awareness of enterprise among hard-to-reach groups and deprived communities).
Potential to be best practice example or demonstrate innovation	There is limited evidence of innovation in the design or delivery of Priority 2 projects (in the sense of new delivery approaches or novel interventions). However, there is much evidence of very strong integration of ERDF with existing mainstream activities and of robust day-to-day project delivery, both at the regional and local level.
Robustness of exit / sustainability strategy	Few of the investments were specifically designed with the intention of leaving behind a lasting legacy in the form of a business support infrastructure that would not require continued public sector funding. This is not surprising given that the vast majority of projects are revenue activities and funding was intended to enhance the mainstream publicly funded business and enterprise support offer, which themselves were predicated on the assumption of continued public sector funding.
Clarity and robustness of evaluation arrangements for project	Projects are all aware that they are expected to carry out at the very least a final externally commissioned evaluation of their ERDF projects. However, the level of preparedness varies considerably across the projects. Some projects have worked closely with ONE to agree evaluation requirements; for example the regional projects have commissioned - or are intending to commission - IEF compliant evaluations[19].

19 The original BENE IDB project has already been subject to an IEF compliant evaluation.

Strategic Rationale

6.14 The various rationales for the investments are well stated. For example, local enterprise projects under Field of Action 1 are primarily designed to achieve (i) improved business birth-rates and business creation and increased self-employment rates and (ii) encourage people to go into business. The individual projects reviewed generally have clearly defined priorities and a good understanding of the Priority.

6.15 The business and sector support projects generally state improved business performance, sales growth and start up rates among target firms (in target sectors if appropriate), as well as introduction of new products and services as key objectives in more knowledge intensive sectors. For the International Trade projects, primary objectives address the need to extend the market reach of growth firms into overseas markets. The key objectives articulated by these projects are in line with the main strategic priorities.

Project Objectives

6.16 The projects reviewed provide a strong fit to the objectives of this Priority. Several individual projects offer a really compelling fit, especially the large regional enterprise and business support programmes which had very strong alignment with the Regional Economic Strategy and local enterprise focused investments. Many of these investments are actually packages of support rather than single investments. Other, more discrete, stand alone investments appear reasonably well aligned with the broad strategic context.

6.17 The precision with which objectives are stated does vary, however. For example, while all projects provide statements of what they are trying to achieve, very few actually read as clearly defined (ie SMART) outcomes, which may reflect a weakness in the appraisal process. Nevertheless, by and large there is a clear logic between economic conditions (regional or local), priorities outlined in key strategic documents (including the NEOP) and the aims of Priority Two projects reviewed.

Market Failure Case

6.18 There are a number of market failures that are apparent and are being addressed by Priority Two projects.

- For local enterprise projects, the lack of targeted business support has been used as an equity argument to justify intervention. The investments have sought to tackle under-performance in areas which are lagging behind economically and aim to foster a more equitable spread of enterprise and business growth across the region by encouraging enterprise. Whilst this is not strictly speaking a market failure argument, it does give the programme justifiable grounds for intervention. Imperfect Information was also cited (albeit implicitly) by project managers; in essence, people are not aware of the potential benefits of starting up in business. This is further supported by a belief (to be tested via beneficiary survey) that people were not aware of the support on offer via mainstream providers such as Business Link. The projects are encouraging a culture of entrepreneurship and facilitating individuals to start up in business or become self-employed.

- For sector support and international trade projects, the rationale for project intervention is reasonably clear in market failure terms: they tend to cover both causes of imperfect information by providing advice, information or leadership/coordination functions that reduce the costs of business development and market expansion and provide target businesses with a more effective platform from which to extend their competitive position.

6.19 However, the market failure case is explicitly cited in only a few cases. For example, the Northern Film and Media projects made the strongest case, providing a well articulated market failure rationale based on imperfect information and co-ordination failure.

Clarity and Appropriateness of Project Interventions

6.20 By and large project activities show a good fit to their objectives and it is clear what they are delivering. However, the level of detail (in project documentation) varies. Greatest clarity is provided by projects that are enhancing existing services (eg regional enterprise and business support projects, and LEGI and WNF funded local enterprise programmes). In these cases, ERDF is being used to add value to existing programmes with well defined plans, activities and delivery mechanisms. Significant detail is contained on the precise support being delivered, including timescales and milestones for different strands of support. For example, the international trade project provides four well defined strands of support to SMEs across all aspects of internationalisation, and the Building the Business of Music project has four different strands of support focused on increasing collaboration, advice, training and mentoring services. In some cases, broad outlines of activities have been provided (although these were expanded upon at the project reviews).

6.21 Priority Two projects are, on the whole, drawing down ERDF to increase the scale of investments and to foster more intensive support, rather than broaden their scope or to foster delivery of novel/innovative activities. This suggests that there is room for the promoting of some more risky (in terms of certainty of returns on investment) and novel investments.

Gaps in the Investment Portfolio

6.22 We have examined the existing programme portfolio to identify potential gaps/aspects of the programme that could be prioritised (match funding and delivery infrastructure permitting) for future investments. This task involved mapping the range of ERDF investments brought forward to date (contracted and committed and in the pipeline) against a range of thematic areas of investment that an ERDF programme could/should be expected to fund in order to identify two types of programme gap:

- Those existing thematic areas of intervention that are contained in the NEOP, but have not been the subject of major investment to date.

- Potential thematic areas of intervention that are ERDF-eligible (and may be contained in other ERDF programmes) but are not contained within the Operational

Programme.

6.23 This assessment was based on project reviews, supplemented with a desk-based review of those projects that have been contracted but which were not included in our sample of reviewed projects. For these projects, we revised their summary description, objectives and proposed interventions to form a judgement on which aspects of the programme they have been configured to deliver upon.

Field of Action One: Cultivating and Sustaining Enterprise, including social enterprise, in disadvantaged areas

6.24 The investments brought forward to date cover the broad spectrum of enterprise related activities being delivered in deprived areas by both LEGI and WNF programme. Priority 2 projects under this Field of Action demonstrate a strong commitment to support entrepreneurial culture (including youth enterprise, support packages, support to test ideas, coaching, mentoring etc), support for pre-start business (including ICT support), creation/refurbishment of business incubation premises and support for specific under-represented groups (eg women's enterprise, youth entrepreneurs, community based businesses).

6.25 There has been very little support to date for stimulation of high-growth businesses in deprived areas, nor support for spin outs from the public sector, both of which were included in the NEOP's indicative activities under this Field of Action, although are arguably more challenging to deliver (in terms of outputs) and have not been a major feature of local enterprise programmes either in the North East or elsewhere.

Field of Action Two: Enhancing the Competitiveness and growth of existing SMEs, including social and community based enterprises

6.26 This Field of Action covers a broad range of activities, and the programme investments brought forward to date contain the bulk of support types that we would expect to see, including: post-start up business support including for high growth businesses mentoring and intensive assistance eg for business planning, business systems and processes; financial assistance with working capital and investment; and actions to promote sales growth (eg supply chain development, assistance with exporting).

6.27 However, there has been a much more modest focus on accessing public procurement (which may be more difficult to achieve in the current fiscal climate, improving productivity (eg through environmental management support, advanced ICT applications etc) and non-incubator business space. Given the North East's wider competitiveness in some elements of the low-carbon economy (eg renewable energy generation and low carbon vehicles), the lack of programme investment in demonstration of low-carbon technologies, sustainable consumption/production and support to change business cultures is a notable gap. In addition, the programme could also consider the following types of support:

- **Funding for sector networks**. The steer from CLG to English regions during programme development was that sector networks could not be matched, however further investigation on this suggests that this may be possible on a case by case basis. There are obvious challenges given the closure of ONE and loss of funding to potential applicants (ie existing regional networks) although there may be opportunities for drawing in additional external funding from national bodies (although some of these are also being closed as part of the public sector spending cuts).

- **Grants for Business Investment**. The fact that this is a national fund, run by BIS, causes complexity, and there is no national approach between BIS and CLG to seek ways to match the two funding streams. The key difficulty is that GBI rules and ERDF rules are not greatly flexible thus making them fit together to match fund is not easy. This should be looked at as part of the wider discussions with CLG and BIS about the novation of existing regional ERDF enterprise and business support contracts.

Service Stimulation

6.28 The approaches to stimulating demand for services varies markedly across Priority 2 projects, and has mainly been through the channels already being used by service providers. Marketing of the major regional projects (eg BENE) has largely been conducted through service websites, general advertising, public relations activity, telemarketing, regular e-newsletters and through sponsorship arrangements. The methods have been used to draw attention to supported services and to highlight the primary route into the projects. The emphasis has been on making extensive use of existing channels, rather than developing new channels, thereby avoiding unnecessary duplication and competition.

6.29 Local enterprise projects have undertaken a much more hands on approach: outreach and direct contact with prospective clients have been the main methods used, and reliance on word of mouth. Evidence from LEGI evaluations suggests that direct contact (from the programmes themselves) and word of mouth from existing clients are by far and away the most common ways in which clients became aware of the services on offer. Awareness via websites and other forms of marketing (newspapers, radio, billboards etc) typically yield few enquiries. Local projects underpinned by a strong (community) referral network and proactive stimulation of demand for services tend to yield the best results.

Delivery Progress

6.30 Most of the projects we have reviewed started behind scheduled and are not as far advanced in delivery as planned, although most remain confident that they will deliver on their objectives and targets. Whilst it is difficult to make firm judgements on delivery efficiency at this time, the use of ERDF to bolster large scale regional projects does offer the potential for good economies of scale and greater delivery efficiency (through supporting greater numbers of clients and/or providing a greater intensity of support).

6.31 The original BENE IDB project has already been subject to its own evaluation. The key delivery messages were that despite initial problems in getting the service up and running, the project has performed very well in achieving the aims and objectives for which it was contracted to deliver, as well as its key targets. In terms of efficiency and cost-savings, economies of scale have been reaped from the move from a sub-regional to regional provision, aided by new customer management systems which, after initial teething problems in the first year, functioned efficiently. Partly as a result of ERDF investment, and partly due to already instigated restructuring, back office costs have been reduced from 25% to 15% as a percentage of total BENE costs. The areas where the service has not performed as consistently are in terms of providing a sufficiently tailored start up service. This has perhaps been the biggest criticism of stakeholders and partners that have worked with BENE over the period.

6.32 The local enterprise projects focus on both pre-starts and start-up firms; the focus on pre-starts reflects the emphasis on raising aspirations for entrepreneurship amongst disadvantaged groups. There is a potential for duplication between some aspects of these projects and the core Business & Enterprise North East offer although the focus on under-represented groups and deprived areas has helped to limit this. Our project reviews suggest that closer working between local enterprise projects and BENE is required to identify additional sources of support available to clients outside the regional start up programme and to identify any other gaps in the mainstream offer that these local projects could help to fill.

6.33 There appear to be large variations in delivery costs of local enterprise projects (as shown by unit costs), which could suggest variations in terms of efficiency and effectiveness. It is also likely to be a product of the complex variety of needs among target clients.

Measuring and Delivering Outputs and Results

Appropriateness of Targets

6.34 Priority 2 targets currently focus on the numbers of businesses created and started-up, rather than how many pre-start entrepreneurs have received support. As noted in Chapter 4, given the nature of many Priority 2 funded investments (especially those under Field of Action 1), the current suite of Priority 2 indicators does not provide a sufficiently accurate representation of the range of enterprise activity contained within the programme.

6.35 The inclusion of a "potential entrepreneurs assisted to be enterprise ready" indicator in Priority 2 would enable the programme to capture better pre-start enterprise related activity which seek to address the region's enterprise deficit by encouraging activities that lead to greater business start-ups. This indicator fits directly with the strategic objectives of the programme and the activity form a critical component of the programme's enterprise package.

Progress on Targets

6.36 Priority 2 main indicators relate to business assists, business premises developed, jobs created and safeguarded, businesses with improved performance and businesses created. As noted in Chapter 4, the proportion of the targets have already been contracted for new SME assists (92%), jobs created (80%) and businesses created (87%) is well ahead of contracted ERDF spend. Progress on the ground against these indictors has been good. Priority 2 has therefore been largely successful in both contracting and delivering to date on these indicators.

6.37 However, there are several indicators that are lagging, and may need increased focus going forwards. These include physical premises/land developed as well as business performance indicators.

Recording and Reporting Outputs and Results

6.38 The project reviews have suggested that Field of Action 2 projects have consistently effective and robust approaches to the recording and reporting of project outputs and results to the Programme, although local enterprise projects in Field of Action 1 have encountered more difficulties.

6.39 The large regional projects have invested in sophisticated management information systems to monitor output, results and delivery progress, as have the sector support projects. The Building the Business of Music project has been held up as model of best practice in the region by ONE. The ERDF monitoring procedures are regarded as being very bureaucratic, but those applicants that have dedicated teams and system already in place have encountered fewer difficulties in meeting ERDF requirements.

6.40 Local enterprise projects under Field of Action 1 have encountered greater difficulties in measuring progress. This partly is a reflection of:

- The mismatch between funding stream indicators: LEGI and WNF programmes tend to report on a broader set of indicators than those of the ERDF programme, including pre-start activity (which ERDF programmes do not typically report on). During programme development, the PMC considered the inclusion of a “potential entrepreneurs assisted to be enterprise ready” indicator in Priority 2. However, it was not included in the final programme due to in part to concerns about how to demonstrate value for money for those activities that provide part of the progression route to the generation core ERDF outputs (ie pre start assistance is an important part of the process of generating new business starts), but do not themselves form part of overall programme value for money assessments. This has meant that local enterprise projects have had to be very clear about which aspects of their local programmes that ERDF has been matched with.

- The stricter requirements of ERDF in terms of eligible sectors: many local enterprise programmes have provided direct support to retailers and personal services businesses, which are not ERDF eligible, although some projects argued that the guidance on this was too ambiguous – enterprise coaching was deemed eligible however. In addition, the more rigorous approach that ERDF takes in relation to evidencing output claims has presented challenges to those organisations that did not have prior ERDF experience.

- Different definitions even when the same indicators are used. For example, the ERDF definition of a business assist is a minimum of 15 hours of support, whereas local enterprise programmes typically have a lower time threshold.

Project Impacts

Quantitative Impacts

6.41 The programme beneficiary survey will be the main source of evidence to inform our assessment of impact across Priority One and Two. However, here we offer some thoughts on potential impacts in Priority Two. There are two main issues to keep in mind:

- First, it is important to stress that there is always a significant lag between actual spend, delivery of outputs and then final impact - although this lag should, on average, be less in Priority Two than in Priority One, for two reasons:
    - Greater emphasis on revenue, rather than capital investments.
    - Greater integration of ERDF into mainstream business support and enterprise programmes/delivery structures.
- Second, impacts are heavily dependent on the successful delivery (of job/business outputs) from a small number of large projects or specific intervention areas (in particular the region-wide business support programmes). Securing impacts therefore depends on these projects being able to proceed as planned in terms of match funding, the take-up and delivery of support, and ultimately business growth. Based on progress to date:
    - The success of the programme to date in supporting the growth of sustainable new businesses is largely dependent upon the performance of the *Business Link Branded IDB & Solutions Funding* and *Business Growth & Support for Enterprising Young People* projects.
    - The success of the programme in stimulating enterprise among deprived communities is largely dependent upon the performance of the *Raising Enterprise North Tyneside* and *Flexible Families* projects. The beneficiary survey should look to capture the headway made by the programme on factors such as improving confidence amongst disadvantaged groups, encouraging individuals to seek external support in future as a result of the intervention.

6.42 It is also important to bear in mind that local enterprise projects are likely to have a modest impact on the overall performance on the North East economy when looking only at GVA uplift (as they are focused on providing business support to under-performing communities and areas). It must also be recognised, however, that GVA and, to a lesser extent, job creation was not a major part of the rationale behind the LEGI and WNF programmes that ERDF has been used to bolster.

Strategic Added Value

6.43 As a large proportion of ERDF to date has been used to support existing projects and programmes in the region, the Strategic Added Value (SAV) of ERDF itself is likely to be fairly limited. Nevertheless, the SAV demonstrated by those projects that have drawn down ERDF includes:

- **Strategic leadership:** BENE has worked with other business networks to support efforts to boost small firm productivity in accordance with the Business Link National Framework and, as part of the Business Support Simplification Process, led work to reduce confusion in the supply and delivery of business support products and services in the North East. The programme also has the potential (as yet unfulfilled) to work with the financial community to improve the supply and effective use of finance by SMEs and to develop partnerships with key intermediaries within the context of the regional economy.

- **Strategic influence:** international trade projects are able to influence the overall approach to marketing the region both internally and externally, through interacting with influential networks of companies and strategic organisations overseas, promoting cultural change to encourage companies to trade internationally, and promoting the creation of overseas joint ventures and outward investment.

- **Leverage:** the North East Regional Start up Finance project seeks to generate a return on investment and create a legacy fund, which is a form of leverage. Generally, leverage is likely to be modest across Priority Two, as opportunities to secure investment from major national funding streams are more limited here.

- **Synergy:** There is potential for synergy at regional and local levels through projects referring clients to other partners and business support organisations. Our project reviews suggest that much of this synergy to date has been horizontal (ie between regional projects overseen by the same organisation) than vertical (between regional projects and those being administered locally).

- **Engagement:** local enterprise programmes are explicitly seeking to increasing awareness of enterprise among hard-to-reach groups and deprived communities and have sought to get buy-in from local community stakeholders, thereby contributing towards equity objectives.

Cross-Cutting Themes

6.44 Given the range of investments contained in Priority Two, it is not surprising that the project reviews have found a mixed picture on the embedding of the CCTs. Some projects had clearly taken CCTs on board in early project design and have integrated at least one of themes well. Some projects appear to be paying lip service to the CCTs, with no associated delivery targets. The clearest progress is being made on the spatial disparities CCT, which is perhaps not surprising given the strong spatial focus of the local enterprise funded projects.

6.45 All the projects state that they will adhere to equality & diversity legislation and that they have arrangements in place to ensure fair access for all groups. Some of the activities delivered by local enterprise projects are configured to target specific groups. Consideration of environmental sustainability, however, is weak; especially where business support is part of the project. Few projects are providing direct assistance to help companies develop more progressive environmental business models.

Evaluation Plans

6.46 Projects are all aware that they are expected to carry out at the very least a final externally commissioned evaluation of their ERDF projects. However, the level of preparedness, appreciation of the value of evaluation and the understanding of what evaluation entails, varies considerably across the projects. Some projects have worked closely with ONE to agree evaluation requirements; for example the regional projects are intending to commission IEF compliant evaluations[20]. However, some projects appear to have what can at best be described as outline evaluation plans at present, whilst other projects appear unsure of the difference between evaluation with the audit requirements of Article 13 and Article 16.

6.47 Evaluations of some of the local enterprise projects are typically bound up in larger scale evaluations of the wider enterprise support programmes that LEGI part funds. The challenge here is to ensure that these evaluations are designed so that the impacts of the ERDF funded activity (qualitative and quantitative) can be identified within those of the wider programmes that ERDF is helping to part fund.

Best Practice and Innovation

6.48 There is limited evidence of innovation in the design or delivery of Priority 2 projects (in the sense of new delivery approaches or novel interventions). However, there is much evidence of very strong integration of ERDF with existing mainstream activities and of robust day-to-day project delivery, both at the regional and local level.

- BENE has benefitted from the creation of a New Business team which looks to collate, coordinate and manage bid submissions. This integrated management process has helped to ensure that operational delivery plans are embedded within the organisation for effective implementation. This process was supported by a clear understanding of the marketplace (e.g. an understanding of the RES to the Lisbon Agenda), a clear approach to managing the project in a robust and transparent manner. BENE also created a Business Performance unit which looks to ensure performance across all project delivery plans is monitored, reported and managed in an efficient and effective manner.

- The Berwick Incubator Development project. TEDCO won the New Incubator of the Year Award in the UKBI (United Kingdom Business Incubation21) awards for the management of this and other centres. UKBI is the national body which promotes

20 The original BENE IDB project has already been subject to an IEF compliant evaluation.

good practice and the award recognises business incubation environments that have been operating for less than 2 years, who can prove a dedication to better practice and to providing their clients with an environment to succeed.

- The Building the Business of Music project model has been replicated outside the North East and the organisation has won great deal of credibility in the industry.

Financial Sustainability

6.49 It is clear that few of the investments were specifically designed with the intention of leaving behind a lasting legacy in the form of a business support infrastructure that would not require continued public sector funding. This is not surprising given that the vast majority of projects are revenue activities and:

- ERDF funding of the major regional business support projects was intended to enhance the mainstream publicly funded business and enterprise support offer, which themselves were predicated on the assumption of continued public sector funding.

- ERDF funding of local enterprise projects was intended to add value to programmes/projects funded by specific (and time bound) funding streams.

- The sustained period of economic growth and public sector resources for economic development and regeneration prior to the recession has meant that in the past projects have not by and large needed to give serious thought to longer-term financial sustainability. The 'business as usual' assumption has been that further funding or new sources of funding would be readily available.

6.50 However, the closure of RDAs, major cuts in public spending (and in turn in the amount of match funding resource likely to be available to the programme) and the reconfiguration of publicly funded business support (ie the abolition of regional business support frameworks and the centralisation of much of the Lisbon-type business support) presents major challenges to the longer term viability of many Priority Two investments. In the current climate of fiscal tightening, there are, broad speaking, three options open to partners should their key sources of match funding no longer be available after project completion:

- First, seek out and secure alternative funding streams - which will be difficult given the general reductions announced by the government for both national (eg BIS funding streams) and local initiatives (eg the ending of LEGI and WNF in March 2011). UK:TI funding appears to be more secure and so internationalisation/trade support may be less hard hit than other forms of Priority Two support.

- Second, mainstream activity into the delivery plans of other partners – which will be problematic for two reasons: i) greater clarity is still required about how business support will be designed, coordinated and delivered in future; and ii) it will be practically more difficult to embed activity into the practices of other bodies that themselves may be in the process of cost cutting, job shedding and rationalising their own services.

- Third, seek to charge SMEs for services – MAS has taken this approach, which requires a clear business case to be made to clients who may have had past experience of receiving support for free. This approach to commercial viability is to be applauded, although the overall scale of a fully commercial service is likely to be much smaller than one funded by the public purse, given the market failures evident.

Conclusions

Headline Conclusions

6.51 The programme clearly faces a number of challenges in light of the forthcoming closure of ONE and the centralisation of most business support, as part of the wider economic development policy changes being implemented by the Coalition Government. These changes (contained in the June 2010 Emergency Budget and October 2010 CSR) have had profound implications for programme funding and delivery. Up to this point, the programme had put in place firm foundations for successful delivery and achievement of its objectives. The investments brought forward on the whole represent sound use of ERDF and:

- Are consistent with the programme vision and Priority 2 objectives
- Are well defined and are adding value to mainstream programmes
- Are justifiable on market failure grounds (although the market failure case is rarely stated explicitly)
- Encompass most of the activities we would expect to see in an ERDF enterprise and business support Priority
- Have demonstrated good progress in both contracting and delivery prior to the imposition by the new government of a moratorium on the use of Single Pot funding for any ERDF projects that had yet to reach contract stage.

6.52 **However, in our view, the changes being implemented by the Government mean that the original objectives of the programme (and in turn Priority 2) will not now be achieved: business as usual is not an option.** In addition, there have been some challenges and weaknesses, which will still require addressing:

- Marrying ERDF indicators/definitions with those of local enterprise programmes that ERDF is being used to bolster.
- Mixed performance on integration of the cross-cutting themes.
- Related to the above, an insufficient focus on the low carbon economy.
- Concerns about the sustainability of projects in the absence of continued public sector funding.

Key Strengths

6.53 The evaluation work carried out so far points to a number of strengths across Priority Two investments to date:

- The initiatives have, on the whole, correctly identified an appropriate rationale and economic imperative guiding their development and delivery and have aligned themselves clearly to the region's economic priorities. There is a clear logic chain linking objectives, the activities they seek to implement and prevailing issues of market failure affecting the markets in which they operate.

- The programme has successfully used ERDF to increase the scale of existing major regional business support programmes, building on existing structures rather than create new ones, and helping to foster efficient management and delivery of ERDF activities.

- Support for local enterprise programmes has enabled the programme to target support on underperforming parts of the region, fostering the equitable allocation of ERDF resources.

- The programme has contracted a reasonable amount of spend and outputs across main priority fields, even it not a lot of delivery.

Key Challenges

6.54 Key challenges highlighted by the assessment of P2 investments include:

- The economic climate may quite significantly reduce the ability of local enterprise projects (Field of Action One) to meet their targets, particularly those trying to get people currently disengaged from the labour market into self-employment. With several of the major LEGI and WNF funds now fully matched, new sources of match funding will need to be found for the remainder of the Programme. This is likely to be harder to identify in the coming years given potential public sector funding cutbacks and the ending of LEGI and WNF.

- The loss of single programme funding will create difficult conditions for continuing the activities of sector development bodies. An emphasis on priority sectors has been a feature of P2 but given the changing policy context and uncertainties about the future public funding of support to businesses, there is a case for considering whether P2 should broaden its focus on sectors. However, in practice the definition of the priority sectors currently used is probably broad enough that relatively little business activity in high value activity is excluded from eligibility for ERDF support. There may be a need to consider if the sectors align with opportunities coming from the national level.

- The achievements and impacts of Priority Two are largely dependent upon the success of a small number of projects, several of which are under threat due to the loss of Single Pot funding. Of some concern to the Programme will be its capacity to generate new, large scale projects to support the formation of high growth and high value businesses in the face of the loss of any new Single Programme match together with the radical policy changes to the funding and delivery of business support.

Future Activity

6.55 The role of Priority 2 will continue to be critical in enabling the Programme achieve significant economic impacts for the North East in the form of new jobs and businesses. The analysis of Priority 2 to date has pointed to a number of further issues that should be considered in allocating future ERDF resource:

- The Regional Growth Fund appears to have only a limited potential to provide source of match funding for larger scale, high growth projects.
- National and EU policy commitments to strengthen development and take up of low carbon technologies present opportunities for more activity in this area (and to embed the environmental CCT more effectively), although match funding sources are currently uncertain.
- The policy context for trade and inward investment promotion has changed, but export led growth will be critical to the UK's economic recovery, and programme will need to maintain headroom to invest in future support (eg. with UK:TI).
- LEPs are expected to take on greater responsibility for supporting local businesses (eg growth hubs) although there is currently a lack of detail on the mechanisms through which this might be achieved.
- While there has been some project activity, there has been little investment in Priority Two to date which will help the North East to develop commercial strengths in low carbon technologies within its SME base. The programme will need to think creatively about how it encourages a stronger flow of potential projects in this area.
- What currently looks like a promising picture in terms of the targets contracted will require the ERDF team to work closely with currently committed projects to ensure their delivery and perhaps even review the feasibility of its proposed targets in the current climate. The upshot is that it is difficult to be certain about ability to deliver against lifetime targets at this stage in the programme's life.

7. Priority Three: Technical Assistance

Introduction

7.1 Priority 3 allocates ERDF resources for the Programme's Technical Assistance (TA). The provision for the Programme to allocate up to 4% of its allocation to TA is laid out in Article 46 of the Structural Funds regulation. This enables the Programme to fund a range of activity relating to the management and administration of the Programme together with activities to reinforce capacity to implement the Programme. The resources allocated to the management and delivery of the Programme cover:

- Monitoring, evaluation and feasibility
- Communications
- Development of a core strategy
- Management and control systems
- Publicity and promotion.

7.2 The Technical Assistance part funds eight posts across the region providing sub-regional and local authority cover in some instances[22], whilst the a manager to oversee the overall management of the TA Group is funded through the ERDF secretariat. Additionally, Priority 3 funding plays a role in strengthening ERDF partnership activity across the North East. It provides funding to engage organisations in providing assistance for the development of ERDF projects and to enable them to play a part in promoting the Programme to public and private sector interests.

7.3 Whilst the implementation of Cross Cutting Themes is a Programme priority, the TA Group does not have any specific remit to help embed activity related to CCTs. Where a member of the group is involved in a specific strategic area of the programme, it is possible the role will include some input into the delivery of CCT outputs.

Priority Three Progress

7.4 A total of £13.61m is available for Priority Three activity within the NE ERDF Programme. Technical Assistance (Priority 3) supports seven projects, which together have spent £1.61m to date out of a total of £4.90m allocated over the period 2007-11. Within Priority Three, £1.6m has been defrayed to date out of a total of £3.3m contracted. This leaves considerable headroom – around £7.9m of Technical Assistance funding remains unallocated. It is unclear why there is such large headroom on this particular component of the Programme budget, although the TA Group feels the budget to be appropriate given its remit. Ensuring knowledge is retained once Technical Assistance reaches the end of its funding period is one way in which this headroom could be reduced.

[22] For example, the Newcastle city council post is focused on Newcastle rather than the wider Tyne and Wear area

7.5 The seven projects supported under Priority Three are categorised according to two different types of project proposer: five of the projects are undertaken by the four sub-regional partner organisations in the region (Newcastle City Council, Northumberland County Council, Durham County Council and Tees Valley Joint Strategy Unit), whilst the remaining two (the largest) are delivered by ONE itself. There are no pipeline projects, and only one project has been completed so far, with a further phase of it in operation at present.

7.6 For the majority of projects funded through Technical Assistance, funding will come to an end following 2011's financial allocation. Only ONE ERDF TA and the Newcastle City Council TA projects will receive funding post 2011 allocation, running until March 2013. Securing funding for projects following the conclusion of this initial funding is likely to pose a challenge for proposers.

Table 7-1: Priority 3 Project Summary

Project	Funding (£s) 2007-11/13		Project Proposer
	Allocated	Spent to date	
ERDF Technical Assistance	£4,397,217	1,489,118	One NorthEast (Final Beneficiary)
Project Verification Service	149,160	41,415	One NorthEast (Final Beneficiary)
Newcastle City Council - Technical Assistance	105,833		Newcastle City Council
Northumberland SRP Capacity 2009-11	92,000	23,358	Northumberland County Council
Durham SRP Capacity 2009-11	78,568	25,579	Durham County Council
Tees Valley SRP Capacity 2009-11	55,910	12,512	Tees Valley Joint Strategy Unit
Durham SRP Capacity	18,332	16,485	Durham County Council
Totals	**,897,020**	**1,608,468**	

Source: MCIS.

7.7 Recipients of TA now meet regularly as a group across the region to cooperate in resolving problems relating to the delivery of TA projects and to provide a degree of coordination amongst sub-regional and third sector representatives. This element of collaborative activity in turn helps to reinforce the impact of ERDF funding on partnership development in the North East. It is possible the activity of this group could help in establishing alternative funding sources for those projects whose funding terminates in 2011.

7.8 Future challenges which face the programme could be the target for focused allocation of Priority 3 funding. This includes any realignment or changes to the commitment of resource following the CSR, as well as RDA abolition and ongoing engagement with regional partners. Support in the transition to post-RDA governance will be important, particularly where projects have established long standing relationships with Agency staff, to ensure vital technical knowledge is not lost in the transition process.

Technical Assistance Sub-Group

Role of the Group

7.9 Technical Assistance can be used to fund costs which support directly the successful implementation of the ERDF Operational Programme and is intended to intervene at programme (as opposed to project) level activity. This means members of the TA group are intended to act strategic advisors, representative of their respective sub-regions or overall, from ONE.

7.10 The ERDF Technical Assistance Sub Group was established by the ERDF Programme Executive Group (PEG) in April 2008. It has delegated authority to manage the TA strategy on behalf of PEG. The responsibilities of the Sub Group include:

- Review and endorse TA projects at selection and appraisal stages
- Review the progress of TA funded projects
- Carry out annual reviews of the TA strategy
- Report progress to PEG and PMC.

7.11 The TA group is intended to ensure the amount of resource TA has is maximised to the benefit of the ERDF programme and as a collective, members have some freedom to administer TA as appropriate to this end. As a general rule, TA group members provide support to projects where it is believed there is most value in doing so based on prior experience and expertise.

7.12 The remit of the Technical Assistance group is clearly understood by members, particularly in relation to staffing and programme management issues and risks and resources. Activity is focused upon implementing the programme, including estimating the impact of various funding scenarios, appraising and approving programme activity, managing evaluation and monitoring, and assessing overall delivery against targets.

Effectiveness of the Group

7.13 Overall, the group's members are supportive of the group's role and remit. Members believe it was appropriate to bid for the maximum amount available for Technical Assistance (under EC rules) at the outset of the programme, particularly given the uncertainty of the funding climate now; although future considerations need to focused be around how resource can be used to best retain knowledge and resource/capacity.

7.14 A number of TA Sub-group members have working links with members of other key programme groups, therefore lines of responsibility and management tiers are seen to be clear. Some members also attend PEG/ PMC groups as there is an overlap that helps flow of information Reporting lines to the programme management and governance groups are clear; the group's financial autonomy as well as working relationships with PEG/PMC is a contributory factor to this. Members do not necessarily feel able to exert individual influence over the programme's strategic direction, although links with strategic staff at

GONE and the RDA means any issues can be aired where necessary.

7.15 Access to up to date financial information, detailing the total amounts available to Technical Assistance at any one time is not available at present, and this is a pressing issue in need of redress. Otherwise, the TA budget is viewed as appropriate and it is not considered necessary for any headroom to be vired to other programme priorities.

7.16 Following changes to accessibility of appropriate match funding, the eight posts currently funded under Technical Assistance will be reduced to three from April 2011. This will present some challenges in terms of ensuring each of the sub-regional priorities are addressed, although clearly the sub-regions will continue to have representation on the PEG and PMC groups.

Conclusions

7.17 Overall, the TA group is a positive factor in the operation of the NEOP, providing invaluable sub-regional experience and facilitating the collaboration of local partners. This has included bringing sometimes disparate interests together effectively, and implementing and understanding some of the main issues affecting the different groups represented in the region. Members believe that they have sufficient authority as a group to influence the decision-making process, and to raise key sub-regional issues with the Programme's management and monitoring groups.

7.18 More specifically, wider external engagement with the Programme could be improved through the introduction of a wider range of agendas. Each of the group's members has links with regional organisations and forums, potentially enabling the main issues affecting these groups to be fed back to the PMC and PEG groups. It is felt these links could be better exploited, however.

7.19 The TA budget is sufficient. With spend some way below total available funding at present it is clear that attention needs to be given to identifying and generating further activity. There is a significant amount of headroom in the TA budget, which needs to be used in helping generate a stronger project pipeline and in helping to manage the transition to a new administrative organisation.

7.20 Viring unallocated money to another priority is an option, but the importance of support staff and resource capacity is fundamental to delivering the remainder of the programme given the loss of ONE expertise and capacity under the new programme management arrangements.

7.21 Securing future match funding is likely to remain a central priority for the Programme going forward; the TA budget is already being impacted by local authorities not having the match funding to re-fund some members on the TA group. Ensuring the retention of key technical information and channels into the sub-region will need to be a priority in the process of RDA wind down and closure and the loss of the majority of TA sub-regional posts in 2011.

7.22 The assessment of progress in Priority 3 has highlighted a number of key general points for the evaluation:

- The importance of a good flow of information and processes to share Programme information. Technical assistance projects make an important contribution to the process of disseminating information about the NEOP both to specific projects and more widely across the region. Furthermore, up-to-date financial information would assist TA staff in developing a productive pipeline of activity.

- The value of guidance to projects at the earliest stage in their development. The TA projects are a key resource in supporting early stage project development. Reducing the amount of administration, record-keeping and auditing required could help to encourage potential applicants.

- A lack of clarity about Priority 3 output and results targets. It was agreed with the European Commission not to have any formal indicators. However, as a result it is more difficult to assess the performance of projects whose activities are not always straightforward to measure. In turn, this may result in a lack of clarity amongst projects about where the emphasis is expected to be in the delivery of TA. The TA group members are clear about eligible and non-eligible activity however, and feel their individual roles to be relevant and necessary.

- Any new management structure to be completely new rather than adding layers to existing structures. Under the new regional arrangements, the ERDF Secretariat will be required to be flexible in dealing with change and considering retrospective activity. The use of expertise and secondees from various agencies involved in previous rounds of ERDF will be useful in enabling individuals to share experiences and ensuring critical information is not lost.

8. Cross-Cutting Themes

Introduction

8.1 In this chapter we present our assessment of progress against the three Cross-Cutting Themes (CCTs) of Environmental Sustainability, Equality and Diversity and Reducing Spatial Disparities. All projects supported by the OP should aim to impact positively on one or more of the CCTs. An early decision was taken by the evaluation steering group and evaluation team not to treat the CCTs in isolation. Although this chapter is dedicated to CCTs, our assessment of progress has been integrated into all the evaluation tasks. Project reviews, research tools, consultations and quantitative analysis have been configured in ways which directly address both CCTs.

8.2 This element of the evaluation has focussed on the extent to which ONE and partners have and will embed CCTs in Programme and project activity. It also considers progress against targets, capacity to deliver the CCTs and the future direction of CCT-related work. The three CCTs are defined as follows:

- Environmental Sustainability:
- Equality & Diversity:
- Reducing Spatial Disparities:

Learning Lessons from Previous Programmes

8.3 In 2007, Regeneris Consulting was commissioned by Government Office North East (GONE) to carry out an evaluation of the cross-cutting themes of equal opportunities and environmental sustainability within the North East Objective 2 programme. This culminated in a series of recommendations for the treatment of CCTs in the 2007-13 programme. A summary of these recommendations and action taken to address them in the current OP is provided in table 8-1. Overall, good progress has been made in addressing the recommendations.

Table 8-1: Recommendations from Evaluation of CCTs in North East Objective 2 Programme (2000-06), and Action Taken in 2007-13 Competitiveness Programme

Aspect of Programme	Recommendation	Action taken in 2007-13 Programme
Strategic Documentation	Embed CCTs within the key ERDF Priority Axes, both horizontally (across all projects), and where appropriate, vertically (within projects devoted specifically to achieving CCT aims).	CCT objectives included in Priority 1 and Priority 2, with guidance on integration. Each priority includes vertical projects.
	Include CCTs in the overall vision of the ERDF Operational Programme, in order to embed the aims of CCTs as a core part of programme strategy.	High level vision includes statement on low carbon aims.
Implementation Documentation	Produce a CCT Implementation Plan, including detailed arrangements in relation to all aspects of CCTs.	A CCT Strategy has been developed, but no specific Implementation Plan.

Table 8-1: Recommendations from Evaluation of CCTs in North East Objective 2 Programme (2000-06), and Action Taken in 2007-13 Competitiveness Programme

Aspect of Programme	Recommendation	Action taken in 2007-13 Programme
	Include CCT element within main body of project application forms.	Sustainable Development Toolkit included as mandatory as part of business case.
	Continue to make use of advice and guidance brochures and online guidance.	"How To" Guide produced and published online.
Programme Quantification	Include a sufficient, but not excessive, number of key CCT indicators at overall Programme level and for each Priority.	Targets included for each CCT by Priority (see Meeting CCT Targets below).
Governance	The Programme Monitoring Committee should include key CCT stakeholder groups	The Environment Agency is represented, as are the sub-regions (as part of commitment to reduce spatial disparities), although no dedicated equality & diversity representation
Project Application and Appraisal	Stronger engagement with project applicants is required before they submit their application.	More attention is now paid to CCTs during development (e.g. use of the Sustainable Development Toolkit) but level of direct contact is patchy.
	Project appraisal should include assessment of applications against suitable CCT criteria.	Sustainable Development Toolkit covering all CCTs is used in project appraisal. Technical Appraisal includes section on CCTs.
	Quantified targets should be set for individual projects, consistent with overall Programme targets.	Some, but not all, projects we have reviewed have CCT targets.
Implementation and Monitoring	Projects should meet with CCT specialists prior to commencement of project, with greater focus on "higher risk" projects.	CCTs are covered during PEVs, but there is no specific additional CCT focus for any project.
	The trend in the latter stages of the NE Objective Two Programme for more rigorous Article 4 monitoring visits should continue, and the CCT element should be given higher priority.	CCTs are still on the whole treated as a minor/marginal aspect of the project monitoring process.
	There should be a stronger emphasis on requiring projects to report in more detail progress on the implementation of CCT aims and objectives.	Those projects with CCT targets must report on progress in quarterly claims.
Role of CCT Specialists	The next programme should include specialists committed to embedding the CCTs.	The programme has drawn on the expertise of ONE officers, who will be lost to the programme following the transition to CLG, and there is no dedicated ERDF CCT staff resource (although some team members do have CCT experience).
Fostering a greater impact among beneficiaries	Where relevant, projects should include CCT-related activities as part of the overall package of support available.	CCT related activities are included in projects where relevant (e.g. environmental business support in Priority 2)

Embedding CCTs in the Current Programme

8.4 The focus of the evaluation has been on the horizontal embedding of CCTs in the programme, meaning the extent to which they have been built into all funded project activity. However, the region has also sought to implement CCTs through their vertical integration into the Operational Programme. This is achieved through the setting of strategic objectives and funding priorities focused on:

- **Environmental sustainability.** Priority 1 in particular has included a focus on environmental sustainability, through the Innovation Connectors. Regional Energy Centres have been established in Northumberland (NaREC), and County Durham (the GREAT Institute).

- **Equality & diversity**. There are no specific vertical projects, although equality and diversity objectives are often tackled as part of local enterprise projects (by the nature of the beneficiary base) and a number of major regional projects have targets for gender ownership of businesses assisted and new business starts.

- **Reducing spatial disparities**. A considerable number of projects that have been contracted within Priority 2 have a strong focus on developing business activity within deprived areas of the region. This is the case for all the local enterprise projects (e.g. Be Enterprising in County Durham, the Northumberland Enterprise Bridge Programme and the Newcastle Enterprise Package). Each of the Innovation Connectors in Priority 1 has a community engagement element, with activity to build links with local communities in deprived areas.

Programme and Priority Strategy and Objectives

Priority One

8.5 **Environmental sustainability** is very well integrated into the objectives for Priority 1:

- Building Standards for capital projects. This is the key means through which Environmental Sustainability is integrated into activity. All new build projects must adhere to BREEAM Good or Excellent standards.

- The re-use of Brownfield land in proximity to public transport infrastructure, in order to minimise the need for travel.

- Integrating environmental management considerations in business diagnostics and subsequent support, including training in environmental management where appropriate.

8.6 **Equality and diversity.** The OP states that "*priority will be given to proposals that demonstrate a meaningful integration of equal opportunities issues, Priority will be given to proposals that demonstrate a meaningful integration of equal opportunities issues including equal opportunities for men and women, for disabled people and for members of disadvantaged groups*." The key ways in which it is intended that equality and diversity is integrated into Priority 1 include:

- Activity to embed Innovation Connectors into, and engage them with, local communities. One of the indicative eligible activities is to promote to specific groups employment opportunities linked directly to the Innovation Connector projects.

- Including an assessment of equality and diversity issues in business diagnostic activity.

- Extending training provision to include under-represented groups, where appropriate.

8.7 The **Addressing spatial disparities in economic inclusion** CCT is addressed within the priority through:

- Action to engage disadvantaged communities with learning, training and employment opportunities around developing Innovation Connectors.

- Activities in disadvantaged areas designed to raise aspirations and awareness of implications of innovation and science to everyday life.

- Specific targets for JEREMIE investments in target communities.

8.8 Overall the design of Priority 1 is most successful in integrating Environmental Sustainability through the requirements for capital projects. The location of Innovation Connectors within or in close proximity to deprived communities, the promotion of employment opportunities within the Connectors to local people and some assessment of equality and diversity performance as part of business diagnostics are the principal means of addressing the other CCTs.

Priority Two

8.9 **Environmental Sustainability** is incorporated into Priority Two principally through supporting businesses with environmental management issues within the diagnostic process and subsequently through follow-on support. The priority has specific targets relating to this (see Meeting CCT Targets below). Any capital works funded in the priority must also adhere to BREEAM standards good or above.

8.10 **Equality and Diversity** is brought into the priority through activity that

- targets the take-up of enterprise support services by target groups and

- seeks to enhance access to finance by women and other target groups for which take up is relatively low.

8.11 The priority is intended to integrate **Addressing Spatial Disparities in Economic Inclusion** by:

- Concentrated support to increase the level of entrepreneurial activity in the region's disadvantaged areas

- The development of business incubators in deprived areas
- tailoring the marketing of business support in areas where there are barrier to take-up, e.g. rural areas.

8.12 Overall Priority 2 is most successful in integrating the Spatial Disparities CCT, due to the strong focus on enterprise in deprived areas. Compared to Priority 1, environmental sustainability is less clearly integrated into priority 2 activity.

Project Design, Delivery and Reporting

8.13 The critical test of the effectiveness of the programme's approach to CCTs is the extent to which they have been embedded in ERDF projects. Our project reviews have revealed a mixed picture in terms of the extent to which the CCTs have been embedded in the design, delivery and monitoring of project activity. The key points are as follows:

- For capital projects, the Environmental Sustainability CCT has had a clear impact on design. The view was consistently expressed that the Programme has been effective in working with projects to ensure that sustainable principles are an integral part of building design in Priority 1 funded projects. Some projects expressly stated that in the absence of the ES requirements of the programme, they would probably have opted for a lower specification building. The Programme has been successful in ensuring that new build projects achieve a Very Good or Excellent BREEAM rating.
- The impact of Environmental Sustainability on revenue projects has been less clear. For many of the business support projects reviewed, the impact of CCTs was limited to a reporting exercise, which did not translate into changes in the approach to client targeting or delivery. Others reported that they would signpost beneficiary businesses to appropriate support, if the business did not have appropriate sustainability and/or equality and diversity policies in place. A small minority, however, did change the design and delivery of their support more clearly: one local enterprise project within Priority 2 included provision for a staff post dedicated to offering advice to businesses on sustainability and energy efficiency.
- There was a perception amongst the Priority 1 projects that their highly specialised nature does not necessarily lend itself to targeting specific under-represented beneficiaries. This is particularly the case where there is a heavy focus on technological innovation, for which targeting under-represented groups in the business base is not seen as appropriate.
- The Reducing Spatial Disparities CCT has been most successfully integrated into Priority 2 activity, by virtue of the strong focus on enterprise in deprived communities in the region. A large proportion of the target beneficiaries are in deprived areas and the focus is on developing the business base and employment in these areas.
- Within Priority 1, projects pointed to their location in or close to disadvantaged communities and their engaging with local SMEs as evidence of their contribution to

the Reducing Spatial Disparities CCT. For example, the Sunderland Software Centre has designed-in space that is intended to allow local people to drop in and observe the work undertaken in the centre. NETPark runs open days for local communities, which bring companies on the site together with residents from the surrounding area to encourage interest in science. The direct benefits to local communities (jobs, improved skills, higher aspirations) from this activity are not clear. There was a perception amongst the priority 1 projects that their highly specialised nature does not necessarily lend itself to an inclusive approach to beneficiaries. This is particularly the case where there is a heavy focus on technological innovation, for which targeting under-represented groups in the business base is not seen as appropriate.

- With regard to equality and diversity, a number of projects had targets for the gender of entrepreneurs supported and jobs created. It is not clear whether these have driven a different approach to delivery, although some projects pointed to their approach to marketing materials or targeting women's networks or BAME networks as illustrating this. There was a clear view amongst many organisations that equality and diversity requirements are already well embedded, in part reflecting statutory obligations. A handful of projects objected to the idea that they should be required to target specific groups, feeling that it was not their place to do so.

- Indeed, as was found to be the case in the evaluation of CCTs in the 2000-06 programme, a number of projects believed that they already adopt high standards on the CCTs through their organisation's policies, and hence that the CCT inclusion has had little substantive impact on their project. However, the view was commonly expressed that the way in which CCTs are included in the appraisal and monitoring of projects forces deliverers to give real consideration to them.

- There were mixed views on the Sustainable Development Toolkit. The message from some of the projects was that the toolkit tends to be completed and then forgotten. Some projects expressed frustration that some of the questions were irrelevant to their project and that there was a degree of repetition within it. Nonetheless, most of the projects we reviewed stated that the need to complete the toolkit as part of the business case development forced them to consider CCTs more robustly than they may otherwise have done. We understand that the toolkit is being phased out and that CCT questions will be integrated into the main body of the application form. This should help to integrate CCTs into the project design and development process.

- A "tick box mentality" still prevails for some projects, paying lip service to the CCTs and making token efforts with little real impact on delivery, or indeed without the need to report on CCT indicators. However, in the evaluator's view the prevalence of this approach is reduced compared to the 2000-06 Programme. This may partly be a function of the increasing prominence of certain CCTs (especially Environmental Sustainability) more generally, as well as the approach taken to CCTs in the ERDF programme.

- Overall there is little evidence of engagement with ongoing support. Of the projects we met with, very few reported that they had made use of the CCT resources available to them from One North East (e.g. seminars, workshops). The reasons for this were mixed: many did not see the need for/relevance of the support, whilst others (mainly in Priority 1) would have welcomed more of a proactive steer on the implementation of CCTs from ONE.

Meeting CCT Targets

8.14 The OP identifies specific performance indicators and targets for each of the cross cutting themes, with separate sets of targets for each priority.

Environmental Sustainability

8.15 Four output indicators and one overall result indicator are included in the OP. Table 8-2 sets out the overall targets for the duration of the programme. As this shows, for business support activity the environmental sustainability-related outputs are a sub-set of the overall output indicator: for example, 21% of new SMEs assisted are expected to be assisted with environmental management. Other outputs are wholly relevant to environmental sustainability, for example, all Brownfield land reclaimed is included as an environmental sustainability output. These outputs are, on the whole, appropriate and a useful means of measuring progress, although of course the business support indicators cannot on their own capture the quality of environmental management advice offered. It is not entirely clear to the evaluators why the *'number of businesses assisted with improved environmental management'* is a results indicator.

Table 8-2: Environmental Sustainability CCT: Overall Priority Targets

Indicator	**Priority 1 Target**	**Priority 2 Target**
Outputs		
No. of new SMEs assisted (of which assisted with environmental management 21% of total)	2,072 (436)	4,008 (845)
No. of businesses assisted to improve performance (of which assisted with environmental management 20% of total)	4,434 (888)	6,680 (1334)
Brownfield Land Reclaimed and/or developed (ha) (100% of total)	21.4	10.3
Area of business premises/R&D premises developed (sq.m) (of which to good or excellent BREEAM standards 100% of total)	51,238	26,000
Results		
No. of businesses assisted with improved environmental management (of which related to improved energy efficiency, micro-renewables and other management of carbon footprint 70% of total)	671 (470)	2,178 (1525)

Source: Cross Cutting Themes Guidance Note, One North East, May 2008

Priority 1

8.16 Progress to date in the achievement of Priority 1 targets is set out in Table 8-3 below. The key points are:

- Although less than a third of the lifetime target for brownfield land reclaimed has been contracted so far, those Priority 1 projects that have been contracted are ahead of their target to date on this output.

- There has been much better progress in contracting projects to deliver the lifetime target for area of business premises developed to good or excellent BREEAM standards, but only 20% of the end of 2010 target volumes of business premises have been developed so far.

- In terms of business support results, less than a third of the lifetime target has been contracted so far, and current achievement against the target to end of 2010 is at 34% for the number of businesses assisted with improved environmental management. Only 15% of the target for end of 2010 for business assistance on improved energy efficiency, micro-renewables and other management of carbon footprint has been achieved.

Table 8-3: Environmental Sustainability CCT: Outputs and Results Contracted and Achieved in Priority 1

Indicator	Lifetime P1 target	Target for contracted projects	% of lifetime target contracted to date	Target for contracted projects to end of 2010	Achieved to date	% of contracted target to end of 2010 achieved to date
Outputs						
Brownfield Land Reclaimed and/or developed (ha) (100% of total)	21.4	6	28%	1.8	2.0	109%
Area of business premises/R&D premises developed (sq.m) (of which to good or excellent BREEAM standards 100% of total)	51,238	27,446	54%	8,847	1,760	20%
Results						
No. of businesses assisted with improved environmental management	671	194	29%	70	24	34%
No. of businesses assisted with improved environmental management (of which related to improved energy efficiency, micro-renewables and other management of carbon footprint 70% of total)	470	356	76%	170	25	15%
Source: MCIS						

Priority 2

8.17 Progress to date in the achievement of Priority 2 targets is set out in Table 8-4 below. The priority is behind its target for all relevant outputs and results:

- Only 14% of the lifetime target for Brownfield land reclaimed has been contracted to date, whilst 18% of the target to date has been achieved.

- A third of the lifetime target for business premises developed to good or excellent BREEAM standards has been contracted and achievement against target to date is very low at 7%.

- Progress on supporting businesses with improved environmental management is at 13% of target.
- Although a third of the lifetime results target for businesses assisted with improved environmental management has been contracted within projects, there are no recorded results to date.

Table 8-4: Environmental Sustainability CCT: Outputs and Results Contracted and Achieved in Priority 2

Indicator	Lifetime P1 target	Target for contracted projects	% of lifetime target contracted to date	Target for contracted projects to end of 2010	Achieved to date	% of contracted target to end of 2010 achieved to date
Outputs						
Brownfield Land Reclaimed and/or developed (ha) (100% of total)	21.4	3	14%	1.1	0.2	18%
Area of business premises/R&D premises developed (sq.m) (of which to good or excellent BREEAM standards 100% of total)	51,238	17,387	34%	2,695	191	7%
Results						
No. of businesses assisted with improved environmental management	2,178	494	23%	349	45	13%
No. of businesses assisted with improved environmental management (of which related to improved energy efficiency, micro-renewables and other management of carbon footprint 70% of total)	671 (470)	214	32%	117	-	0%
Source: MCIS						

8.18 Overall therefore, progress within the two priorities in contracting and delivering the targets for Environmental Sustainability targets has, on the whole been slow. Progress within Priority 1 has been a little better than in Priority 2: those projects that have been contracted to deliver Brownfield land reclamation have exceeded their target to date. For both priorities, progress in contracting and delivering environmental business support related results has been slow.

Equality and Diversity

8.19 Table 8-5 presents the equality and diversity targets for each priority.

Table 8-5: Equality and Diversity CCT: Overall Priority Targets		
Indicator	**Priority 1 Target**	**Priority 2 Target**
Outputs		
No. of new SMEs assisted (of which run by women or other under-represented groups 25% of total)	2,072 (517)	4,008 (1003)
No. of businesses assisted to improve performance (of which assisted with the introduction of diversity and family friendly policies 5% of total)	4,434 (222)	6,680 (334)
Results		
No. of gross jobs created – (i) men and (ii) women (iii) in disadvantaged areas	(i) 1,983 (ii) 1,622 (iii) 180	(i) 3,619 (ii) 2,961 (iii) 987
No. of gross jobs safeguarded – (i) men and (ii) women (iii) in disadvantaged areas	(i) 4,626 (ii) 3,785 (iii) 421	(i) 5,429 (ii) 4,441 (iii) 1,480
No. of businesses created (i) in disadvantaged areas (of which run by women or other under- represented groups)		3,006 (i) 451 (752)
Source: Cross Cutting Themes Guidance Note, One North East, May 2008		

Priority 1

8.20 Progress to date against these targets in Priority 1 is set out below. Progress in contracting projects for jobs created by gender has been much better than for jobs safeguarded. For the relevant job creation and jobs safeguarded targets, projects contracted to date are well behind the respective targets to date, and are therefore behind on the equality and diversity related portion as well:

- 35% of the overall job creation target to date has been achieved. Splitting this by gender, 30% of the target for jobs created for men has been achieved, whilst only 12% of the target for women has been met (not all target job outputs have been assigned a gender).
- Overall only 12% of the target for jobs safeguarded to date has been achieved. Within this, only 5% of the target for women has been achieved, compared to 10% for men.
- MCIS does not appear to contain any data on contracted or achieved CCT related outputs for new SMEs assisted.

Table 8-6: Equality and Diversity CCT: Outputs and Results Contracted and Achieved in Priority 1						
Indicator	**Lifetime P1 target**	**Target for contracted projects**	**% of lifetime target contracted to date**	**Target for contracted projects to end of 2010**	**Achieved to date**	**% of contracted target to end of 2010 achieved to date**
Outputs						
No. of gross jobs created	3,605	6,810	189%	618	216	35%
(i) men	1,983	3,762	190%	326	97	30%
(ii) women	1,622	2,935	181%	184	23	12%
No. of gross jobs safeguarded	8,411	4,195	50%	1,063	123	12%
(i) men	4,626	2,486	54%	599	63	10%
(ii) women	3,785	1,686	45%	415	22	5%
No. of businesses created	-	-	-	-	-	-
(i) in disadvantaged areas (of which run by women or other under- represented groups)	-	-	-	-	-	-
Source: MCIS						

Priority 2

8.21 Progress to date against these targets in Priority 2 is set out below. Overall there has been slower progress in contracting for these outputs than in Priority 1, but for those projects that have contracted to deliver the outputs, progress against targets for jobs created and safeguarded has been better (although the projects are still considerably behind target overall).

- 51% of the overall target to date for jobs created has been achieved. Within this, there has been a particular underperformance for jobs created for women, at 43% of target, compared to 61% for men.

- 54% of the overall target to date for jobs safeguarded has been achieved. Again, volumes for women are further behind target (at 36% of target) than those for men (at 70%).

- 54% of the target number of businesses created has been achieved overall. A large number of these new businesses have been created in disadvantaged areas, and achievement on this indicator is slightly ahead of that for overall business creation.

- Again, MCIS does not appear to contain any data on contracted or achieved CCT related outputs for SMEs assisted.

8.22 Additional indicators have been monitored since the OP was written, although not formally included as programme targets. These include:

- Potential entrepreneurs going on to access Business Link services: projects are well behind on this overall (just 2% of the target has been achieved). Volumes of achievement are therefore very low for both men and women (at 9% and 5% of target respectively).

- Potential entrepreneurs assisted to be enterprise ready: projects are at 25% of the contracted target overall for this indicator, which roughly equal progress against target for men and women.

Table 8-7: Equality and Diversity CCT: Outputs and Results Contracted and Achieved in Priority 2

Indicator	Lifetime P2 Target	Target for contracted projects	% of lifetime target contracted to date	Target for contracted projects to end of 2010	Achieved to date	% of contracted target to end of 2010 achieved to date
Results						
No. of gross jobs created	6,580	6,339	96%	4,426	2,273	51%
(i) men	3,619	3,007	83%	1,954	1,187	61%
(ii) women	2,961	2,348	79%	1,581	684	43%
No. of gross jobs safeguarded	9,870	5,192	53%	3,105	1,671	54%
(i) men	5,429	2,449	45%	1,332	933	70%
(ii) women	4,441	1,992	45%	1,156	418	36%
No. of businesses created	3,006	3,041	101%	2,572	1,389	54%
Of which run by women or other under- represented groups	752	1,980	263%	1,567	902	58%
Potential entrepreneurs going on to access Business Link Services	-	2,370	-	1,286	28	2%
(i) men	-	849	-	240	21	9%
(ii) women	-	653	-	196	9	5%
Potential entrepreneurs assisted to be enterprise ready	-	10,952	-	3,489	863	25%
(i) men	-	4,293	-	1,928	502	26%
(ii) women	-	3,228	-	1,561	361	23%
Source: MCIS						

8.23 Overall both priorities are behind on their targets for equality and diversity. Priority 1 has contracted for a large volume of job creation outputs but is considerably behind on the targets to date. This has impacted on the achievement of jobs created by gender. In Priority 1, progress in contracting for and achieving jobs safeguarded by gender has been slow. Progress on the gender related elements of both jobs created and safeguarded has been better, but projects are nonetheless behind on their targets. For Priority 2, additional targets have been added for referrals to Business Link, which do not appear to have gained traction within projects.

Addressing Spatial Disparities in Economic Inclusion

8.24 Table 8-8 illustrates the targets with regard to addressing spatial disparities. All social enterprises assisted in Priority 2 are counted towards the CCT target, whilst 15% of jobs created and safeguarded and of businesses created and attracted to the region are expected to be located in disadvantaged areas. The method used to identify disadvantaged areas took account of a range of factors including position on the Index of Multiple Deprivation eligibility for the Working Neighbourhoods Fund.

Table 8-8: Addressing Spatial Disparities in Economic Inclusion CCT: Overall Priority Targets

Indicator	**Priority 1 Target**	**Priority 2 Target**
Outputs		
No. of new and existing businesses assisted that are social enterprises (100% of total)	-	267
Results		
No. of gross jobs created (iii) in disadvantaged areas (15% of total)	180	987
No. of gross jobs safeguarded (iii) in disadvantaged areas (15% of total)	421	1480
No. of businesses created or attracted to the region (i) in disadvantaged areas (15% of total)	-	451
Source: Cross Cutting Themes Guidance Note, One North East, May 2008		

Priority 1

8.25 Progress to date against these targets in Priority 1 is set out below. The key relevant targets for the Priority are the number of jobs created and safeguarded in disadvantaged areas. As Table 8-9 shows, There has been very good progress in contracting for these outputs, but very slow progress in delivering them. The number of jobs created and safeguarded in disadvantaged areas are also behind target, at 23% and 29% of the contracted target to date. Of the jobs created to date, 13% have been created in disadvantaged areas, whilst 26% of all jobs safeguarded have been located in deprived areas. Job creation rates in particular are likely to have been impacted on by the economic climate.

Table 8-9: Addressing Spatial Disparities in Economic Inclusion CCT: Outputs and Results Contracted and Achieved in Priority 1

Indicator	**Lifetime P1 Target**	**Target for contracted projects**	**% of lifetime target contracted to date**	**Target for contracted projects to end of 2010**	**Achieved to date**	**% of contracted target to end of 2010 achieved to date**
Outputs						
No. of new SMEs assisted that are social enterprises	-	-		-	-	-
Results						
No. of gross jobs created	3,605	6,810	189%	618	216	35%
(iii) in disadvantaged areas	180	886	492%	125	29	23%
No. of gross jobs safeguarded	8,411	4,195	50%	1,063	123	12%
(iii) in disadvantaged areas	421	535	127%	110	32	29%
No. of businesses created						
(i) in disadvantaged areas (of	-	-		-	-	-

which run by women or other under- represented groups)						
Source: MCIS						

Priority 2

8.26 As for Priority 1, there has been very good progress in contracting for spatial cohesion outputs. Progress to date in achieving these outputs has been better, although the priority is still underperforming overall. Projects within this priority have achieved 55% of the jobs created in disadvantaged areas that they have been contracted to by the end of 2010, but only 25% of the target for jobs safeguarded in disadvantaged areas has been achieved. Projects have achieved 58% of their target for business creation in disadvantaged areas. 126 social enterprise SMEs have been assisted, against a target of 317.

8.27 As for equality and diversity, additional indicators have been added since the OP was written:

- Potential entrepreneurs going on to access Business Link services: as we saw above, projects are well behind on this overall (just 2% of the target has been achieved). Progess against target to date stands at 13% for the relevant CCT indicator.
- Potential entrepreneurs assisted to be enterprise ready: Compared to overall progress against target of 25%, for entrepreneurs that are located in disadvantaged areas progress is 13% against target.

Table 8-10: Addressing Spatial Disparities in Economic Inclusion CCT: Outputs and Results Contracted and Achieved in Priority 2

Indicator	Lifetime P2 Target	Target for contracted projects	% of lifetime target contracted to date	Target for contracted projects to end of 2010	Achieved to date	% of contracted target to end of 2010 achieved to date
Outputs						
No. of new SMEs assisted that are social enterprises	267	368	138%	317	126	40%
Results						
No. of gross jobs created	3,605	6,339	176%	4,426	2,273	51%
- in disadvantaged areas	987	1,930	196%	1,352	740	55%
No. of gross jobs safeguarded	9,870	5,192	53%	3,105	1,671	54%
- in disadvantaged areas	1,480	668	45%	366	90	25%
No. of businesses created	3,006	3,041	101%	2,572	1,389	54%
- in disadvantaged areas	451	1,980	439%	1,567	902	58%
Potential entrepreneurs going on to access Business Link Services	-	2,370	-	1,286	28	2%
- in disadvantaged areas	-	414	-	68	9	13%

Potential entrepreneurs assisted to be enterprise ready	-	10,952	-	3,489	863	25%
- in disadvantaged areas	-	3,798	-	2,076	268	13%
Source: MCIS						

8.28 In conclusion, both priorities have made very good progress in contracting for the spatial cohesion related outputs, but both are behind on the achievement of these outputs to date. As for equality and diversity, the impact of the recession will have been a factor.

Conclusions

8.29 The analysis has highlighted a number of conclusions and implications for the Programme's approach to the implementation of CCTs.

- Many of the recommendations from the CCT evaluation of the previous ERDF programme in the North East have been taken forward, and this has helped to embed CCTs in the current programme. Good progress has been made in monitoring progress on the CCTs compared to the previous programme, and more attention is now paid to CCTs during development.

- CCTs are now covered in the PIP stage and are built into the project development and appraisal stage earlier on than they were in the previous 2000-06 Objective Two programme. The quality of responses on CCTs varies, however, as some organisations and ONE developers pay much closer attention to CCT issues than others (and for some projects the CCT aspects/implications are much more obvious). CCTs are clearly easier to address where they go with the grain of what projects are doing as a matter of course.

- Priority 1 has been particularly successful in addressing the Environmental Sustainability CCT, through requirements for capital projects. Priority 2 has been more successful in contributing to addressing spatial disparities, with many projects focussing on developing economic activity in deprived areas. Equality and diversity has been integrated through targets for assistance of target groups, although for some projects the impact has been limited to a reporting exercise.

- A range of CCT indicators are used as a basis for contracting projects to deliver CCT outputs. On the whole the indicators are an appropriate and useful means of monitoring progress, and are in line with the indicators used in other ERDF programmes in England. For the Programme to ensure real delivery of CCTs within projects, all projects should have some sort of CCT targets and projects will need to demonstrate how the inclusion of the targets is actually going to impact on their approaches to delivery.

- Overall the Programme is some way behind on its CCT-related targets to date. In the case of the equality and diversity and spatial cohesion targets, this is largely a reflection of the fact that the projects are behind on the global target, of which the CCT related element is a sub-set. For example, both priorities are behind on their job creation targets, and are therefore also behind on the target for jobs created by gender. This is partly a result of the change in the economic climate, which has impacted on the ability of projects to create jobs. For Environmental Sustainability, projects are under-performing with regard to business assistance with environmental management. Although it is not fully clear what is driving this, in the current economic climate many SMEs are much more focussed on short term survival and it is difficult for environmental concerns to gain traction.

- In the new management arrangements for ERDF, there will be no dedicated CCT staff resource. Therefore, in the transition to new arrangements efforts need to be made to retain as much existing CCT expertise as possible. Good practice workshops for remaining staff who will be managing the programme for CLG could help.

- CCTs appear to be better embedded in project development and appraisal than in monitoring and delivery. Efforts to integrate CCTs within the main body of the application form should continue, in order to ensure that projects view it as an integral part of the project design and development process. More rigorous monitoring requirement are needed to increase embedding in project delivery.

- There are mixed views about whether the cross-cutting themes (CCTs) are being adequately addressed at present and differences of opinion about their importance given the other challenges facing the programme. There is clear risk of a loss of focus on CCTs as partners wrestle with other challenges and the potential negative effects of the Government's austerity measures on equality & diversity and spatial cohesion.

- As recommended for the previous Objective Two programme, there should if possible be more proactive engagement with projects that have the greatest potential to make a positive impact on CCTs. For example, large capital projects or large scale business support initiatives. This will help early on to make sure that measures are in place to mitigate potential negative impacts and maximise the positive contributions these projects make.

9. Emerging Programme Impacts

Introduction

9.1 In the absence of widely available evaluations at a project level, a survey of SME beneficiaries was conducted by BMG Research. The survey was an important element in providing a robust, reliable and independent assessment of the emerging impacts of part of the programme, as well as giving a firsthand insight into the usefulness of the support and its delivery to SMEs.

9.2 The survey was **only partial in its coverage of the range of intervention types** which have been funded through Priority One and Two. If focused on business advice and guidance to SMEs up to the end of 2010 where there had been significant progress in providing this support to existing SMEs and start-ups (and individuals wishing to set up a new business). We estimate that at the end of 2010 this type of business support accounted for two thirds of the total ERDF spent across all projects (around £29m out of £44m).

9.3 The survey did not include SMEs which benefited indirectly from ERDF projects, for example where they have occupied new incubators or business premises developed with the support of ERDF capital funding, were not included in the survey. So for example, SMEs occupying new floorspace developed within the Innovator Connectors have not been included in the survey. **The consequence is that the survey is not a full assessment of the wider impact of the programme's investment in land and property, a part of the programme which will produce the longer term 'transformational' benefits and indirect benefits to SMEs.**

9.4 Table 9.1 provides a summary of the types of support received and operational and performance benefits achieved by the SME beneficiaries included in the survey, distinguishing between the two priorities.

Table 9-1 Forms of Support Provided to SMEs Beneficiaries Included in the Beneficiary Survey

Priority One	Priority Two
Forms of Support (inputs):	
• Support for start-ups or potential start-up enterprises • Access to finance • Support for R&D, innovation and related collaborations • Sector based networking activities • Workforce development	• Support for start-ups or potential start-up enterprises • General business advice and guidance • Networking • Intensive business support • Workforce development
Types of Bottom-line Performance Improvements (results):	
• Turnover created and safeguarded • Improved profitability • GVA created or safeguarded • Jobs created and safeguarded • Improved survival of start-ups	• Turnover created and safeguarded • Improved profitability • GVA created or safeguarded • Jobs created or safeguarded • Improved survival of start-ups

9.5 The telephone survey was designed specifically to enable the respondents to quantify the impact of the support they had received from ERDF funded projects. The survey gathered information on the change in turnover, profits and employment amongst the supported businesses since the assistance was received; the extent to which businesses attribute these changes to the support received, as well as business characteristics to allow us to assess levels of economic leakage and displacement. The data collected therefore enabled us to calculate the impact of the support on business turnover, employment and profitability and ultimately the contribution of these improvements to the region's GVA. Table 9-2 provides an overview of the information collected by the survey.

Table 9-2: Key Questions for SME Beneficiary Survey
Section 1: Business Information
• Nature of firm, e.g. sector, age and size of business
• Location of suppliers
• Location of competitors and market areas (*to assess deadweight*)
Section 2: Support Received
• How became aware of service and process of receiving assistance
• Description of the support actually received including duration/intensity of assistance
• Reason for seeking support and financial and time contribution made by company
Section 3: Effect of Support Received
• Change in business since intervention including jobs turnover etc.
• Attribution of effects to support received (*to assess additionality*)
• Future impact of project on the above (*to assess longer term impacts*)
Section 4: Perception of Service
• Rating of satisfaction with aspects of services and match to expectations
• Views on usefulness and quality of support and service
• Experience of working with support agency
• Attitudes to business support in future and things they might change

9.6 It is important to bear in mind the potential implications of the current recession for the survey results. As explained in Chapter Two, the recession has dampened the growth ambitions of the supported SMEs, resulting in less turnover and jobs growth than might otherwise have been expected, but more safeguarded activity. However, as the economy emerges from recession, we would expect the balance between the creation and safeguarding of economic activity through the programme to shift back to a position more in line with the original assumptions of the programme.

Achieved Sample

9.7 A total of 502 SME beneficiaries were questioned as part of the telephone survey. Based on the sample provided to Regeneris and BMG (the market research firm undertaking the survey), the 502 SMEs that participated in the telephone survey represents 15% of SMEs assisted by the programme to date. Whilst this provides a fairly robust basis for judging the experiences of these SMEs and start-ups and the benefits they have secured, the following considerations need to be borne in mind:

- The margin of error for the sample as a whole is +/- 4.4% (at the 95% Confidence Level). However, there is a substantial difference between the margins of error when the data is disaggregated to allow for priority level analysis. The margin of error around Priority 1 data is much larger (+/- 10%) than for Priority 2 (+/- 4%). This is largely a result of the comparatively smaller population of businesses assisted through priority 1 which makes it more difficult to achieve high levels of statistical reliability. See Appendix D for more detail.

- The spread of responses by project is broadly representative of the population of beneficiaries as a whole, although there are a handful of projects which are over- or under-represented in the sample. Responses from businesses receiving assistance from the Business Link projects are over represented in the sample (making up just over 40% of the achieved sample compared to 31% of the population).

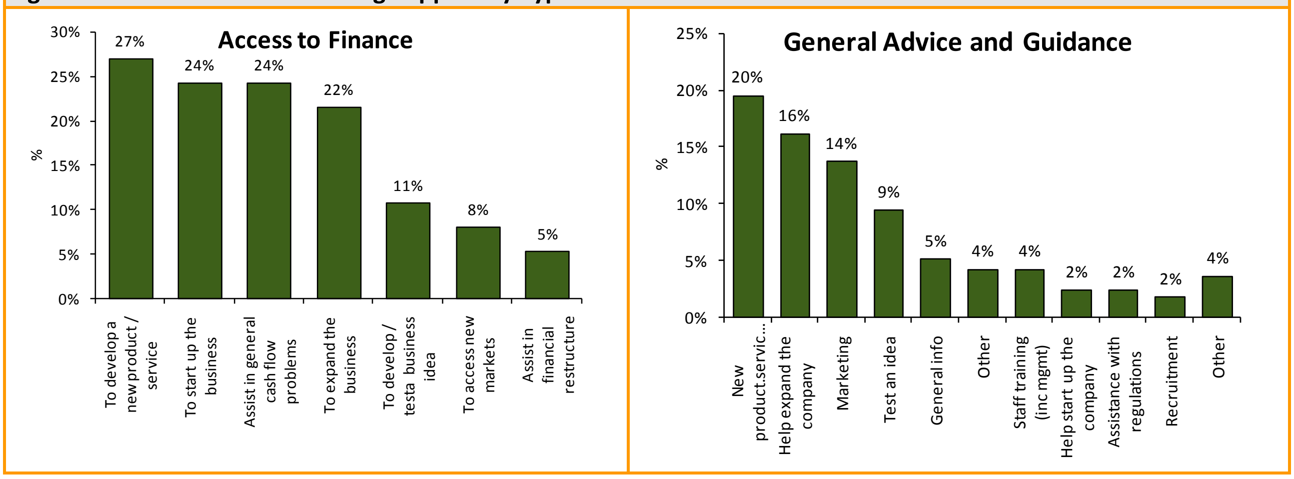
- Two projects in particular (Business Support for Young People and Business Resilience) are slightly underrepresented in the sample. This is not a critical issue as a sizeable number of responses from beneficiaries of these projects were achieved. The slight under representation of responses from these projects could be linked to a range of factors (difficulty contacting younger beneficiaries and businesses that have since closed are likely to have played a major role).

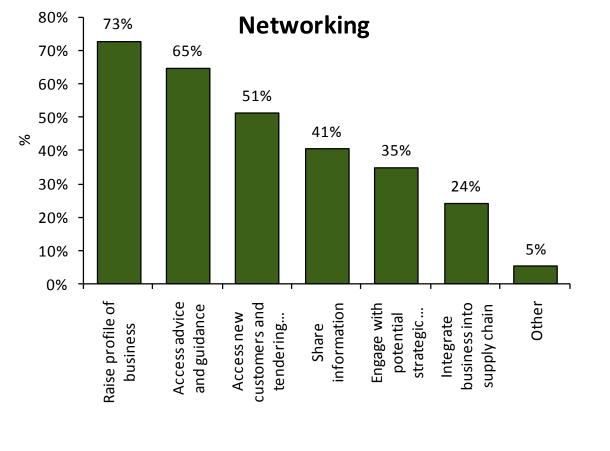
9.8 Drawing upon the available monitoring information in Section 4, this section examines the emerging programme impacts. The chapter provides a brief overview of the key messages from the survey and highlights the main implications for the programme. Given the different forms of business support provided to start-up businesses and established businesses, the analysis of the results clearly makes this distinction, as well as reporting the results for specific forms of support or by priority where relevant.

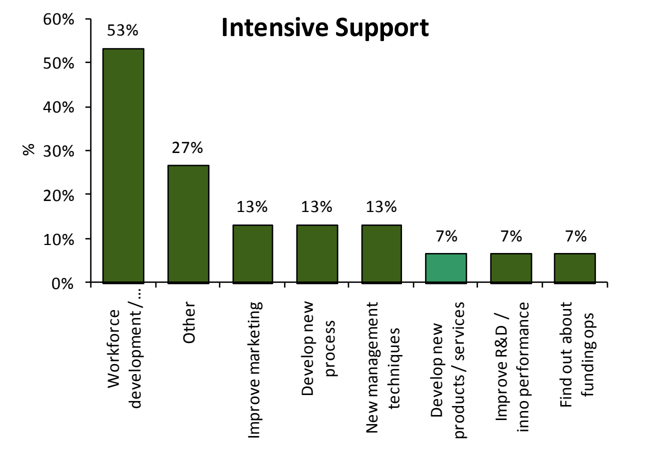
Motivation for Seeking Support

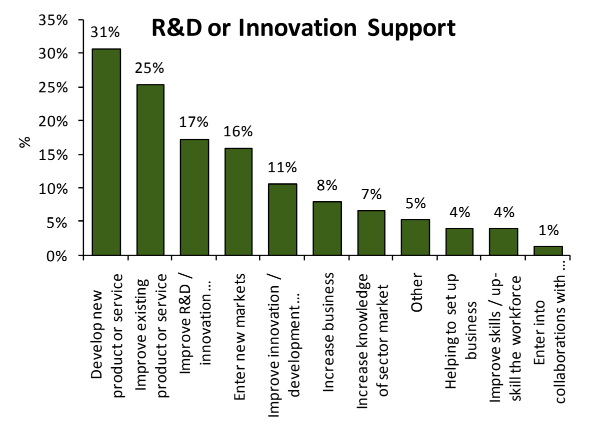
9.9 Established businesses reported a variety of motivations for accessing the support. There are some small variations according to the type of support received, but two broad reasons for accessing support in particular stand out; development or improvement of products and services and assistance with marketing or company expansion.

Figure 9-1: Motivation for Seeking Support by Type of Assistance Received.









Source: Regeneris Consulting survey of beneficiaries
Base: 502 respondents (410 established businesses)
Note: Percentages will not sum to 100% as businesses were able to select more than one reason for accessing support.

9.10 For almost all support types where this was relevant (i.e. all expect networking) development of new products and services was the most commonly cited reason for accessing support. While it appears to be a less important factor for businesses accessing intensive support, it should be noted that the sample of responses for this support type is very small as the majority of businesses receiving intensive support indicated that it was R&D / innovation (related and were therefore diverted to questions relevant to the R&D support. Within the sample of businesses receiving R&D or innovation support, the majority were looking to develop or improve products or services.

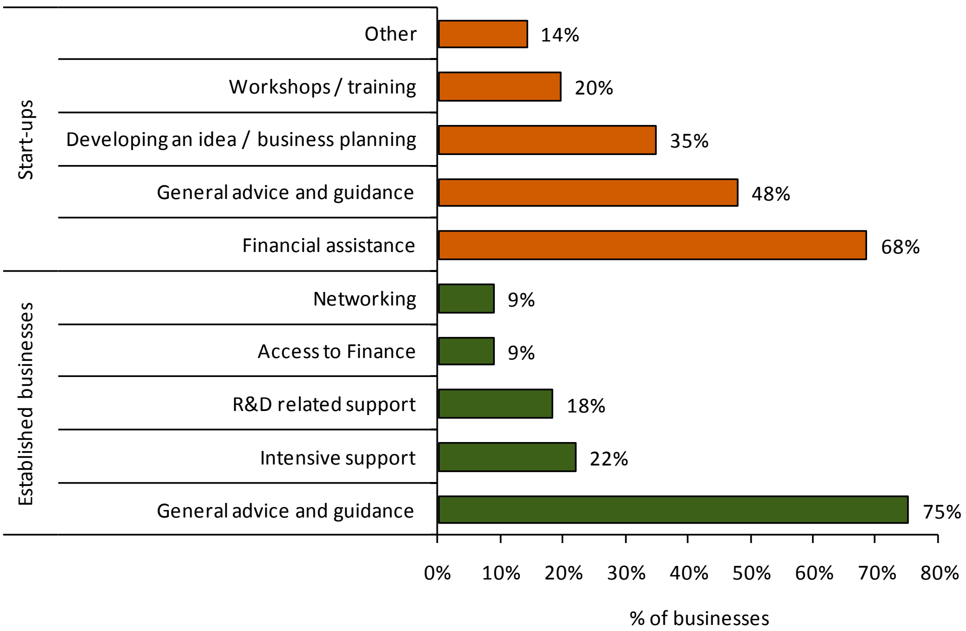
9.11 Assistance with marketing, access to new markets or business expansion more generally was also frequently cited by recipients of all types of support. It is particularly notable that three quarters of businesses accessing networking support were seeking to raise the profile of their business (a larger proportion than were using the network to access advice and guidance).

9.12 This strong emphasis on marketing and business expansion amongst the motivations for accessing support is likely to be related to the difficult trading conditions that would have been affecting many of these businesses at the time they received support. This is also reflected in the sizeable proportion of businesses receiving access to finance support (24%) stating assisting with cash flow problems amongst their motivation for accessing this support.

Support Received

9.13 Overall, more than 60% of survey respondents indicated that they had received financial assistance as part of the package of support they had received. This seems intuitive for start up businesses (as many of the projects supporting start-up businesses included small grants and loans to assist with setting up costs).

Figure 9-2: Type of Support Received by Beneficiary SMEs



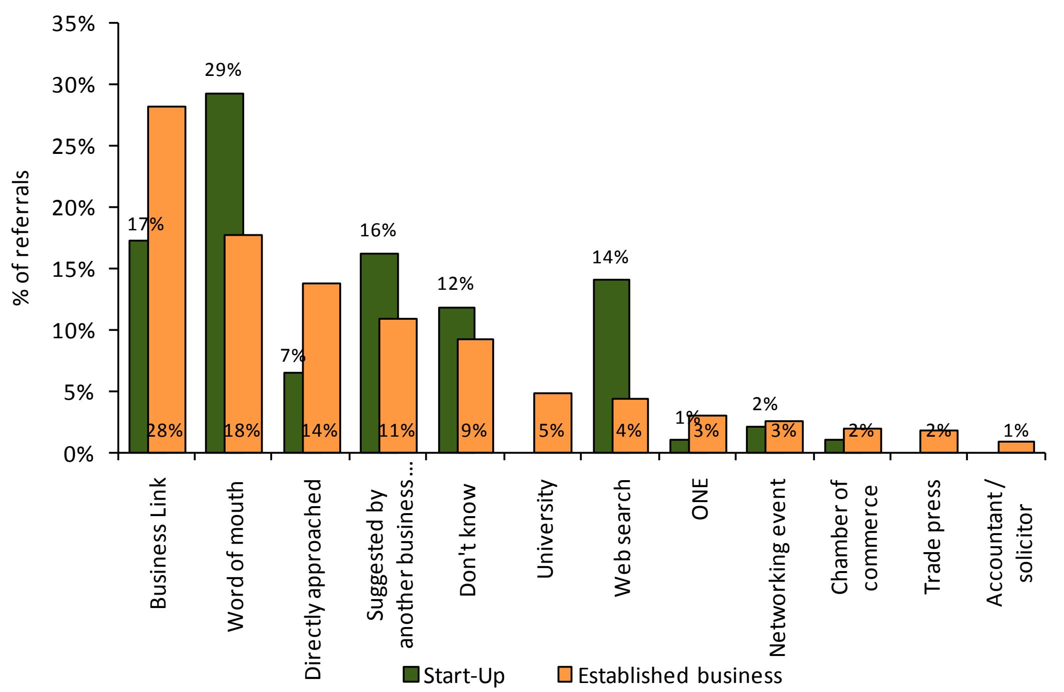
Source: Regeneris Consulting survey of beneficiaries Q9 and Q38
Base: 502 respondents (410 established businesses, 92 businesses receiving start-up support)
Note: Responses will not sum to 100% as businesses reported more than one type of support.

9.14 A large number of existing SME beneficiaries (75%) identified the type of support received as general advice and guidance. In the vast majority of instances this was an allowance provided to the SME by a business support provider to purchase advice, guidance or other more specialist forms of business support. A significant proportion of existing businesses (around one in three) indicated that they had received a package of support consisting of a combination of elements (e.g. Innovation and R&D support along with networking assistance).

Referrals

9.15 Business Link and word of mouth were the two most commonly cited sources of referral by both established businesses and businesses receiving start-up assistance. Word of mouth appears to be the most effective means of stimulating demand for start-up support, cited by almost one in three start-up businesses, reflecting the more informal methods of accessing support amongst people wishing to start a business. Reflecting this, a much larger proportion of start-ups proactively searched for the support online (14% indicated that they had first heard of the support via a web search) whilst proactive marketing activity by projects themselves appears to be more important in stimulating demand for support for established businesses (14% of established businesses had been directly approached by the project from which they received support).

Figure 9-3: Most Common Sources of Referral by Support Type



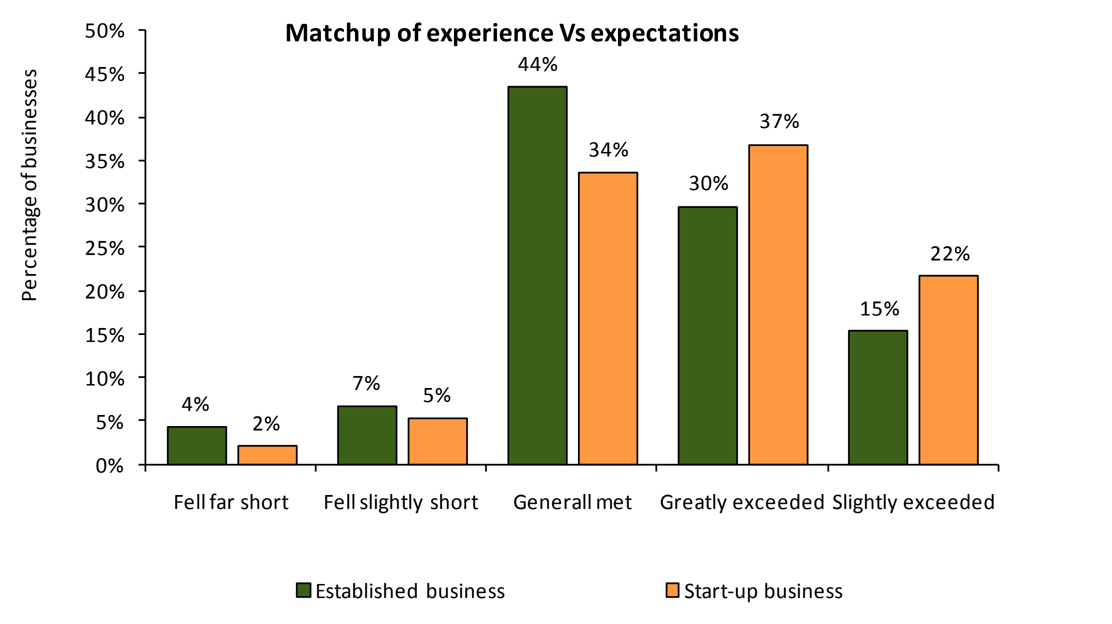
Source: Regeneris Consulting survey of beneficiaries Q10, 20, 28, 36,45
Base: 502 respondents (92 respondents receiving start-up support, 410 established businesses)

9.16 The large proportion of businesses citing referral from Business Link or other business organisations (39% of established businesses and 33% of start-ups) suggests that the projects are well integrated into the landscape of business support services available across the North East and that as well as there being a strong provision of referrals from the mainstream gateway provided by Business Link, there is also evidence of linkages and lines of referral between projects and organisations providing business support in the region. Business Link made up a large proportion of referrals for all types of support but appears to be particularly important in stimulating demand for general advice and guidance; 35% of businesses cited this as the way in which they first heard about the support. It is also notable that although Chambers of Commerce do not play a large role overall, they were particularly important in generating referrals to access to finance support, and were cited by almost a quarter of businesses receiving this type of assistance.

Experiences of Assistance

9.17 Overall levels of satisfaction amongst businesses responding to the telephone survey are high; 89% of businesses stated that their experience of support had either met or exceeded their expectations and just 6% indicated that they were not satisfied with the support. There appears to be very little difference between levels of satisfaction reported by businesses receiving different types of support. Businesses receiving start-up support were more likely to feel their expectations had been exceeded, whilst established businesses were in contrast more likely to feel their expectations had just been met.

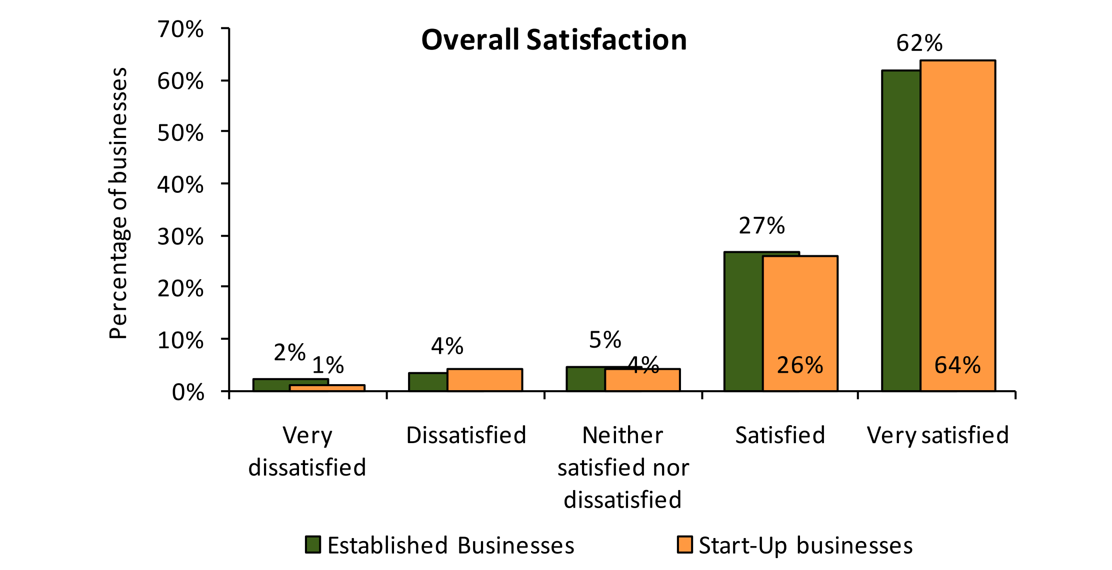
Figure 9-4: Comparison of Beneficiaries' Experience and Expectations



Source: Regeneris Consulting survey of beneficiaries
Base: 502 respondents (410 established businesses, 92 businesses receiving start-up support)

9.18 Businesses were asked to rate various elements of the support they had received. On the whole, ratings were positive across all elements of the support received, although there was a tendency for higher ratings for more intensive and specialist support, probably reflecting the greater tailoring of the support and more specialist staff involved. In contrast, the lowest ratings were provided for networking support, which to some extent reflects the often disparate interests and needs of participating businesses.

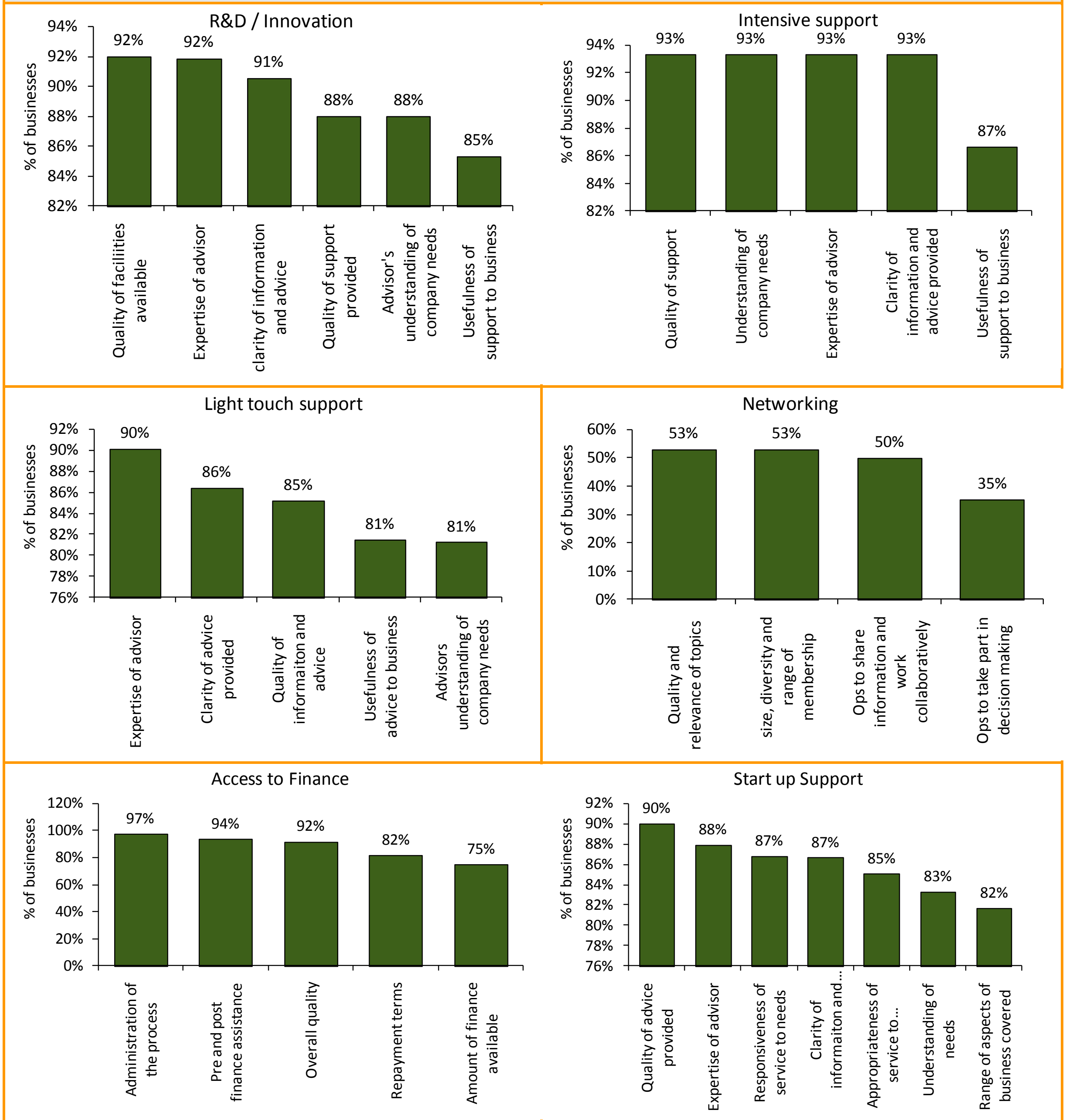
Figure 9-5: Overall Satisfaction with Support Provided



Source: Regeneris Consulting survey of beneficiaries
Base: 502 respondents (410 established businesses, 92 businesses receiving start-up support)

9.19 Amongst recipients of financial assistance ratings for the overall administration of the process and pre and post finance support are very high – virtually all of the recipients provided high ratings for these elements of the service. This is a particularly strong reflection of the support provided in light of the often complex and demanding administration requirements for Access to Finance support.

Figure 9-6: Ratings for Elements of Support: percentage of businesses rating support as either *excellent or very good,* by type of support received.



Source: Regeneris Consulting survey of beneficiaries
Bases: R&D and innovation = 75, Intensive support = 15 , light touch advice and guidance = 81, networking = 37, Access to finance = 37, Start-up support = 92

9.20 The comparatively smaller proportion of businesses providing positive ratings for the amount of finance available is notable, with a quarter of recipients not being satisfied with the amount of finance available through these projects. However, the majority of these respondents who were not satisfied with the amount of finance available had been assisted by just two projects that provided very small amounts of financial support (less than £2,000).

Operational Effects on Businesses

9.21 There is evidence of significant impacts amongst businesses receiving start-up support (although this must be interpreted in light of the tendency for businesses that have successfully started up / survived being slightly overrepresented in the sample).

9.22 **Table 9-** provides an overview of the progression reported by recipients of start up support. The majority of recipients of start up support were at the business planning stage when they first accessed assistance although a handful of businesses were much further away from trading (one reported having no plans to start a business and another 11 (12%) had not given their business ideas any serious thought). In the majority of cases, start up support had been effective in progressing individuals through to the stage where they have actually started trading, or are almost ready to; 65% of respondents indicated that their business was now trading and a further 20% reported being almost ready to start trading. A further four respondents (5%) indicated that their business had started trading following the support received but had since closed.

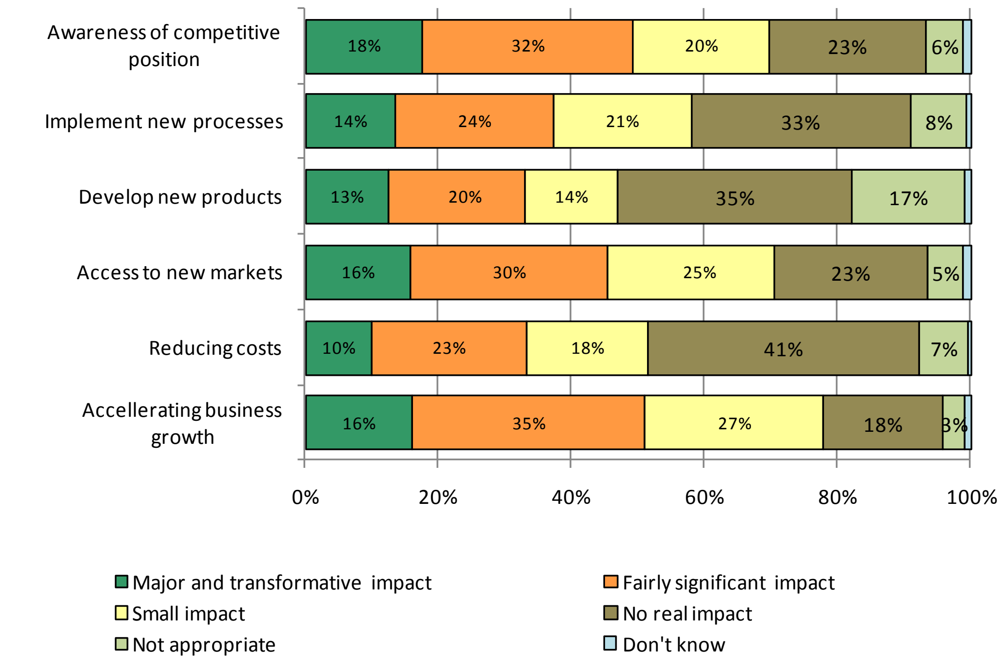
Table 9-3: Business Start Up Support: Progression to Start up

	Stage Now						
Stage before receiving support:	No plans to set up a business	Had an idea for a business but had not given it any thought	Started to develop plans but still a long way off	Almost ready to start trading	Developed further but decided not to start the business	Just started trading	Started trading but since closed
No plans to set up a business						1	
Had an idea but had not given it any thought			2	3		5	1
Started to develop plans but a long way off			5	11	2	28	2
Almost ready to start trading				3	1	2	1
Had just started trading						3	

Source: Regeneris Consulting survey of beneficiaries
Base: 92 businesses receiving start-up support (data in table related to 88 businesses responding to both Q83 and 84)

9.23 Figure 9-7 provides an overview of the extent to which the support received had impacted on different elements of the established businesses that received this assistance. The largest proportion of businesses highlighted the support as having accelerated business growth (almost 80%) and assisted with access to new markets (71%). More modest impacts were around the development of new processes, products or the reduction in costs. Only a very small proportion of businesses (8 of the 92, or 9%) reported that there had been no real impact across any of these operational indicators. The majority of these had received only light touch information and support. Only one had received more intensive support and assistance.

Figure 9-7: Operational Impacts on Established Businesses



Source: Regeneris Consulting Beneficiary Survey
Base: 410 established businesses

Financial Impacts

9.24 Assessment of the financial impact of the programme to date has been informed by analysis of the effect of the support on three key elements of business performance:

- **Financial turnover**: as well as considering the amount of new turnover / sales created in existing businesses as a result of the support received, the assessment of impacts also encompasses the amount of turnover that has been safeguarded as a result of the assistance. For start-up businesses, the total turnover achieved to date has also been included in the assessment of impacts.

- **Employment**. The number of additional Full Time Equivalent (FTE) jobs created in established businesses and the number of current employees of start-up businesses have been analysed as part of the assessment of impacts.

- **Profits**. Consideration of the effect of support on company profits is a desirable element of the impact assessment, particularly as some types of support are focused on improving productivity and profitability of companies (particularly those aimed at manufacturing businesses).

9.25 As Table 9- shows, a considerable proportion of respondents have reported decreases in their profits, turnover or employment levels since receiving support, a trend which is most likely linked to the difficult trading conditions over recent years. The proportion of businesses reporting decreases in profits (13%) is slightly larger than for turnover or employment and some businesses have reported particularly large decreases in the years since receiving support. Although this may be an accurate reflection of the performance of these businesses in recent years, analysis at the aggregate level may be misleading as it is skewed by the large variation in responses. As a result, the assessment of impacts focuses on the more reliable reported impacts on turnover and employment.

9.26 The analysis of the change in financial performance and employment amongst the established SMEs since they received support shows a clear pattern. Around two thirds (64%) of the beneficiaries had increased financial turnover. Similar proportions reported an increase in employment and profits as reported no change 48% and 44%, and 43% and 44%, respectively). The proportions reporting declines in any of these measures were fairly small.

Table 9-4: Overview of Financial Performance Since Receiving Support (established businesses)

	Increase		Decrease		No change	
	Number	%	Number	%	Number	%
Turnover	230	64%	34	9%	97	27%
Turnover safeguarded	*156*	*38%*	-	-	-	-
Profits	150	43%	45	13%	151	44%
Employment	197	48%	34	8%	179	44%

Source: Regeneris Consulting Beneficiary Survey
Base: 410 established businesses

9.27 A significant proportion of businesses (38%) indicated that the support had enabled them to safeguard turnover that they would otherwise have lost. The majority of these businesses (67%) had also reported increases in turnover as a result of the support. These businesses also tended to report larger safeguarded impacts than those where turnover had not increased. The average proportion of turnover safeguarded amongst businesses that also reported an increase in turnover was 33%, compared to just 19% amongst businesses where turnover had not increased.

9.28 Figure 9-8 plots the absolute and proportional changes in business performance reported by existing businesses. The analysis of these performance indicators suggests a very distinct pattern of change:

- The absolute change in turnover and profits has been modest for most businesses, but with a small proportion experiencing substantial positive or negatives changes in turnover and profits. However, the spread in the percentage changes in these indicators is much more closely grouped.

- The absolute changes which have occurred in employment levels have been relatively modest (in most instances in a range between +2 and -2), even where large changes in turnover have occurred.

- In both absolute and percentage terms, the levels of reported safeguarded turnover are significant. It is also notable that a considerable number of beneficiaries indicated that all or the majority of their turnover was safeguarded as a result of the support (i.e. they would have closed in the absence of this support).

Figure 9-8: Change in Key Business Performance Measures Since Receipt of Support (established businesses)

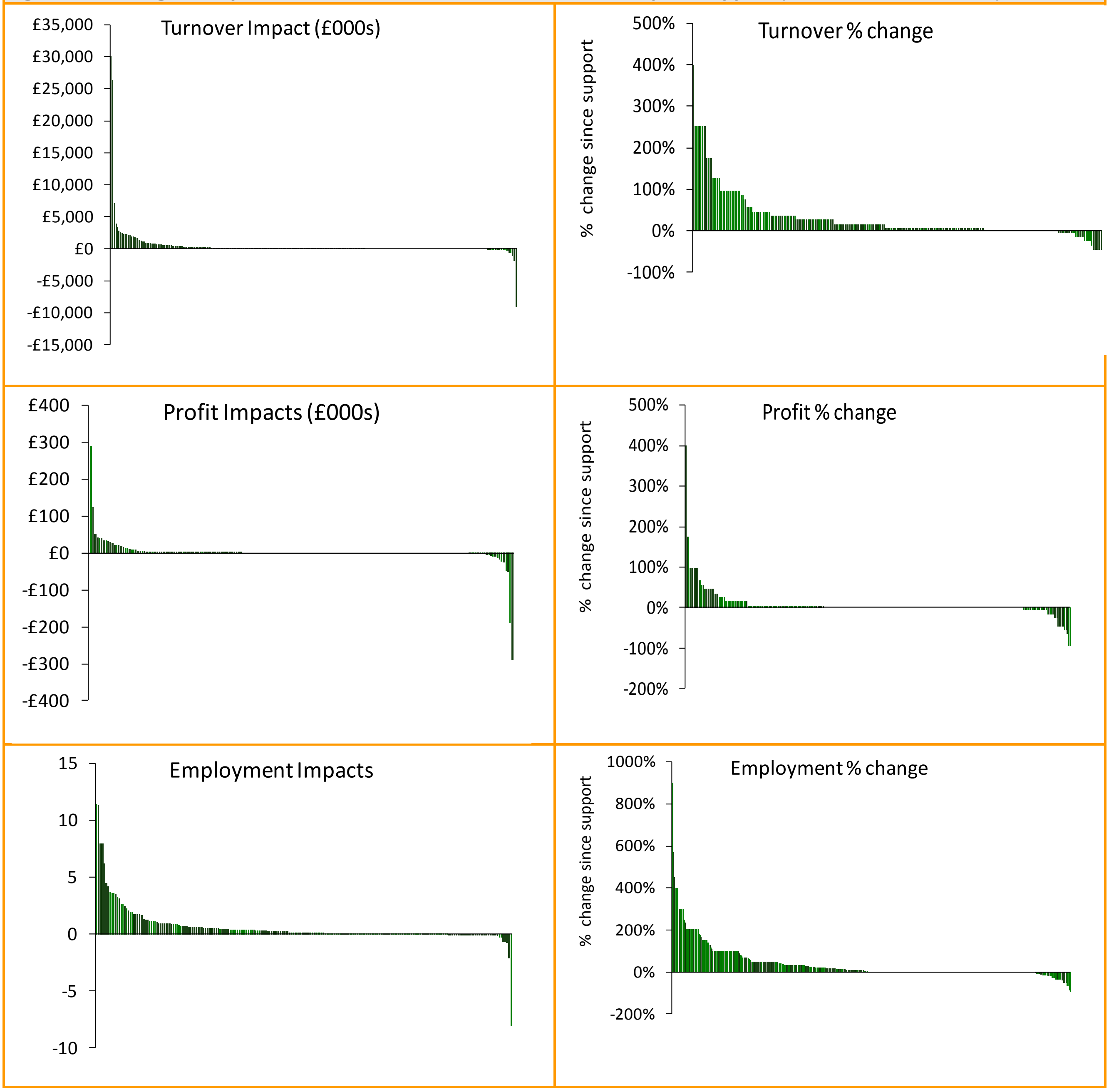
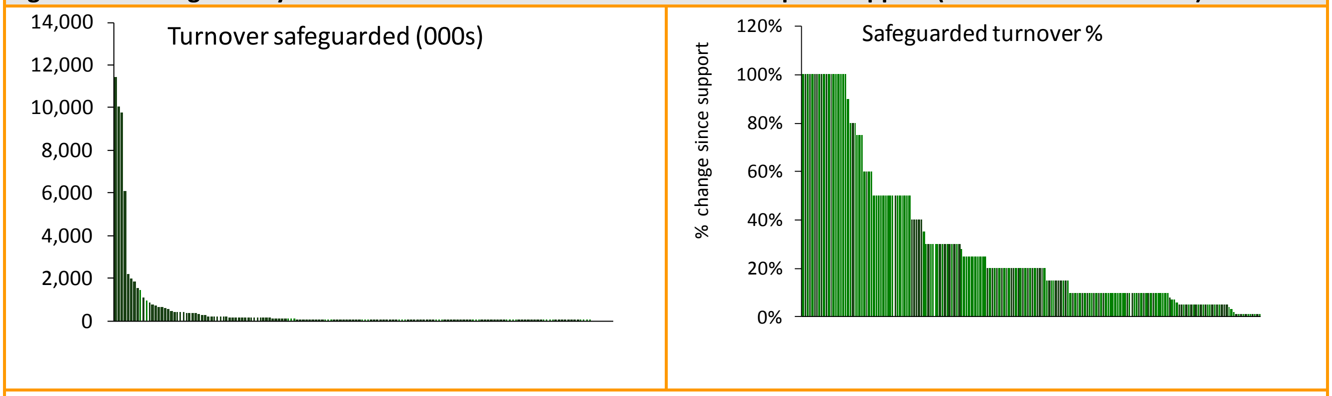


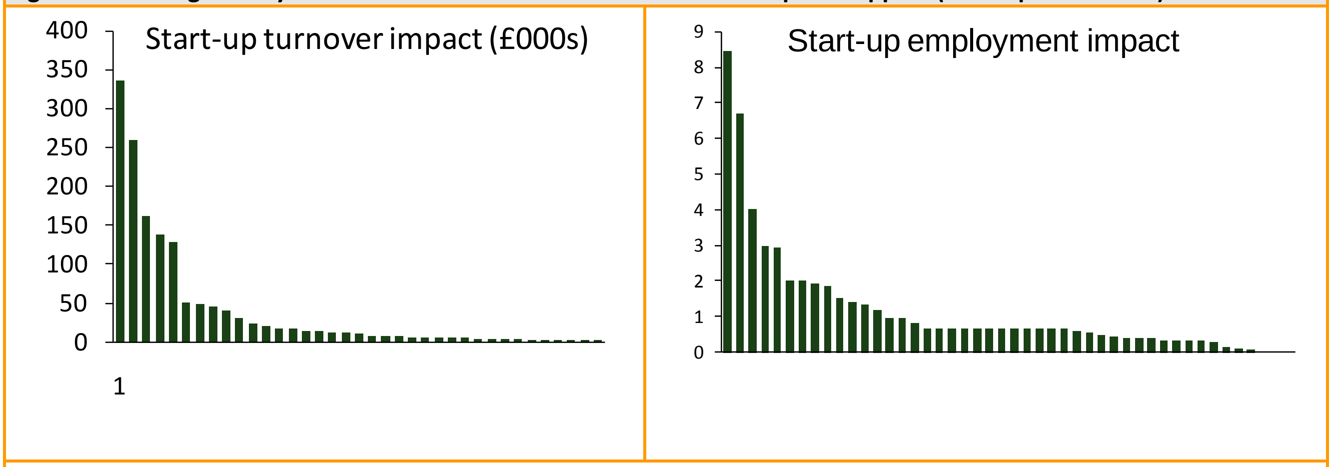
Figure 9-8: Change in Key Business Performance Measures Since Receipt of Support (established businesses)



Source: Regeneris Consulting Beneficiary Survey
Base: 410 established businesses.

9.29 Amongst start-up businesses, the tendency for reported financial impacts to be focused on a relatively small number of businesses is also evident, although given that many businesses had started up relatively recently, we would not expect the absolute financial impacts to be substantial at this stage.

Figure 9-9: Change in Key Business Performance Measures Since Receipt of Support (start-up businesses)



Source: Regeneris Consulting Beneficiary Survey
Base: 92 businesses receiving start-up support

Bottom Line Business Performance Impacts

9.30 Table 9- provides an overview of the bottom line business impacts and levels of additionality reported by respondents to the beneficiary survey. The results that are reported in this sub-section are just for the survey sample and are not grossed up to the whole population of beneficiaries at this stage. As a result, comparisons of the relative changes in absolute bottom line performance of established and start up businesses respectively should not be made.

9.31 The approach to quantifying gross impacts differs slightly for established and start up businesses:

- **Established businesses**: Gross impacts on turnover, profits, and employment were established based on the respondents' assessment of the change in performance on each measure since support was received. For example, for new turnover created, respondents were asked to state (i) company turnover in the financial year in which support was received and (ii) anticipated turnover for the 2010/11 financial year. This allowed the gross turnover impact *for a single year* to be calculated. Where support was received more than one year ago, this single year impact was multiplied by the number of years since support was received to reach a cumulative gross impact figure.

- **Start-up businesses**: Where recipients of start-up support had started trading, they were asked to state the anticipated financial turnover for 2010/11, overall profit margin and the number of people they employ. If the business had been trading for more than a year (very few businesses) these impacts were multiplied by the number of years since the support was received to provide cumulative gross impact figures

Gross Impacts on SME Performance

9.32 It is notable from Table 9- that in **overall terms** significant gross economic activity has evidently been generated amongst existing businesses covered in the survey as well as start up businesses:

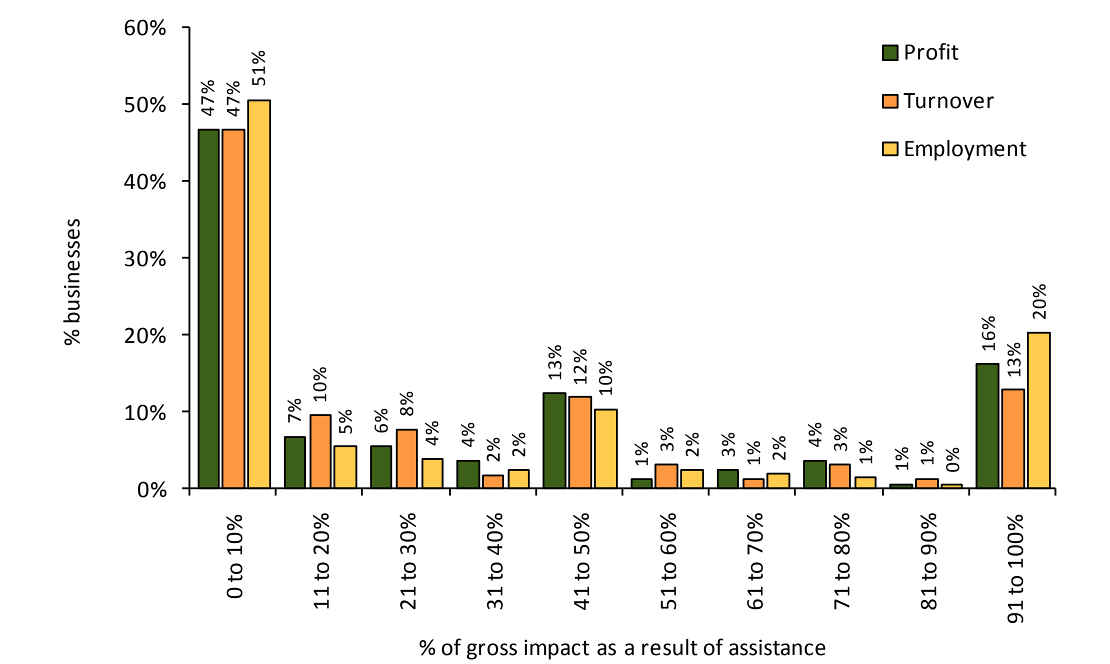
- The established businesses in our sample generated an increase in turnover of +£113m and safeguarded a further £85m;
- The change in employment associated with this increase in turnover was around +920 jobs (not including safeguarded employment) – this equates to turnover of around £123,000 per job, suggesting relatively highly skilled jobs;
- The increase in turnover amongst start-up businesses was much more modest, totalling +£3.5m and around +146 jobs.

Additional Impacts on SME Performance

9.33 Allowing for the beneficiaries' own perceptions of whether they would undertaken these actions and realised these changes in performance in the absence of the ERDF funded assistance (i.e. deadweight), we have estimated the additional impacts upon business performance.

9.34 Established businesses were asked to attribute directly the proportion of the gross changes in performance which had occurred *as a result of the support* they had received from the project. The gross impacts reported by each business were adjusted to remove the non-attributable improvements in business performance. **Figure 9-10** provides an overview of these reported levels of deadweight, which varied considerably across the sample but are broadly similar for the three impact types.

Figure 9-10: Established Businesses – Deadweight Estimates



Source: Regeneris Consulting Beneficiary Survey
Base: 410 established businesses

9.35 For all three types of impact, more than one in three businesses indicated that half or more of the gross change in business performance was as a result of the support received from the programme. As a result of this, the overall deadweight figure for established businesses is high (ranging from 64% for turnover to 71% for jobs). These levels of deadweight are greater than the average deadweight figure (40%) found by the national RDA impact evaluation[23] (although this figure was heavily caveated owing to the large variation in reported levels of deadweight which ranged from 0% to 80%).

9.36 For start-up companies, adjustments were made on the basis of their assessment of whether they would have started trading without the assistance received. Levels of additionality reported by recipients of start-up support were high overall with just over half of businesses that started trading indicating that they would not have started the business if they had not received support. The majority of the remaining businesses indicated that, although they might have started the business anyway, the support had enabled them to start the business earlier (13%) or at reduced risk (11%). Only 10% of start-up businesses indicated that they would have started the businesses anyway and in a similar timeframe, even if they had not received support. This high level of reported additionality amongst start-up businesses suggests that support has been effectively targeted towards individuals most requiring assistance.

[23] BERR (2008) Impact of RDA spending (http://www.berr.gov.uk/files/file50735.pdf)

Table 9-5: Start-up Businesses – Deadweight Estimates		
	No.	**%**
Would not have started the business	32	52%
Would have started the business at a later date	8	13%
Would have started the business but the risk would have been greater	7	11%
Would have started the business anyway and in a similar timeframe	6	10%
Would have started the business but it may not have been as successful	5	8%
Would have started the business but it may have been less likely to survive	3	5%
Source: Regeneris Consulting Beneficiary Survey Base: 92 start up businesses.		

9.37 Once deadweight has been taken into account, the additional impacts appear much less than the gross impacts, that is:

- The established businesses in our sample generated an increase in turnover of £38m and safeguarded a further £85m (note: additional safeguarded turnover is the same as gross safeguarded turnover due to the manner in which the question was asked of beneficiaries);

- The change in employment associated with this increase in turnover was around 250 jobs (this does not account for safeguarded employment);

- The increase in turnover amongst start-up businesses was much more modest, totalling £2.2m and around 96 jobs.

Net Additional Regional Impacts on SME Performance

9.38 One deadweight has been taken into account, two further adjustments to the gross impacts were made to take account of:

- **Displacement:** The proportion of the gross chance in performance which might have occurred at the expense of the competitor businesses trading within the North East region. For both established and start up businesses, an individual displacement adjustment factor has been derived based on the proportion of (i) their sales that are generated in the North East and (ii) their competitors that are located in the North East.

- **Leakage:** The proportion of impact that might have accrued to employees or businesses outside of the region. The effect of leakage for start up and established businesses has been estimated based on a two step process. Firstly, impacts associated with businesses not located in the North East region (e.g. is they have moved premises since support) have been removed from the analysis (this only affected three businesses in the sample). An estimate of the other economic benefits that would leak out of the region via staff salaries being paid to people living (and therefore spending the majority of their salary) outside of the region has also been made based on the reported proportion of employees living outside of the region.

9.39 The survey evidence suggests that the displacement and leakage effects[24] are overall smaller for our sample of beneficiaries than the deadweight effects. Allowing for these effects, the estimated overall net additional impacts on business performance are:

- The established businesses in our sample generated an increase in turnover of £15m and safeguarded a further £63m, as well as around 133 jobs (this does not account for safeguarded employment);
- The increase in turnover amongst start-up businesses was much more modest, totalling £1.4m and around 54 jobs.

Table 9-6: Bottom Line Business Performance: Total Cumulative Achieved Gross and Net impacts (survey respondents only)

	Established Businesses			Start-up businesses	
	Turnover (£m)	**Safeguarded Turnover (£m)**	**Jobs**	**Turnover (£m)**	**Jobs**
Gross Change	£86.3	£85	914	£3.5	146
Additional impact (i.e. deadweight deducted)	£22.2	£85	245	£2.2	96
Net additional impact (i.e. displacement deducted)	£17.6	£69	167	£1.4	54.2
Net additional regional impact (i.e. allowing for leakage of benefits)	£15.5	£63	133	£1.4	54.2
Overall gross to net adjustment	-85%	-25%	-85%	-59%	-63%

Source: Regeneris Consulting Survey of Beneficiaries
Base: 410 established Businesses, 92 start up businesses
*Note: For safeguarded turnover, deadweight was addressed in the questioning. Beneficiaries were asked to report the value of turnover safeguarded *as a result of the assistance.*

9.40 Based on these impacts on bottom line business performance reported by our sample of businesses, estimates of the associated GVA impact have been generated by applying the sectoral GVA to turnover ratios from the Annual Business Inquiry to the turnover impacts reported by the SME beneficiaries. The total and average per business GVA impacts for existing and start-up businesses are outlined in Table 9-.

[24] The displacement effect refers to the economic activity which is estimated to be lost in competitor businesses as supported businesses expand; the leakage effects refers to additional economic activity (turnover, jobs, etc) associated with the supported SMEs which occurs outside the region.

Table 9-7: Overview of Total and Average Net Additional GVA Impacts (survey respondents only)						
	Priority 1		Priority 2		Total	
	Total GVA (£ m)	Average per business (£)	Total GVA (£ m)	Average per business (£)	Total GVA (£ m)	Average per business (£)
All respondents	£0.9	£11,800	£6.8	£16,100	£7.7	£15,500
Established businesses	£0.7	£11,850	£6.3	£18,000	£7.0	£17,100
Start-up support	£0.2	£11,600	£0.5	£6,800	£0.7	£7,800

Source: Regeneris Consulting Survey of beneficiaries, 2011 and Annual Business Inquiry, 2008 (Sectoral turnover to GVA ratio)
Base: 410 established businesses and 92 start-up businesses

Drivers of Impacts on Business Performance

9.41 Table 9-8 presents the average gross and net additional regional impacts for the SME beneficiaries across a range of performance indicators, namely turnover and GVA created and safeguarded, as well as jobs created. The analysis, which is presented for both Priority 1 and 2, suggests:

- SME beneficiaries supported through Priority 1 funded projects have created, on average, a much smaller amount of additional turnover as a consequence of the support provided compared to beneficiaries receiving support through Priority 2 funded projects;
- Similarly, SME beneficiaries receiving support through Priority 2 funded projects have safeguarded more turnover than those supported via Priority 1 in both gross and net terms.
- The average number of jobs created by SMEs supported through both Priority 1 and 2 projects are similar and fairly modest, judged on both a gross and a net additional basis.

Table 9-8: Overview of Average Cumulative Gross and Net Additional Business Performance Impacts per SME Beneficiary						
	Priority 1		Priority 2		Total	
(£000s)	Gross	Net	Gross	Net	Gross	Net
Turnover created	£85	£26	£197	£35	£179	£34
Turnover safeguarded	£91	£49	£183	£141	£168	£126
GVA created	£43	£12	£95	£16	£87	£15
GVA safeguarded	£33	£15	£80	£62	£73	£54
Jobs created	0.6	0.5	0.7	0.4	0.7	0.4
Jobs Safeguarded	1.0	0.8	1.2	0.6	1.2	0.6

Source: Regeneris Consulting Survey of Beneficiaries and ONS Annual Business Inquiry, 2008
Bases: Priority 1: 61 established / 19 start-up businesses. Priority 2: 349 established / 73 start up businesses.

9.42 The analysis in Table 9-8 suggests that for established businesses, there is a marked difference in impact between the type of support received (though there is the need for caution here due to small sample sizes for some types of support):

- More intensive and specialised support does not appear to produce larger absolute amounts of impact than more generalised support types. For example, businesses receiving general advice and guidance reported larger turnover impacts on average than those receiving intensive or R&D related support.

- The difference between support types is much less marked for employment impacts, which are of a similar order for all impact types.

- Access to finance support has been most successful in terms of safeguarding performance, but less at creating jobs / turnover.

Table 9-9: Overview of Average Cumulative Gross and Net Additional Business Performance Impacts per SME Beneficiary

(£000s)	Turnover created		Turnover safeguarded		GVA created		GVA safeguarded		Jobs Created		Jobs Safeguarded		Obs.
	Gross	Net	Gross	Net	Gross	Net	Gross	Net	Gross	Net	Gross	Net	
All support types	£211	£38	£293	£220	£102	£17	£89	£67	0.6	0.3	1.0	0.6	410
Access to finance	£108	£47	£527	£464	£41	£17	£116	£99	1.3	0.2	2.2	0.3	37
General Advice and Guidance	£225	£37	£284	£218	£112	£18	£91	£70	2.3	0.4	3.9	0.7	308
Networking	£166	£27	£224	£146	£71	£11	£58	£32	9.2	0.5	15.6	0.8	37
Intensive support	£162	£33	£189	£122	£67	£14	£57	£38	0.7	0.3	1.2	0.6	90
R&D related support	£176	£33	£198	£126	£73	£14	£61	£40	0.8	0.4	1.4	0.7	75

Source: Regeneris Consulting Survey of Beneficiaries and ONS Annual Business Inquiry, 2008
Base: 410 established businesses
Note: Number of observations in support type column will not sum to 410, as some businesses have received more than one type of assistance.

9.43 Table 9-10 presents the average gross and net additional business performance impacts upon start-ups analysed by the type of support received. Whilst there is the need for caution due to the relatively sample in many instances, there are a number of clear messages:

- The scale of the average impacts upon performance are fairly modest, with average annual gross turnover of £37,000 (just 17% of start up businesses have turnover larger than £60,000), GVA of £19,100 and 1.6 jobs.

- Assistance in developing the business idea, the associated business planning and access to finance appears to be the most effective in terms of impacts on sales and GVA, compared to general business advice and workshops.

Table 9-10: Average Business Performance Impacts by Type of Support Received by Start up Businesses							
	Turnover (£000s)		GVA		Jobs		Number of obs
	Gross	Net	Gross	Net	Gross	Net	
All Support types	£37.8	£15.7	£19.1	£7.8	1.6	0.6	**92**
Business Planning	£44.1	£17.5	£18.9	£7.0	1.2	0.4	32
General Advice / guidance	£19.6	£8.4	£10.9	£4.5	2.0	0.8	44
Training courses / workshops	£32.3	£14.2	£19.6	£8.5	1.8	0.8	18
Financial assistance	£35.6	£16.0	£18.5	£8.1	1.7	0.6	63
Other	£5.4	£1.8	£2.9	£0.9	2.2	0.3	13

Source: Regeneris Consulting Survey of Beneficiaries and ONS Annual Business Inquiry, 2008
Base: 92 start up businesses
Note: Number of observations in support type column will not sum to 410, as some businesses have received more than one type of assistance.

Estimated Total Programme Impacts to Date

9.44 The gross and net additional business performance benefits reported by SME beneficiaries included in the survey have been grossed up to provide an estimate of the overall programme impacts achieved to date. These impacts have been aggregated over time, in order to allow for the accruing of these benefits over a number of years since receipt of the support (we have assumed the benefits are realised for a maximum of three years since received).

9.45 It should be noted, however, that these estimates only cover the business support provided directly by the ERDF funded projects to existing SMEs and start-ups. It does not include the benefits accruing to other SMEs who might have benefited indirectly through the investment which the programme has made in say land and property.

9.46 This analysis presented below involved the following stages:

- **Attributing the performance impacts reported by beneficiaries to projects.** Gross and net impacts calculated for individual survey respondents have been attributed to the projects that assisted them.
- **Grossing up average business performance impacts for each project.** The impacts attributed to each project have been grossed up according to the proportion of the total beneficiary base captured in the survey sample. For example, if 50% of beneficiaries of a project responded to the telephone survey, the reported impacts have been grossed up by a factor of two (1/50%) to reach the total estimated project impacts. This analysis assumes that the impacts reported by survey respondents are typical of all beneficiaries of each project.
- **Grossing up to project level performance impacts to a programme total.** The amount of spend accounted for by the projects with beneficiaries included in the survey, has been used as a basis for grossing up to an estimate of the overall impact associated with the ERDF funded projects providing support to SMEs up to

December 2010. These estimates have distinguished between Priority 1 and 2. We estimated that the ERDF spend to date associated with the projects whose beneficiaries were surveyed is around £9.12m, which around 32% of the total ERDF expenditure spent to date by projects providing business support services directly to established SMEs or start-ups (£29.1m).

9.47 Table 9- presents a summary of the gross and net additional regional impacts for a selection of indicators and analysed by Priority 1 and 2. The key points for each measure are:

- Turnover: gross turnover created of £647m and a further £1,455m safeguarded, with net additional created and safeguarded turnover of £130m and £1,141m respectively. Priority 1 accounts for the majority of overall created and safeguarded turnover.

- Gross Value Added: gross GVA created of £307m and safeguarded of £635m, which translates into net additional GVA created of £58m and safeguarded of £501m.

- Employment: around 2,470 gross jobs created and an estimated 13,000 safeguarded, with around two thirds arising through Priority 2 funded projects. This translates into around 1,430 net additional jobs created and 7,500 jobs safeguarded.

- Business created: a gross estimate of around 460 businesses created and 320 on a net additional basis. Surprisingly given the respective focus of the two priorities, the estimated level of business creation is higher under than Priority 1 than Priority 2.

Table 9-11: Selected Programme Level Impact Estimates

	Priority 1		Priority 2		Total	
Relevant ERDF Expenditure up to Dec 2010	£7.26m		£20.93m		£28.50m	
	Gross	**Net**	**Gross**	**Net**	**Gross**	**Net**
Turnover created (£m)	£148	£48	£499	£82	£647	£130
Turnover safeguarded (£m)	£330	£277	£1,125	£864	£1,455	£1,141
GVA created (£m)	£63	£19	£244	£39	£307	£58
GVA safeguarded (£m)	£119	£98	£516	£403	£635	£501
New jobs created	810	560	1,660	870	2,470	1,430
New jobs safeguarded (estimate)	4,275	2,945	8,760	4,570	13,000	7,500
Businesses created	350	270	120	50	460	320

Source: Regeneris Consulting Survey of Beneficiaries and ONS Annual Business Inquiry, 2008
Base: 410 established and 92 start up businesses

9.48 Table 9-12 puts the estimated gross and net additional GVA and job impacts up to December 2010 in the context of the lifetime targets. This reveals an important picture of the progress being made by the aspect of the programme providing business support directly to SMEs:

- With around £44.4m or 13.7% of ERDF resources spent up to the end of December 2010, the progress against most lifetime programme targets is favourable;

- Progress on most indicators is around 10 percentage points above the spend rate up to the end of 2010 – on the most important measures, namely net additional jobs created and net additional GVA, the survey suggests at least 21% and 52% of the lifetime targets have been achieved;

- Progress against jobs safeguarded targets has been greater in Priority 2 than Priority 1, which reflects the greater role which Priority 2 projects has played in addressing the impacts of the recession upon SMEs.

Table 9-12: Progress on Programme Targets – Key Performance Indicators, up to December 2010

	Priority 1			Priority 2			Total		
	Target	Achieved so far	%	Target	Achieved so far	%	Target	Achieved so far	%
Businesses created	-	350	-	3,000	120	4%	3,000	470	16%
Gross jobs created	3,605	811	22%	6,580	1,661	25%	10,185	2,472	24%
Gross jobs safeguarded	8,411	4,276	51%	9,870	8,758	89%	18,281	13,034	71%
All net additional jobs (created & safeguarded)	9,084	3,500	39%	10,778	5,400	50%	19,862	8,900	45%
Net additional jobs created	2,581	558	22%	4,086	866	21%	6,667	1,424	21%
Net additional GVA £m	£545	£117	21%	£539	£442	82%	£1,084	£559	52%

Source: Regeneris Consulting Survey of Beneficiaries and ONS Annual Business Inquiry, 2008. Targets from Operational Programme.
Note: the estimated gross job impacts presented above are gross additional impacts (i.e. they are adjusted for deadweight) as this provides a measurable comparable survey based measure of gross jobs as measured by the Programme monitoring data.

9.49 Table 9-13 provides an initial assessment of the value for money of the estimated impacts set out for the programme up to December 2010. The measures are based on ERDF expenditure only and therefore excludes matched funding. The estimates are based on gross and net additional jobs and GVA created and safeguarded for the business support interventions covered by the Beneficiary survey, which have been grossed up for the ERDF programme as a whole.

9.50 The key measures of progress in terms of value for money are:

- £2 of net additional GVA created in the region per £1 of ERDF invested. This is fairly low (and well below the benchmark of £7.3 GVA per £1 invested provided by the 2008 national RDA impact evaluation) and may reflect the resources which have been focused on safeguarding GVA. If safeguarded net additional GVA were included, the programme would have generated £21 per £1 ERDF spent.

- £19,800 ERDF spend per net additional job created, which although larger than the cost per job benchmark of £14,000 provided in by the 2008 National RDA impact evaluation, is well within the range which we would judge to be acceptable. If safeguarded net additional jobs were included, the ERDF cost would be just £7,300 per net additional job created and safeguarded.

Table 9-13: Selected ERDF Value for Money Indicators – Grossed up SME Beneficiary Related Programme Impacts, up to Dec 2010

	Priority 1		Priority 2		Total	
Indicators:	**Gross**	**Net**	**Gross**	**Net**	**Gross**	**Net**
GVA created per £1m ERDF Spend	£8.6	£2.6	£11.7	£1.9	£10.9	£2.0
GVA created & safeguarded per £1m ERDF Spend	£25	£16	£36	£21	£33	£20
ERDF Spend per Job Created	£8,950	£13,000	£12,600	£24,150	£11,400	£19,800
ERDF Spend per Job Created & Safeguarded	£1,500	£2,100	£2,000	£3,850	£1,800	£3,150

Source: Source: Regeneris Consulting Survey of Beneficiaries and ONS Annual Business Inquiry, 2008.
Note: the estimated gross job impacts presented above are gross additional impacts (i.e. they are adjusted for deadweight) as this provides a measurable comparable survey based measure of gross jobs as measured by the Programme monitoring data.

Conclusions

9.51 This analysis has highlighted a number of key conclusions for the programme:

- Overall levels of satisfaction amongst businesses responding to the telephone survey are very high; overall, 89% of businesses stated that their experience of support had either met or exceeded their expectations and just 6% indicated that they were not satisfied with the support. There appears to be very little difference between levels of satisfaction reported by businesses receiving different types of support. Businesses receiving start-up support were more likely to be to feel their expectations had been exceeded.

- The survey results clearly indicated the greater extent to which turnover, GVA and employment has been safeguarded than was originally envisaged in the OP. This is a consequence of the recession, with a range of projects being developed to address the challenges SMEs were facing at the time, as well as more SMEs seeking assistance from providers to address the challenges of the recession. The consequence for the programme is that safeguarded GVA and jobs account for between two thirds to three quarters of the total being reported. However, this balance should shift back towards economic creation rather than safeguarding over the remainder of the programme.

- In terms of overall progress against the key lifetime impact targets, progress is favourable. Progress on most key impact indicators is around 10 percentage points above the spend rate up to the end of 2010 (with £44.4m or 13.7% of ERDF resources spent up to the end of December 2010). On the most important measures, namely net additional jobs created and net additional GVA, the survey suggests at least 20% and 50% of the lifetime targets have been achieved. Progress against jobs safeguarded targets has been greater in Priority 2 than Priority 1, which reflects the greater role which Priority 2 projects has played in addressing the impacts of the recession upon SMEs.

- The key measures of progress in terms of value for money are a little more mixed, although again this reflects the manner in which resources have been used by the programme itself or SMEs to safeguard economic activity as opposed to creating it. Key performance benchmarks are:

- £2 of net additional GVA created in the region per £1 of ERDF invested. This is fairly low (and well below the benchmark of £7.3 GVA per £1 invested provided by the 2008 national RDA impact evaluation) and does reflect the resources which have been focused on safeguarding GVA. If safeguarded net additional GVA is included, the programme would have generated £21 GVA per £1 ERDF spent.

- £19,800 ERDF spend per net additional job created, which although larger than the cost per job benchmark of £14,000 provided in by the 2008 National RDA impact evaluation, it is well within the range which we would judge to be acceptable. If safeguarded net additional jobs were included, the ERDF cost would be just £7,300 per net additional job created and safeguarded.

10. Programme Match Funding

Introduction

10.1 This chapter reviews sources of match-funding currently available to the Programme and those sources likely to be available during the remainder of Programme period. The purpose of this work is to:

- Identify the scale and sources of match funding that have been available to partners to deliver on Programme objectives and review how successful the programme has been to date in securing eligible match.
- Provide some initial thoughts on the match funding challenges facing the region following the abolition of Regional Development Agencies (RDAs) and the moratorium on the use of Single Programme to fund new ERDF investments.
- Identify the steps which might be required to unlock match funding resources in future.

10.2 The analysis has been informed by:

- A desk-based review of potential funding streams and their alignment/eligibility with ERDF. This has involved an analysis of public funding to the region through Public Expenditure Statistical Analysis (PESA) data at the regional level, reviewing the impacts of the Comprehensive Spending Review and Local Growth White Paper, and more detailed research on major potential match funding sources, including ONE's Single Programme funding.
- Review of the recent ONE ERDF match funding analysis of contracted projects to date.
- Consultation with a selection of key funding partners in the region and representatives of relevant national funding bodies to discuss alignment and eligibility with ERDF, including local authorities, universities, business representatives and voluntary and community sector representatives.

Key Match Funding Sources to Date

10.3 Match funding for this and other regional ERDF programmes has typically come from the following key sources:

- RDA Single Programme investments linked to enterprise and innovation, and including funding for business link
- Local Authority funding, through area based grants and local authority capital budgets
- National business support, innovation and R&D funds eg. through Research Councils,

Technology Strategy Board etc.

- University funds, including HEFCE grants and funds accessed through other streams
- Voluntary / Community Sector sources, either through organisations' own resources or grants they have accessed
- Private Sector Funds, both larger private investments eg. match funding large physical developments projects or as SME beneficiary contributions.

10.4 The charts below show where the balance of match funding has come from for projects contracted to date in the programme.

Figure 10-1: Match funding sources for contracted projects under Priority 1

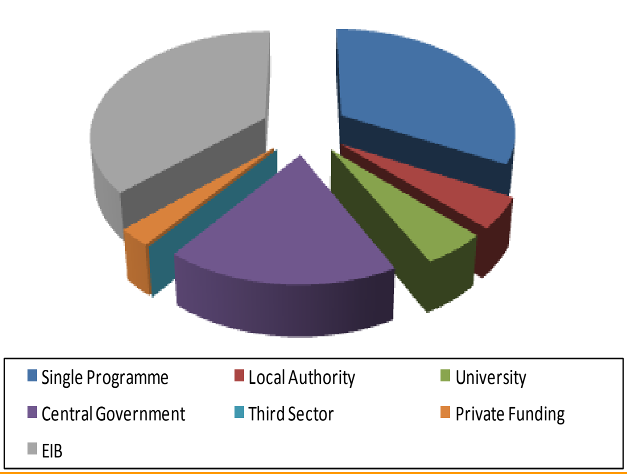


Figure 10-2: Match funding sources for contracted projects under Priority 2

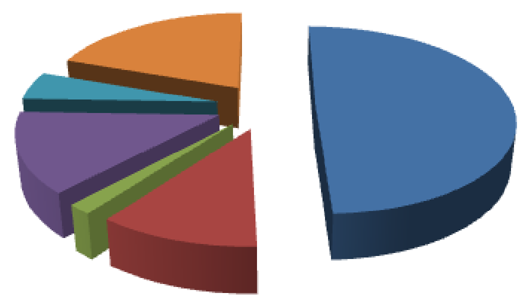


Figure 10-3: Match funding sources for contracted projects under Priority 3

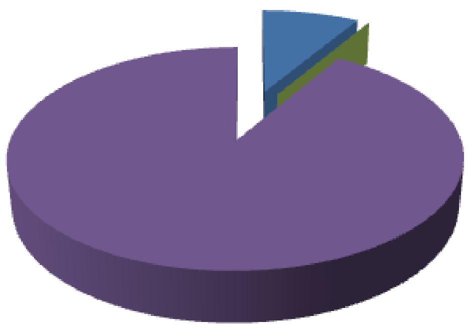
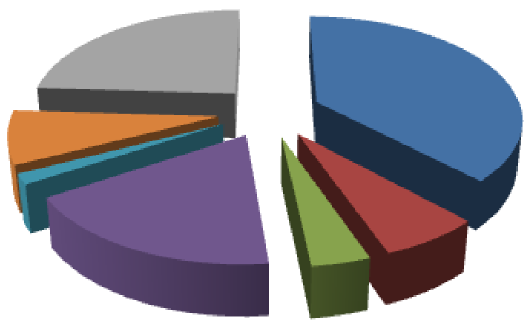


Figure 10-4: Match funding sources for contracted projects across all priorities



Source: Match funding analysis produced by ONE, July 2010.

Table 10-1: Match Funding Sources for Contracted Projects							
	Single Prog	Local Authority	University	Central Govt	Third Sector	Private Funding	EIB
P1	32.7%	4.8%	5.0%	18.0%	0.0%	2.7%	36.8%
P2	49.4%	10.8%	1.7%	13.6%	4.9%	19.6%	0.0%
P3	8.5%	0.0%	0.0%	91.5%	0.0%	0.0%	0.0%
Total	37.7%	6.7%	3.8%	17.9%	1.6%	8.2%	24.1%

10.5 The charts highlight the following key points:

- To date the programme has had a significant reliance on Single Programme funding from One North East, with 38% of match funding from this source overall, and 49% in Priority 2.

- Funding for the JEREMIE project from EIB accounts for 37% of all Priority 1 match funding, and 24% of the total match funding for the programme to date.

- Match funding from local authorities and universities has been relatively modest, making up 7% and 4% of total programme match funding to date respectively. As would be expected, local authority funding is greater in the enterprise priority (Priority 2) and university funding is greater in the innovation priority (Priority 1).

- Match funding from the private sector has been an important source of match funding, making up 8% of total programme match to date, and 20% in Priority 2. Much of this is made up in BENE projects.

10.6 Priority 1 match funding to date has mainly been characterised by significant investment from EIB and Single Programme funding into JEREMIE, funding from central government sources for large-scale facility investments at PETEC and NaREC, and other smaller scale Single Programme, university and local authority investments in other Innovation Connector projects.

10.7 Priority 2 match funding to date has been dominated by Single Programme investments in BENE projects and the Manufacturing Advisory Service, with other key Single Programme, local authority and central government funding supporting smaller projects across the range of Priority 2 activity. Private investment has also been a significant element of the match funding provided, and includes both SME contributions to business support and larger private investment in infrastructure development.

10.8 Leading on from this breakdown, it is useful to estimate what proportion of total available ERDF-eligible public match funding in the region has been captured by the programme. Table 10-2 below sets out our analysis of public funding allocated to the region in 2009-10 that could be eligible as match funding for ERDF, and the total amount of funding actually spent in 2009-10 (excluding JEREMIE, which would not be captured in the figures).

10.9 The level of eligible public sector match is based on Public Expenditure Statistical Analysis (PESA) regional statistics, and sets out headline public sector funding allocated to the North East region each year under a number of HM Treasury functional classifications (eg enterprise and economic development, science and technology, housing and community amenities etc) and sub-sections under these. The methodology for our estimates involved identifying the likely proportion of each element of this PESA analysis that could be eligible for ERDF match, and assigning it to the two main priority axes.

10.10 The PESA analysis is clearly based on a number of broad assumptions, and in estimating public sector match spent in 2009-10 we also use estimates based on the Summer 2010 match funding analysis by ONE. Given the assumptions made, this analysis should only be taken as very indicative.

Table 10-2: Proportion of Available Match Funding Captured by the Programme in 2009-10

Priority	Eligible Public sector match available in 2009-10 (£m)	Public sector match spent in ERDF projects in 2009-10 (£m)	Proportion of potential eligible public match secured in 2009-10
1	113.1	4.62	4.1%
2	92.4	13.82	15.0%
Total	205.5	18.45	9.0%

Source: PESA regional analysis and MCIS data, December 2010.

10.11 The indicative analysis set out in this table shows a fairly low level of potential eligible match funding for ERDF being secured in 2009-10, at around 9%, and lower in Priority 1. This may largely reflect a relatively low level of project spend in 2009-10, beyond JEREMIE which is not included in these figures. Beyond this, these figures may give a level of reassurance that there are significant levels of potential match funding that the programme may be able to access that it has not already. Equally, it may raise concerns that there are factors inhibiting partners from bringing projects forward with this match funding.

10.12 The following sub-sections discuss each potential funding source in more detail, covering their alignment with parts of the ERDF programme, potential barriers to use as ERDF match, and consideration of future potential as match.

Local Government Expenditure

10.13 This primarily includes capital programme spend by local authorities or revenue spend through area based grant (ABG) funding, which comprises LEGI and Working Neighbourhoods Fund for eligible areas. These sources would primarily link to Priority 2, and particularly the first field of action: *Cultivating and Sustaining Enterprise in Disadvantaged Areas.*

10.14 Particular barriers to using these funds as match may include the minimum thresholds for project applications restricting smaller scale local enterprise projects. Also, the timescales for the ERDF project application process can mean that there is insufficient time to secure ERDF funding to match against time-limited ABG funds.

10.15 Looking forwards, area based grants will be cut significantly as part of wider local authority budget cuts, reducing the availability of funding from local authorities. Similarly, increased pressure on local authority capital budgets are likely to lead to reduced availability of potential match. The Local Government settlement for 2011-12 shows major cuts to local authorities in the North East, with several authorities facing the maximum 8.9% cut, as shown in Table 10-3.

Table 10-3: Summary of Local Authority Budget Cuts in 2011-12	
Local Authority	**Cuts in 2011-12**
Darlington	-3.55%
Durham	-6.73%
Gateshead	-7.89%
Hartlepool	-8.90%
Middlesbrough	-8.90%
Newcastle upon Tyne	-7.84%
North Tyneside	-4.38%
Northumberland	-5.64%
Redcar and Cleveland	-8.39%
South Tyneside	-8.90%
Stockton-on-Tees	-7.34%
Sunderland	-8.88%
Source: Association of North East Councils	

10.16 Given that funding for economic development projects is non-statutory activity for local authorities, this is likely to be disproportionately affected by the cuts. New detail in the October 2010 White Paper on local growth however, offers some hope for new match funding to come forward from local authorities, with reduced levels of ring-fencing of local authority budgets, and new local authority funding mechanisms such as Tax Increment Financing (TIF) and a Business Increase Bonus. These latter mechanisms may provide new opportunities for local authorities to raise funding that could be used as match to draw down ERDF in later stages of the programme.

University Expenditure

10.17 Universities receive core funding from HEFCE as well as through other grants and funding streams. The funding relates primarily to innovation investments under Priority 1 of the ERDF Programme and may relate both to capital investments in infrastructure and revenue spend on projects working with business.

10.18 Feedback from universities suggests that, beyond the particularly business-facing universities, many find the length and complexity of the application process, and the perceived risk of clawback of funds to be a major inhibiting factor to applying for ERDF funding. A further issue that universities have struggled with has been around ERDF funds being unable to meet the full staff overheads costs charged by universities. Universities have to recoup the full overheads costs for staff time, meaning that additional funding has to be found from another source to cover the overhead shortfall.

10.19 Cuts to HEFCE budgets in real terms were announced earlier this year for the 2010-11 budget, and available funding to Universities is likely to continue to reduce in real terms in the coming years in light of the October 2010 spending review. The Government announced in December 2010 that University funding for 2011-12 would see a 4.3% fall in research funding (from £1.62bn to £1.55bn), but with HEIF (Higher Education Innovation Fund) maintained at £113m for 2011-12.

10.20 As well as HEFCE funding, Universities will have opportunities to access other national research funds, discussed below under national sources. Additionally, from 2012, universities will be able to generate additional income from raising tuition fees, which may generate additional match funding opportunities in later stages of the programme.

ONE Expenditure

10.21 One North East's Single Programme spending is focused on three headline priorities of People, Place and Business. The primary link to ERDF activity is within the Business theme, across all three sub-themes of Enterprise, Business Solutions, and Industry, Innovation & Science. These activities link closely to both Priority 1 and Priority 2 of the ERDF programme.

10.22 The overall budgets for the Business theme for the period 2007-12 are set out in the ONE Corporate Plan, and summarised in Table 10-4 below.

Table 10-4 ONE North East Allocation to Business Theme 2007-12

	Capital Allocation 2007-12 (£m)	Revenue Allocation 2007-12 (£m)	Total Allocation 2007-12 (£m)
Enterprise	22.0	144.5	166.5
Business Solutions	237.3	92.9	330.2
Industry, Innovation and Science	122.5	99.3	221.8
Total for Business Theme	381.8	336.7	718.5

Source: ONE Corporate Plans.

10.23 With over £700m funding allocated to its business theme since 2007, the RDA has been the most significant source of potential match funding for the ERDF programme to date. Single Programme funding however has now ceased to be a source of match funding for new projects, with a moratorium placed on new Single Programme allocations to ERDF projects.

10.24 While some of the functions of RDAs will cease to take place following their closure by March 2012, other functions will pass to national departments, Local Enterprise Partnerships or other bodies. Match funding for activities currently funded by Single Programme may therefore continue to be available post March 2012 through a different body.

National Sources

10.25 A wide range of national funding streams may have potential to act as match funding for ERDF, some of which include funding distributed through research councils, the Science Research Investment Fund (SRIF), Technology Strategy Board (TSB) and the Higher Education Innovation Fund (HEIF). The funding includes capital and revenue spend and relates primarily to Priority 1 of the ERDF Programme.

10.26 The difficulty of accessing these funds is largely in that they are co-ordinated at national level, and so require a local agency (eg. a university) to secure funding from the national source and seek to match this with ERDF funding. If the body accessing the national funding stream is unaware of ERDF or does not feel that their project matches the aims of ERDF funding, then the match funding opportunity is lost. The likelihood is that much of the potential national funding sources that could be ERDF-matched are not, for this reason.

10.27 Going forward, more RDA functions will be taken and delivered at a national level, which may exacerbate this issue of losing the link-up to ERDF funding in the regions. The coalition government has shown an awareness of the match funding difficulties for ERDF programmes, and it will be important that measures are taken to ensure that ERDF-eligible funding streams co-ordinated at a national level develop links and relationships with regional ERDF programmes and maximise matching opportunities with ERDF.

10.28 The other major opportunity for ERDF match funding at a national level will be the Regional Growth Fund (RGF), which will allocate grants worth £1.4bn over 2011-14 for projects contributing to growth and rebalancing of the economy. The guidance issued in October 2010 highlights the need to match RGF to ERDF where possible, and again it will be important that measures are taken to make the links between RGF and regional ERDF programmes work in practice, in order to maximise this match funding opportunity. While there are currently talks at national level on improving linkages between the two funds, it will also be important for regional ERDF teams to be proactive in supporting RGF bidders to join up the two processes.

European Investment Bank

10.29 The EIB funding for JEREMIE has been one of the major funding sources for the programme to date. Clearly, it is only a relevant funding stream for such major strategic projects, however if the North East JESSICA project goes ahead, then EIB funding would again be a critical source of match funding for this.

Voluntary / Community Sector

10.30 The nature of the voluntary / community sector is such that it is difficult to pinpoint specific types of activity that it might deliver, however the major links to the ERDF programme are most likely to be around Priority 2, in the first field of action: *Cultivating and Sustaining Enterprise in Disadvantaged Areas.*

10.31 Key barriers for VCS organisations to access ERDF funding are likely to primarily be around capacity to develop detailed project applications, risk of losing time-limited match funding due to the timescales to secure ERDF funding, and the size of ERDF project minimum thresholds.

10.32 As public sector cuts continue in the coming years, VCS organisations are likely to suffer equally, as public sector commissions to the VCS reduce in size and frequency. It is therefore unlikely that VCS organisations will be well placed to bring forward significant match funding for ERDF projects in the coming years.

Private Sector

10.33 Private sector match funding may take the form of larger investments, such as match funding large physical developments projects, or as SME beneficiary contributions, as part of business support projects. Private sector funding could link to interventions in Priority 1 and Priority 2.

10.34 Feedback from business representatives suggests that businesses tend to be very wary of getting involved with ERDF funding, partly due to the length and complexity of the processes, but also by the regulatory requirements and the risk of funding clawback. It is seen by many businesses as high risk, and thus is avoided.

10.35 At the level of SME contributions towards ERDF funded interventions, a number of consultees have reported changing messages coming from the ERDF Secretariat on whether SME contributions are desirable or even eligible within the programme. This is a similar story to other regions, many of whom have struggled to get clear messages on use of beneficiary contributions as private sector match from the national Managing Authority.

10.36 Going forwards, the coalition government appears keen on increasing private sector match for ERDF funding, and this will need to be an important part of future programme match funding, given reductions in public sector funding. Better roll-out of business support interventions using private sector contributions as match will require a more proactive approach from the ERDF Secretariat to develop clear guidance and models for how this should work in practice.

10.37 Other RDAs have started to increasingly attract projects with private sector match, for example Yorkshire Forward, who have had a large number of new projects entering the pipeline with either major private sector contributions to capital project development or beneficiary contributions being used for match. One example is a Manufacturing Advisory Service extension project that is currently being developed, which is matching up ERDF funding against 100% private sector funding from beneficiary contributions.

Future Public Sector Match Funding Availability

10.38 The Comprehensive Spending Review and publication of the White Paper on local growth have given a clearer indication of future position on potential match funding for the ERDF programme.

10.39 Using PESA regional analysis data on key ERDF-eligible funding streams available in the North East in 2010-11, alongside stated departmental budget forecasts up to 2015 from the spending review, we have estimated the potential available match funding pot for the North East ERDF programme over the coming years.

10.40 The analysis of future total eligible match funding for the region is shown in Table 10-5 below.

Table 10-5 Estimated available ERDF-eligible public sector match funding in the region 2010-15[25]						
	Planned Spend (£m)	Spend based on Departmental Cuts (£m)				Total 2010-15 (£m)
	2010-11	2011-12	2012-13	2013-14	2014-15	
Priority 1	111.0	105.3	53.5	50.9	47.5	368.2
Priority 2	92.6	87.4	36.1	34.1	30.7	280.9
Total	203.6	192.7	89.6	85.0	78.1	649.1
Source: PESA and Comprehensive Spending Review, 2010.						

10.41 The analysis shows a significantly reduced availability of match funding after the RDAs close in 2012. Including 2010-11, this analysis suggests that the total available ERDF-eligible match funding in the region over the remainder of the programme is just under £650m. Excluding 2010-11, this figure is reduced to £446m.

10.42 MCIS data shows that there is around £65m in contracted projects profiled to be spent between 2011-15. Assuming that the £446m available match figure for 2011-15 includes this £65m, then that only leaves in the region of £380m of available, eligible public sector match funding.

10.43 At current exchange rates, there is spend headroom of around £110m in the programme at present. To achieve this from public sector match funding alone would mean capturing around one third of the available eligible public match funding. At the start of the chapter we highlighted that in 2009-10 the programme captured around 9% of potential eligible public sector match funding available.

10.44 If public sector match continues to be the primary source of match funding for the programme, then it is clear that this 9% capture rate would need to increase significantly, and barriers preventing partners from bringing forward match funding and applying to ERDF would need to be overcome.

Conclusions

10.45 The major sources of programme match funding to date have been from ONE Single Programme funding, central government funding, and to a lesser extent local authorities, universities and private sector funding. A very small proportion of match funding has also come from the voluntary / community sector. Broad analysis of available ERDF-eligible public sector match funding in the region suggests that the ERDF programme managed to capture around 9% of potential eligible funds in 2009-10.

10.46 In light of the recession and changing political landscape and policy direction, the programme faces a significantly changing picture of potential match funding opportunities. Reduced match funding opportunities will include the loss of Single Programme funding, up to 9% cuts in local authority budgets and 4% cuts in University research funding from 2011-12.

25 this analysis is based on a number of broad assumptions and the figures should only be taken as very indicative.

10.47 Some of the key opportunities for new match funding going forwards include:

- **Regional Growth Fund,** which will allocate grants worth £1.4bn over 2011-14 for projects contributing to growth and rebalancing of the economy.

- **New local authority financing opportunities,** such as Tax Increment Financing (TIF) and a Business Increase Bonus.

10.48 Whilst creating new opportunities however, these new funds and mechanisms will take time to become embedded and to develop linkages with ERDF (as described in chapter 3), and thus may not be major sources initially.

10.49 Our future public sector funding analysis suggests a significant reduction in available ERDF-eligible match funding, particularly after March 2012 and the closure of RDAs and end of Single Programme funding. It is clear that the estimated 9% capture rate of public sector funds achieved in 2009-10 would not be sufficient to secure the match funding needed in future years to deliver the full ERDF programme.

10.50 It will therefore be important to understand the barriers that are inhibiting partners from bringing forward applications using eligible public sector match, and seek to break down some of these barriers. It will also be important to maximise new match funding opportunities, and to look beyond reliance on public sector match, to greater levels of private sector match.

10.51 Some of the key barriers to partners applying for ERDF discussed in this chapter include the following:

- **Motivation to apply**. For some potential bidders, particularly smaller organisations, the complexity of ERDF funding and still lengthy (although reducing) timescales for approval are a significant de-motivator to applying.

- **Meeting ERDF regulatory requirements**. The strict requirements of ERDF funding in relation to eligibility and required outputs and results can skew the focus of a project, and some partners may be reluctant to modify their projects simply to fit these requirements. The tight focus on enterprise and innovation projects is also a factor here, and a potential third major priority around physical regeneration may create new opportunities for projects with match funding.

- **ERDF thresholds.** The minimum threshold for applications of £500,000 ERDF funding remains a barrier for projects from certain organisations, particularly in the voluntary & community sector and for smaller local authorities.

- **Auditing and risk of clawback.** The level of auditing and time commitments this entails, and the risk of clawback of ineligible spend is a significant concern for many organisations. This tends to be a particular concern for universities and also private sector firms, who tend to view ERDF funding as high risk and may be reluctant to allow public bodies access to the level of business details required by audit.

- **Relationships with national bodies.** Difficulties in matching regional level ERDF funding with national level programmes has limited the level of central government match for the programme. Going forward this will be an increasingly important issue with the White Paper suggesting RDA management of inward investment, trade support, sector support and innovation will all largely move to a national level.

- **Use of private sector match.** There has been a lack of clarity in the programme to date over whether and how SME contributions can be used as match funding for projects. This has inhibited what could be a significant match funding source for the programme.

11. Programme Procurement

Introduction

11.1 This chapter examines how different procurement methods could be best used to generate a high quality flow of funding application to meet ERDF Programme objectives and to fill strategic gaps in the Programme. The analysis is informed by:

- Consultation with a selection of other RDAs[26] and with the Department for Communities and Local Government (CLG) to understand what (and how) different procurement methods[27] for ERDF projects are being used in other regions
- A review of relevant documentation relating to different procurement methods, including Prospectuses and Investment Frameworks.

Use of ERDF Procurement Methods

11.2 The three broad contrasting types of procurement methods which may be used to secure ERDF investment are described below.

Direct Open Bidding

11.3 Under open bidding (sometimes referred to as an Open Call), all eligible project applicants are able to submit applications for ERDF funding to deliver project activity that meets a specified Priority or Objective of the Operational Programme. Project applications must meet the relevant programme appraisal criteria and conform to ERDF regulations. This is the most commonly used approach to develop and procure ERDF investments across ERDF Operational Programmes in England and Wales. It is the most transparent process but it tends to be lengthier (largely due to the volume of further project development work that is typically required following an initial application or expression of interest to ensure that projects are sufficiently well specified).

11.4 This approach typically involves a high administrative burden on ERDF teams due to the high volumes of applicants and the wide variation in quality of applications, reflected in the amount of work required to sift and check applications, along with the level of contact required with the project applicant.

11.5 The challenge presented by the Direct Bidding approach can be addressed in part by drafting more tightly specified Calls for Tender, as the East of England Development Agency (EEDA) has attempted to do for housing-related ERDF proposals, and Yorkshire Forward has done with its Priority Prospectuses[28]. EEDA devised a framework for the type of housing

26 Northwest Regional Development Agency (NWDA), Yorkshire Forward, Advantage West Midlands (AWM), the East Midlands Development Agency (EMDA) and the East of England Development Agency (EEDA).

27 This includes commissioning, limited bidding and non-competitive selection.

28 http://www.yorkshire-forward.com/sites/default/files/documents/erdf-priority-prospectus-april-2009-to-June-2010-extended.pdf

investments required and targeted it at specific housing-related organisations, with the intention of retaining the inclusivity and transparency of Direct Bidding but with more direction to spark the interest of likely preferred providers. According to EEDA, this generated a very good response rate, although there is little available evidence about the quality of responses and subsequent programme investments.

11.6 Where Open Bidding has been used in the North West (mainly for specific investments within individual sub-regions), each project application is tested against the relevant Sub-Regional Strategy/Action Plan[29]. Unless the project is targeted on delivering against a priority in that plan, it is unlikely to receive support. Partners in the region believe that this has helped maintain a strong strategic focus, although there is no formal evidence available as yet about the impact of this approach on delivering against programme objectives.

Direct Limited Bidding

11.7 Under limited bidding, a limited number of providers are able to submit bids to deliver interventions that meet a specified Priority or objective of the Operational Programme. The NWDA operates a limited bidding approach for those parts of the Operational Programme that the NWDA does not intend to match using Single Programme and for which there are other suitable sources of match funding. This approach is similar to open bidding, except that the organisations eligible to bid for direct funding are limited to those outlined in the relevant Investment Framework. Examples of limited bidding across English ERDF programmes include:

- Regional Sector programmes
- Provision of incubator space for high growth start-ups
- Support for Improving Sustainable Consumption & Production within Key Enabling Sectors
- Expanding the development, demonstration and market development for low carbon technologies and processes
- Support for social enterprise.

Non-Competitive Selection/Commissioning

11.8 Under a commissioning approach, the RDA (as an Article 59 body and steward of the ERDF funding) would act as project applicant. The relevant RDA project manager/team would work with the ERDF team/executive to develop in-house a project specification which seeks to deliver on the objectives of the ERDF programme. The manager/team would then take the project through the standard ERDF appraisal and contracting process. Once ERDF match has been approved, the RDA would then seek to procure the ERDF investment through one of three ways:

29 The North West region is made up of five sub-region: Cheshire & Warrington; Cumbria; Greater Manchester; Lancashire; and Merseyside.

- **Open competition.** Distribution of an Invitation to Tender (ITT), possibly via the Official Journal of the European Union (OJEU), to which any external body could submit an application to deliver the project.

- **Limited competition.** Identification of a small number of providers, perhaps using a Pre-Qualification Questionnaire (PQQ) as a first step and/or drawing from existing RDA technical support panels. The RDA then send the ITT to the shortlist of providers that the RDA has identified as preferred contractors (or which have passed the PQQ stage) for specific Single Programme/ERDF-funded activity.

- **Non-competitive selection.** Under this approach, the RDA negotiates directly with a single provider (or consortium of providers) which appears to be the only suitable and capable body/bodies for delivering specific activity.

11.9 The South West Regional Development Agency (SWRDA) has adopted a 'strategy-led commissioning approach' to the procurement of ERDF projects. Under SWRDA's guidance, the PMC has set up a *Commissioning Delivery Board* to identify specific commissioning opportunities, as well as having oversight of the implementation of the Operational Programme. The Northwest Development Agency (NWDA) commissions investments using limited competition extensively across all four priorities of the North West Operational Programme.

11.10 Commissioning activity is most straightforward in circumstances where Single Programme is the only source of match funding. However, commissioning is still relevant even for projects where Single Programme is not the only desired source of match. For example, a project could be developed by the ERDF Secretariat and the RDA and contracted for ERDF on the condition that the applicant provides a certain percentage of match funding (either their own funding or funding from other sources). Where there is no Single Programme, open or limited bidding should be used, as described above.

11.11 The main advantage of adopting a commissioning approach is that the RDA and the ERDF Secretariat can specify more precisely the nature and scale of investments required, enabling a better fit to strategic priorities, minimising the burden on external project applicants (which has often been cited as a barrier to participation) to develop and design projects. This will in turn reduce the administrative burden on the programme (although greater internal project development capacity may be required).

11.12 Non-competitive selection is most commonly used to expand existing programmes, and where substantial delivery capacity already exists in the region. The East Midlands Development Agency (emda) used non-competitive selection to procure a consortium of six organisations, led by the core Business Link service provider, to deliver the entirety of the East Midland ERDF programme Priority Two (Enterprise Support for Disadvantaged Communities interventions). A copy of the paper seeking PMC agreement to this route to market is appended to their ERDF 2007-13 Investment Framework[30]. The consortium approach was an interesting way of binding several very appropriate partners into delivery, where working relationships already existed. Advantage West Midlands (AWM) used non-

30 EMDA, *East Midlands ERDF Investment Framework 2007-13* (December 2007).

competitive selection to procure delivery across Priority One (Promoting Innovation & R&D), Priority Two (Stimulating Enterprise Development) and Priority Four (Developing Inter-Regional Activity).

Procurement Approaches in the North East Operational Programme

11.13 The programme has made use of all of the three key procurement approaches described above:

- **Non-competitive selection.** A small number of large projects have been commissioned via non-competitive selection (Business & Enterprise North East (BENE), Manufacturing Advisory Service (MAS) North East and JEREMIE projects). These projects and the preferred procurement route were written into the final NEOP. No other NEOP investments can be procured via this approach without a modification to the NEOP document itself and renegotiation with the European Commission.

- **Limited bidding.** This mainly covers Priority 1 Innovation Connectors investments and some other Priority 1 investments, which again are referenced specifically in the NEOP. This approach has been adopted due to the specialist nature of the investments. It may be possible to make further use of limited bidding in future NEOP investment rounds/calls for proposals if the nature of investments sought makes this a desirable option, without the need to renegotiate the NEOP document.

- **Open bidding.** This is the typical approach that has been used to procure most ERDF investment in this programme (by number of projects). In some cases, specific calls for proposals have been made to guide the nature of project proposals coming forward from partners. In other cases, the calls for proposals have been more open.

Regulatory Issues

11.14 A key factor in agreeing the procurement approach for different elements of the programme is the regulatory context.

11.15 An important factor that is currently unclear is whether there are any regulatory constraints on the use of commissioning to increase the scale of an existing ERDF-funded project. Should partners wish to increase the scale of ERDF investment into this or any other existing contracted ERDF project, partners would need to consider whether the RDA and the ERDF Secretariat could develop a revised project specification and award the additional contract to the current provider (or consortium), or whether it could commission a project expansion through open or limited competition.

11.16 All RDAs emphasise the need to comply with the requirements of the Public Procurement Regulations or the need for suitably open competition if these regulations do not apply. Across the board there is a clear emphasis that all projects will be subject to the same gateway assessment criteria and ERDF appraisal regardless of whether direct bidding or commissioning is undertaken.

11.17 Many RDAs and wider partners (eg Sub-Regional Partnerships) have been moving towards a commissioning approach which specifies upfront the activities the Operational Programme wants to invest in rather than waiting for project partners to develop projects that fit the programme/Priority strategy. In some cases, Direct Bidding (Open or Limited) is not a viable option and in others it still remains the preferred option.

11.18 Across all RDAs, the strongest rationale for non-competitive selection is where the RDA through regional strategy and action planning has already engaged widely with external partners through extensive consultation and/or there is an obvious candidate with specialist skills and experience to deliver (eg in environmental technologies). Non-competitive selection has also been used when an RDA needs to procure activity urgently in response to time-limited match funding opportunities or to meet N+2 targets. In the past RDAs have tended to use commissioning via limited competition and non-competitive selection to procure specialist services to save time and resources/speed up the procurement process.

11.19 Procurement approaches must at all times comply with EC procurement directives; grant will be reclaimed if it is found subsequently that the procurement rules have not been observed, and ERDF claw-back is a clear risk. Individuals and organisations involved in the oversight and operation of some programme are cautious given the experience of previous EU programmes.

Tailored Approaches to Procurement

11.20 Procurement approaches should be tailored to particular themes or priorities. For example, in the area of housing where there are many potential providers and scope for creativity, commissioning via open competition may be appropriate. In business support or innovation where there is a clearer framework of products and a narrower field of potential providers the emphasis should be on cost efficiency and delivery thus pointing to need for a more tightly specified brief and commissioning of ERDF activity through limited competition or non-competitive selection.

11.21 Our review suggests that in certain areas of the programme there are a range of potential advantages from switching away from open bidding to a limited bidding or considered commissioning approach, including:

- Increased quality and specification of applications
- Ability to target strategic gaps in the delivery of the OP by generating higher value or strategic initiatives (eg region-wide business programme, VCLFs)
- Speed of throughput of projects through the appraisal and approval process
- Ability to strengthen activity that is existing and proven effective (by formal monitoring and evaluation processes
- Opportunity to procure regional programmes, for example relating to low carbon efficiencies and business support
- Embedding of Cross-Cutting Themes (CCTs) in projects as well as the potential to commission vertical CCT activity, including projects for which CCTs are typically seen

as a minor consideration (notably in Priority 1 type innovation activity).

Conclusions

Programme Procurement Options

11.22 To date the programme has deployed a range of procurement approaches that have followed the planned approach set out in the Operational Programme and have enabled a strong portfolio of projects to be brought forward across Priorities 1 and 2. In particular:

- A non-competitive selection approach has allowed major strategic projects such as BENE, MAS and JEREMIE to come forward. In each case, Single Programme has been an important funding component, and the alignment with the Regional Economic Strategy and positioning of the ERDF Secretariat within ONE has helped in facilitating the development and delivery of these projects. Going forward, similar large-scale investments may be more difficult to facilitate if the Secretariat has to work with national bodies co-ordinating major economic development activities, although if a JESSICA project goes ahead, then non-competitive selection would be the preferred procurement route for that.

- Limited bidding has mainly been deployed for innovation connector projects, and has enabled a more focused approach to innovation investments under Priority 1. This has been an effective approach, enabling the region to target ERDF investment at building on current strengths. As the programme moves forward, there may be a case for more limited bidding, where there are gaps in programme objectives or indicators that need to be met.

- Open bidding has been the main method for bringing projects forward, with the majority of projects coming forward under this approach (although not necessarily the majority of total project value). Open bidding allows for greater creativity in the types of project that can come forward and maximises opportunities for new match funding sources to be used. Given anticipated difficulties in securing match funding in the remainder of the programme, this is likely to continue to be an important procurement approach.

Factors Affecting Procurement Decisions

11.23 In October 2010, the coalition government published the Comprehensive Spending Review and Local Growth White Paper, which have given an initial insight into the scale of public sector cuts at departmental level up to 2015, and also an indication of the changing organisational landscape for economic development activities. This still leaves considerable uncertainty, however, as to the future of specific funding streams and the specific structures for delivery of key activities, such as enterprise support and innovation.

11.24 At the stage of writing this final report, much of this uncertainty remains, however the following key factors will influence the Secretariat's future approach to procurement:

- **Management structure for the ERDF Programme**. For example, if the programme was run at national level within CLG alongside other regional programmes, government may seek to match fund the programme at source; if the programme was run at LEP level, limitations on capacity and experience may limit the scope to pursue some procurement methods (eg if any existing programme approaches are not consistent with local authority procurement rules). We understand at this stage that the most likely outcome is that the programme will continue to be run by a regional body under DCLG and thus the governance and management should remain relatively similar.

- **Changing national delivery landscape**. The White Paper has suggested that functions such as inward investment, trade development, sector development and innovation will transfer from RDAs to co-ordination at the national level. Depending on how this is delivered, these services may have to be commissioned directly. The White Paper also highlighted that the government will encourage Regional Growth Fund to be matched to ERDF, but it is unclear as to the mechanisms for achieving this. In the first round of Regional Growth Fund there has been little co-ordination from central government with respect to linking RGF bids to ERDF funding, indicating that making these links may rely on the regional ERDF secretariat ensuring that local partners that are bidding or drawing down national funds, are linking this up to match funding from ERDF.

- **European Commission guidelines**. As discussed, there are constraints to the use of further non-competitive selection without a modification to the NEOP and renegotiation with the European Commission.

- **Availability of match funding and future demand for ERDF**. With significantly reduced public sector match funding, there is clearly an issue about the ability of the programme to secure sufficient match. This raises the question of whether the programme can afford to be too restrictive in the interventions that it seeks to fund, and may point to increased open bidding.

- **Investment portfolio**. Future procurement approaches will take into account the types of activities that the programme is seeking to attract and the best routes to bring these projects forward.

- **Potential physical regeneration priority**. If the programme were to go along the route of introducing a third major priority linked to physical regeneration, which would likely be primarily to enable a JESSICA project, then this would clearly alter the overall procurement approach for the remainder of the programme.

12. Programme Management & Governance

Introduction

12.1 This chapter provides an assessment of the effectiveness of programme management, processes and governance. It has been informed by consultations with the following:

- ONE officers working on ERDF project development, appraisal, monitoring and overall programme management
- Strategic partners on the PEG and PMC
- Representatives of CLG and the EC
- Discussions with project managers and members of the programmes Practitioner Network.

12.2 At the stage of writing the mid-term evaluation report, the future arrangements for administering the Operational Programme in the region have yet to be finalised. A consultation paper issued by CLG before Christmas however has set out a broad way forward, by which core ERDF Secretariat staff will be transferred under COSOP[31] to CLG from 1st July 2011. It is expected that 31 staff from One North East would be part of this process (which includes everybody working at least 50% of their time on ERDF).

12.3 This chapter therefore reflects on current strengths that it will be important to seek to retain and weaknesses that should look to be addressed in future structures. At the end of each sub-section, we discuss particular risks and impacts of the transition process.

Overview of Programme Structure

Key NEOP Bodies

12.4 Up to this stage of the programme, the key structures governing and managing the programme are:

- **ERDF Secretariat** – made up of 31 ERDF staff and embedded across One North East. This includes a core secretariat as well as officers embedded across other departments eg delivery, performance management and finance. The secretariat manages the programme for the region, including administering the PMC and PEG groups (below), managing the project development, appraisal and post-contract monitoring processes, reporting on progress to CLG and delivering communications / marketing for the programme.
- **Programme Monitoring Committee (PMC) –** consisting of 20 members, with representatives from local authorities in each of the sub-regions, universities and

31 Cabinet Office Statement of Practice on Staff Transfers in the Public Sector

colleges, the private sector, the voluntary and community sector, ONE, government office, CLG and the EC. The group meets two to three times per year and has a strategic governance role for the programme, with responsibility for ensuring targets are met and redirecting the work of the programme as and when required.

- **Programme Executive Group (PEG) –** consisting of nine members, including four local authority representatives (one from each sub-region), and a single representative from ONE, Government Office, universities (representative from Universities for the North East), the private sector (representative from the Northern Business Forum) and the voluntary and community sector. This is a sub-group to the PMC and meets at least six weekly, though has recently shifted to monthly meetings, in light of the significant national policy changes affecting the programme. The group has an operational management role, monitoring programme progress on spend and outputs, cross cutting themes, project and programme evaluation and communications, and referring issues upwards to PMC as appropriate.

Transition Arrangements

12.5 In reviewing and developing the future management and governance structures, CLG will work with RDAs and partners in the coming weeks and months to develop arrangements that will meet the required Management Authority functions set out in Article 60 of the regulations. At this stage the detail of what will be delivered respectively from within CLG centrally and from the regional Secretariats is not fully developed.

12.6 Given the embedded nature of the ERDF Secretariat across ONE, the transition will be a two stage process of dis-embedding the ERDF team from across ONE (by March 2011), and then transferring this core ERDF team to DCLG (from July 2011).

12.7 By dis-embedding the ERDF team from across ONE, the Secretariat will begin the process of removing reliance on the additional support provided by ONE to programme delivery to date (which is necessitated by ONE staff redundancies which have already taken place). In particular this includes the capacity provided in project development and post-contract monitoring by ONE staff.

12.8 This process of dis-embedding requires alterations to ERDF processes and templates to remove their connections with Single Programme requirements and processes for this interim period. However it is anticipated that the processes and paperwork will then be revised again, following transfer, as DCLG will seek to make these consistent across all regions. This amounts to significant upheaval for the ONE Secretariat, and maintaining the business of efficiently administering the programme is likely to be the key priority during this period. There is therefore likely to be less capacity for more proactive support for project development in this period.

12.9 Across the country, we understand that 255 ERDF core staff will be transferred by COSOP to DCLG, of which 31 will be from ONE. Retaining the expertise of these staff has been a priority for DCLG in the transition process, and they are seeking to accommodate ERDF teams across the country within the respective cities where they are already based, to further increase this retention of expertise.

12.10 The 31 staff to be transferred from ONE, out of the 255 across England represents a fairly proportionate number for the region, given the size of the programme. However, as the transfer of staff has been purely based on proportion of time working on ERDF, the mix of roles within each of the regional ERDF teams transferred may vary considerably. In the North East, a significant concern is that much of the project development capacity provided by ONE officers, which has allowed the programme to strategically and proactively support and manage the direction of programme investments, will not be included in the ERDF core team to be transferred. Unless replaced, this loss of supporting project development capacity would be likely to mean fewer and lower quality projects coming forward, which will exacerbate problems of an already low supply of new pipeline projects, due to reductions in available match funding.

12.11 Our reflections on strengths and weaknesses of the programme processes employed to date, and the risks and impacts of transition arrangements are set out below under four headings:

- Project development and appraisal
- Project monitoring
- Project evaluation
- Management Information Systems.

12.12 We then go on to discuss programme governance and engagement, before drawing together overall conclusions.

Project Development, Appraisal and Approval

Approach to Date

12.13 As noted in the previous chapter, the programme has three key procurement approaches: non-competitive selection; limited bidding; and open bidding. Irrespective of the approach adopted, all projects must meet the same requirements of the ONE Project Implementation Plan (PIP) and Full Business Cases (FBC) appraisal stages. The PIP primarily tests the project's strategic fit and assesses its viability. The subsequent FBC receives a detailed appraisal of the critical project elements including activities, delivery arrangements, market failure rationale, treatment of cross-cutting themes (CCTs), options assessment, organisation track record, as well as compliance with ERDF regulations.

12.14 The PIP and FBC stages are an integral part of ONE project development and appraisal process. Any project seeking Single Programme funding must go through these two stages, and any project seeking ERDF (whether ONE or external partner match) must also go through these two stages. The ERDF project development and appraisal process is therefore very well integrated with the Single Programme process, creating a single "journey" for all projects, rather than the parallel processes for Single Programme and ERDF adopted in some other regions.

12.15 The route into the NEOP is clear. Once an ERDF call for proposals is circulated, a potential project sponsor can download the PIP and related commissioning document and submit a draft PIP to the ERDF team email inbox. This is the principal route into the ERDF programme for all potential projects. The ERDF team will register the PIP, examine the PIP, and liaise with project delivery colleagues in the relevant ONE directorate (ie for which strategic fit appears strongest) in order to identify a specific ONE officer who will act as project developer, and will work with the project sponsor to develop the project proposal. He/she will be a dedicated point of contact within the agency for the project sponsor and in effect take on internal "ownership" of the project during its development and appraisal and also in the delivery phase.

12.16 On the whole, pre-contract support for projects by ONE appears to be sound. The key points gleaned from our consultations are listed below.

- Overall, the project development process was felt by most to be clear and transparent. Most consultees recognise that the complexity of the process is driven by programme regulations rather than ONE and, while feeling that the ERDF Secretariat should continue to lobby for further simplification, generally accepted the nature of ERDF processes. Some of the project feedback suggested that efforts to make application forms more simple had resulted in them failing to capture all information needed and created several rounds of follow up details having to be provided, clearly reflecting the danger of trying to oversimplify the paperwork.

- Market failure and options assessments tend to be two of the sections of applications which are least well addressed in submissions, whilst the level of detail and specificity provided on project activities/delivery varies greatly. The quality of responses on CCTs is also variable, as some organisations and ONE developers pay much closer attention to CCT issues than others (and for some projects the CCT aspects/implications are much more obvious).

- A number of particular eligibility issues, including Article 55 compliance and regulations on staff overheads costs were highlighted by a number of projects as difficult issues in project development stages. These points have also been issues to a greater or lesser extent in ERDF project development in several other regions.

- Several consultees highlighted the contracting stage as particularly drawn out in the development process. As discussed in Chapter 4 of this report, the contracting stage in the early part of the programme was particularly lengthy, although more recent projects developed have seen a far shorter average timeline for the project development process.

- Overall, consultees were very positive about the support received in project development and having a single point of contact at ONE was a particular benefit. In a few cases, where a project developer left post and was replaced, there was a weakness in the handover to a new developer, however in most cases consultees found the developers easy to contact and found their feedback clear and helpful.

- The main issue of concern regarding project developer support was in their limited knowledge of ERDF. Particularly for project applicants with experience of ERDF, and that have established relationships with the ERDF team members, it is frustrating to have to go through a middleman in order to get a response to an ERDF specific question. Inevitably in such cases, the project applicant would just contact the ERDF team directly, which can cause confusion in communications.

- Feedback from ONE staff on project development can be quite fragmented in certain cases. In the development process, several staff within ONE have the opportunity to comment on applications, and this feedback tends to be given as part of an iterative project development process. For some projects this has felt fragmented, with comments from different staff sometimes being contradictory. This has been particularly so for more complex projects, and in some cases consultees felt that a project development conference bringing together all relevant ONE officers with the project would be beneficial to work through issues.

- In the early stages Innovation Connector Investment Plans were not felt to be linked in closely to funding decision making. In the early programme stages, project proposals linked to innovation connectors were being received, before the innovation connector investment plans had been completed. This led to some consultees feeling that the investment plans were not sufficiently embedded with the ERDF programme or having sufficient influence on the projects supported by the programme.

Risks and Impacts of Transition Arrangements

12.17 The Secretariat relies on wider ONE staff for project development in two key areas:

- Firstly in the capacity and expertise provided by a range of ONE staff in project development, acting as the main contact to applicants, helping to improve project quality during development, and providing guidance on specialist areas of economic development, which is particularly important in more technical aspects of Priority 1.

- Secondly in the specialist guidance provided by ONE staff, particularly from the legal team, around issues such as State Aid, Procurement and Article 55.

12.18 With this support being lost to the ERDF team in transition, there will be a gap in project development support in the region (which will be exacerbated by loss of technical assistance staff in the sub-regions, as local authority funding cuts mean that most areas will not be able to supply match funding for these posts to continue after 2011). This reduced capacity would mean fewer and lower quality projects coming forward to ERDF. The replacement for this support needs consideration in developing the new management arrangements; LEPs for example, may provide one opportunity for providing this supporting capacity to applicants in the region. With respect to specialist legal support, this will be critical to delivery, to minimise the risk of clawback from projects, and the provision of this support, whether centralised or provided in each region, will need to be a key consideration of the transition arrangement discussions.

12.19 The key risk during the transition process arises from the changing templates and processes for project applications. As discussed above, this will happen in two waves, as the ERDF team is disembedded from ONE, and then as the ERDF team transfers into DCLG. There is a risk that the changing application forms puts some partners off applying to ERDF in this transition period, although the greater concern is likely to be that it will just cause additional delays to pipeline projects being developed up.

12.20 There is limited possibility for mitigating against these issues, beyond agreeing and implementing changes as swiftly as possible and keeping applicants fully informed as things change. Given the low level of pipeline projects at this stage of the programme, and the disruption to the programme that the transition will cause over the next six months, it is important that the Secretariat focus on ensuring the project development, appraisal and approval documents and processes for the post-transition period are in place as soon as possible, such that momentum in new project development can be quickly rebuilt from July 2011.

Project Monitoring

Approach to Date

12.21 Post-contract project support and monitoring appears to be much more robust than in the previous 2000-06 programme period. Prior to submission of the first claim form, each contracted project receives a Project Engagement Visit (PEV) from a member of the ERDF team. The PEV is a new approach for the 2007-13 programme period, and is an important mechanism for making projects much more aware up front of their regulatory responsibilities and requirements for ERDF compliance. It is hoped that this will result in much less clawback of ERDF further down the line than was the case in the previous programme as a result of Article 4 regulations/visits.

12.22 The PEV is typically a 3-4 hour meeting covering standard project requirements as well as any specific issues on which there is most potential for projects to fail to comply with eligibility requirements.

12.23 For the first claim, the delivery team may check a draft of the claims submission and assist the sponsor in making sure that all the correct information is provided. This is important because any mistakes in claims form will have financial repercussions for the project – typically a further reduction in the value of the project in addition to the ERDF money clawed-back.

12.24 Sponsors are not expected to receive this support for subsequent claims, although some less experienced partners may seek further such assistance. If a project is subject to an audit visit, support can be provided to help them get all the relevant information and files together. The wider ONE Assurance Team also provide document review checking support to ensure robust compliance. On the whole, post-contract support for projects by ONE appears to be strong, with support provided through:

- A dedicated ONE project developer / deliverer that is the main point of contact for the project during project development and appraisal, and stays with the project as a support contact during delivery.

- A specific Delivery team contact to assist in checking claims and other day-to-day delivery issues. All projects are able to phone the Delivery team for any questions on ongoing delivery matters.

- Support for audit preparation - to help a project get all the relevant information and files together if it is subject to an audit visit.

- ERDF Practitioner Network, which is an important forum for discussion and demonstration of good practice. Some specific training sessions have been run on State Aid, Article 55, as well as general eligibility refreshers. Feedback from attendees has been mixed, with different stakeholders finding different sessions more useful. A key point highlighted was the need for attendees to know who to contact for follow-up support after the event.

- The ERDF Delivery team hosts bi-monthly ONE cross-directorate meetings for ONE project developers and project sponsors at which key delivery issues, best practice, and current pertinent ERDF/policy issues (eg future match funding) can be discussed.

- Guidance material for projects, covering ERDF eligibility/compliance issues, which has recently been updated.

- An annual monitoring visit by the delivery team and following this, an external verification visit.

- Delivery team representation on steering groups of some larger projects.

12.25 Overall the project developer / deliverers received positive feedback with praise for their willingness to get out and visit projects, and for making themselves easily accessible for support when needed. In a few exceptions to this, some felt that it would be useful to have a greater level of contact with the ERDF team directly, rather than just the ONE manager and others highlighted that there were occasionally weaknesses in internal communications at ONE (eg. the ERDF team send updated claims guidance to the project, then the next claim is rejected by the project deliverer who had not been informed of the revised guidance).

12.26 ERDF report and claims forms are submitted (usually quarterly, but in some cases monthly) electronically into MCIS by the project sponsor. They are checked by the ONE project developer/deliverer and the delivery team, with compliance tested for a sample of projects each quarter. In the case of issues of non-compliance, the Delivery team attempts to work with the project to minimise the likelihood of future errors, rather than to impose penalties straight away.

12.27 Unless a specific quantitative CCT has been written into the ERDF contract, projects are typically required to provide a qualitative narrative of CCT performance. This is one of the weaker aspects of the monitoring process (and the programme generally). The Practitioners Network has been looking into CCTs and how to mainstream them, but has made modest progress. Project feedback reinforces the message that several projects are unsure of what is expected with regard to CCTs.

12.28 With respect to project monitoring there is a mixed response from consultees. In some cases there is a level of resentment at the detail required, for example in value for money assessments for all expenditure and a feeling of repetitiveness of compliance questions at each claim; for others they find certain requirements challenging eg. having to identify from the start the total agglomerated spend with any one supplier over the course of the contract in order to use the correct procurement route. For most projects though, and particularly those more experienced in European funding programmes, there is an appreciation of the requirements of the funding, so the level of bureaucracy is accepted as part of the deal.

12.29 Given the forthcoming cuts in public expenditure and the abolition of RDAs, ONE is undertaking a review of match funding for all ERDF projects to try and identify key risks and mitigating actions. A process of renegotiating and re-profiling many projects is already taking place and will continue in the months ahead, with a number of projects already having reduced project funding or withdrawing the project entirely.

Risks and Impacts of Transition Arrangements

12.30 Again, in post-contract support and monitoring, there is a significant reliance on ONE staff, both as main contacts for projects post-contract (which will include attending PEV visits, supporting applicants in drafting up project variation paperwork etc), and in providing specialist expertise, such as with State Aid and procurement issues. ONE staff also provide much of the input to the Practitioner Network, which has been a key element of support to people managing ERDF projects across the region.

12.31 With the loss of ONE officer support, the core ERDF team will need to pick up communication with individual projects (and are doing so already), and it is likely that the further support provided to projects by ONE staff will be lost, passing a greater administrative workload to applicants. With more limited capacity, the activity of the practitioner network is likely to shrink, and as discussed in the previous section, the specialist legal expertise provision will be something that needs to be discussed as part of the transition arrangements discussions.

12.32 The changing paperwork and processes for project monitoring is likely to be more of a critical risk during transition than was the case for project development. These again will go through two changes during 2011, as the ERDF team is disembedded from wider ONE systems, and then again as the team moves to CLG. The 70+ live ERDF projects will need to be kept up-to-date and supported with any changes, and the ERDF officers working on post-contract support will need to continue to deliver their business as usual, whilst templates and processes are changing, the ERDF systems are altered and transferred, and in many cases projects will be going through change control as reduced match funding means projects need to downsize. With reduced support from ONE staff, this will put significant pressure on staff during the next six months.

Evaluation

Approach to Date

12.33 ERDF project evaluations are covered by the same protocols and procedures that apply for

Single Programme investments. ONE has produced Impact Evaluation Framework (IEF) compliant evaluation guidance that covers the key issues and requirements, and has developed an evaluation plan for the whole ERDF programme, which covers project evaluation requirements.

12.34 Any project that has a total funding pot of more than £1m is contractually obliged to commission an external IEF compliant final evaluation. Given the standard minimum ERDF project threshold of £500,000 (although this is relaxed in some cases), the vast majority of ERDF funded projects will have to go out to external evaluation. There is no specific rule on the size of the evaluation, although as a general rule, 1-2% of total project costs is thought to be a reasonable guide (or at least £20,000) in order to generate meaningful impact findings. A project cannot be considered complete/closed down unless it has already commissioned the final evaluation.

12.35 The evaluation team has worked to try and put steps in place to develop consistent project evaluation procedures. However, on the whole, the approach to ERDF project evaluation does not appear to be as robust as for project development, appraisal and monitoring:

- ONE recommend that projects procure from the ONE Research and Evaluation Panel and ensure that they meet the relevant IEF/ONE standards. A specific IEF guidance for external ERDF project commissioners was being developed, but this has been put on hold given the likely changes to ERDF management that will result from the abolition of RDAs. There is a limit to how much influence ONE has on how these evaluations are carried out, although wherever possible, a ONE officer would sit on relevant project steering groups.

- Monitoring and tracking of project performance generally is undertaken via MCIS and ERDF MI (these systems are described in more detail below). This has a field showing evaluation plans, although it is not regularly updated. The agency has made efforts in recent months to develop an approach to get an up-to-date picture, but this has been put on hold for the same reasons as noted above.

- At the project development stage, it is good practice for the ONE project developer to consult with the evaluation team on what might be the most appropriate evaluation approach, but this is not a mandatory requirement.

- There is no central database recording evaluation progress across all projects. The agency has made efforts in recent months to develop an approach to get a more up-to-date picture, but again this has been put on hold given the likely changes to ERDF management and governance that will result from the abolition of RDAs.

12.36 Project reviews have highlighted that the majority of projects are clear on their evaluation requirements and in several cases are in the process of delivering or preparing for interim evaluations. However, a significant minority of projects appeared to be unclear on their requirements for evaluation, and may require further support to successfully plan and commission evaluations.

Risks and Impacts of Transition Arrangements

12.37 Monitoring progress of project evaluations, as discussed above, is one of the weaker areas of programme management at present. The transition of the ERDF team out of ONE will result in the loss of access to evaluation expertise from the ONE evaluation manager, as well as lost capacity from ONE staff who monitor evaluation progress as part of their project deliverer role.

12.38 Managing evaluations needs to be one of the areas for discussion between DCLG and RDAs in the coming weeks and months to decide how best this should be managed and overseen (whether centrally or regionally). Again, it is likely that guidance on project level evaluation will be made consistent across all regions.

Management Information Systems (MIS)

Approach to Date

12.39 There are three management information systems that are used to record information on ERDF projects and the overall ERDF programme.

- **MCIS.** This is an ERDF-specific database, developed by CLG, which all ERDF programmes use to record the core information on ERDF-funded projects (eg data on outputs, financials, project sponsor details etc). All project claims information is submitted electronically into MCIS by project sponsors (each of which is provided with a username and password to access the system). There are two forms of MCIS, the full version (used by ONE) and a scaled down (core) version that some other RDAs have adopted. MCIS is a centralised system on which all RDAs enter ERDF programme information for their respective regions, and it is an evolution of the TESA system that Government Offices used to administer the previous round of programmes.

- **PMS.** PMS is the core ONE project management information system, on which all information on any project administered by ONE is recorded irrespective of the funding source. PMS is used for ONE's own management information purposes and is a management tool for overseeing projects throughout their lifecycle. PMS contains a number of additional fields containing additional information over and above that captured by MCIS. This includes information used to monitor and track the status of projects (eg project status, progress against agreed project delivery milestones etc).

- **ERDF MI.** This is an Excel database to which PMS and MCIS data is exported. Whilst MCIS can be used to produce reports on project and programme output and financial progress, ERDF MI allows much more sophisticated data analysis to be carried out. The ERDF MI spreadsheet is used to generate reports for various audiences (eg PEG, PMC, ERDF secretariat) on quantitative project and programme progress to date and projections of future performance.

12.40 Information on ERDF projects at the PIP stage is entered into MCIS and PMS by the ONE project developer and monitoring claims information is entered by the project sponsor. The key difference is that MCIS information is entered remotely, whereas information is entered manually onto PMS by a ONE officer, usually someone from the Delivery Team.

12.41 In addition to completing the online data entries in MCIS, supporting attachments can also be uploaded. There are a series of tests that are run to ensure that data are entered correctly (common mistakes include entering the wrong magnitude of units, eg of GVA £m data). For fields that are common to MCIS and PMS, the MCIS entry is viewed as the definitive one, and so any inconsistencies are corrected so that PMS entries match the entry for the equivalent field on MCIS.

12.42 Feedback from consultees inputting claims to MCIS has generally been fairly negative, with people finding the system difficult to use, inflexible (eg. all information has to be entered in one go – there is no ability to enter part and then save as you go along), and in some cases freezes inadvertently or is frozen by ONE when approvals are in process.

12.43 The ERDF claims stage involves a variety of checks and appears to be a robust, if rather arduous, way of minimising errors. Project sponsors have one month to submit claims after the end of each quarter, and claims are usually paid within one month of draft submission (although the programme target is 90 days).

12.44 The MIS generally appear to be sound and between MCIS and PMS contain a great deal of information on the programme and individual projects. The main information gap is in relation to match funding, as neither MCIS nor PMS record the sources of match funding. MCIS, for example, records total public match, total private match, ERDF funding and the total project funding package. In the current funding climate, being able to generate an accurate picture on match funding secured to date and (at the time) anticipated in future would help to give a clear picture of the specific challenges facing the programme. A mapping exercise of match funding sources for all contracted projects was undertaken by ONE in July 2010, although this was a labour intensive exercise.

12.45 Whilst the ideal approach would be to have a single system covering both ERDF and Single Programme, this was never likely to be an option given that they are overseen by two different government departments: CLG has its own reporting requirements for ERDF and BIS has its own requirements for RDAs. The current ONE approach, whilst cumbersome, is in our view a reasonably efficient way of recording and generating information on the ERDF programme.

12.46 Under the current approach, for every action in relation to inputting ERDF project information, an equivalent action is required in relation to PMS. This dual requirement has been a source of frustration to the programme management team and provides potential for errors. On the flip side, this dual system (with MCIS as a standalone ERDF database) does make the transition to a new managing authority (as part of the RDA abolition process) more straightforward.

Risks and Impacts of Transition Arrangements

12.47 The transition away from ONE does create certain problems with management information systems, in that several of the management systems used for ERDF projects are linked up to ONEs systems. MCIS however is set up as an ERDF-only system and is used (albeit to different extents) across all regional ERDF programmes. It is anticipated that all regions will become full users of MCIS post-transition.

12.48 However, MCIS does not currently enable project tracking prior to approval, and is limited in its reporting functions. As part of discussions on transition arrangements, the development of MCIS, or arrangements for a supporting management system will need to be considered.

12.49 To capture details of the programme to date and required information for audit, arrangements will also need to be made to capture data from PMS and SAGE accounting systems on programme information to date.

Programme Governance

Capacities and Representation

12.50 The programme governance structures are relatively straightforward and logical, with the Programme Monitoring Committee (PMC) providing strategic direction and the Programme Executive Group (PEG) providing operational leadership. Partners generally commented on the high quality flow of information from the ERDF secretariat to the PEG and in turn to the PMC.

12.51 The PMC is scheduled to meet just two or three times each year, although this is viewed as sufficient given its role. The PEG has been meeting six-weekly, but will shortly move to regular monthly meetings, given the current context of RDA abolition and public spending cuts, and the need for more frequent decision making.

12.52 Key feedback from consultees highlights the following key messages on PMC and PEG:

- Group members felt very comfortable with the roles of both groups, and tended to see them largely as scrutiny bodies.
- The size and composition of both groups was felt to be suitable, and the use of representatives for local authorities from the sub-regions and for universities (through U4NE) and private sector (through NBF) appears to work well, with genuine dissemination and channelling of key messages out to and back from these groups.
- Consultees felt that information to the group was pitched very well so as to give sufficient detail on performance but without being overly technical.
- Some felt that there was an element of duplication between the PMC and PEG and that there should be a more clear separation of roles and flow of reporting ie. PMC requesting PEG to investigate a particular point in more detail and PEG reporting back on this to PMC.
- Both groups will need to review membership as the organisational and policy landscape changes eg inclusion of LEP representatives.

12.53 The ERDF team is embedded across the agency: of the 31 ERDF staff (27 FTE), a small number (including appraisers) make up the core secretariat, whilst other ERDF officers operate from within relevant directorates (eg delivery, performance management and finance). This successful embedding however may make the ERDF team more vulnerable to the changes to ERDF management that are forthcoming (from the abolition of RDAs) than in regions in which the ERDF team has been kept more distinct from the rest of the RDA.

12.54 Feedback on the ERDF secretariat has been very positive overall with most consultees feeling that the team is well managed and responsive. Several highlighted that a number of the members of the current ERDF Secretariat were actively involved in the previous programme (although not necessarily as part of the Government Office), whilst many of the lessons from the operation of this ERDF programmes were taken on board in the design of the new programme.

Risks and Impacts of Transition Arrangements

12.55 The loss of knowledgeable and experienced staff has been a key concern in transition arrangements. As we have discussed however, CLG have sought to minimise loss of expertise in the regional secretariats.

12.56 The direction of CLG thinking on the future role and structure of PMCs is that they represent an opportunity to bring the Coalition Government's localism agenda into the ERDF programmes. CLG have suggested that PMCs may be renamed Local Management Committees (LMCs), which will need to contain a large number of local area representatives. In the North East, the composition of the PMC is such that there is already a strong local focus on the committee, so it appears unlikely that this would change significantly.

12.57 Regarding the PEG group, there has been no clear message at present on the future role of any sub-committees to the PMCs in each region, however partners in the North East are keen to retain this body. Given the important role it has played as an operational management committee for the programme, it would be sensible for this to be retained. The roles of such sub-committees to the PMC will again need to be a key discussion point for CLG and the RDAs in considering transition arrangements.

12.58 Clearly, with the closure of Government Office, the current GONE chair of the PMC will no longer be in post. Indications from CLG are that a CLG director should chair each of the regional PMC / LMCs with a 'significant regional figure' as deputy chair.

Partner Priorities and Engagement

12.59 The programme has a strong regional focus, and the desire to bring forward fewer, larger, more strategic projects is supported by partners. However, the very strong Lisbon focus has also led to some concerns that specific local challenges will not be address by the programme. There is a much smaller involvement of local authorities in funding and delivering (or overseeing delivery of) ERDF investments than in the 2000-06 programme, which reflects fewer perceived opportunities given the focus of the programme and the implicit prioritisation of Single Programme as a key match funding source. Inevitably the programme is geared to larger urban areas and particularly has been focused by the location of the Innovation Connectors.

12.60 The consensus from consultations was that the programme was continuing to address the key issues for the region, and that if anything, the economic downturn has exacerbated these issues. Several consultees highlighted that an additional focus on physical regeneration activities was worth considering in more detail, whilst other consultees highlighted a greater concentration on supporting more traditional industries in the region, and increasing support to rural areas should be considered. The consensus however was that the broad thrust of the programme was still very much in line with the region's needs.

12.61 Generally engagement with partners is better in the current programme (at design stage and now during implementation) than was the case in the old O2 programme. Most partners were involved to some degree in programme development, and those that weren't had in many cases been involved with the Regional Economic Strategy development, which the Operational Programme strongly links to.

12.62 The Programme Practitioner Network (delivery, strategic and funding partners) is believed to be an effective mechanism for sharing concerns/best-practice etc. For example, a ONE ERDF secretariat members has been co-opted on the NE Universities Association regional funding committee. Partners generally felt engaged with the programme and felt that the programme was communicating well with the wider region. Several consultees particularly highlighted the investments in Innovation Connectors as very visible investments across all of the sub-regions, which have helped to demonstrate programme impact to the region.

12.63 ONE is operating in a more transparent manner than GONE in the old O2 programme, although there is greater transparency of ERDF investments (eg amount of information on them available on the ONE ERDF website) than there is of Single Programme, non-ERDF projects. Partners thought that more could be done to align ERDF and ONE internal working - many people do not understand the RDA/Managing Authority split and why project sponsors/applicants have to deal with a separate ERDF and ONE separate team.

12.64 It was stated that the ERDF secretariat could make better use of the knowledge/expertise that exists in the sub-regions and in some of the ERDF-experienced LAs to help smooth the project development/appraisal process (eg some local authorities have used TA to boost project development capacity).

Conclusions

12.65 Our analysis of programme systems, structures and procedures suggests the programme is being administered efficiently and effectively. This includes strong embedding of ERDF officers and processes within ONE's core business development approaches. However, the abolition of ONE has heralded major changes in how the ERDF programme will be administered. Key strengths of programme governance and management highlighted in this chapter include:

- **Clear and transparent application process**. Having been refined over the course of the programme, the application process is well developed and has significantly reduced timescales. Maintaining this and, importantly, retaining consistency of the approach will be important to keeping partners engaged. *In transition to CLG, it will be important to ensure that the processes are not altered too radically or the length and complexity of processes increased.*

- **Single project development / contract manager**. Strong communications with a single clear contact has been a key feature of developing good relationships with projects and ensuring strong project monitoring. *With the loss of ONE staff as project developers / deliverers, this will be particularly affected. If possible the single point of contact approach for projects should be retained however.*

- **Strong post-contract support and practitioner network**. The complexity of delivering ERDF projects and partner concerns around compliance and the risk of clawback require accessible and helpful post-contract support. The practitioner network also allows peer support, highlighting and addressing common concerns (eg. through training), and also networking between complementary projects. *The provision of accessible post-contract support from the ERDF team and maintaining the practitioner network should be key programme strengths retained post-transition.*

- **Well developed management information systems**. The systems are not as efficient as they could be and are to some extent impeded by the necessity of using MCIS, however they work well and provide detailed and timely information for strong programme management. *The Secretariat should work with CLG to ensure that sufficient improvements are made to MCIS and/or supporting systems are set up to ensure the high quality of management information is provided, enabling strong programme management.*

- **Well functioning and representative governance**. The high levels of satisfaction amongst partners with size, structure and roles of the PMC and PEG groups, as well as the clear representation of interests beyond the individuals at the meetings, is a significant strength. Any changes made to these groups within the wider organisational landscape should seek to avoid disrupting a well functioning governance model. *The Secretariat should seek to minimise disruption to the functioning of these groups as they move to an LMC model and the chair-ship changes.*

- **Experienced and well-connected secretariat officers.** The knowledge and experience of key staff in the Programme Secretariat within ONE and their established relationships with key partners have been an important foundation in the programme's progress to date. Retaining this experience will be important to successful programme delivery in the tougher programme climate ahead. *The transfer of core staff to CLG should enable retention of this expertise.*

12.66 The weaknesses in programme governance and management highlighted in this chapter are fewer than the strengths, but will require attention. They include:

- **Weaknesses with MCIS system**. This is largely out of the control of the ERDF secretariat as the system is managed by CLG. Feedback by project deliverers on its usability however was particularly negative, and the programme would benefit from MCIS being improved. *The development of MCIS as part of the transition may provide opportunities to improve the usability of the system, and this should be considered in discussions with CLG in the coming months.*

- **Limited monitoring and support for project level evaluation**. A significant minority of projects were unclear on the responsibilities for project level evaluation, and there is currently no central monitoring of projects' progress with their evaluations. Project level evaluations will be an important part of the programme's overall evaluation evidence and hence it would be beneficial to have stronger central co-ordination and support on evaluations. *Again, in the discussions on future management arrangements, the responsibility for managing and monitoring project level evaluations will need to be discussed, and may provide an opportunity for improving project evaluation planning and monitoring.*

Future Programme Management

12.67 CLG has taken the sensible decision to continue with regional management of the ERDF Programmes, with Secretariats being transferred to CLG employment. Notwithstanding the likely problems involved in divesting ERDF Secretariats from their respective RDAs, the current set of programmes have now built up a body of capacity and insights, and a series of relationships with delivery bodies.

12.68 CLG has also sought to minimise relocation and management costs by co-locating the ERDF teams with existing CLG agencies where possible. However the past experience of the integration between RDAs and ERDF systems suggests the benefits can be easily over-played. The culture, requirements and structure of ERDF mean that it comes with an infrastructure of its own, although with untapped synergies and efficiencies waiting to be unlocked.

12.69 The assumption is that the plans to replace Programme Monitoring Committees with Local Management Committees are intended to produce a single LMC for each region, rather than a series of more local committees within each programme. Although there is merit in seeking more local involvement in Programme governance, in reality the local authorities and sub-regional partnerships, which sit behind the proposed North East LEPs are already represented on the PMC in the North East. The major challenge facing the PMC is to ensure that it provides Programmes with real strategic oversight and guidance, are able to make informed decisions and can monitor progress on programme objectives. It is unclear from the proposals as they stand how the proposed changes to PMC membership will help here.

12.70 The emphasis on bringing new projects forward is critical although this should be balanced against putting sufficient resource into supporting existing projects. As the funding cuts begin to impact, projects will require guidance and leadership to help them navigate through the uncertain funding situation which many of them may be facing. It is encouraging that the current ERDF project development staff will be included in the transfer to CLG. However, to date the programme has relied heavily on core RDA staff to develop and contract robust projects. It is unclear how the programme will fare without future RDA expertise.

12.71 In areas such as knowledge transfer, innovation, business support, cluster development, venture capital & loan funds, and in operational issues such as State Aids, delivery vehicles, Article 55 and related legal matters, the ERDF programme has relied heavily on RDA staff. Without that support these more Lisbon compliant areas of the Programmes may struggle while local partners continue to press the case for physical regeneration and public realm schemes. It will be important to ensure that the Secretariat can still access specific sector and technical expertise in another form under the new arrangements.

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