

Technical Annex

Preliminary guidance to Local Enterprise Partnerships
on development of Structural & Investment Fund
Strategies

April 2013



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1. Background

Structural and Investment funds

1.1. The Structural and Investment Funds available in England are:

- European Regional Development Fund (ERDF);
- European Social Fund (ESF);
- European Agricultural Fund for Rural Development (EAFRD) which is directed at rural areas; and
- European Maritime and Fisheries Fund (EMFF).

1.2. The Structural and Investment Funds exist to promote sustainable growth.

1.3. Those less familiar with the Structural and Investment Funds may find it helpful to read Annex A first (p.14). This provides some background to the Funds including how they are currently delivered and what they are used for. It also explains some of the key concepts and regulations that apply to the Funds such as how the EU classifies local areas and what this means, how delivery costs can be partially paid for and the requirements to use domestic funding alongside monies from the Funds.

1.4. The Structural and Investment Funds for the 2014-2020 programming period will sit alongside the Single Local Growth Fund that was announced at the Budget as part of the Government's response to Lord Heseltine's review. More information about the response is available from the following link: http://www.hm-treasury.gov.uk/ukecon_heseltinereview_index.htm. In England, The European Regional Development Fund, the European Social Fund and part of the European Agricultural Fund for Rural Development will be brought together into a 'Structural and Investment Fund Growth Programme'. The majority of the funding in the Structural and Investment Fund Growth Programme will be allocated to Local Enterprise Partnership areas. (EMFF will not be included within the Structural and Investment Funds Growth Programme but will be aligned with it as much as possible and available to Local Enterprise Partnerships on a competitive basis.)

1.5. Each Local Enterprise Partnership will lead the development of a Structural and Investment Fund Investment Strategy, which will form part of the Local Enterprise Partnership's wider strategic economic plan.

1.6. Depending on the progress of the negotiations over the European Budget for 2014-2020 and the regulations governing use of the Funds, Structural and Investment Funds are likely to be available to Local Enterprise Partnerships from mid-2014 onwards.

1.7. This is preliminary guidance. It is to help Local Enterprise Partnerships begin the development of their Structural and Investment Fund Investment Strategies.

2. The delivery model for the Structural and Investment Funds 2014-2020

- 2.1. The Government presented an outline model for the delivery of Structural and Investment Funds to partners in a series of consultative road shows across the country throughout November and December 2012. Government has listened to feedback and has used it to further develop the operational model for delivery of the Funds. **The next step is for Government, Local Enterprise Partnerships and their partners to turn that model into reality.**
- 2.2. The following sections set out the underpinning principles of the model with regard to:
- the role of Local Enterprise Partnerships;
 - allocations and match-funding (the EU requirement to use domestic funding alongside the Structural and Investment Funds);
 - national and local governance; and
 - alignment with European Territorial Cooperation (Interreg) programmes.
- 2.3. There will be more guidance around the end of June. Government will talk to Local Enterprise Partnerships in the meantime, and would be particularly keen to have views on two things: any additional freedoms and flexibilities which might help, and the role of financial instruments in delivery.

The role of Local Enterprise Partnerships

- 2.4. Most of the money in the Structural and Investment Funds Growth Programme will be notionally allocated to Local Enterprise Partnership areas, with Local Enterprise Partnerships themselves working with local partners to set the direction of the Structural and Investment Fund Growth Programme in an Investment Strategy. This will set out the local area's opportunities and challenges; its priorities for spending; and the planned outcomes. It will form part of the wider economic growth strategy for the area.
- 2.5. Once the programme is up and running in 2014, Local Enterprise Partnerships will become the key strategic drivers. They will:
- work with local partners to decide which projects to support;
 - help to identify match funding;
 - oversee arrangements for selecting projects (commissioning and/or bidding), or for using Co-financing Organisations to procure ESF provision, in discussion with Managing Authorities;
 - deliver the milestones and results agreed in their strategy, including making sure that enough money is spent each year to meet annual spend targets; and
 - involve local partners across the spectrum.

- 2.6. Local Enterprise Partnerships will not be called on to act as Managing Authorities or Intermediate Bodies. Managing Authorities are responsible for ensuring that the programme is delivered in line with the regulations and represents good value for money. They take final responsibility and can face financial penalties when the regulations are breached. For this programme Government Departments will act as Managing Authorities: DCLG for ERDF, DWP for ESF and DEFRA for EAFRD. They will advise Local Enterprise Partnerships on how they can spend the money without breaching the EU's regulations.
- 2.7. The liability for the Funds in England will remain with individual contract holders/successful applicants and the Managing Authorities for the Funds.

Collaboration between Local Enterprise Partnerships

- 2.8. Government would like to see Local Enterprise Partnerships working with each other to deliver a bigger impact, exploit synergies between Local Enterprise Partnership areas, and achieve economies of scale wherever possible (particularly in smaller areas).
- 2.9. Collaboration can work in different ways. For example, coastal Local Enterprise Partnerships wishing to invest in the off shore energy generation industry, or a specific sector supply chain initiative, could work together to maximise investment even if they are at opposite ends of the country.
- 2.10. Similarly two or more neighbouring Partnerships with relatively small allocations might choose to collaborate if that means they can deliver larger strategic investments to help their areas.

Support for Local Enterprise Partnerships

- 2.11. In the Autumn Statement Government announced that Local Enterprise Partnerships will receive an additional £250k for each of the next two years. They can use this from April 2013 to build the capacity and capability they will need to develop their Structural and Investment Fund Investment Strategies. They will get help from local teams from DCLG, DWP, DEFRA and BIS, who will advise on the development and delivery of strategies, including the technical aspects of compliance with EU rules.
- 2.12. Government will look further at how Technical Assistance from the 2014-2020 programme can be used to support Local Enterprise Partnerships and local partners to deliver their Structural and Investment Fund Investment Strategies in 2014-2020.

Allocations and match funding

- 2.13. Each Local Enterprise Partnership area will receive a seven year notional funding allocation from the Structural and Investment Fund Growth Programme. It is notional in that Local Enterprise Partnerships will not actually hold the funds – Managing Authorities will be responsible for making payments to the various projects and programmes to be supported.
- 2.14. The allocation is for the full term of the Structural and Investment Fund Growth Programme, but will be subject to annual review from 2017 onwards. These reviews are necessary as the UK will be obliged to meet EU spending and performance targets throughout 2014-2020 and the Government may need to shift allocations around the country in order to ensure funds are spent rather than returned to Brussels. Furthermore, the EU regulations are likely to require that 7% is held back and only allocated to programmes after the review in 2019. The criteria for adjusting allocations part way through 2014-2020 will be clearly set out before the start of the programme. They will be focused on indicators that relate to spend and delivery of EU funds targets. All spending from the Growth Programme (including match funding) will need to be completed by 31 December 2023.
- 2.15. The Government will write to each Local Enterprise Partnership Chair shortly about its seven year notional allocation for the European Regional Development Fund and the European Social Fund and to set out any particular local conditions or issues. These complexities might include overlapping Local Enterprise Partnership boundaries and the treatment of “transition regions” (areas with a lower GDP compared to the EU average that are subject to slightly different requirements).
- 2.16. Notional allocations will only be confirmed after the European Parliament and Member States have agreed the 2014-2020 EU budget, which is currently expected to happen in summer 2013.

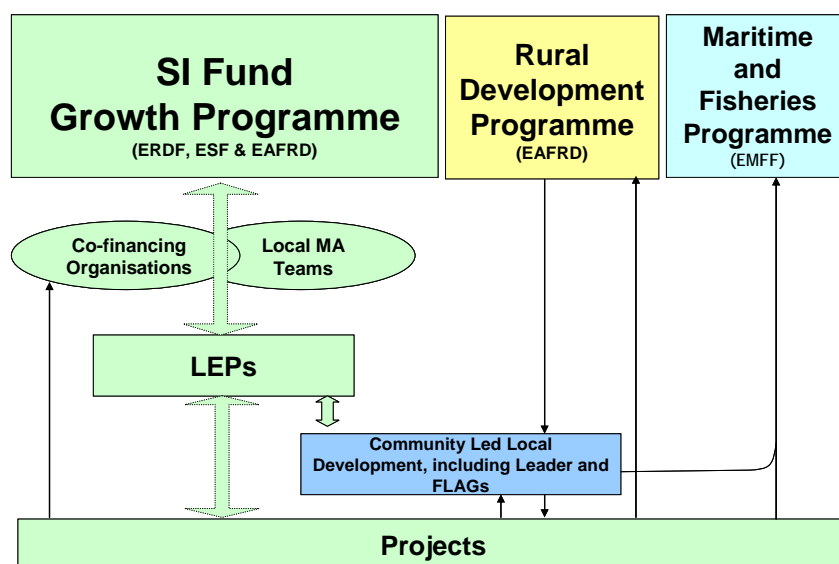
Match Funding

- 2.17. EU rules require Structural and Investment Funds to be matched with domestic funding. Some of this will come from Government, not least through the new arrangements for the Single Local Growth Fund. But Government is keen to see it coming from the private sector too. Local Enterprise Partnerships, with their business leadership, will be well placed to help deliver this. The civil society sector should also become more closely involved.
- 2.18. Structural and Investment Fund Investment Strategies will therefore need to summarise both what local sources of public, private and other match funding are and what Government programmes Local Enterprise Partnerships want to draw on. Further information on sources of match funding will be included in the detailed guidance in the summer.

2.19. Clearly Local Enterprise Partnerships are not expected to know at this stage exactly where they will find all their match funding seven years ahead – different and/or new sources of match funding will become available as the programme progresses. Government would though like them to work with partners – especially private sector partners – to begin to identify potential sources of match funding now.

National and Local Governance

2.20. The Structural and Investment Fund Growth Programme will be overseen by a National Growth Board. This will ensure that money spent through the Growth Programme delivers economic impact, achieves its performance targets and provides value for money. It will also provide oversight of the programme, and so fulfil the role of Programme Monitoring Committee for both the ESF and ERDF Operational Programmes¹.



Local governance and engagement with other partners

2.21. EU regulations require that Structural and Investment Fund programmes are prepared, implemented and monitored collaboratively with delivery partners. So Local Enterprise Partnerships will need to develop their strategies with a broad range of economic, social and environmental organisations such as businesses (including social enterprises and mutuals), rural interests and networks, trade unions, local authorities, civil society interests and networks, equality and non-discrimination bodies, Jobcentre Plus and universities and further education institutes.

2.22. More guidance on this will be provided. But Local Enterprise Partnerships might want to consider taking steps now to start involving more partners, whether through working groups, widening their Board representation or other partner involvement.

¹ There will be an Operational Programme and Managing Authority for each of the three funds comprising the SI Fund Growth Programme. The Managing Authorities will be housed in DCLG for ERDF, DWP for ESF and DEFRA for EAFRD.

2.23. Local Enterprise Partnerships should set out in their Structural and Investment Fund Investment Strategies the opportunities in their area to support new and existing rural businesses that will make a sustainable contribution to national growth. Local Enterprise Partnerships will need to engage directly with rural partners to identify and address local priorities, ensure that rural circumstances are understood and to plan outcomes that will benefit rural areas: Rural and Farming Networks, Local Nature Partnerships and LEADER Local Action Groups can help. EAFRD must be spent on activities in rural areas.

Working with Communities

2.24. The Structural and Investment Fund regulations are clear that grassroots and community-based programmes are important. These must be formed at a very local level, but may be run alongside, or as part of, Local Enterprise Partnership-led governance structures.

2.25. The Rural Development Programme already provides such an approach, and 5% of the EAFRD budget must be spent in this way. This is called LEADER². It works by channelling funding to very localised areas. Local Action Groups, formed from members of the local community, devise and manage this funding. It is spent on projects which will make a real difference at local level.

2.26. LEADER Groups are not part of the Structural and Investment Funds Growth Programme, but any Local Enterprise Partnerships who want to put additional funding into them from their Growth Programme allocations will be free to do so.

2.27. For the 2014-2020 period, initiatives called 'Community Led Local Developments' can be adopted in non-rural areas as well as rural areas as a way of delivering some of the objectives of the Structural and Investment Fund programme. This would work just like LEADER. The local community would be free to form a Local Action Group, which would develop and implement a Local Development Strategy. Annex C provides more information on how this might work.

Alignment with European Territorial Cooperation (Interreg) programmes

2.28. Different local areas in England also have the opportunity to participate in a range of European Territorial Cooperation (Interreg) programmes. These programmes are funded by ERDF (outside the Local Enterprise Partnership notional allocations) but are managed and delivered jointly with other member states. They therefore have different development processes and timescales to mainstream Structural and Investment Fund programmes.

² LEADER: a delivery model under the Rural Development Programme, which enables local communities to connect public, private and civil society to achieve their local objectives. It enables local communities to have a direct influence over the Fund in their area

2.29. These programmes can make a real contribution to Local Enterprise Partnership Structural and Investment Fund Investment Strategies. More guidance on this will be provided later in the spring.

Likely role of Financial Instruments

- 2.30. The European Commission has said it wants Structural Funds programmes to make use of a wider range of financial instruments in 2014-2020. Government's initial views on how this might work are set out below and comments on this are welcomed.
- 2.31. Venture Capital is an important source of finance, particularly for seed, start up or early stage businesses that lack steady cash flow or collateral. Funds with an equity component operate most effectively when they are big enough to achieve diversification and deliver positive returns. So Government is minded to ringfence a proportion of the Structural Funds budget, before the distribution of Local Enterprise Partnership notional allocations, for a national fund to deliver equity together with loan and mixed investment. This would either be a single fund with geographical targets or a sub-national fund-of-funds, which could build on current JEREMIE³ structures, ensuring effective use is made of existing management structures and legacy funding. Either option will involve local delivery of funds, with funding targeted where the lack of availability of private sector finance is most acute. This approach would also allow significant match funding to be put in place. Local Enterprise Partnerships' views on this proposal are welcomed, including any alternative proposals for local equity funds.
- 2.32. There is less evidence to suggest that loan funds have to be large-scale in order to be viable (although small-scale funds could see management fees eating into fund capital). Government therefore proposes two delivery mechanisms for loan funds. These funds could be set up locally by a Local Enterprise Partnership using part of its allocation and finding local match. Or Local Enterprise Partnerships could voluntarily pool allocations into a sub-national fund-of-funds covering a group of Local Enterprise Partnerships, which might be large enough to secure significant match funding at national level.
- 2.33. There may also be the opportunity to use financial instruments in other policy areas. For instance, some Local Enterprise Partnerships may want to set up JESSICAs⁴ to establish city level urban development funds (UDFs). Or revolving loan funds, matched with institutional investment, could be used to support retrofitting local social housing developments with energy efficient measures, with a view to creating local jobs, addressing fuel poverty and boosting demand for green technology. Local Impact Funds might support the growth of the social economy and provide investment readiness support. Views on these possibilities and others would be welcomed.

³ JEREMIE – Joint European Resources for Micro to Medium Enterprise – can be used to fund small and medium sized enterprises through loans, guarantees or equity. As enterprises eventually repay the finance, a revolving Holding Fund is created, so that more organisations can also then receive finance.

⁴ JESSICA – Joint European Support for Sustainable Investment in City Areas – another revolving fund designed to target investments in urban areas

2.34. A Structural and Investment Fund Investment Strategy will need to provide an assessment of small and medium sized Enterprises' access to financial markets in the area, including evidence of market failure and the level of demand for investment products amongst small and medium sized Enterprises. Where Local Enterprise Partnerships are proposing to make use of financial instruments in other areas, a similar assessment will be required. Where Local Enterprise Partnerships wish to set up their own funds, they will also need to identify funding for set up costs, ongoing management and administrative costs of EU reporting and regulatory compliance.

Local Enterprise Partnerships should send any comments on the proposed approach to financial instruments to EU.structuralandinvestmentfunds@bis.gsi.gov.uk by the end of May in order that they can influence the final guidance to be issued this summer.

Additional freedoms and flexibilities

2.35. Government thinks that this model already offers Local Enterprise Partnerships a high degree of freedoms and flexibilities. There might though be circumstances where more freedoms/flexibilities would deliver more effective outcomes at a reduced cost. For example the European Commission's new Integrated Territorial Investment tool, which allows a defined territory to combine the Structural and Investment Funds to support its development, may be of interest to some areas.

2.36. Any Local Enterprise Partnership area that feels further freedoms/flexibilities may be beneficial will need to outline:

- the Local Enterprise Partnership area(s) to which the freedoms/flexibilities would apply;
- the governance structure and integrated strategy that exists across the area, and political leadership in support of the proposals;
- the specific freedoms/flexibilities they would want, setting out how these would work and why these would deliver better outcomes at a reduced cost; and
- the format of any agreement they would seek from Government in relation to these freedoms/flexibilities, whether that be through an Integrated Territorial Investment or other agreement with Government.

2.37. Government will consider these on a case by case basis.

The Government is interested to know if any Local Enterprise Partnerships believe additional freedoms/flexibilities would enable them to deliver improved outcomes at reduced cost, and what these freedoms/flexibilities would be. Proposals should be sent to EU.structuralandinvestmentfunds@bis.gsi.gov.uk by the end of May in order that they can influence the final guidance to be issued this summer.

3. Policy priorities for the Structural and Investment Funds 2014-2020

- 3.1. In 2011, the European Commission published its proposals for new regulations governing the Structural and Investment Funds for 2014-2020. These are currently being negotiated by the European Member States and the European Parliament. The regulations will establish 11 overall thematic objectives for the funds, beneath which there will be more specific investment priorities or measures for each Fund. In order to deliver bigger impact, the regulations will give priority to a smaller number of these by setting minimum spending levels against them.
- 3.2. A set of top priorities for the Growth Programme have been established based on the Europe 2020 goals, the spending levels set out in the EU regulations and the EU structural reform agenda to deliver growth and jobs (Country Specific Recommendations). **These priorities are innovation/research and development, support for micro, small and medium sized enterprises, the low carbon economy, skills, employment and social inclusion.** Annex B provides further detail on each of the thematic objectives, and activities that might be funded under each, alongside a summary of the current requirements in the draft regulations for spending minima.
- 3.3. So Local Enterprise Partnerships and their partners will need to decide how much of their allocation they intend to spend on each of the thematic objectives and underpinning activities, based on their strategic priorities and the purpose of each fund, and set this out in their strategies. Overall, the numbers in strategies across England will have to add up to the national spending minimum required for each strategic priority. So Local Enterprise Partnerships should have regard to the relative priorities set out at national level. That said, there may be Local Enterprise Partnership areas where specific local circumstances make it sensible for partnerships to select alternative thematic objectives as local priorities. Where this is the case, they should explain their rationale. Local Enterprise Partnerships need not cover all 11 thematic objectives in their strategies.
- 3.4. If, when Government brings together all Local Enterprise Partnership strategies, the aggregated spending totals vary significantly from those required by the EU regulations, Government may need to work with Local Enterprise Partnerships to adjust their spending proposals.

4. Timelines and next steps

- 4.1. The Government's Spending Round scheduled for 26 June 2013 is the next key milestone. It will set out departmental budgets for 2015-16 and will determine the size of funding streams transferred to the first Single Local Growth Fund and more detail around development of Local Enterprise Partnerships' strategic economic plans. After a period of local planning and preparation, the Single Local Growth Fund will be available to spend from April 2015.
- 4.2. The Structural and Investment Funds are likely to start to be available to spend from around mid-2014, a year before the Single Local Growth Fund.
Consequently Local Enterprise Partnerships will need their Structural and Investment Fund Investment Strategies to be in place before the negotiations with Government over their full strategic plans for the Single Local Growth Fund are complete: they will form a useful head start for the wider strategic economic plans.
- 4.3. More detailed guidance on Structural and Investment Fund Investment Strategies will be issued around the time of the Spending Round. Local Enterprise Partnerships will then be asked to submit their first draft Structural and Investment Fund Investment Strategies at the end of September 2013. Government will review the strategies, provide feedback and advise Local Enterprise Partnerships on how best to deliver their final strategies. These will need to be submitted to Government in January 2014.
- 4.4. This might seem like tight timing. But it is driven by the need for the UK to submit a 'Partnership Agreement' to the European Commission before the end of 2013. This essentially constitutes the UK's business plan for Structural and Investment Fund investment for 2014-2020, and will need to set out how the UK will allocate its total allocation of Structural and Investment Funds. Information provided by Local Enterprise Partnerships in their first draft Structural and Investment Fund Investment Strategies will be used to inform the development of this Partnership Agreement and ensure it reflects what really matters at local level. And the sooner the European Commission and UK agrees these proposals, the sooner money can be spent on supporting local growth.
- 4.5. The first draft Structural and Investment Fund Investment Strategies at the end of September 2013, should therefore include the following elements:
 - for the Local Enterprise Partnership area an analysis of development needs, and growth opportunities with reference to both the thematic objectives and the challenges and opportunities faced by the various geographies in the area;
 - a breakdown of proposed spend across thematic objectives from 2014-2020;
 - a description of the main results expected for each thematic objective; and
 - a description of indicative proposals for any use of Community Led Local Development initiatives and / or engagement with LEADER.

4.6. The detailed guidance will include more information on these elements, but in preparation Local Enterprise Partnerships and their partners might find it useful to start thinking about:

- What are the needs and opportunities in their areas? What are their top priorities using EU funding and what outcomes do they plan to deliver?
- How would these priorities complement those already set out in their Growth Plans?
- What scope is there for collaborating with other Local Enterprise Partnership areas?
- Which new delivery partners do they need to involve? (e.g. rural areas, civil society, higher education institutes, environmental bodies);
- What is the best form of governance?
- For coastal areas, what is the potential of their maritime, marine and offshore sectors to drive economic growth – especially in relation to support for small and medium sized enterprises, innovation, and low carbon?

Any Local Enterprise Partnerships that feel they have made sufficient progress are asked to send to EU.structuralandinvestmentfunds@bis.gsi.gov.uk by the end of May their initial views on the likely priorities for the 2014-2020 period (with reference to the Thematic Objectives set out in Annex B where possible).

At this time, Government would also welcome the views of Local Enterprise Partnerships on how well the priorities for investment set out in Annex B meet their specific local needs.

5. Contacts

5.1. If Local Enterprise Partnerships, their strategic or delivery partners, or other interested parties have any general queries or comments on this guidance please e-mail EU.structuralandinvestmentfunds@bis.gsi.gov.uk or call Steve Cross at BIS (020 7215 2606).

5.2. For any fund specific queries please contact:

- ERDF – ERDF2014-20Enquiries@communities.gsi.gov.uk;
- ESF – ESF.2014-2020@dwp.gsi.gov.uk;
- EAFRD – Eafrd.enquiries@defra.gsi.gov.uk.

5.3. Your local contacts at BIS Local, DCLG, and Defra will also be able to provide further advice and guidance.

Timeline for Single Local Growth Fund and SI Fund Growth Programme

Single Local Growth Fund

EU Structural and Investment Funds

2013

Confirmation of design and scope of the Fund

Guidance and indicative allocations passed to LEPs (EAFRD allocation will be later than ESF & ERDF)

LEPs produce strategic economic plans

LEPs produce SI Fund investment strategies as part of their strategic economic plans

2014

Negotiation with Whitehall on growth deal

LEPs agree SI Fund investment strategies with Government

Local planning and preparation with Managing Authorities

Local planning and preparation

Funding becomes available and delivery begins

2015

All funding available
Aligned delivery of SI Funds and SLGF

A1 Annex A – Background on Structural and Investment Funds

What are the Structural and Investment Funds for 2014-2020?

A1.1 The European Structural and Investment Funds available to the United Kingdom comprise two structural funds from the EU Cohesion Policy, a programme for rural development from the Common Agricultural Policy, and a smaller programme from the Common Fisheries Policy. The funds are:

- The European Regional Development Fund (ERDF);
- The European Social Fund (ESF);
- The European Agricultural Fund for Rural Development (EAFRD); and
- The European Maritime and Fisheries Funds (EMFF) - currently called the European Fisheries Fund for 2007-2013 period.

A1.2 These four funds are currently administered separately in England. For the 2014-2020 funding period, EU regulation will align the four funds under the 'Common Strategic Framework' and they will be implemented in a more complementary way to drive smart, sustainable and inclusive growth. The funds will continue to provide most support to areas in greatest need according to certain objective criteria.

What do the Structural and Investment Funds currently support?

A1.3 European Regional Development Fund (£2.8 bn for England in 2007-2013):

- Innovation and knowledge based economy - including commercialisation of research and technology transfer
- Stimulating enterprise and supporting successful businesses - including business support for Small and Medium Sized Enterprises and clusters and Financial Engineering Instruments
- Ensuring sustainable development, production and consumption - including resource efficiency measures and adoption of low carbon technologies and energy sources
- Building sustainable communities - including support for social enterprises, regeneration of deprived areas and access to services and employment.

A1.4 European Social Fund (£2.5 bn for England in 2007-2013):

- Extending employment opportunities' to unemployed and disadvantaged people, especially troubled families, Incapacity Benefit/Income Support clients, offenders, young people not in education, employment or training, and unskilled people.
- Developing a skilled and adaptable workforce' – including apprenticeships, skills support for redundancy and workplace learning.

A1.5 European Agricultural Fund for Rural Development (£3.7 bn for England in 2007-2013):

- Improving the environment and countryside c80%
- Improving the competitiveness of the agricultural and forestry sector
- Quality of life in rural areas and diversification of the rural economy.

A1.6 European Fisheries Fund (£40m for England in 2007-2013):

- supporting fisheries which are less damaging to the marine environment
- helping aquaculture businesses achieve economic viability and competitiveness
- reversing the decline of many coastal and inland communities dependent on fishing.

How are the Funds currently delivered?

A1.7 Each Fund is overseen by a Managing Authority who is responsible for managing the Fund and ensuring that it is delivered in line with the EU regulations. Where funds are spent outside of the regulations, it is the Managing Authority that is responsible for ensuring that the funding is repaid to the EU.

A1.8 Each fund is organised through one or more Operational Programmes. These are detailed documents that must be agreed with the European Commission before spending begins. They set out how the funding will be spent, the needs and opportunities it will seek to address and the outcomes and measures the funding intends to deliver.

A1.9 Programme Monitoring Committees oversee the implementation of an Operational Programme. They are responsible for ensuring that the programmes are operating within the EU regulations and on track to deliver their targets.

A1.10 ERDF programmes in England are currently set at regional/ NUTS 1 level and managed by DCLG. There is a separate Convergence programme in Cornwall and the Isles of Scilly, due to the relatively low GDP levels for that area.

A1.11 ESF is operated as a single national programme in England managed by DWP. ESF is delivered mainly through national Co-Financing Organisations, who provide match funding upfront, on the basis of national lead policy responsibilities.

A1.12 EAFRD is operated as a single Rural Development Programme for England, managed by DEFRA. This includes a special initiative known as 'LEADER': a 'bottom-up' community-led delivery approach.

A1.13 EFF is operated as single programme for the whole of the UK. (The Marine Management Organisation, based in Newcastle, acts as the Managing Authority.)

Key things to know about the funds

A1.14 **The Funds have to be 'matched' with domestic funding, typically on a 1:1 ratio.** The domestic funding has to be signed-off as match for the purposes of the regulations by the entity providing the funding, the relevant Managing Authority and the auditors of Structural and Investment Funds.

A1.15 The Funds can also be used to pay for some of the cost of administering them. This is known as **Technical Assistance**. This must be supplemented by domestic funding, in line with the 'matched' funding principle set out above.

A1.16 Funds are held by the European Commission until the money has been spent.

The EU funds approved for a project/programme are actually provided by the domestic Managing Authority. After money has been spent, auditors check that the spending complies with the European regulations and then, if it is compliant, the Managing Authority can draw down the funds from the European Commission. This is why allocations to Local Enterprise Partnerships will be 'notional'.

A1.17 If auditors find 'errors' (non-compliant spend), then the Funds cannot be drawn down from the European Commission. Moreover, if 'error rates' rise above 2% within a programme, all reimbursements will be automatically suspended by the Commission until the problems are resolved. This could result in delay of several months in making payments, despite the proven delivery of results.

A1.18 '**State aid rules' must be obeyed at all times.** State aid refers to forms of assistance from a public body, or publicly-funded body, given to undertakings on a discretionary basis, with the potential to distort competition and affect trade between member states of the European Union.

A1.19 The 'State aid rules' comprise various articles of the Treaty on the Functioning of the European Union (TFEU), regulations, frameworks and guidelines - which set out what aid can be given. The European Commission governs member states' compliance with these rules and must be notified of all schemes involving State aid. State aid granted without Commission approval is viewed as unlawful and may be subject to repayment - by the aid recipient.

Categories of 'place' in the EU regulations for 2014-2020

A1.20 The EU regulations governing use of the funds in 2014-2020 define three different categories of 'region' in Europe:

- **Less developed regions** - areas (as defined at NUTs 2 level, which equates approximately to large counties, groups of smaller counties and some cities) with a GDP per capita below 75% of the EU27 average. These areas would receive a higher level of structural funds will have more headroom to fund activities outside of the four top priorities for ERDF and ESF, and will need to find less matched funding (the structural funds can form up to 80% of eligible costs in the 2014-2020 period). The only area in England expected to fall into this category is Cornwall and the Isles of Scilly.
- **Transition regions** - areas with a GDP per capita between 75% and 90% of the EU27 average. Transition regions would receive a slightly higher than average intensity of ERDF and ESF but this funding would have to be more heavily concentrated on selected activities than in less developed regions. Projects can be financed at a maximum rate of 60% for ERDF and ESF (different rules are expected to apply for EAFRD). Places within this category in England are expected to include: Devon, Lincolnshire, East Yorkshire & North Lincolnshire, Shropshire & Staffordshire, South Yorkshire, Merseyside, Lancashire, Tees Valley & Durham and Cumbria.

- **More developed regions** (ERDF & ESF only) - areas with a GDP per capita above 90% of the EU27 average. Most parts of England fall into this category. At least 80% of ERDF will most likely need to be spent on four thematic objectives (innovation, ICT, Small and Medium Sized Enterprises and low carbon) under ERDF and on four investment priorities under ESF. Projects are financed at a maximum rate of 50% under ERDF and ESF (different rules are expected to apply for EAFRD).

A2 Annex B – Thematic objectives and potential investment priorities

- A2.1. The EU regulations are expected to establish 11 overall aims for the funds, described “thematic objectives”. Beneath these objectives there will be more specific investment priorities or measures for each Fund.
- A2.2. The EU regulations governing use of the Structural and Investment Funds set minimum levels of spend for certain thematic objectives and investment priorities. Some spending minima vary according to categories of region. A summary is set out in the table below. Minimum level of spends are not expected to apply to EAFRD, except for LEADER.
- A2.3. The regulations are still being negotiated so the spending minima may be slightly different when the regulations come into force and spending begins. The Government will keep Local Enterprise Partnerships informed of these changes and the implications for development of their Structural and Investment Fund Investment Strategies.
- A2.4. The question of whether a minimum amount of the Structural Investment Funds should be allocated to the ESF is still under discussion in the EU. The Commission had proposed a minimum of 20% in less developed regions; 40% in transition regions; and 52% in more developed regions. Member States have proposed that the minima should be defined on the basis of the three objectives (8, 9 and 10) reflecting the policy goals of employment, education and skills and social inclusion rather than a specific fund. Member States have also argued that the minima should be within a range to be negotiated by the Member State and the European Commission in the context of the partnership agreement. These ranges would be between 20% and 25% for less developed regions; 35% and 40% for transition regions; and 45% and 50% for more developed regions. For the purpose of this guidance, Local Enterprise Partnerships should focus on identifying the activities and investment priorities they wish to support.

Areas for Investment⁵

- A2.5. The EU regulations set out a wide variety of areas for investment that can be supported under each thematic objective; these are still subject to further negotiation and could be subject to further change. Activities supported by the Structural and Investment Funds need to be both consistent with these areas for investment and flow from the European Commission’s ‘intervention logic’, which can be summarised as:

⁵ Areas for investment under ERDF and ESF are referred to as Investment Priorities under EAFRD the equivalent are measures set out under priorities.

- Step 1: Where are we now?

Thematic Objective	Earmarking requirements by region type		
	Less Developed	Transition Regions	More Developed
1. Innovation	At least 50% ERDF must	At least 60% ERDF must be	At least 80% ERDF must be
2. ICT			

- Step 2 and 3: What is the need at sub-national level in the thematic area and what do we want to change?
- Step 4: What indicator will capture and measure that change?
- Step 5: What we set out to achieve and by when?

Table Setting out Thematic Objective Earmarking Requirements by Region Type:

3. Small and medium sized enterprises Competitiveness			
4. Low Carbon	} At least 10% ERDF on this objective.	} At least 15% ERDF on this objective.	} At least 20% ERDF on this objective.
5. Climate Change Adaptation	No spending minimum		
6. Environmental Protection	No spending minimum		
7. Sustainable Transport	No spending minimum		
8. Employment	} At least 60% of ESF allocation per programme ⁶ on up to 4 investment priorities within these 4 thematic objectives.	} At least 70 % of ESF allocation per programme on up to 4 investment priorities within these 4 thematic objectives.	} At least 80 % of ESF allocation per programme on up to 4 investment priorities within these 4 thematic objectives.
10. Skills			
9. Social Inclusion (At least 20% of ESF allocation must be dedicated to this thematic objective but ERDF expenditure can count towards this total.)			
11. Institutional Capacity			

- A2.6. To help inform Local Enterprise Partnership thinking in advance of the detailed guidance, the Government has considered steps 1-3 at England-wide level for each thematic objective. By considering the need at England-wide level and alignment of national policy with the investment priorities listed in the regulations under each thematic objective, the Government has established a list of activities for each thematic objective that Local Enterprise Partnerships should consider supporting. These are set out below prefaced by a brief synopsis of EU and UK Government objectives. (More detail on indicators and milestones (step 4 and 5) is set out towards the end of this annex.)
- A2.7. In considering their Structural and Investment Fund Investment Strategies Local Enterprise Partnerships should avoid being compartmentalised by thematic objectives and Funds. Ideally they and their partners should be considering the strategic ambitions for their areas and then how each thematic objective and Fund can contribute to meeting these. For example, a Local Enterprise Partnership may wish to increase the overall level of entrepreneurship across its area. This could be supported by ERDF investments under thematic objective 2, but also ESF investments under thematic objectives 8, 9 and 10.
- A2.8. In addition, the specific focus of activities supported under individual thematic objective is likely to vary not just from area to area but also across individual Local Enterprise Partnership areas. For example, innovation activities could drive growth in urban, rural or coastal areas, but the focus of that activity might vary depending on the specific geographical opportunities. In addition, references to Small and Medium Sized Enterprises should also be read as including Social Enterprise.
- A2.9. The Growth Programme and Local Enterprise Partnership strategies will need to take account of the priorities that the UK Government has set out in its 2013 UK National Reform Programme and the relevant Recommendations that the EU makes to the UK on economic and employment policy.

Thematic Objective 1 - Innovation

A2.10. The Europe 2020 ambition is to improve the conditions for research and development, in particular with the aim of raising combined public and private investment levels in this sector to 3 per cent of GDP. In the UK our ambition is to improve the framework conditions for research and innovation to facilitate greater private sector investment over the period.

Activities to consider:

- Building collaborative research between enterprises, research institutions & public institutions. This can include graduate start-up schemes & support for other Higher Education Institution spin-outs delivering innovation, including social enterprises.

- Supporting Small and Medium Sized Enterprises including social enterprises to commercialise Research & Development i.e. bringing new products to the market, especially those linked to key enabling and health science technologies. This can include stimulating the demand for new services and products, and public procurement programmes designed to drive innovation.
- Physical infrastructure for innovation including incubation space for new enterprises active in innovation linked to research institutions.
- Innovation activities which contribute to low carbon goals, resource efficiency and protecting the environment, while maintaining the focus on business investment in research and innovation.
- Higher level workforce skills to support research, development and innovation.
- Support for innovation actors including enterprises, social economy, research centres or universities to promote social innovation and innovation in health.

A2.11. The final regulations are likely to include conditions which will require government to demonstrate a more rigorous approach to the selection of innovation activities. Government will need to demonstrate that a strategic policy framework exists which embeds a policy known as 'smart specialisation'. More information on this concept will be included in the detailed guidance.

Thematic Objective 2 - ICT

A2.12. The EU has set targets under its Digital Agenda for Europe for all premises to have access to superfast broadband (speeds more than 30Mbps) by 2020 and for 50% of users taking up broadband services with speeds of more than 100Mbps. The Government aims to have achieved a transformation in broadband by 2015, with speeds three times faster than in 2010, around 10 million more homes and businesses connected to superfast broadband, and low prices with a competitive broadband market.

A2.13. The Government has also set out a vision for the future of British industry and committed to a long term, strategic partnership with industry. The Information Economy is one of 11 sectors where partnerships are being developed. The Information Economy Strategy will look at how the UK can fully exploit growth opportunities for the wider economy through industry and Government working in strategic partnership and is due to be published in May 2013.

Activities to consider:

- Further roll-out of high speed digital networks to businesses and communities in areas of market failure.
- Promoting the take-up and exploitation by Small and Medium Sized Enterprises and communities of emerging technologies and networks for the digital economy.
- Higher level workforce skills to support the development of these actions.

A2.14. In pursuing these activities Local Enterprise Partnerships should pay particular attention to constraints imposed by state aid rules for broadband investments.

Thematic Objective 3 - Enhancing the competitiveness of Small and Medium Sized Enterprises

A2.15. There are no Europe 2020 targets in this area but the UK has a country specific recommendation to improve access to finance. The Government's "Plan for Growth" aims to make the UK the best place in Europe to start, finance and grow a business. As a priority the Structural and Investment Funds should support this agenda by: building capacity of existing businesses, including social enterprises and micro-enterprises, ensuring they reach their growth potential & supporting an entrepreneurial culture to encourage sustainable new businesses.

Activities to consider:

- Ensuring a flexible mix of finance is available for different stages of business development and sectors where markets are currently failing Small and Medium Sized Enterprises.
- Ensuring business financial readiness.
- Encouraging Small and Medium Sized Enterprises to export and target new markets.
- Strengthening local and national supply chains and improving productivity and manufacturing performance.
- Supporting those looking to start and grow a business through capability building.
- Ensuring that there is an adequate supply of incubation space and support services to support the next generation of high growth business.

Thematic Objective 4 - Low Carbon

A2.16. The Europe 2020 ambition is to reduce greenhouse gas emissions by 20% compared to 1990 levels; increasing the share of renewables in final energy consumption to 20%; and moving towards a 20% increase in energy efficiency. The Government has targets in each of these three areas by 2020 as follows: reducing greenhouse gas emissions by 34% compared to 1990 levels; increasing the share of renewable energy to 15%; and enhancing the energy efficiency of homes, business and transport. The Government believes that the policies and measures it has in place will ensure that the UK Green House Gas target and Renewable Energy target will be met by 2020. It is therefore proposed that the EU funds in England in this thematic objective should be focused on the Energy Efficiency target and driving jobs/growth in the Low Carbon economy. Those activities that need to be implemented now to achieve longer term targets will also be supported.

Activities to consider:

- Support for activities that realise and enhance the job-creation capacity of the low carbon sector (in particular via new skills needs, company growth and domestic retrofit);
- Support the non-domestic sector to develop low carbon technologies and focus on energy efficiency which is the most cost efficient way of reducing emissions;
- Development of “whole place” low carbon solutions (including heat and cooling networks, urban design, sustainable urban mobility, decentralised and off grid energy systems, community energy solutions, demand management and climate change adaptation measures); and
- Activities that accelerate the development, innovation, adoption, deployment and cost reduction of low carbon technologies and related supply chains/ infrastructure.

Thematic Objective 5 - Climate Change

A2.17. Increased flood risk, from more extreme weather and sea-level rise, poses the most significant and specific Climate Change adaptation challenge to the UK economy. Existing domestic public funding delivers £8 of damage avoidance benefits to existing communities, homes, businesses and infrastructure for each £1 invested. Flood and Coastal Erosion Risk Management investment sustains the existing economy. SI Fund Growth Funding could be used to complement and match this investment enabling appropriate (and National Planning Policy Framework compliant) economic growth outcomes, measurable by associated land supply, jobs enabled and net value added outputs.

A2.18. Other aspects of climate resilient growth will be delivered through integrating adaptation action within the other thematic objectives. Local Enterprise Partnerships will be expected to ensure their strategies and activities to implement them take full account of the opportunities and risks of climate change over the life of the programme e.g. specific investments will need to be resilient to the impacts of climate change.

A2.19. Important adaptation activity under other thematic objectives may include: capacity building within the Local Enterprise Partnership; capacity building within the social sector (as climate change has a disproportionate impact on the socially vulnerable); innovation in the growing adaptation goods and services market; business skills for managing risk; green and blue infrastructure (particularly in high risk areas or in new business parks); and resource efficiency.

Thematic Objective 6 - Protecting the Environment and promoting Resource Efficiency

A2.20. Europe 2020 recognises that “protecting the environment and preventing biodiversity loss” is a key part of sustainable growth. In England the Government recognises that a healthy, properly functioning natural environment is the foundation of sustained economic growth, prospering communities and personal wellbeing (HM Government: Natural Environment White Paper, 2011). Government therefore aims to enhance and protect our natural capital, including biodiversity and the marine environment by: establishing coherent and resilient ecological networks at land and sea, through a combination of habitat protection, restoration and creation, and by recovering species

populations; reducing pollution and greenhouse gas emissions; encouraging businesses, people and communities to increase resource efficiency; managing and using natural resources more sustainably and reducing waste; and engaging positively with natural environment and understanding its value .

Activities to consider:

A2.21. Investments through the Structural and Investment Fund Growth Programme under this thematic objective should be focussed on supporting sustainable economic development and jobs.

- Investment in resource efficiency measures that improve business performance.
- Investment in green infrastructure to support sustainable economic development
- Promoting innovative technologies that address environmental protection and resource efficiency for businesses and communities.
- Actions to promote ecosystem services that support growth, and jobs.

Thematic Objective 7 - Promoting sustainable transport and removing bottlenecks in key network infrastructures

A2.22. The Government's overriding aim is to invest in transport infrastructure to support economic growth and recovery, ensuring that the infrastructure is in place to facilitate the development of new employment, housing and services. There are no Europe 2020 targets in this area but the UK has a country specific recommendation to improve its infrastructure.

Activities to consider:

A2.23. There is insufficient Structural and Investment Fund Growth Programme Funding available to make major infrastructure investments under this thematic objective. However, there may be scope to fund activities in the following areas, particularly in less developed and transition regions:

- Improving connections from local transport networks to key gateways linked to the TEN-T network (road and rail)
- Improvements to the wider railway network.
- Support for the development and implementation of new technologies and systems, designed to improve the integration, intermodality and use of local (public) transport. This includes systems and services for: providing advanced information to users, traffic management and control systems, electronic ticketing, payments and enforcement, and the development of standards for interoperability.
- Localised/small scale non-car transport/mobility interventions that provide micro-connectivity to link deprived communities to jobs.

Thematic Objective 8 - Promoting employment and supporting labour mobility

A2.24. The Europe 2020 ambition is to raise to 75% the employment rate for women and men aged 20-64, including through the greater participation of young people, older workers and low-skilled workers. The Government is committed to increasing employment opportunities for all by providing support mechanisms and benefits systems that incentivise work and reduce worklessness, to ensure that individuals can fulfil their potential within the labour market. Key challenges include workless households, youth unemployment, economic inactivity, underemployment and progression in work.

Activities to consider:

A2.25. The Government would expect strategies to focus mainly on the following two ESF investment priorities under the employment objective in order to address the thematic concentration requirements in the ESF regulation:

- Access to employment for job-seekers and inactive people, including local employment initiatives and support for labour mobility;
- Sustainable integration of young people, in particular those not in employment, education or training into the labour market.

A2.26. The areas where the Structural and Investment Fund Growth Programme can help complement this agenda, alongside Government programmes but not duplicating or offering alternatives to them, are:

- Providing additional or more intensive support to help people to move towards work, enter work (including self-employment), and to progress in work.
- Additional and innovative approaches to pre-employment training.
- Additional support for long-term unemployed people, including those who have left the Work Programme, and including new approaches to work experience and training.
- Providing additional support to specific target groups such as people with disabilities or health barriers (including mental health issues), people with caring responsibilities, lone parents, ethnic minorities, ex-service personnel, and ex-offenders.
- Helping older workers to re-enter or stay engaged in the labour market.
- Training workless people who need to upgrade their skills or learn new skills (including basic skills and English for speakers of other languages) to compete in the local labour market and adapt to changes in the economy.
- Responding flexibly to employer demand in local labour markets where specific needs are identified by Local Enterprise Partnerships and their partners.
- Using self-employment as a route out of worklessness.
- Reducing the number of young people not in employment, education or training.
- Additional literacy and numeracy provision for young people.
- Additional and innovative approaches to support and motivate young people with no or few qualifications into training and the workplace such as additional support that harder to reach young people will require to successfully complete a Traineeship.
- Innovative programmes for marginalised groups to help bring them to and support them in learning, such as new training programmes and support for young lone parents.

- Creating infrastructure to embed programmes for young people not in employment, education or training, such as traineeships
- Brokering opportunities for young people, particularly with local employers and for young people who are not in employment, education or training, such as Traineeships and work experience.
- Overcoming the challenges brought about by the limited range of employment in some rural areas.

A2.27. The Commission has proposed that the definition of young people should be ages 15 to 24. In terms of eligibility of 15/16 years olds in England, ESF may provide additional support to those who are at risk of becoming “NEET” (not in employment, education or training). ESF does not support mainstream education courses.

A2.28. Local Enterprise Partnerships that contain areas that are eligible for the new Youth Employment Initiative (i.e. NUTS2 regions where the youth unemployment rate is above 25% in 2012) will be expected to ring-fence funding from the ESF to support this initiative for the eligible areas. Further guidance will be provided when EU negotiations to incorporate the Initiative into the ESF regulation have concluded.

Thematic Objective 9 - Promoting social Inclusion and Combating Poverty

A2.29. The Europe 2020 strategy has a target of promoting social inclusion, in particular through the reduction of poverty, by aiming to lift at least 20 million people out of the risk of poverty and social exclusion. The Government’s strategy for social justice, ‘Social Justice: Transforming Lives’, sets out the Government’s commitment to giving individuals and families facing multiple disadvantages the support and tools they need to turn their lives around.

Activities to consider:

A2.30. The Government would expect strategies to focus mainly on the following investment priority under the social inclusion objective in order to address the thematic concentration requirements in the ESF regulation:

- Active inclusion in particular with a view to improving employability;

A2.31. Where the option to support community led local development is used, the ERDF and/or ESF funds will be allocated to the social inclusion thematic objective, although community led local development may of course also support other thematic objectives.

A2.32. The areas where the Structural and Investment Funds Growth Programme can help complement this agenda, alongside Government programmes but not duplicating or offering alternatives to them, are:

- Providing additional and/or more intensive and flexible support tailored to the needs of people who are furthest from the labour market.
- Tackling barriers to work in troubled families.

- Tackling barriers to work in a holistic and integrated way, including issues such as: caring responsibilities; debt; digital exclusion; drug and alcohol dependency; educational attainment (particularly lack of basic literacy and numeracy and English for speakers of other languages skills); family, parenting and relationship problems; access to flexible and affordable childcare, health problems (including mental health); homelessness; learning difficulties and disabilities; life skills; offending; and access to transport.
- Using ESF to complement and add value to other services and funds locally , especially helping those known locally with more complex barriers (and in greatest need of a more consistent service offer) closer to employment (e.g. the troubled families approach).
- Providing additional support to offenders and ex-offenders without work, especially from very hard to help groups (to be delivered through the National Offender Management Service).
- Supporting bottom-up active inclusion activity in particular geographic locations, for example, through community led local development.
- Supporting early action before problems become entrenched.
- Supporting the pathway to inclusion and outreach.
- Supporting early interventions for young people, especially those with multiple barriers to their participation, including care leavers.
- Supporting specific activities to combat discrimination in the labour market.
- Targeting specific communities or ethnic minorities.
- Helping grow the social investment market to support social enterprises and the social economy.
- Developing the capacity of social entrepreneurs to address the needs of their local communities.
- Supporting local 'Community Grant' type activity.
- Supporting activities that are designed to promote social inclusion whilst also tackling environmental issues such as environmental protection, waste recycling, energy efficiency, and renewable energy.
- Promote a dynamic and inclusive rural economy with fair access to services and basic amenities.
- Developing the capacity of community groups to participate in the delivery of services to those furthest from the labour market.

Thematic Objective 10 - Investing in education, skills and lifelong learning

A2.33. The focus of Europe 2020 ambitions in this area are related to educational attainment; reducing school drop out rates and increasing the number of people attaining tertiary level qualifications. One of the four overarching ambitions in the UK Government's 'Plan for Growth' is to 'create a more educated workforce that is the most flexible in Europe'. The Government has a broad range of initiatives in this area and the ambition is that the Structural and Investment Funds Growth Programme be used to complement them securing a high quality, rigorous and diverse range of provision that responds to the needs of individuals and businesses.

Activities to consider:

A2.34. The Government would expect strategies to focus mainly on the following ESF investment priority under the skills objective in order to address the thematic concentration requirements in the ESF regulation:

- Enhancing access to lifelong learning, upgrading the skills and competences of the workforce and increasing the labour market relevance of education and training systems; including improving the quality of vocational education and training and the establishment and development of work-based learning and apprenticeship schemes such as dual learning systems.

A2.35. Projects should be complementary to existing Government spending on skills, adding value and avoiding duplication. ESF will not normally be available to fund skills provision that would be financed by the national system of Government skills grants or loans. Exceptions where a local specific need has been demonstrated, within the ESF priority objectives, will be considered.

A2.36. In developing their strategies, Local Enterprise Partnerships may wish to consider their local skills needs across low, medium and high levels, the following types of activity and links with other thematic objectives.

- Support for activities to start and grow a business from promoting entrepreneurship (including social enterprises), self-employment to providing leadership and management training/advice within Small and Medium Sized Enterprises to develop internal capabilities and growth potential.
- Work to promote interaction between business and Higher Education and Further Education providers to meet local business needs.
- Additional and innovative approaches to training for the unemployed, including marginalised groups, to help bring them to and support them in learning.
- Additional or innovative approaches to training in a vocational context for those with low level skills in Maths and English, to support them in finding work or progressing in work; and to enable them to achieve vocational qualifications and continue to upskill.
- Support for intermediate and high level vocational provision for the unemployed and for career progression
- Supporting low skilled people in low paid work to help them progress and for apprenticeships in related projects.
- Support for upskilling and retraining for industries identified in investment strategies including training costs.
- Skills and training packages in response to redundancies.
- Support to address skills gaps in the rural, green economy and the challenges of fragmented business networks in rural areas.
- Support for structural change in the local economy to meet skills gaps at all levels, including for Small and Medium Sized Enterprises and the social economy.
- Support for informal learning and community based learning.
- Support specific activities to promote equality and diversity, retention, progression and employability in higher education; particularly related to the raising of aspirations towards improved economic and social outcomes.
- Developing better links between business and schools, Further Education providers and other education partners to equip students with the skills to start and grow a business.

A2.37. The Structural and Investment Funds Growth Programme will not support mainstream education provision for pupils of compulsory school age.

Thematic Objective 11 - Institutional Capacity

A2.38. This thematic objective is designed primarily for the less developed countries and regions of the European Union that may need additional support to enhance their institutional capacity and improve the efficiency of their public administrations.

A2.39. The Government recognises that building the capacity of partners to deliver employment, education, and social inclusion could help to deliver a more effective programme. One of the UK Government's main priorities is to build the Big Society by promoting community empowerment, opening up public services and encouraging social action. The Government would be interested to receive any ideas from Local Enterprise Partnerships for how partners involved in the delivery of the SI Fund Growth Programme can benefit from capacity building actions so they can deliver quality projects with better outcomes and increased efficiency. This could include building improvement to management, governance and leadership and business planning support as well as improving partnership and networking. The Government will need to consider whether there is sufficient evidence of need to put a case to the European Commission that England should be able to use the Institutional Capacity Objective, or whether capacity building could be addressed under other objectives or through Technical Assistance.

Cross Cutting Issues

A2.40. As Local Enterprise Partnerships develop their investment strategies there are a variety of cross cutting issues that need to be considered, including equality, sustainable development and social innovation. More detail on these issues is set out below:

A2.41. *Gender Equality, Equal Opportunities and Non-Discrimination* – The Local Enterprise Partnership strategies will need to take account of the following issues: equality between men and women, plus prevention of discrimination based on sex, racial or ethnic origin, religion or belief, disability, age or sexual orientation. Other disadvantaged groups will also need to be considered, e.g. ex-service personnel, homeless people etc. Local Enterprise Partnerships should involve partners who have knowledge and expertise of equality issues in this process..

A2.42. *Sustainable Development* – EU law also requires programmes to promote environmental sustainability. So Local Enterprise Partnerships will have to include sustainable development principles into their proposals and framework for investment decisions. Strategies should show how Local Enterprise Partnerships intend to promote environmental protection requirements, resource efficiency, climate change mitigation and adaptation, disaster resilience and risk prevention and management in the selection of operations. Appropriate partners will need to form part of these discussions.

A2.43. The EU regards embedding these “horizontal themes” as integral to the effective delivery of all Structural and Investment Fund Investment Strategies both at a strategic and project level. More detail on how equality and sustainable development

issues can be integrated into Structural and Investment Fund Investment Strategies will be provided in the detailed guidance.

A2.44. *Social Innovation* - The ESF should also promote social innovation within all areas falling under the scope of the ESF in particular with the aim of testing and scaling up innovative solutions (products, services or models) to address unmet social needs. Local Enterprise Partnerships should propose themes for social innovation under the ESF focused objectives (8, 9 and 10) and indicate which types of organisations or partnerships are best placed to contribute to these themes in their areas.

Indicators and Milestones

A2.45. There will be a much stronger framework for performance management in the 2014-2020 period than in previous programme periods. Importantly, there will be a big emphasis on making progress towards 'result indicators', which will be explicit about the change that investments will be expected to deliver. Each indicator will need to include a 'baseline', showing current levels of the variable in question, and a proposed target for future performance.

A2.46. A simple illustration of this process would be if an area's need was identified as being a low level of Research & Development investment Structural and Investment Funding could be used to support activities which could increase that level. In this case the indicator would be Research & Development investment in £s, the baseline would be the current level of Research & Development investment in the area in £s and the target would be the baseline plus the increase being sought.

A2.47. There will also be scope under this new programming period to use qualitative indicators although the European Commission's preference is quantitative ones.

A2.48. The Government will work with Local Enterprise Partnerships to define and justify any other output indicators specific to programmes in England.

A2.49. In addition to results indicators, the short term outputs for each project will be measured against a range of common indicators set out in the EU regulations, these are still subject to further negotiation.. These simpler output indicators will form the basis of a Performance Framework and sit at either the priority axis or programme level. Local Enterprise Partnerships will need to explain in their Investment Strategies how their proposed investments will contribute to these Performance Framework targets.

A2.50. More detail on the performance framework and indicators will be set out in the detailed guidance.

A3 Annex C - Community Led Local Development

- A3.1. Community Led Local Development (CLLD) is designed to help communities help themselves. It supports small areas to bring forward projects to develop their locality and support local residents.
- A3.2. In the current programmes it operates in rural areas as part of the Rural Development Programme for England. It brings together people from across the community to form a Local Action Group. This group is given a budget, and develops and implements a Local Development Strategy. This strategy decides what is going to make the most difference in the area and sets up projects which deliver it.. This approach is called LEADER.⁷ The groups which implement it are known as Local Action Groups (LAGs).
- A3.3. At least 5% of the Rural Development Programme must be spent on LEADER⁸. In the new programme this will continue. The difference in the new programme is that Local Enterprise Partnerships may also choose to put in funding to boost the value of their local LEADER area from the Structural and Investment Fund Growth Programme.
- A3.4. Similarly, the Fisheries Local Action Groups operating in fisheries and coastal areas and funded by the European Maritime and Fisheries Fund (EMFF) will continue in the next programme. Fisheries Local Action Groups (FLAGs) will access funds directly from the EMFF Programme.
- A3.5. The main difference this time is that community development can be used to deliver structural funds in non-rural areas; it is no longer confined to rural development. Local Enterprise Partnerships may also therefore, choose to put in funding from the SI Fund Growth Programme to create and support Local Action Groups in non-rural areas, for example deprived neighbourhoods within a city, a market town and its hinterland or an industrial district.
- A3.6. The Government will want to work with partners to develop more detailed proposals. But initial guidelines for Local Enterprise Partnerships wanting to consider this approach are that:
- Local Development Strategies should develop local interventions that cannot otherwise be delivered through existing ESF or ERDF funding mechanisms at national or at Local Enterprise Partnership level but complement the wider SI Fund strategies.
 - Local Action Groups will propose what sort of area and population should be covered by their Local Development Strategy, though this will be different for each area and may cross Local Enterprise Partnership boundaries.
 - Managing Authorities will need to sign off the Local Development Strategies
 - Local Action Groups will implement them. Strong governance arrangements will need to be in place, including the nomination of an accountable body.
 - Local Action Groups should also be represented in the Local Enterprise Partnership governance structure.

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Any enquiries regarding this publication should be sent to:

Department for Business, Innovation and Skills
1 Victoria Street
London SW1H 0ET
Tel: 020 7215 5000

If you require this publication in an alternative format, email enquiries@bis.gsi.gov.uk, or call 020 7215 5000.

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