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ANNEX I

Amended operational programme

"Convergence Programme for
Cornwall and the Isles of Scilly

Operational Programme 2007-13

(CCI number 2007UK161PO003)

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Executive Summary

1.1 Introduction

The Convergence Programme for Cornwall and the Isles of Scilly will succeed the current Objective One Programme, which has been delivered with great effect by the key stakeholders. A total of €458.1 million has been allocated to the new Programme for 2007-13, which will be complemented by €196 million of Convergence ESF funding to support learning and skills related activities.

This Operational Programme has been produced under the guidance provided by the Post 2006 Co-ordination Group and supported by considerable stakeholder consultation, including Task and Finish Groups, conferences and workshops. The Draft Operational Programme built upon the extensive work carried out to develop Strategy and Action. The final document has been revised in response to the formal twelve week consultation process.

The Programme has four Priorities, as follows:

- Priority Axis 1: Innovation, Research and Development**
- Priority Axis 2: Enterprise and Investment**
- Priority Axis 3: Transformational infrastructure**
- Priority Axis 4: Unlocking the Economic Potential of Place**

These Priorities have strong links to the National Strategic Reference Framework (NSRF) priorities of: (i) Promoting Innovation and Knowledge Transfer, (ii) Stimulating Enterprise and Business Development Activity, and (iii) Improving Accessibility and Connectivity. The Lisbon National Reform Plan Priorities have in turn been covered by the NSRF priorities.

Particular linkages can be made with the Community Strategic Guidelines (CSG) of: (i) enhancing the attractiveness of Member States, regions and cities, and (ii) encouraging innovation, entrepreneurship and the growth of the knowledge economy (see page 5 for summary). The CSG priority of 'creating more and better jobs by attracting more people into employment, improving adaptability of workers and enterprises and increasing investment in human capital', will be predominantly addressed through the Convergence Area ESF Framework.

A fuller analysis of the linkages between the Convergence Programme and European and National Policy is provided in the 'Strategy for the Programme' section of the main document.

1.2 Socio Economic Analysis

Population and Employment

Cornwall and the Isles of Scilly has witnessed substantial population growth in recent years, and are now home to more than 515,000 people. Inward migration has been concentrated among the 30-60 age groups with, until recently, out-migration of younger people. There is a consensus that the population will continue to grow rapidly, with population growth driven largely by people relocating to the area to take advantage of the attractive lifestyle offer.

Employment growth in Cornwall and the Isles of Scilly has also increased substantially in recent years, although employment remains dominated by lower value added service sector or sectors dependent on the public sector and / or with a tendency to offer low paid and part time employment. While some progress has been made, globalisation and the development of a knowledge based economy require a further step change in the economic performance of Cornwall and the Isles of Scilly.

The increase in population and employment has increased GVA, although no progress has been made with regard to GVA per worker, the key measure of productivity. In the State of the Nation 2006, Local

Futures report, five of the Cornish districts were ranked among the lowest nationally for productivity, which encapsulates the scale of the challenge in improving the economic position of Cornwall and the Isles of Scilly. Other research examining the productivity gap between London and the South West identified a lack of capital investment; industrial structure; employment ratio and skills; and travel time to major markets as the factors which accounted for the poor performance.

Enterprise and Innovation

Cornwall and the Isles of Scilly has a reasonable number of businesses and a relatively healthy start-up rate. The major issue concerns the structure of the business base with many operating in lower value added sectors. The area does contribute to a number of regionally important sectors, including tourism and the environmental technologies.

Cornwall and the Isles of Scilly scores poorly with regard to the level of innovative activity and employment in Knowledge Based Enterprises. The establishment and expansion of the Combined Universities in Cornwall (CUC) is a significant development and presents a number of opportunities to increase both R&D employment and innovative activity. A further boost was provided by the investment in broadband technology, especially in light of the peripheral location of Cornwall and the Isles of Scilly. There is now a need to review what further investment in communications technologies is required in addition to increasing the use of ICT in the day to day operations of business.

Infrastructure

The Objective One Programme began to address the mismatch in supply and demand for high quality sites and premises in Cornwall and the Isles of Scilly. There remains an unmet demand for high quality accommodation of a range of types and sizes. The recently completed Employment Space Strategic Assessment 2007-17, which was commissioned by the Cornwall and Isles of Scilly Economic Forum and partners concluded that: current provision was a constraint on economic and company growth; there is a need for the public sector to increase the delivery of serviced employment sites; gap funding had a role to play in persuading the private sector to investment given market conditions; and there was a need to ensure an adequate supply of incubation accommodation and workspace in rural areas.

The investment in broadband technology has been a significant boost to Cornwall and the Isles of Scilly, given its peripheral location. It is important that local businesses are able to access the latest broadband and related technologies if they are to remain competitive in the future. There is a need to review the infrastructure provision in Cornwall and the Isles of Scilly in the medium term to determine the extent to which further investment is needed.

An assessment of infrastructure and its economic impacts in Cornwall¹ identified that the pressure on the capacity of the existing transport network generated by continued growth in GVA and employment will be a key challenge. Connectivity within Cornwall and the Isles of Scilly will be essential to create the right conditions for further growth.

The development and retention of Newquay Cornwall Airport is a critical element in the strategy to reconnect the economy and Cornwall. Research suggests that the Airport can generate substantial direct and indirect benefits which are integral to Cornwall and the Isles of Scilly as a business and investment destination. Concerning other forms of transport; the growth in population and economic activity will place increasing pressure on the transport infrastructure.

Skills

Some 40% of the workforce has low levels of qualifications and are consequently vulnerable to labour market changes. Evidence suggests that there is a clear relationship between the level of qualifications held and employment. The shift towards a more knowledge based economy will place demand for level

¹ Assessment of Strategic Transport Infrastructure in Cornwall – The Economic Impacts, 2007, Mott MacDonald for Cornwall County Council

3 and 4 qualifications and raising the attainment of those coming through the statutory education system will have a direct impact on the skills and qualifications available to employers.

The Leitch Review sets out a major change for the UK economy in terms of transforming the skills profile of the workforce. While a part of this agenda will be taken forward through skills and learning support, there is a need to ensure that there is sufficient capacity to deliver higher level skills training and higher education support.

Environment

The environment of Cornwall and the Isles of Scilly plays a key role in the economic and social well-being of the area and, with further population and business growth anticipated, there will be a range of issues e.g. Brownfield vs. Greenfield, to be tackled to meet the aspirations and challenges of sustainable development. Environmental concerns will ensure that the issues surrounding sustainability are maintained as a policy making priority. Perceptions of the sub-region's 'quality of life' will also assist in attracting business investments and workers to the sub-region. Coupled with the Cornish Areas of Outstanding Natural Beauty (AONBs) and Coastline, this acts as a major asset of the sub-region moving forwards.

Culture and Creativity

In addition to the outstanding natural and managed environment, Cornwall and the Isles of Scilly has a distinctive cultural offer reflecting, for example its World Heritage Mining Landscape and artistic legacy, which have associations with quality of life in the area and contribute to its tourism and investment offer. This strong sense of identity, allied with the outstanding natural environment has resulted in a very strong brand, although this has primarily been used to attract visitors. There is potential to use these assets both to attract new investment and support the development of local businesses and activities.

1.3 SWOT Analysis

The strengths of Cornwall and the Isles of Scilly include its long term assets, such as the quality of life and culture of enterprise, as well as more recent developments such as the Combined Universities in Cornwall (CUC). Some of the weaknesses are more fundamental and entrenched, focussed on the under-performance of the business base and limitations with regard to human capital. These reflect the profile of the business base and limited markets, primarily a consequence of the peripherality of the economy from major national and international markets.

Opportunities are based around a forward looking agenda, in Cornwall and the Isles of Scilly and globally, and take account of the internationalisation of trade and the opportunity (and need) to connect with the global economy through competitive businesses and a highly skilled workforce. The area's threats are also forward looking, relating to historic weaknesses and the challenges of globalisation and climate change. The SWOT highlights the importance of skills and higher education, and the Convergence ESF Framework has a major role to play in the transformation of the economy.

Strengths		Weaknesses	
1	Strong and long established enterprise culture	1	Peripherality and poor external connectivity
2	Some strong sectoral performance	2	Low level of innovation, product and process development
3	Emerging niche specialist companies and sectors	3	Low levels of business investment contributing to low productivity
4	HEI / Knowledge Base - Combined Universities in Cornwall, Peninsula Medical School	4	Structural bias towards low-value added and seasonal economic activity
5	Broadband take up and awareness	5	Limited higher value added service sector economy, and consequent lack of graduate and higher skilled jobs
6	Strong Cornwall brand, increasingly linked to quality	6	Social, economic and environmental conditions in Camborne, Pool, and Redruth
7	Wide recognition of quality of life and a strong cultural identity	7	Comparatively weaker skills base of the workforce and persistent recruitment and skills shortages
8	Outstanding coastal, natural, and managed environment, including the Isles of Scilly	8	High levels of worklessness and pockets of severe deprivation
9	More positive external image increasingly based on quality	9	Poor transport connectivity between key centres, including public transport
		10	Limited provision and quality of business premises (property market failure)
Opportunities		Threats	
1	The potential for SMEs in certain sectors to take advantage of growing markets	1	Globalisation of trade, and potential effect on certain sectors, such as manufacturing
2	Opportunities arising from more widespread broadband and ICT adoption and application resulting in new business opportunities	2	Climate change and the need for transition to a low carbon economy, as reflected in the Stern Review.
3	Capitalising on Newquay Cornwall Airport and its catalytic effect	3	Increasing energy prices and uncertainty of supply
4	Responding to business and product opportunities arising from concerns about and responses to climate change	4	Competitive pressures on and restructuring of industries such as china clay, agriculture, fishing, and tourism
5	Exploiting new and growing tourism markets based on quality	5	South East growth attracts higher skilled and highly qualified people
6	Opportunities around HEI growth and potential for spin out companies and business collaboration	6	Outdated infrastructure constrains growth
7	Increasing markets and opportunities in the creative and cultural industries		
8	Increasing interest in regional and distinctive brands		

1.4 Policy Context: Summary

European Policy (Revised Lisbon Agenda and Community Strategic Guidelines)	UK policy (Lisbon National Reform Programme and National Strategic Reference Framework)	Programme Actions
Knowledge and Innovation		
Increase and improve investment in RTD	Promoting Productivity and Growth: Science, Innovation and Knowledge Transfer	Priority 1: specialist infrastructure for innovation including: a network of innovation centres and specialist research centres, with incubation and out reach services. Other activities will link companies to University and HEI expertise; also includes proof of concept funding.
Facilitate innovation and promote entrepreneurship	Promoting Productivity and Growth: Enterprise and Successful Business : Science, Innovation and Knowledge Transfer : Building Sustainable Communities	Priority 2. Support will be provided to encourage high growth new starts and accelerating growth of existing businesses. Support will also be provided for encouraging an enterprise culture with a focus on young people. Priority 4 will support new centres/ business accommodation which will accelerate business growth.
Promote the information society for all		Priority 2. Will provide support for increasing the take-up and exploitation of ICT and broadband. Priority 3: Will provide the next generation of ICT infrastructure, with bandwidth equivalent to any UK city.
Improve access to finance	Promoting Productivity and Growth: Enterprise and Successful Business : Investment	Priority 2 will aim to increase investment of the private sector through assisting SMEs to develop investor ready proposals and promoting and marketing the area as an investment location for high value added businesses.
An attractive area in which to invest and work		
Expand and improve transport infrastructures	Promoting Productivity and Growth: Building Sustainable Communities	Priority 3 will consider Newquay Cornwall Airport as a transport asset and a catalyst for economic growth. Priority 4 may provide local transport packages to realise the economic potential of key locations.
To strengthen the synergies between environmental protection and growth.	Promoting Productivity and Growth: Sustainable development, production and consumption Building Sustainable Communities	Priority 1 and 2 will support an environmental technologies and renewable energy initiative to develop a major new industry. Priority 2 will include also support for improving businesses environmental performance. Priority 4 will help to ensure that growth takes place in sustainable locations.
Address Europe's intensive use of traditional energy sources	Promoting Productivity and Growth: Sustainable development, production and consumption.	Priority 1 and 2 will support an environmental technologies and renewable energy initiative to develop a new industry. Priority 2 will include also support for improving businesses environmental performance.
Attract and retain more people in employment and modernise social protection systems	Employment Opportunity for All: Extending Working Lives	Convergence ESF Framework will support activities to enhance access to employment and inclusion in the labour market of unemployed, under-employed and inactive people and to prevent unemployment for people under threat of redundancy.
Improve adaptability of workers and enterprises and the flexibility of the labour market	Skills & Employment Opportunity for All: Developing a Skilled and Adaptable Workforce	Convergence ESF Framework will improve the skills of the local workforce through working with employers to raise skills, increase the number of people in higher education, promote lifelong learning and reform vocational routes for 14-19 year olds.
Increase investment in human capital through better education and skills	Promoting Productivity and Growth: Skills & Employment Opportunity for All: Equipping People to Realise their Potential and Developing a Skilled & Adaptable Workforce	Convergence ESF Framework will stimulate demand for learning at all levels. Some of the additional demand will arise from business development activities stimulated by Priorities 1 and 2. Priority 1 and Priority 3 will provide new research and innovation centres through CUC and other research centres. This will increase the supply of post graduates.

1.5 Strategy for the Programme

The strategy for the Convergence Programme has been agreed after an extensive development process, which started with the early work of the Cornwall and Isles of Scilly Economic Forum in developing Strategy and Action 2007-21, the long-term economic development strategy for the area. The process for identifying Convergence priorities involved the establishment of seven initial task and finish groups responsible for developing the focus on the priorities within the context of the ERDF funding; how cross cutting themes might be incorporated; any spatial priorities; what the delivery arrangements might look like; how Convergence funding could add value; and what further action was necessary.

Following the work of the task and finish groups, a regional consultation event was held to obtain input from key stakeholders with regard to the overall direction of the Programme and the draft operational programme went out to consultation for a 12 week period ending on the 12th February 2007. Further task and finish groups were held to refine priorities based on the findings from the consultation.

The evidence suggests there is a need to accelerate the re-structuring process, and in particular to create jobs in new, higher skilled sectors of the economy where there are long term growth prospects. Linked to this, is the need to capitalise on areas where Cornwall and the Isles of Scilly has a comparative advantage and/or can create the conditions for growth sectors and businesses to flourish. A need was identified to focus on the types of jobs and new starts supported, as much as the numbers, with a need to support businesses using knowledge to produce higher value added goods and services.

Furthermore the evidence suggests that improving productivity is an important objective across all sectors, not just growth or priority sectors. Fundamental to improving productivity is innovation, the development of ideas and use of creativity, knowledge and skills.

The key challenges for the new strategy are:

- Accelerating the growth of those sectors and businesses characterised by high value added products and services and developing networks and alliances which build a self sustaining economic momentum to allow for continued growth in the medium and long term.
- Improving productivity levels across the business base.
- Building business capability to innovate and use knowledge.
- Addressing the effects of peripherality, including the investment and take-up of digital technologies.
- Addressing the effects of peripherality, re-connecting people and business to national and international opportunities.
- Securing economic growth in a responsible manner.

There are three major opportunities which will be influential in re-shaping the economy. These are:

- A significant group of small, highly innovative companies with the potential to grow, across all sectors, and at a scale which is relevant to the economy.
- The success of the Combined Universities in Cornwall and the potential of digital infrastructure to provide new economic opportunities.
- Global trade, knowledge networks and the changing dynamics of collaborative ventures and accessing markets.

Other important opportunities include a number of strategically important investments, some of which are well advanced, and others are at the development stage. In a number of cases, the potential impact on the wider economy is considerable.

The Programme objective is:

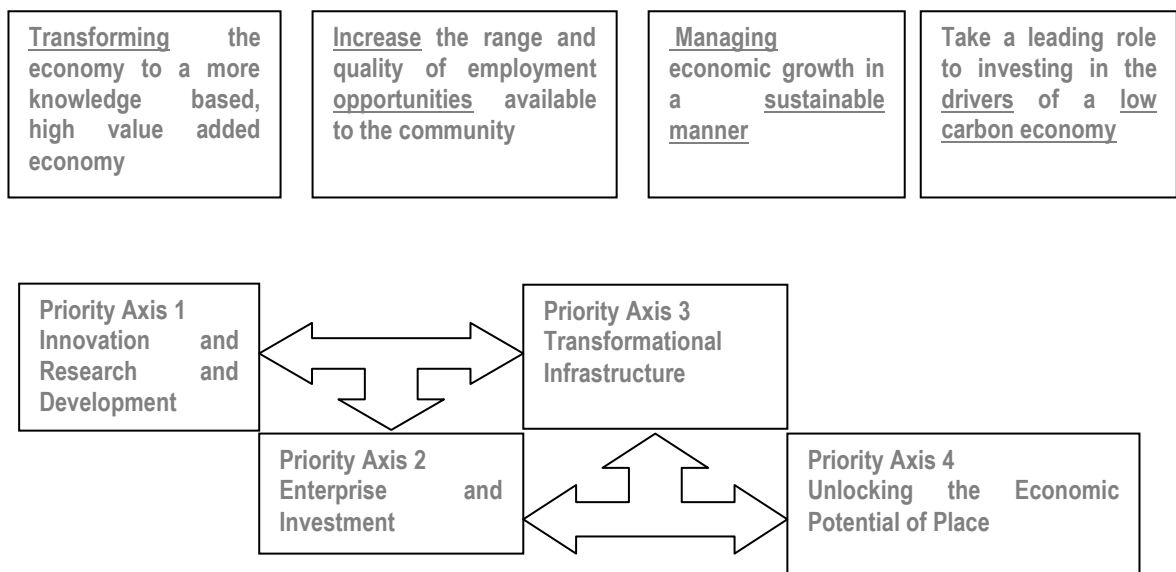
To establish the momentum for transforming the economy to a high value added economy where knowledge, environment and quality of life underpin sustainable economic growth.

Successfully developing a high value added, high skilled economy is a major challenge which will need long term commitment from all of the key stakeholders. The effects of peripherality are profound, and overcoming the constraints of distance from markets cannot be under-estimated. The Convergence Programme can, however, establish a momentum of change which will need to continue for many years after the Programme has concluded.

It is on this basis that four operational objectives have been set. These are:

1. Transforming the economy to a more knowledge based, high value added economy with a broader range of sectors, and a reduced dependence on low paid jobs;
2. Increasing the range and quality of employment opportunities available to the community;
3. Managing economic growth in a sustainable manner; and
4. Take a leading role in investing in the drivers of a low carbon economy, including increased carbon literacy, overcoming market failure, and accelerating technological change.

Four Priorities have been developed to address the operational objectives and make progress towards the long term aim outlined for the programme.



These priorities will be supported by the Convergence ESF Framework where priorities and actions include upskilling the workforce, developing research and higher levels skills and promoting graduate employment in smaller and medium sized companies. The ESF Framework will also increase the pool of labour though targeted support at the unemployed and economically inactive and work with young people not in education, employment or training.

1.6 Priority Axes

Priority Axis 1: Innovation and Research and Development

The aim of this Priority is to enable Cornwall and the Isles of Scilly to compete as a centre for creativity, innovation and research and development. It has a key role to play in identifying and supporting those areas where specialist areas of expertise and knowledge can be established, capable of attracting investment and talented people, building upon the already established business and sectoral strengths.

The strategic objectives are to:

- 1) Increase the intellectual capital through investments in the knowledge infrastructure and research capacity in higher education; increasing and where necessary supporting business investment in research and development and increasing HE/business collaboration;
- 2) Improve the productivity of companies through increasing the rate of innovation and the economic benefits arising from the pull through and exploitation of knowledge (research and development and other intellectual assets) including product and process improvements. Building understanding of drivers of innovation and using these to lever increased innovative behaviour by companies; and
- 3) Increase the number of high value added and innovative new start businesses.

Supported Activities	Indicative Range of Funding Allocation
Stimulating research and development to focus in building intellectual capital	20% - 40%
Supporting ideas, innovation and knowledge, linking companies to universities	15% - 30%
Innovation and Incubation	20% - 35%
Growth of the Environmental goods and services sector (including environmental technologies and renewables)	10% - 25%
Total Budget (EU plus National)	€140.017m

Priority Axis 2: Enterprise and Investment

The aim of this Priority is to re-structure the economy to one with a higher proportion of high value added business, under-pinned by more productive enterprises across the business base. This Priority has a key role to play in addressing the low earnings, low skilled nature of the economy. The strategic objectives are to:

- 1) Increase the proportion of businesses and employment in high value added business activities;
- 2) Increase the quality of new starts through further developing the enterprise culture and supporting high growth and high value added new starts;
- 3) Increase the productivity of business through the provision of high quality support services in key areas including internationalisation and investment support; and
- 4) Increase the scale of investment and re-investment by the private sector in Cornwall and the Isles of Scilly.

Supported Activities	Indicative Range of Funding Allocation
New Enterprise	10%-15%
High Growth Companies	15%-20%
Targeted Business Support	20%-30%
Business Infrastructure	30%-45%
Growth of the environmental goods and services sector (including environmental technologies and renewable)	10%-15%
Total Budget (EU plus National)	€184.515m

Priority 3: Transformational Infrastructure

Developing a limited number of major investments for transformational infrastructure is now critical in developing a platform which will allow for a step change in economic performance. These developments are focussed on improving connectivity between local businesses and national and international knowledge and trading networks and new markets. The strategic objective of this Priority is to:

Accelerate the growth of the knowledge based economy through the development of transformational infrastructure while securing sustainable economic growth.

These new developments are inextricably linked to Priorities 1 and 2, and efforts to develop a more innovative, productive and outward facing business community.

Supported Activities	Indicative Range of Funding Allocation
Newquay Cornwall Airport – conversion from a military to civilian operation to establish a commercially viable airport for Cornwall and the Isles of Scilly;	20% - 40%
Digital infrastructure – developing a future proof solution that allows much higher speeds and bandwidths	30% - 50%
Knowledge infrastructure – providing further investment in the CUC.	30% - 50%
Total Budget (EU plus National)	€157.520m

Priority 4: Unlocking the Economic Potential of Place

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

The recent work on key towns and future business space needs highlights the distributed nature of employment and the scale of opportunity in many other key towns and rural areas. The Convergence Programme will support the modernisation of the business infrastructure in locations with the potential to secure significant new investment and which can add to the process of transforming the economy. This will be done on a planned and phased basis, taking account of future demand.

Given the forecast population and employment growth over the next ten and twenty years, and the importance of the environment and quality of life of key settlements, it is important that investment in towns and locations is managed in a sustainable manner. Locations subject to major regeneration changes and requiring long term and significant support to address specific economic challenges are: Camborne, Pool, and Redruth; and St. Austell and the Clay Country. Other locations require more limited and specific interventions to unlock significant opportunities. In these areas actions will be focussed on managing economic growth in a planned and sustainable manner. The focus of this strand will be the areas of Truro, Falmouth/Penryn, Newquay, Bodmin and Penzance/Isles of Scilly.

Supported Activities	Indicative Range of Funding Allocation
Integrated Place Regeneration	40%-60%
Realising Place Potential	40%-60%
Total Budget (EU plus National)	€173.458m

1.7 Cross Cutting Themes

Environment

The quality of the environment is one of the unique assets of Cornwall and the Isles of Scilly, generating considerable benefits for residents and providing a major draw to the area for tourists, economic migrants and businesses. In addition to the challenges presented by the need to conserve these environmental assets there is the need to address environmental issues such as climate change, resource depletion and waste management. Both, however, also present potential economic opportunities in particular driven by the growing demand for more environmentally smart goods and services and to meet the challenge posed by global climate change - the need for a lower carbon economy.

In line with the Government's sustainable development strategy, the Convergence Programme will address the Environment Cross Cutting Theme through recognising:

- The potential impact of economic regeneration on the environment; and
- The potential economic benefit that the environment can bring.

The Convergence Programme will both build on the foundations created by the delivery of the Objective One programme and reflect on the region's aim to demonstrate that economic growth can be secured within environmental limits to bring prosperity to the region. These aims will be achieved through:

- Embedding the sustainable use and management of resources, including water, waste and energy into all types of business development and support;
- Exploiting the research and development potential of the Combined Universities in Cornwall partnership to trigger eco-innovation, particularly for a lower carbon economy; and
- Growing of the environmental goods and services sector.

The Convergence Programme will invest therefore in a portfolio of projects that will include the reduction of greenhouse gas emissions compared with conventional approaches and projects with the potential for the technological change necessary for a low carbon economy.

Equality and Diversity

For Cornwall and the Isles of Scilly to achieve the economic growth targets proposed, all members of society need to be able to contribute their potential. The challenge for the Programme is to ensure that all members of society are able to benefit from and access the support proposed under this Programme. Many of the proposed activities are tightly focused on developing a knowledge based economy; however there is a risk with some of these activities that under-represented groups will be indirectly discriminated against. For instance, where priority strands target sectors that are traditionally male dominated, it is important to identify how women or other under-represented groups will be able to benefit.

In light of these issues, the objectives for the Programme will be to:

- Increase the take-up of quality training and employment by under-represented target groups;
- Increase the number of people in under-represented groups accessing training and employment;
- Ensure that business support is inclusive and responsive to the needs of all communities and under-represented groups;
- Increase the participation of people from under-represented groups in the management and implementation structures of the programme; and
- Increase the number of people under-represented groups owning their own business.

1.8 Financial Allocations

The allocations by Priority are summarised below.

Summary Financial Table (€m)			
	ERDF	National	Total
1 Innovation and Research & Development	105.013	35.004	140.017
2 Enterprise and Investment	130.011	54.504	184.515
3 Transformational Infrastructure	105.013	52.507	157.520
4 Unlocking the Economic Potential of Place	107.590	65.868	173.458
Technical Assistance	10.429	3.476	13.905
Total Convergence	458.057	211.359	669.416

The total annual ERDF allocation is outlined below.

Year by source for the programme in €m

Year	ERDF	Total
Total 2007	61.614	90.045
Total 2008	62.847	91.845
Total 2009	64.103	93.682
Total 2010	65.385	95.556
Total 2011	66.693	97.467
Total 2012	68.027	99.416
Total 2013	69.388	101.405
Grand Total 2007-2013	458.057	669.416

1.9 Co-ordination

ERDF is one of four Funds which will operate in the South West during the period 2007-2013. The other Funds are:

- European Agricultural Fund for Rural Development (EAFRD)
- European Fisheries Fund (EFF)
- European Social Fund (ESF)

There is also a Competitiveness ERDF Operational Programme (2007-2013) for the rest of the South West, also with a strong innovation and enterprise theme.

EAFRD has an important role to play in the rural economy, as does, in a more modest manner, the Fisheries support with regard to coastal communities. The Convergence ESF Framework will invest circa €196m of ESF support in to addressing worklessness, workforce development, and higher level skills and higher education. The success of the ERDF Programme is clearly linked to the skills and higher education interventions being supported through ESF.

Programme Added Value

The Convergence Operational Programme has a significant budget, although given the ambition set out in the aim of the Programme there is a need to ensure that the maximum benefit is derived from the proposed Priorities. The implementation phase will take place in the context of clear expectations as regard contribution to the Programme's objectives. In summary, aims and operational objectives will be met by:

Programme Aim	Impact
To establish the momentum for transforming the economy to a high value added economy where knowledge, environment and quality of life underpin sustainable economic growth.	By creating 11,000 net additional new jobs and £386.2m of net additional value added, weighted towards high value jobs, equivalent to a five percentage point increase in employment.
Operational Objectives	Impact
Transforming the economy to a more knowledge based, high value added economy with a broader range of sectors, and a reduced dependence on low paid jobs.	By creating 8,000 net additional new jobs and £280m of net additional value added in knowledge based and/or higher value added sectors.
Increasing the range of employment opportunities available to the community;	By creating 11,000 net additional jobs across a range of sectors and occupations.
Managing economic growth in a sustainable manner.	By supporting over 250,000m ² of new accommodation in sustainable locations, and developing knowledge networks and digitally connected communities.
Take a leading role in investing in the drivers of a low carbon economy	By assisting 630 enterprises involved in the provision of environmental goods and services (including environmental technologies and renewable energy) and over 1,260 net additional jobs in these companies; and assisting 1,400 companies to be more resource efficient.

Community Added Value

The quantum of monies made available to a UK Convergence region inevitably means that there will be significant added value from ERDF support. Both the scale of investments and the range of eligible activities and investments will lead to a major impact across the region. This is covered in the preceding section on Programme Added Value. The wider Community Added Value is less driven by impact and deals with broader and sometimes intangible benefits arising from Community support. These are:

- The opportunity to develop a knowledge based economy, in a peripheral region, where limited benefits of scale and concentration require new approaches to connectivity, networking and collaboration.
- The opportunity to focus on environmental goods and services enterprises and build a new sector based on knowledge and expertise able to trade nationally and internationally.
- The potential to re-connect Cornwall and the Isles of Scilly to the wider international and global community, through better physical and digital connectivity, the further development of centres of expertise and the development of a significant trading community involving business, academics and institutions.

Other Community Added Value benefits will emerge around the development of international knowledge networks as new centres of excellence are established and through Regions for Economic Change. The Community Added Value is considerable, touching every community and business in a direct or indirect manner. It is crucial to raise the confidence of the wider community and allowing stakeholders to develop a European exemplar of a peripheral and rural region securing transformational change.

2 Introduction

The Convergence Programme for Cornwall and the Isles of Scilly will succeed the current Objective One Programme, which has been delivered with great effect by the key stakeholders. A total of €458.1 million has been allocated to the new Programme for 2007-13, which will be complemented by €196 million of Convergence Area ESF funding to support Learning and Skills related activities.

Cornwall and the Isles of Scilly has a strong track record in terms of employment growth, although this has been led by growth in lower paid and lower skilled employment. There is a need to accelerate the restructuring process and to create new jobs in higher skilled sectors of the economy with long term growth prospects. The key challenges for the new strategy are:

- Accelerating the growth of those sectors and businesses characterised by high value added products and services;
- Improving productivity levels across the business base;
- Building business capability to innovate and use knowledge as the key competitive asset;
- Addressing the effects of peripherality and distance from markets; and
- Securing economic growth in a responsible manner.

The move to establish a momentum of transforming the economy is distinct from encouraging economic growth for its own sake. This requires a focused approach to secure the type of investment which will support the transforming agenda – building up intellectual capital, quality locations and accommodation; a skilled workforce; connectivity and access to markets; and a competitive supply chain.

The transformation of the economy will be underpinned by a culture which is:

- **Forward looking** – supporting an approach which invests in foresight and intelligence on future trends and developments; and
- **Outward facing** – Cornwall and the Isles of Scilly has a long history of trading globally, however this aspect of the economy has diminished as key traditional sectors have declined. Restoring the degree of outward facing in Cornwall and Isles of Scilly which will be supported through the increased connectivity of both strategic transport improvements and digital technology and through businesses trading nationally and internationally.

Successfully developing a high value added, high skilled economy is a major challenge which will need long term commitment from all of the key stakeholders. The effects of peripherality are profound, and overcoming the constraints of distance from markets cannot be under-estimated. The Convergence Programme can, however, establish a momentum of change which will need to continue for many years after the Programme has concluded.

These underlying themes will be supported by actions which improve the confidence and self esteem of the community, particularly young people. It is rooted in the historic role of Cornwall and the Isles of Scilly as trading partners with companies and countries from across the globe.

There is also a need and opportunity to share the experience of addressing the issues of a peripheral and rural economy with other regions across the world. Those involved in the Programme will seek to host groups from the other Member States as part of the process of exchanging ideas and knowledge.

There are a number of distinguishing features of this Operational Programme. These are:

- This Operational Programme addresses the challenge of establishing a knowledge based, high value added economy in a peripheral and rural economy – if successful, Cornwall and the Isles of Scilly will be an exemplar for communities from all parts of Europe.
- The Programme puts knowledge, innovation and creativity at the heart of a responsible economy which values its environment as much as economic growth; it is a forward thinking Programme rooted in the talent and enterprise of its communities.
- The Programme sets out the most ambitious plans to develop the environmental goods and services sectors as a new wealth creating sector.
- This Programme will lead the way in developing responses which take account of the need to reconcile economic growth with the need to achieve a low carbon economy.

The strategy developed in this Operational Programme commits all of the stakeholders to an ambitious agenda which extends the success of the Objective One Programme and seeks to move the economy from a phase of economic revival to one of transformation. The strategy has been tested and endorsed by a broad range of stakeholders from all sectors, and there is a determination to use ERDF resources to build a long term platform for economic transformation.

3 Socio-Economic Analysis

3.1 Demography and Housing

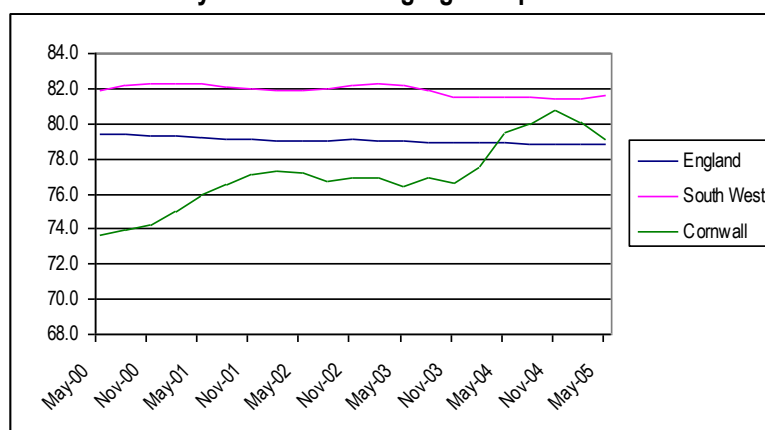
The substantial growth in the population of Cornwall and the Isles of Scilly is one of the key features of the area, providing both opportunities and challenges. It is now home to more than 515,000 people, an increase of 47,000 people since 1991 alone – or equivalent to two new towns the size of Truro. Outside London, Cornwall and the Isles of Scilly has experienced one of the highest rates of inward migration in the UK, with a net influx of more than 6,000 people per annum since 1997. This has been concentrated amongst the 30-60 age groups with, until very recently, a corresponding out-migration of younger people. An expansion in the educational offer, as well as better job prospects, is crucial to continuing the retention of younger people.

There is a consensus that the population will continue to grow rapidly. In 20 years time, Cornwall and the Isles of Scilly are likely to be home to more than 600,000 people². Much of this growth is likely to come from people of working age relocating from other parts of the UK to take advantage of the attractive lifestyle offer in Cornwall and the Isles of Scilly. Due to a combination of factors, the population is also getting older; over the next 20 years, the number of retirees is projected to increase by 75% to 177,000 or 3 in 10 of the population. This will generate a number of challenges, not least on the housing market, as well as demand for healthcare and other support services.

The other major change at work in Cornwall and the Isles of Scilly is the growing number of households, driven not just by more people but also by societal changes such as fewer and later marriages and the predicted growth of single person households. The ability of Cornwall and the Isles of Scilly to accommodate and harness this growth will be instrumental in addressing the weaknesses in the economy. The growth in the population has been accompanied by a booming housing market, with house prices now above the UK average at more than £200,000. Housing now plays a bigger role in influencing growth and regeneration than ever before, with household incomes growing more slowly, and affordability ratios rising.

3.2 Employment

Economic Activity Rates of Working Age People



Source: LFS

Overall economic activity rates for working age people in Cornwall and the Isles of Scilly were 79% in May 2005 (237,000 people). This was below the South West (81.6%) and slightly above England (78.8%) averages. The figures are lower than the region as a result of the economic activity rates

² ONS Population Projections

amongst the female working age population in Cornwall and the Isles of Scilly, which are considerably lower than in the South West as a whole. In May 2005 the economic activity rates for working age females stood at 73% (106,000 people), compared to 77% across the South West. For activity rates to be commensurate with the region would require an additional 5,800 economically active females. This compares to an economic activity rate in Cornwall and the Isles of Scilly of 85% (131,000 people) and 86% in the South West for working age males³.

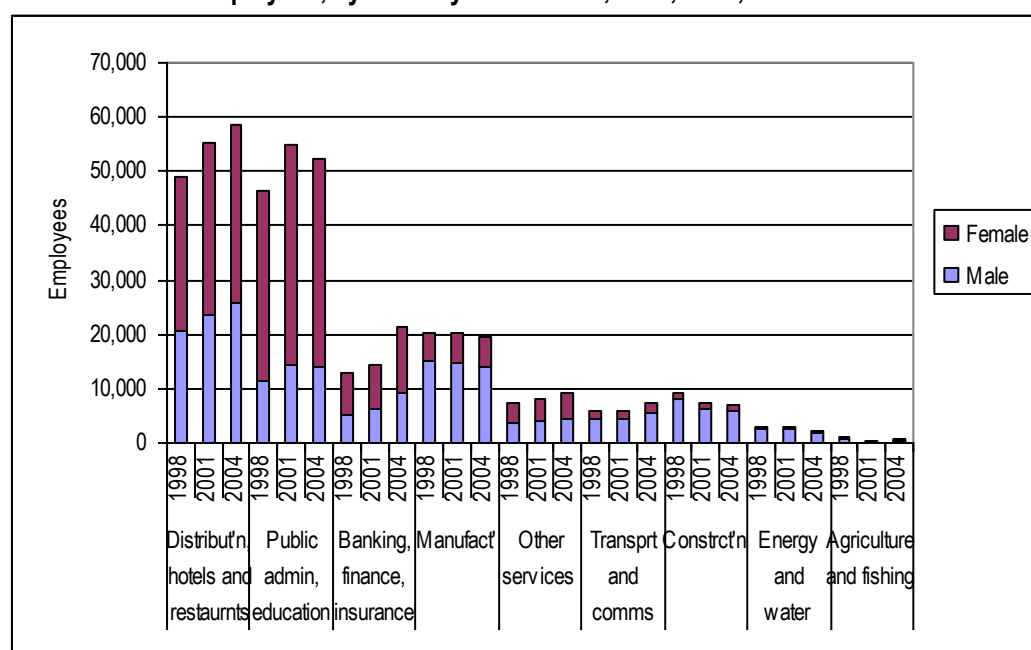
Employment Structure – Current Distribution

There were a total of 178,534 workers in Cornwall and the Isles of Scilly in 2004, a growth of 23,770 employees since 1998. At 15% growth over six years, this is higher than the increases at the South West (+11%) and national levels (+6%). The main growth sectors over the period 1998 to 2004 were⁴:

Real estate/business services	+8,169	Education	+6,693
Retail	+5,464	Hotels and catering	+4,073

Over the same period there were some job losses in the construction and manufacturing sectors. In the latter case, given the long term trend in manufacturing, the employment performance was strong. The most dramatic job losses in relative terms were experienced in the primary sectors - agriculture and fishing and mining and quarrying. The recent job losses in the china clay industry are indicative of the continuing vulnerability of some sectors.

Total Number of Employees, by Industry and Gender, 1998, 2001, 2004



Source: Annual Business Enquiry, Nomis 2004

While the employment increase out-performed the national and regional economies, only limited progress was made in re-structuring the economy. Retail and hotels and catering continue to account for a very high proportion of employment and the public sector remains a very important employer. Since 1998, employment growth has been focused in the retail and hotels and catering sector, banking, finance and business services, and public administration (which includes education and health). Together these sectors generated almost 24,000 new jobs between 1998 and 2004. Although the growth in education is a very positive development, Cornwall and the Isles of Scilly remain under-represented in value added service sectors.

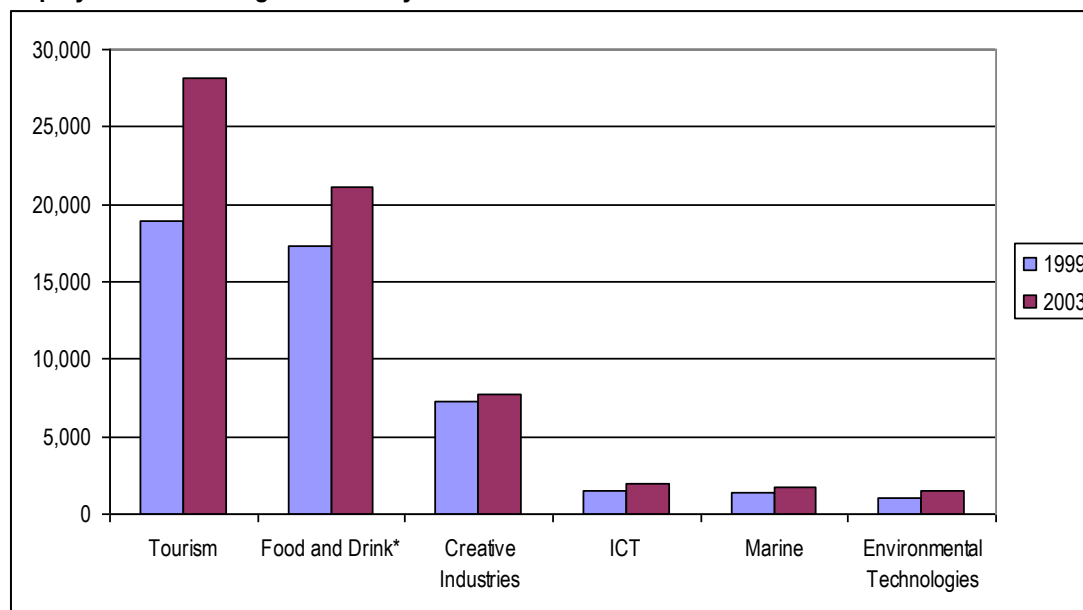
³ Annual Population Survey, 2005

⁴ Source: Annual Business Enquiry, 2004

The workforce is characterised as having a high proportion of part-time workers - approximately 15% of the male workforce is employed on a part time basis and 53.8% of working females, an exceptionally high level. Of the total workforce, approximately 54.5% are female. This is significantly higher than the levels recorded at the South West and national levels.

Female employment is concentrated in the large and growing sectors of 'distribution, hotels and restaurants', 'public administration, education, and health', and 'banking, finance, and insurance', where it accounts for over 50% of the workforce. However, in each of these sectors, female representation decreased between 1998 and 2004 due to the faster rate of growth of male employment.

Employment in the Regional Priority Sectors



Source: LINC Sector Profiles (* Based on the LINC broad definition, which includes food retail and wholesale)

Employment has increased in the six key regional Priority sectors since 1999. The most significant levels of growth occurred in the Tourism (49%) and Environmental Technologies (39%) sectors. Over the same period, employment growth within the Creative Industries was considerably smaller, growing by 7%.

Employment in Cornwall and the Isles of Scilly is weighted towards the less productive sectors, impacting directly on the level of wealth generation across the area. Both the Tourism and Food and Drink sectors are below average in terms of productivity, and account for a significant amount of employment across Cornwall and the Isles of Scilly. Similarly, employment is low relative to England and the South West in the more productive Business and Financial Services sectors (captured by the Banking, Finance, and Insurance Sector in the graph above). On a more positive note, while only accounting for a small proportion of total employment, the Environmental Technologies is a highly productive sector and represents a potential source of employment growth in coming years. Further detail on Sector Productivity is provided in the enterprise section.

Employment Structure – Future Trends

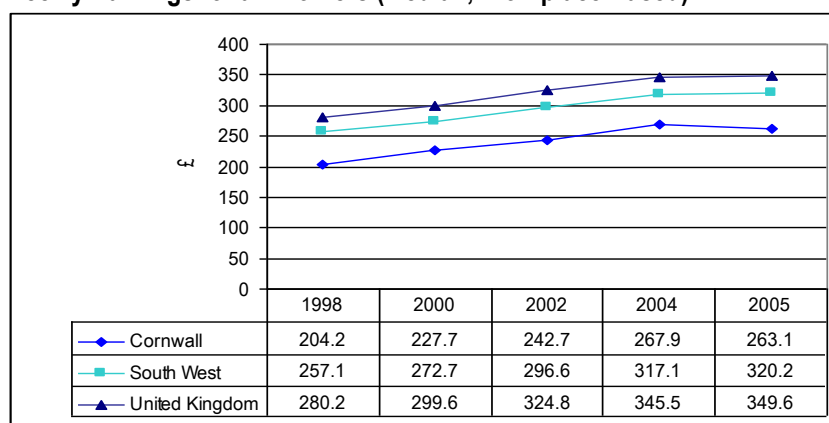
The transition to a service driven, knowledge based economy is anticipated to accelerate over the next 20 years in Cornwall and the Isles of Scilly. Using the base case scenario of 2.8% per annum growth in GVA for the region, the total number of jobs is forecast to grow by more than 35,000; reaching approximately 250,000 in 2026. Overall jobs growth is forecast to exceed the regional rate. Retail/distribution, business services and education/health are expected to be key drivers of jobs

growth, a proportion of which will be derived from the growing and ageing population. The additional jobs in business services alone will be equivalent to the totality of those lost in primary and secondary industries. By 2026, service industries will account for 4 in 5 jobs, including the public sector⁵.

Earnings

In 2005 the median weekly earnings for all workers in Cornwall and the Isles of Scilly was £263.10. This is significantly lower than the average recorded at both the South West (£320.20) and the UK (£349.60) levels. The median weekly earnings recorded in Cornwall and the Isles of Scilly have risen by 15.5% (£35.40) between 2000 and 2005, though this is less than that recorded at the South West (+17.4%) and national level (+16.7%).

Weekly Earnings for all Workers (Median, Workplace Based)



Source: ASHE © Crown Copyright / LINC

In comparison to other areas of England, Cornwall and the Isles of Scilly has one of the lowest median wage levels. Apart from Carrick (£304.10 per week) all the Cornwall districts have median weekly income levels below £300. Penwith, at £237.50 per week, is amongst the bottom five local authorities in England for earnings levels.

The low wage rate in Cornwall can be explained by two key characteristics of the Cornish labour market; (i) the industrial structure of employment, and (ii) the level of part-time working.

The table below provides the median gross weekly pay of full-time employees by sector⁶ and the sectoral composition of full-time employment for both the South West and Cornwall and the Isles of Scilly. While there are some exceptions (such as the Education Sector), Cornwall and the Isles of Scilly is less represented in higher paid sectors than the South West. For examples, in the South West 64% of full-time employees are employed in sectors where the median regional full-time wage is over £400 per week, this compares to only 55% of full-time employees in Cornwall.

Wage Rates and Industrial Structure

Sector	Median Gross Weekly Pay	% of Workforce (full-time employees only)	
		South West	Cornwall and IoS
Electricity, Gas And Water Supply	£549	0.6%	0.6%
Education	£468	6.7%	7.6%
Financial Intermediation	£444	4.5%	2.0%
Public Admin', Defence; Compulsory Social Security	£443	6.6%	6.3%

⁵ Cambridge Econometrics Regional Econometric Model

⁶ Sectoral Wage Data is not published at the sub-regional level for purposes of confidentiality.

Mining And Quarrying	£432	0.3%	1.2%
Manufacturing	£425	16.3%	15.5%
Real Estate, Renting And Business Activities	£424	16.2%	9.2%
Construction	£424	6.5%	7.9%
Transport, Storage And Communication	£405	6.6%	5.3%
All Sectors	£400		
Health And Social Work	£394	10.2%	12.1%
Other Community, Social And Personal Service Activities	£345	3.7%	5.2%
Wholesale, Retail Trade; Repair Of Motor Vehicle...	£320	15.1%	17.8%
Agriculture, Hunting And Forestry	£301	1.4%	0.3%
Hotels And Restaurants	£250	5.2%	9.1%
Fishing	x	0.0%	0.1%

Source: Annual Survey of Hours and Earnings, 2005 / Annual Business Enquiry 2005

Cornwall is over-represented in part-time employment, compared to the regional figure. Given that part-time employees earn on average approximately one third of the full-time figure, this reduces the overall wage level within Cornwall and the Isles of Scilly. The high incidence of part-time working is also part explained by industrial structure of Cornwall, particularly the high levels of employment in tourism and retail related sectors.

Wage Rates and Full / Part Time Workers

	Gross Weekly Pay		% of Total Workers (000s)	
	SW	Cornwall & IoS	SW	Cornwall & IoS
Full Time	£406	£349	70.6%	67.9%
Part Time	£132	£126	29.4%	32.1%

Source: Annual Survey of Hours and Earnings 2005

There is a need to increase the proportion of employment in sectors with higher than average earnings; the productivity, profitability and earnings of companies in Cornwall and the Isles of Scilly; and the proportion of the workforce working full time.

Conclusions

Economic activity rates are close to the national average, although lower than levels seen in the South West as a whole. Female economic activity is considerably lower than in the region which suggests that the supply of labour could be increased if barriers to women taking up employment prospects were addressed. This could play an important role in tackling the recruitment difficulties and skills shortages, and reduce the pressure to import labour with consequent pressures on the housing market.

The recent employment growth in Cornwall and the Isles of Scilly has been exceptional, at two and a half times the national growth rate. In spite of this strong employment growth, the economy remains dominated by sectors dependent on the public sector and/or with a tendency to offer low paid and part time employment. Only limited progress has been made with regard to increasing employment in sectors with a high growth and higher skilled/pay profiles. There is a continuing challenge to modernise the economy, while acknowledging that some important key sectors, such as tourism, face a challenge in terms of reconciling the need to maintain competitiveness while increasing value added and wage levels.

The predicted overall growth in employment and output provides a positive context for the continued regeneration of Cornwall and the Isles of Scilly. Less positively, while the decline in manufacturing jobs (many of which are better paid) will be offset by the growth in services, many of the new jobs will be low paid/low value added. In order to avoid the perpetuation of a low wage economy, higher growth rates are required in higher valued added activity.

Increasing wage levels and average earnings in Cornwall and the Isles of Scilly will require a combination of actions which restructure the business base and improve the competitiveness of existing businesses. Most importantly, it will require a shift to competing on the basis of quality not price, and this will require higher levels of investment in both capital and human resources.

3.3 Competitiveness

GVA (Current and Future) and Output

In 2003 the total Gross Value Added (GVA) for Cornwall and the Isles of Scilly was £5,322 million. This represented approximately 7% of the total South West GVA. The economy has expanded at a much faster rate since 2000, with growth easily outstripping the regional and national economy. This growth can largely be attributed to GVA increases for the retail, real estate and utilities sectors.

Headline GVA by NUTS3 area at current basic prices 1995-2003 (£ million)

	1995	1997	1999	2000	2001	2002	2003
UK	639,115	720,028	799,387	841,505	883,412	930,796	981,732
S. West	47,654	54,522	60,795	63,713	67,335	71,095	75,086
C & IoS	3,227	3,625	4,009	4,293	4,646	4,985	5,322

Source: ONS (2005) Local Gross Value Added – First Release 21 December 2005

The latest data provided by Eurostat appears to confirm the very high level of growth since 2000. The GDP/capita figures produced at the European level indicate that Cornwall and the Isles of Scilly has experienced a marked improvement relative to the EU average – from 65.3% to 75.8%. The data also suggest that the growth has been exceptional relative to other regions lagging behind i.e. it is more significant than the general trend.

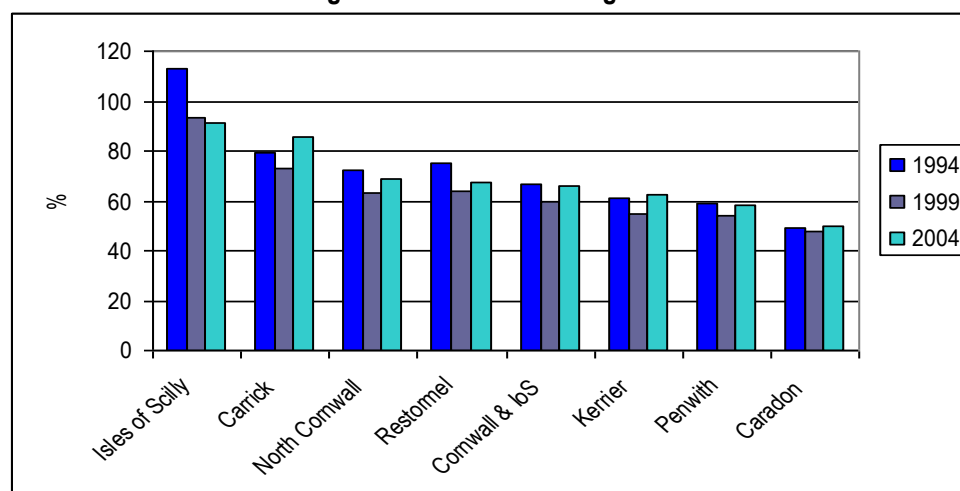
According to ONS data to 2003, Cornwall and the Isles of Scilly GVA per capita increased by 6.3% per year between 2000 and 2003, outpacing both the UK and South West which achieved 4.9% and 5% respectively.

Headline GVA per head by NUTS3 area at current basic prices 1995-2003 (£ million)

	1995	1997	1999	2000	2001	2002	2003
UK	11,015	12,347	13,622	14,290	14,944	15,691	16,485
S. West	9,966	11,295	12,455	12,957	13,621	14,312	15,019
C & IoS	6,718	7,473	8,138	8,630	9,254	9,812	10,364

Source: ONS (2005) Local Gross Value Added – First Release 21 December 2005

The most marked increase in GVA per head has been in Carrick and North Cornwall, with Carrick being the only Cornish district with GVA per head above 80% of the national average. In spite of a marked increase in Caradon, since 1999 it remains the lowest of the districts, although Restormel is notable for only recording a marginal improvement in the ten years from 1993-2003. The GVA per head figures in Caradon, Kerrier and Penwith are exceptionally low, with all below 65% of the national average.

GVA Per Head as a Percentage of the National Average

Cornwall, districts & Isles of Scilly economy reports 1994-2004 © 2006 Owen Nankivell

Top Five GVA Sectors (Percentage and Value Five Year Change)

Sector	Size (£mil), 2004	Size (£mil), 1999	5 Yr % Growth	Sector	Size (£mil), 2004	Size (£mil), 1999	Value 1999-2004
Pharmaceuticals	3.8	2.1	84.7	Other Bus. Services	900.4	826.1	74.3
Gas Supply	3.6	2.2	62.9	Retailing	672	622.8	49.2
Manuf. Fuels	7.4	5.7	30.1	Hotels & Catering	562.2	520.1	42.1
Motor Vehicles	4.9	3.9	25.8	Education	339.5	299.6	39.9
Electronics	2.9	2.3	25.7	Health & Social Work	494.1	457.5	36.6

Source: Cornwall Local GVA model (© Nankivell 2006) and Regional Accounts, ONS (© Crown Copyright 2006), LINC

The tables illustrate that certain sectors of manufacturing have grown significantly in percentage terms, although it is the service sector which has experienced the greatest growth in value terms. The three sectors which have contributed most to additional GVA are other business services, retailing and hotels and catering. Less positively, the latter two have a low GVA per head, and this partly explains the limited improvement in this key indicator. The education contribution to GVA is expected to continue to increase as the full benefits of the Combined Universities in Cornwall (CUC) are incorporated into the figures for 2005, 2006 and beyond.

The period 2002-2010 is predicted to be a period of economic growth in the UK. This will particularly be the case in Cornwall and the Isles of Scilly which are forecast to see an average annual real GVA growth of 3.9%. In comparison, the South West is forecast to experience a 2.8% growth rate.

The wholesale/retail and business service sectors are the biggest contributors to the Cornwall and the Isles of Scilly economy, each accounting for more than a fifth of total output. Services as a whole, excluding the public sector, now make up more than 60% of output, significantly higher than the national average. The area has, however, a disproportionate share of its output from lower value service sectors.

The combined output of the wholesale/retail and hotels/catering sectors reflects the importance of tourism to the local economy and the growing population. Output growth from the hotels/catering sector has lagged the national trend over the past decade, reinforcing the challenge of upskilling the workforce and making better use of other inputs in order to secure higher productivity and growth rates. Elsewhere

in the service sector e.g. finance, output growth has outstripped growth nationally, although the overall contribution to total output is still lower than the national average.

Agriculture now accounts for less than 2.5% of output in Cornwall and the Isles of Scilly overall, although the influence of the sector on the economy is much greater through supplier linkages and other effects. Agriculture's share of output continued to fall between 1993 and 2003 and the decline exceeded the reduction nationally. The impact of Foot and Mouth Disease (FMD) in 2001 is a key factor in this reduction and output has since recovered.

The public sector has grown in importance over the past decade, although it accounts for a smaller share of output than in the national economy. As the additional funding for health and education in particular starts to plateau in the medium term, future increases in output will become more and more dependent on improvements in productivity in the public sector.

Productivity

Although Cornwall and the Isles of Scilly has closed the gap with other lagging behind regions, productivity – GVA per worker - continues to lag behind the UK average, and there has been no significant closing of the gap. A recent report by the Local Intelligence Network Cornwall had productivity per worker at 67.6, compared to 93.6 for the South West against a Great Britain figure of 100.

Research by the University of the West of England (Meeting the Productivity Gap 2) identified a 33% gap between the region and London. Four factors were identified which explained this gap – capital stock per employee; industry structure; ownership, full /part time ratio, skills gravity type effect and population density; and travel time to London and other major conurbations. These factors will be even more of a constraint in the west of the region.

Work recently completed by Local Futures highlights the scale of the economic challenge facing Cornwall and the Isles of Scilly. In the report "State of the Nation 2006" a productivity index was produced that used a combination of Gross Value Added per head and earnings. This benchmarked productivity for local authority areas to a national average of 100, and ranked each local authority area from 1 to 404.

Productivity Index

Rank	District	Region	Productivity Score England = 100
392	Restormel	SW	64.12
393	Pembrokeshire	Wales	63.48
394	Torbay	SW	63.31
395	Bridgnorth	W Mids	63.21
396	Caradon	SW	62.40
397	S. Shropshire	W Mids	62.39
398	North Cornwall	SW	62.15
399	Kerrier	SW	62.03
400	West Devon	SW	60.28
401	Alnwick	NE	59.42
402	Penwith	SW	58.56
403	Torridge	SW	58.45
404	Berwick-upon-Tweed	NE	57.19

Source: State of the Nation 2006. Local Futures

Productivity in Key Sectors 2004

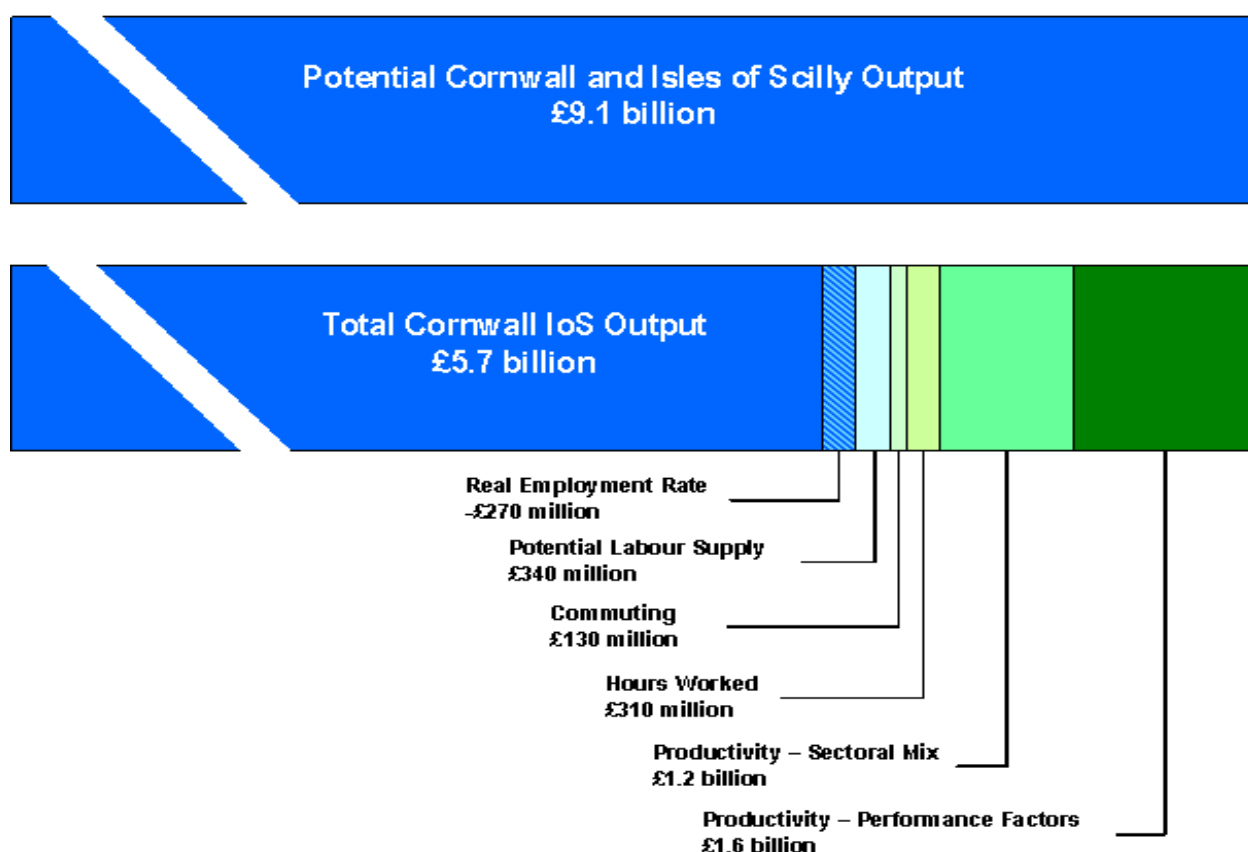
Sector	FTE Employment	Factor Productivity
Environmental Technologies	1,576	£63,000
ICT	1,530	£52,000
Marine	1,295	£45,000
Biotechnology	559	£44,000
Advanced Engineering (inc Aerospace)	1,361	£37,000
Creative Industries	3,182	£35,000
Food & Drink (incl. primary prod)	9,633	£25,000
Leisure & Tourism	10,529	£25,000

Source: State of the Nation 2006. Local Futures

As the table highlights, five of the Cornish districts were in the poorest performing group nationally on this key indicator. All five had a productivity level at below two thirds of the national average. Notably, the same report also raised issues about the distribution of enterprise in the UK, using another Index which also places Cornwall and the Isles of Scilly in the lower performing category, although not to the same extent as the productivity index.

Factor productivity varies considerably across key sectors ranging from £63,000 per full time employee in environmental technologies (where job numbers are relatively modest) to £25,000 in tourism and leisure where employment numbers are considerable. The balance between high and low value added sectors accounts for the overall low productivity figures for the economy as a whole.

An analysis of the components of under performance with regard to GVA indicates that the combined effect of an under-representation of high value added sectors and low productivity across all sectors, accounts for a substantial proportion of the underperformance of the economy. The availability of a large labour pool (a result of inward migration of people of working age), has a positive effect valued at £270m although this is undermined by low levels of employment (particularly by women), which accounts for £340m of un-realised GVA.



Source: EKOS 2007

The costs in terms of un-realised GVA are:

- Costs of poor sectoral mix £1.2billion
- Cost of low productivity across the business base £1.8 billion

This analysis illustrates that concentrating solely on new and high value added sectors will not be sufficient to address the low GVA per capita in Cornwall and the Isles of Scilly. It also confirms that a strategy based on a limited number of sectors will not be sufficient, on its own, to close the gap with national economic performance.

Conclusions

Although the growth in GVA has been impressive, little progress has been made with regard to GVA per worker. In essence, GVA growth has only partly been driven by productivity growth, with a significant element of growth being accounted for by more people in employment.

Although the forecast growth rate is positive, there is a need to raise the productivity of existing jobs to move away from a low wage, low value added economy. A growing population will stimulate local service employment, potentially reinforcing the low wage economy. On the positive side, the increasing labour pool and increase in local expenditure will create new economic prospects for local businesses.

The identification of low levels of capital; industrial structure; ownership, employment and skills; and distance from markets as the factors which account for low productivity sets clear challenges which needs to be addressed to move to a more prosperous economy. As the economy continues to expand, making better use of capital, the workforce and other inputs will be essential to boosting output and increasing GVA per head.

The exceptionally poor productivity scores for five of the Cornish Districts encapsulate the scale of the challenge facing stakeholders in improving the relative economic position of Cornwall and the Isles of Scilly. The very low scores covering such a large proportion of the economic base will require concerted and long term actions.

Across a number of key sectors the range of factor productivity varies considerably. This does not necessarily make one sector more valuable than another, and a balanced economy has representation across all sectors. It is important that where lower value sectors are strongly represented, efforts are made to broaden the economic base and also improve productivity levels in lower value sectors.

3.4 Enterprise

Business Stock

In 2004 there were 18,345 VAT registered businesses in Cornwall and the Isles of Scilly. Between 1999 and 2004 there has been an overall increase in business stock of 560 (+3%). This growth rate is less than those recorded at both the South West (+4.6%) and UK (+4.7%) levels. The volume of new registrations has been increasing, reflecting a stronger national and regional economy, although the number of de-registrations has also increased.

Stock of VAT registered businesses - Cornwall & Isles of Scilly (1999- 2004)

Year	De-registrations	Registrations	Net Change	Stock
1999	1,265	1,370	+105	17,785
2001	1,170	1,330	+160	18,105
2003	1,450	1,585	+135	18,465
2004	1,590	1,475	-115	18,345

Source: VAT Registrations and stocks/ VAT registrations & de-registrations by industry 1995 to 2004 (ONS@NOMIS) - Socio-Economic Stats for Cornwall, Research and Information, Cornwall County Council

The decline of 115 businesses between 2003 and 2004 can largely be attributed to the overall increase in agricultural and fishing business de-registrations at a national level during 2004. With the exception of agriculture, manufacturing, retail and financial intermediation, the other sectors have seen an increase in total numbers of VAT registered businesses between 1999 and 2004. Whilst agriculture is still a dominant sector with 20.7% of the total business stock, it has lost 415 businesses over the five year period. This is a reflection of the re-structuring of agriculture.

In numerical terms, three sectors dominate the business base – agriculture (3,900), retail (3,900) and real estate and business services (2,600). In this last case, while the numbers are considerable, as a proportion of the business base the group constitutes less than half the corresponding national figure. This under representation is also reflected in the employment figures and is one of the key structural weaknesses in the economy.

The percentage stock of VAT registered businesses in the hotels and catering sector in Cornwall and the Isles of Scilly (11.4%) is higher than those found at the South West (8%) and UK (7.1%) levels. In contrast, the stock of businesses in the higher paid sectors, such as manufacturing and high growth/high paid sectors such as finance (0.2%) is lower than the South West and UK averages. VAT registered businesses represent the most significant part of the business base (in turnover and employment terms); although there are a large number of smaller enterprises and people who are self employed (approximately 18% of the working age population). These businesses are particularly important in certain sectors, including some potential growth sectors such as creative industries.

The business base is characterised by very small businesses, with some 85% of businesses employing ten people or less, slightly higher than the regional and national figures. Cornwall and the Isles of Scilly has much lower proportions of businesses employing 50 -199 and 200 employees and above. There are a small but significant number of companies in the 11 to 50 employees, including over 180 manufacturing companies, 100 transport and communication companies, and over 1,000 in distribution, hotels and catering. This profile is also reflected in the turnover of businesses with the vast majority of businesses recording a turnover of less than one million pounds.

Business Start Ups

In 2003 there were approximately 41 business registrations per 10,000 working age people in Cornwall and the Isles of Scilly. This was higher than start-up rates recorded at the South West (38 per 10,000) and England and Wales level (30 per 10,000). Indeed, Cornwall and the Isles of Scilly had the eighth highest start-up rate of all local authorities across England and Wales.

The sectors experiencing the highest percentage of start-ups were in real estate (22.3%), retail (22.3%), hotels and restaurants (19.2%) and construction (16.4%). Whilst these trends are similar across the UK as a whole, the proportion of new starts in real estate, renting and business services sector (36.2%) at a national level is much higher than in Cornwall and the Isles of Scilly.

In terms of the number of businesses relative to its population size, Cornwall and the Isles of Scilly compares well both to the South West region and nationally. Along with the business start up data this suggests that Cornwall and the Isles of Scilly are not short of entrepreneurs or an entrepreneurial culture, rather it is the type of businesses and the continued dominance of lower paid sectors which contributes to the area's poor relative economic performance. The area also has very good survival rates, with over 70% of businesses are still trading three years after being set up.

Self Employment

Cornwall and the Isles of Scilly have a very high proportion of its workforce in self employment (17.5%). However it would appear that the picture has deteriorated slightly in the last five years against the regional and national picture. In other words, the growth in employees has not been matched by the proportionate growth in the self employed group.

Self-Employed as a Proportion of all those in Employment, aged 16+

	2000	2005	Change (%)
England	12.2	12.9	0.7
South West	14.2	14.7	0.5
Cornwall and the Isles of Scilly	18.1	17.5	-0.6
<i>Total Employees (16+) (SW)</i>	<i>1,979,000</i>	<i>2,058,000</i>	<i>79,000</i>
<i>Total Self Employed (SW)</i>	<i>333,000</i>	<i>360,000</i>	<i>27,000</i>
<i>Total Employees (16+) (C IoS)</i>	<i>163,000</i>	<i>194,000</i>	<i>31,000</i>
<i>Total Self Employed (C IoS)</i>	<i>37,000</i>	<i>42,000</i>	<i>5000</i>

Source: LFS

Conclusions

Cornwall and the Isles of Scilly has a reasonable number of businesses, a relatively healthy start up rate and a significant proportion of people self employed. This is a common feature of areas with an agricultural and tourism tradition. The major issue is the structure of the business base, with a need to increase the start up rates of particular types of business, notably those in higher value added services. While improving the productivity and competitiveness of all companies is an important ongoing objective, there is a need to focus on accelerating the growth of companies from high value added sectors. There is also a need to retain the proportion and volume of self employed and start-ups and encourage business growth and investment.

Exporting

In the second quarter of 2004 the value of exports from the South West was £9,385 million. This represented just 5% of total UK exports. Although there was a 10.7% growth in South West export value between 2002 and 2004, the region is still ranked 9th out of 12 UK regions for performance. While the value of export data is not available at a sub-regional level, the low levels of GVA in Cornwall coupled with an industrial structure over-represented in lower value service sector employment, suggest that Cornwall will account for a small proportion of total regional exports.

Key Sectors

The Regional Economic Strategy Evidence Base highlighted a number of sectors that are a priority for the South West⁷. The following tables highlights where Cornwall and the Isles of Scilly is making a significant contribution to the strength and competitiveness of these sectors regionally, and a number of other sectors, notably agriculture and fishing which are important to the rural economy.

⁷ It looks at both broad sectors such as 'manufacturing' and more specialist ones such as 'environmental technologies', there will of course be some overlaps.

Regional Priority Sectors

	Cornwall and the Isles of Scilly Sector Size and Performance	Analysis
Food and Drink	<ul style="list-style-type: none"> - Despite a small decline in its percentage of total GVA, in absolute terms the sector has grown from £131 million in 1999 to £186 million in 2003. - The total number of businesses fell (1999-2003) from 653 to 607, but employee numbers have increased. This implies that the main business losses have been among the smaller and micro-businesses employing up to 10 people. In contrast there has been a steady growth in the number of businesses employing more than 11 people. - Employment rose from 8,394 in 1999 to 9,740 in 2003 (5.5% of the total workforce), in contrast to a decline regionally and nationally. Over the same period the sector lost 10,406 jobs across the region. - The main growth sub-sector in Cornwall and the Isles of Scilly was the production and preparation of meat which grew from 1,419 to 2,504 employees. Other large sub-sectors are the manufacturing and retail of bread, pastries and cakes. 	<p>Factors affecting the sector's growth:</p> <ul style="list-style-type: none"> - New chilling, packing and distribution facilities are making it easier to sell fresh local products to national and global markets. Marketing initiatives such as the Cornish King brand have reinforced public trust in Cornish produce; and - Some local farmers now have organic certification which allows them to tap into rising consumer demand. <p>There is a significant opportunity for increasing the degree of local sourcing of produce, which will contribute to the environmental sustainability of the region and a reduction of food miles.</p>
Tourism	<ul style="list-style-type: none"> - In 2003 Cornwall and the Isles of Scilly received 4.9 million domestic tourist trips and a total of 25.8 million tourist nights. - A further 0.24 million trips and 1.6 million nights were made by overseas visitors. In total, it is estimated that these visits contributed £1,216 million to the economy (27% of the total South West spend and 4.5% of the England spend). There is some evidence that visitor numbers have peaked, although it is not clear if this is a temporary phenomenon, or a longer term trend. - Visitor related spend in Cornwall and the Isles of Scilly resulted in £1,530m to the local economy supporting an estimated 54,248 full and part-time jobs. These can be split between 46,812 jobs attributed to staying tourists and a further 7,436 jobs resulting from day visitor spend. This equates to 39,993 equivalent full time jobs being attributable to visitor spend, or 25% of the total workforce. In terms of Gross Value Added (GVA), the hotels and catering sector alone contributes between 6% of the economy in Kerrier to 11.6% in Penwith and 21.5% in the Isles of Scilly. 	<p>The tourist season has been extended in recent years, although numbers are still greatest in the summer months. The number of visitor attractions has increased in the past ten years. More people appear to be staying for shorter breaks, and this has the potential to lengthen the season, and reduce the seasonal nature of employment. In recent years tourism, as measured by tourism trips and overnight stays, has grown in Cornwall and the Isles of Scilly, against a backdrop of falling tourism figures across the South West and England. In 2003 Cornwall and the Isles of Scilly accounted for 28% of the South West's overnight stays, up from 23% in 2000. Tourism spending has also grown faster in Cornwall and the Isles of Scilly, increasing by 34% over the period 2000-03 compared to 4% and 6% growth in England and the South West respectively. New tourism markets based on quality will help to sustain the volume and duration of overnight stays.</p>
Marine	<ul style="list-style-type: none"> - In 2003 there were 1,690 jobs in the Marine sector in Cornwall and the Isles of Scilly, reflecting a 20% increase on the 1999 figure. This surpassed the growth seen both regionally (13%) and nationally (9%). - The sectoral employment growth was wholly in full-time positions, which is of particular relevance given the area's high dependence on part-time employment. - The marine sector shows a consistently higher degree of representation (0.9% of total employment) within Cornwall and the Isles of Scilly than nationally or regionally and the most significant growth sector has been the build and repair of ships and boats. 	<p>The combination of physical attributes, such as natural and manmade harbours and coves, and the historic and cultural significance residents and visitors assign to the sea, has secured the marine sector as the most significant sector in terms of local specialisms in Cornwall and the Isles of Scilly. Cornwall & the Isles of Scilly have a strong competitive advantage in this sector and there is high potential to develop it further to meet market demands, for example, in marine leisure. Links need to continue to be strengthened with other sectors such as tourism and leisure, transport and fishing.</p>

	Cornwall and the Isles of Scilly Sector Size and Performance	Analysis
ICT	<ul style="list-style-type: none"> - The ICT sector accounts for 1% of jobs in Cornwall and the Isles of Scilly, however many more businesses rely on access to a high quality infrastructure in order to remain competitive. - Broadband technology is evolving quickly and beginning to deliver significant economic benefits for the area. Penetration in Cornwall is now 18 connections per 100 population, and home working has increased massively over the past decade 	<p>The investment in broadband technology has been a significant boost to Cornwall and the Isles of Scilly, given its peripheral location. It is important that Cornish businesses are able to access the latest broadband and related technologies as they are developed if they are to remain competitive in the future.</p> <p>While ICT is regarded as essential to every day business use, it should play a more important role for enterprises more physically remote from major markets. Further work to develop services such as video conferencing, which address peripherality as a constraint, would help translate the availability of broadband into a tool for increased sales and productivity. The issues surrounding the 2km radius limit from exchanges for benefiting from the future generations of broadband make this issue particularly relevant.</p>
Environmental Technologies	<ul style="list-style-type: none"> - Employment has increased significantly against regional employment losses of 9.1% (2000-2003), primarily a result of increased employment in recycling and the demolition of buildings. - There are 166 businesses (2004) in the Environmental Technologies sector (approximately 10.5% of the total regional environmental technology business stock). It is dominated by micro-businesses with 80% employing between 1 and 10 employees. The bulk of the workforce (630) is, however, employed in businesses with between 11-49 staff. - In 2004 there were a total of 1,478 people employed in the sector, 93% on a full time basis. The sector is dominated by male employees (85%) who generally have high levels of educational attainment. 	<p>An extremely diverse sector⁸ but a small employer, although there is considerable potential to increase employment in the medium term.</p> <p>Considerably more business involved when a wider definition is used i.e. those companies involved in products and services which are responding to environmental concerns, such as the need to reduce energy.</p>
Creative Industries ⁹	<ul style="list-style-type: none"> - The sector is characterised by a high number of business, although many of these are categorised under other headings. - It has an estimated turnover of £250 million with a total of 3,294 businesses employing an estimated 8,600 people (4% of the total workforce). Approximately 76% of the workforce is freelance or self-employed, and in total the sector contributes £100 million to the Cornwall and the Isles of Scilly GDP (3.3%). - The largest sub sector is the visual arts, excluding crafts and photography, followed by film and video. In the former case, employment has been estimated at 3,300 making it a very significant employer. 	<p>The creative industries make a significant contribution to the tourist economy and a number of businesses are involved in export activities in addition to providing for the resident and visitor market. In addition the sector is highly skilled. However the fragmented nature of the market reduces earnings accruing to the sector and many businesses underspend on marketing and promotional activities.</p>

⁸ Includes sub sectors such as manufacture of ventilation equipment; manufacture of electricity distribution apparatus; recycling of metal and non metal waste and scrap; collection/purification of water; insulation work activities; technical testing and analysis; and sewage and refuse disposal.

⁹ Creative industries has been defined by the DCMS as including advertising, architecture, art and antiques market, crafts, design, designer fashion, film and TV, interactive leisure software, music, performing arts, publishing, software, television and radio.

Other Key Sectors

	Cornwall and the Isles of Scilly Sector Size and Performance	Analysis
Finance and Business Services	<ul style="list-style-type: none"> - This is a key sector within the knowledge-based economy, comprising 4,197 businesses, representing approximately 7% of the South West total and 23% of the Cornwall and the Isles of Scilly business base. The local finance and business services sector, in line with the national average, is predominantly made up of businesses employing less than 10 people (92%). - There are 21,313 employees in the finance and business services sector in Cornwall and the Isles of Scilly, just 5.7% of the South West total. A very high proportion of these employees work on a part time basis (36.5%) in contrast to the South West (27%) and national (24%) levels. - The total GVA generated by financial services and real estate/business activities in 2003 was £1,450 million representing 21.9% of total GVA. The main growth over the last decade has been in the real estate/business activities sector, which has grown by 62% to £1,335 million. 	The finance and business services sector is relatively under developed in Cornwall and the Isles of Scilly compared to the South West and Great Britain as a whole. Further work needs to be done to map out the competitive advantage which Cornwall and the Isles of Scilly can offer, and how best new investment can be secured.
Manufacturing	<ul style="list-style-type: none"> - The general manufacturing sector, which includes all manufacturing activities apart from advanced engineering, food and drink processing, environmental technology and biotechnology, has been in decline over the last five years. - In 2004 there were 431 businesses representing approximately 9% of the total South West manufacturing business stock. Only four companies employed more than 200 people, and there were only 13 medium sized companies. There was a larger pool of businesses in the 11-49 employees category; although at 57 the numbers involved are quite small. - There are a substantial number of businesses employing 1-10 people, however this size of business typically has insufficient capital investment in new equipment and often finds it difficult to invest in training and skills development. - GVA per employee in all manufacturing in Cornwall and the Isles of Scilly is £25,000 per head, well below the South West figure of £37,400. This partly reflects the structure of the sector. 	The decline can be attributed to a number of factors including overseas competition, failure to invest in research and development and innovation and inadequate skills levels among managers and employees. When all manufacturing employment is taken into account, the decline has been less severe than regionally and nationally, and the broad sector has proven to be quite robust. That said, the business base is relatively modest and it is difficult to envisage that manufacturing employment will increase substantially in the future.
Agriculture	<ul style="list-style-type: none"> - Agriculture and forestry makes up 3% of the Cornwall and the Isles of Scilly economy (0.9% nationally), nevertheless, in many communities agriculture and associated employment remains an important business sector. - The sector has experienced a difficult time over the decade. Output, which peaked in 1995, fell dramatically in 1998 and, although there has been some recovery since, the 2003 level was still below that of 1993. In 2004 there were 9,032 agricultural holdings in total (18.5% of the total number of South West holdings); the majority of which are classified as carrying out 'other' activities (39.4%) and 'cattle and lowland' (22.2%). These exceed national levels, along with 'dairy' (9.9%). In terms of production livestock, notably dairy and beef, account for the majority of outputs in financial terms, with horticulture continuing to be an important sector of production. - Total employment in agriculture stood at 10,467 in 2004 (19% of the South West agricultural workforce). Although total employment grew by 10% 1999-2004, the proportion of part time workers has increased from 45% in 1999 to 57% of the total in 2004 (Full time employment fell by 688). Agricultural employment is important in North Cornwall and Caradon and there are a number of smaller areas where agricultural employment accounts for more than 10% of all employment. 	The relatively low figure for a rural economy reflects the agri-industrial nature of the sector, and the importance of mining and quarrying and the poor quality of agricultural land in some parts of Cornwall.

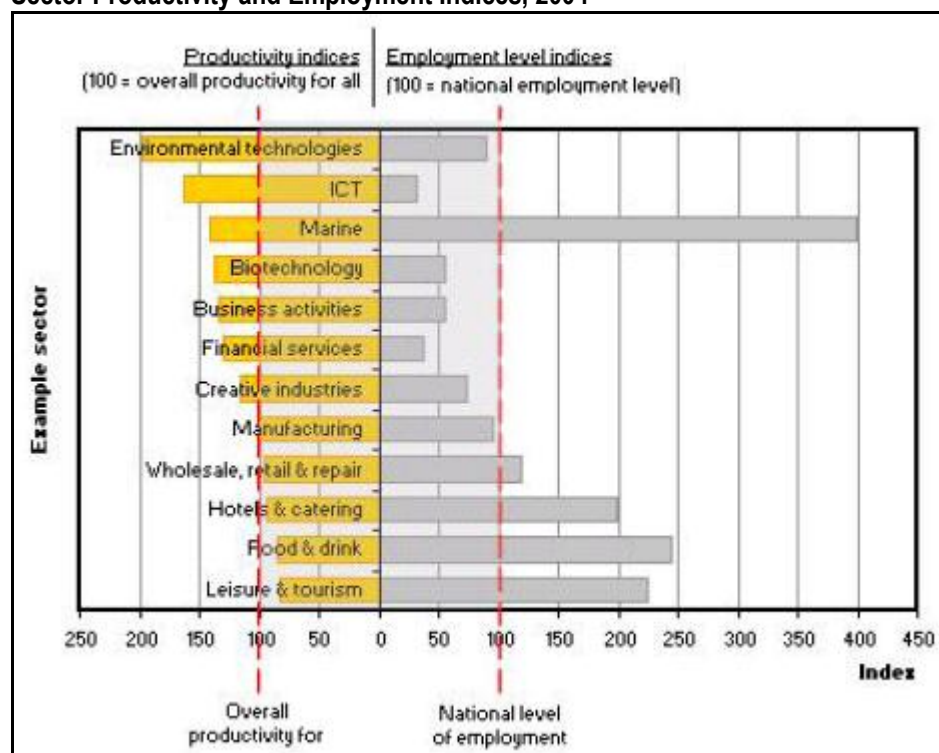
<p>Fishing</p>	<ul style="list-style-type: none"> - In 2005 there were a total of 659 registered fishing vessels in Cornwall and the Isles of Scilly. As a result of quota cuts, the number of vessels has been reduced by exactly 100 between 2001 and 2005. - The most recent estimate of the total number of fishermen was 1,082 in 2001 (56% of the South West total). In 2003 approximately 14,000 tonnes of fish¹⁰ was landed in local ports with a value of £26m. - Additional downstream activities add an estimated further £65.3 million to fish landings: broken down between processing (£45.3 million), merchants (£14.3 million) and retail (£4.6 million). In total it is estimated that the total fish industry is worth approximately £99 million to the Cornwall and the Isles of Scilly economy. 	<p>Although the numbers employed directly and indirectly in fishing are modest when set in the context of the wider economy, in a number of communities a significant number of jobs are dependent on the industry.</p> <p>Newlyn is the major ports for fish landing, with almost 70% of fish (by value) being landed at there. Estimates suggest that 13.6% of the total catch for England is landed at Newlyn, second only to Brixham. While the value of fish landings has remained stable, the ownership has changed, with a significant shift towards shellfish.</p>
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¹⁰ This comprised 8,343 tonnes of demersal, 1,059 tonnes of pelagic and 4,598 tonnes of shellfish.

Sectoral Performance and Productivity

As illustrated in the earlier section, productivity is one of Cornwall and Isles of Scilly's economy biggest economic weakness, with productivity levels (GVA per worker) 24% below the national average. This is partly explained through analysis of the sectoral structure of the area: the local economy has a high level of activity (in terms of employment and GVA) in sectors that have low productivity and a low level of activity in sectors that have high productivity. For example, as the graph below shows, of the five sectors that have employment levels above the national level, only one (marine) has an above average productivity level. (Nb. only a few example sectors are shown.)

Sector Productivity and Employment Indices, 2004



Local GVA Model, Arthur D Little and National Accounts (ONS)

Highly productive sectors have the potential to contribute much more to the local economy. For example, a South West study used for the Regional Economic Strategy estimates that environmental technologies and marine technologies have productivity levels 97% and 41% higher than average, respectively.

Sectors: Summary

Key Regional Sectors

	Employment		% Full Time		GVA 2003 (£m)	Contribution to Total GVA		Factor Productivity
	2003	1999- 2003 % Change	2003	1999- 2003 % Change	1999- 2003 % Change	2003	1999- 2003 % Change	
Tourism	28,190	49%	47%	-8%	£504	47%	8.30%	£25,000
Financial and Bus'	21,313	37%	63%	-11%	£1,284	52%	22.00%	£40,533
Agriculture	10,467	10%	-	-	£176	102%	3.00%	£17,528
Creative Industries	7,700	7%	69%	-3%	£361	61%	5.90%	£35,000
Food & Drink Manu'	5,850	19%	92%	5%	£186	42%	3.10%	£25,000
Marine	1,690	20%	93%	7%	-	-	-	£45,000
Environmental Tech	1,510	39%	93%	2%	-	-	-	£63,000
Fishing	239	-52%	81%	-11%	£18	-22%	0.30%	£10,906

Source: Local Intelligence Network Cornwall (LINC)

The distinctive tourism product of Cornwall and the Isles of Scilly and its brand which is increasingly synonymous with quality, make a major contribution to the South West's GVA. There is some evidence that visitor numbers are in decline, although still at high levels compared to the 1990s, and traffic numbers and congestion in the peak season now act as a major constraint for visitors. There is a continuing challenge to increase the GVA per employee and earnings in the sector, and this needs to be linked to a high quality product, covering all elements of the visitor experience

Food and drink is a large and growing sector with a number of strengths, including the Cornish brand, and there are opportunities to work with both small and large firms to further strengthen the sector. Employment in the sector is overwhelmingly full time, and is distributed throughout the area, although there are some hotspots. The sector is important both regionally and locally, exports a substantial proportion of its output and has a significant number of companies operating locally. Some of the smaller brands and products help reinforce the Cornwall and the Isles of Scilly as a destination.

The creative industries sector accounts for a significant proportion of employment. It contributes to the tourism product and employment is widely distributed. While the sector is an important provider of part time and self employment, often fitting in with people's lifestyle choice, a significant part of the business base has the potential to increase employment and value added. There is a need to identify those businesses with the potential to grow, with a focus on those in higher value added sectors which export their product out of Cornwall and the Isles of Scilly and already have a strong presence.

The financial and business services sector is now one of the most important economic drivers in the national economy. Cornwall and the Isles of Scilly have seen significant growth, although the sector provides a relatively low proportion of total employment. Many elements of this sector are geared towards major urban centres. The challenge is how best to accelerate the growth of the sector and this will involve ensuring that there is suitable infrastructure such as office premises and connectivity and a highly skilled workforce capable of working at the higher value end of the sector

The Environmental Technologies sector is highly productive industry in the South West (accounting for 2.1% of the region's GVA and with a GVA contribution over 30% above the GB average) and has grown rapidly in Cornwall and the Isles of Scilly in recent years. Within Cornwall the sector has developed expertise in land remediation, decontamination and geotechnical engineering through its mining traditions. In addition there is expertise in relation to renewable energy and coastal and environmental management. The development of CUC, with its focus on applied environmental sciences has complemented these strengths. While employment levels are currently low the growing awareness of environmental issues presents further opportunities to grow this sector. Promoting employment within the Environmental goods and services sector will contribute directly to improving productivity within the Cornwall and Isles of Scilly economy.

While the Marine sector is a small source of employment, Cornwall and the Isles of Scilly has four times the national level of employment in this productive sector, highlighting the importance of the marine environment to the local economy. The sector has seen strong levels of growth in recent years, and Cornwall and the Isles of Scilly is well positioned to further develop its competitive advantage in the sector, including the strengthening of links with the tourism and leisure, transport, and fishing sectors.

The agricultural sector continues to go through a period of adjustment; this will be influenced by new regulations at the European and national level. There are further strengths to build on within the sector including a move to environmental stewardship and further farm diversification. Land is a key economic asset and a strategy based on environmental and land management and sustainable agricultural production needs to be developed as part of the European Rural Development Programme

The fishing industry is important in terms of keeping a number of ports and harbours as working facilities, and there remains further potential to develop local strengths - the growing food and drink sector and high quality restaurants and hotels.

Conclusions

Cornwall and the Isles of Scilly contribute to a number of regionally important sectors. In three cases – tourism and environmental goods and services, and marine – the area's contribution in relative terms is substantial – while in others – food and drink and creative industries – the employment involved is significant. In some of these sectors the wage levels are likely to be lower than average and there is a need to focus on increasing competitiveness and profitability to help move away from a low wage economy.

There is a need to capitalise on the competitive advantage in relation to new and emerging sectors such as environmental technologies and renewable energy and to prioritise strengths which can generate employment and GVA. This will include emerging opportunities digital and media, and opportunities arising from the developing research base. This suggests that a bespoke approach to support based on small clusters, niches, networks and collaboration may be useful in accompanying any sectoral development.

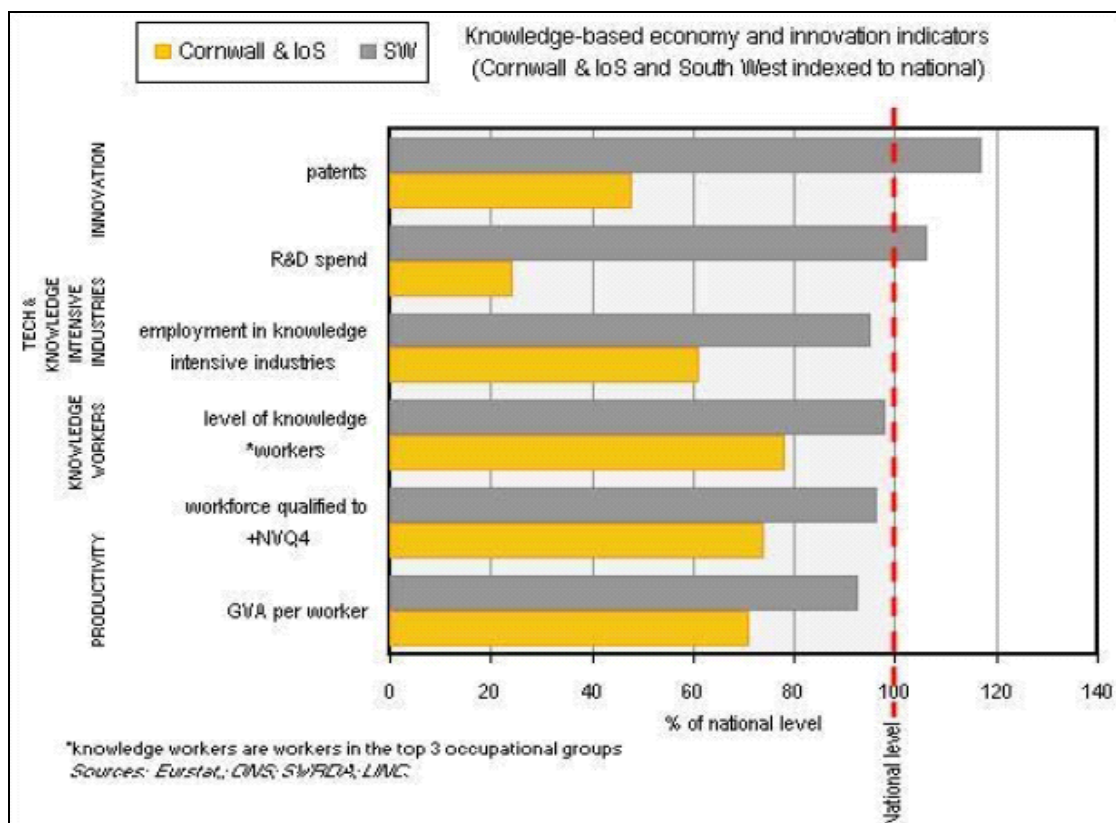
3.5 Knowledge Based Economy (KBE) - Innovation and Research & Development

At £29,300 per worker¹¹, average levels of productivity in Cornwall and the Isles of Scilly in 2003 lagged behind the British by 24%. The Cornwall and Isles of Scilly Convergence Programme Evidence Base Review identified that this is associated with the low average earnings, held down by firms investing in low skilled, low paid workers; reducing competitiveness and productivity as low employees at low occupational and skills levels are less likely to innovate and adapt to change in the economic environment. It identified that these factors perpetuate a weakness in the Cornwall and Isles of Scilly economy, which is yet to be addressed.

Further analysis of factors that affect the level to which the economy is knowledge and innovation driven demonstrates that Cornwall and the Isles of Scilly is under-performing in all areas, from workforce skills to spend on innovation. Although none of the available measures can alone fully represent the knowledge-based economy, combined they give an overall picture of performance.

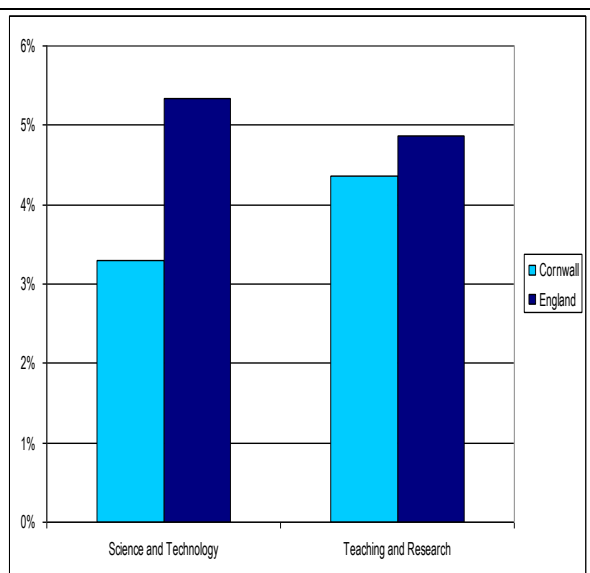
Cornwall and the Isles of Scilly underperforms both the regional and national averages against a range of indicators associated with the Knowledge Based Economy, including the number of patent applications, total R&D spend and the productivity of the workforce. Of particular concern is the low level of R&D spend. Total R&D spend per businesses was 23.9% of the UK level; in contrast the South West outperformed the national benchmark.

¹¹ Local Intelligence Network Cornwall



The OECD has developed and refined an attempted definition of 'technology and knowledge-intensive industries'¹². This includes 'high technology industries based essentially on R&D intensity' and 'knowledge intensive service industries'. It is now clear that the EU economies can no longer compete on the basis of low costs, and that the use of knowledge is the key to future competitiveness.

The graph opposite highlights how Cornwall and the Isles of Scilly is under-represented in knowledge based employment, defined as the top three occupational groups, however the Cornish workforce is also under-represented in occupations specifically linked to knowledge and innovation. For example, in 2006, only 3% of the workforce was employed in Science and Technology related occupations, compared to 5% nationally. The gap is smaller for Teaching and Research occupations; however Cornwall and the Isles of Scilly still lags the national average.



¹² Organisation for Economic Cooperation and Development (2003), OECD Science, Technology and Industry Scoreboard 2003

Concerning the whole Knowledge Based Sector, employment in Cornwall and the Isles of Scilly is still relatively weak despite strong growth between 1998 and 2003. The most notable success story is in Carrick where 21.9% of all employees are in the KBE sector, over 10,000 employees in total. This reflects a large public sector and the growth of the education sector. Nevertheless there is a substantial critical mass involved in KBE.

Knowledge Economy Employment

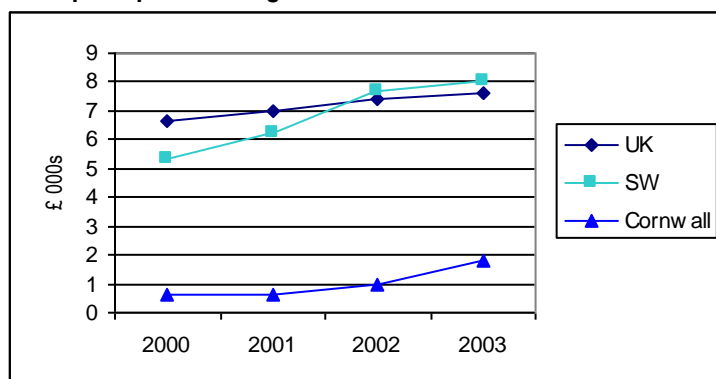
	1998	% of total	2003	% of total	% change
Carrick	7,889	21.5	10,007	21.9	+26.8
Restormel	3,667	11.7	3,581	10.0	-2.3
Penwith	2,605	15.2	3,120	15.4	+19.8
North Cornwall	2,465	8.9	3,085	10.1	+25.2
Kerrier	2,638	10.4	3,077	10.3	+16.6
Caradon	1,797	8.7	1,434	6.6	-20.2
Isles of Scilly	15	1.7	84	8.9	+460
South West	390,560	20	443,438	20.6	+13.5
UK	5,059,871	20.8	5,586,110	21.7	+10.4

Source: SWRDA (2005) The Knowledge-Driven Economy, Regional Economic Strategy and Regional Spatial Strategy in the South West of England

Penwith also has a high proportion of employees in the KBE sector, although the number involved is more modest. The other districts fall some way short of the 20.6% KBE average seen at the South West level. The majority of the districts have seen KBE employment growth rates between 1998 and 2003 higher than those experienced nationally, apart from Restormel and Caradon which have seen recent KBE employment losses. The roll-out, and encouraged take-up, of broadband is likely to have impacted upon the growth of the KBE sector across Cornwall and the Isles of Scilly.

The Lisbon Strategy identifies innovation as one of the key drivers for growing the knowledge economy. Innovation relates to the ability to identify and introduce new products and processes which, in turn, will help to improve economic performance.

R&D spend per VAT Registered Business



Source: Research and experimental development statistics, ONS © Crown Copyright

In 2003, over 550 jobs in Cornwall and the Isles of Scilly were in R&D businesses. This represented approximately 0.3% of the total workforce. Whilst this is still relatively low, R&D jobs in Cornwall and the Isles of Scilly have grown significantly in recent years. R&D spend per VAT registered business has also grown in recent years but is still considerably less than the percentages recorded at the South West and Great Britain level.

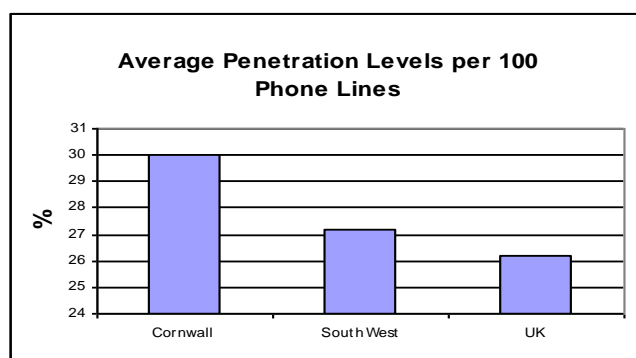
In 2002 there were 28.9 patent applications in Cornwall and the Isles of Scilly¹³. This was down on the 34.7 patents recorded in 2001. The 28.9 patent applications is equivalent to 57.3 patent applications per million inhabitants. This was significantly less than the number of patents per million inhabitants recorded at the South West (150.8) and at the national (128.7) levels. Similarly, it can be calculated at 122.9 patents per million workforce in Cornwall and the Isles of Scilly. Again this is less than the levels recorded across the South West (300.9) and the UK (257.6).

It is recognised that patent applications do not fully capture the degree of innovation in an economy. Research has shown that product and process development is as important for companies as innovation leading to patents. Given the resilience of the manufacturing base, it is likely that a significant number of companies are already involved in product and process development.

ICT

The ICT sector currently accounts for about 1% of jobs in Cornwall and the Isles of Scilly, although many more businesses and organisations rely on access to a high quality ICT infrastructure in order to remain competitive. ICT is often linked to efficiency savings, improved business systems and processes, e-commerce and design and innovation. In addition, ICT underpins the Technology and Knowledge Intensive Industries, both as an enabler to other Knowledge Intensive sectors, and as a key sector in its own right.

Cornwall and the Isles of Scilly have succeeded in leading the way in broadband availability. Of the 100 exchanges in the area, all have now been upgraded for ADSL broadband and there is 99% coverage across the area. Broadband technology is evolving quickly and beginning to deliver significant economic benefits. Penetration in Cornwall and the Isles of Scilly is now 13 connections per 100 of the population, and home working has increased considerably over the past decade.



Source: Summary Broadband Facts & Figures, actnow 2006

In 2004 the South West had the highest level of start-ups that used technology of all English regions (29.9% of all start-up activity). Cornwall and the Isles of Scilly was the highest ranking sub-region in the region, with 37% of all start-ups using new technology, which may highlight the impact of interventions to encourage broadband and other ICT uptake. A continuing challenge is encouraging business to make the maximum use of broadband to improve their competitiveness.

The UK leads the G7 in terms of first generation broadband, with 99.6% availability, and there are now more than 13 million broadband subscribers (representing more than 50% of the UK's 24.4 million households). Local loop unbundling (LLU) and the wide availability of wholesale DSL products has led to strong retail and wholesale competition, resulting in falling prices and stimulating high levels of take-up. It is expected that operators will continue to invest in and deploy new broadband infrastructure over the next five years (primarily ADSL2+ and potentially DOCSIS through cable operators). However the performance of ADSL2+ decreases over distance with the result that: (i) practical broadband speeds will

¹³ LINC / Eurostat: Applications to the European Patent Office (EPO)

vary significantly (between 1 and 24 Mbps Downstream); and (ii) it is likely that a significant minority of users will see no real improvement in their broadband access during this time¹⁴.

In light of these issues there are particular challenges facing rural areas such as Cornwall and the Isles of Scilly which may worsen the rural / urban digital divide:

- The full benefits of the highest speeds are typically only available within approximately a 2km radius of the exchange. Within Cornwall and the Isles of Scilly, 51% of phone lines lie beyond this point with the result that a significant number of local businesses and individuals will be excluded from the benefits of these new technologies; and
- There is no guarantee that the upgrade work required on the exchanges will be deemed economically viable in many rural areas, leading to further exclusion. For example, the largest 25% of exchanges cover 67% of telephone lines.

A scenario where only the largest 25% of exchanges were upgraded, in conjunction with the 2km limit, would exclude two thirds of businesses and individuals in Cornwall and the Isles of Scilly from the new technologies. Furthermore, a VDSL rollout will require a 'fibre to the cabinet' solution involving significant infrastructure spend, and left to the market a rural economy like Cornwall and the Isles of Scilly would certainly lag behind major urban rollouts. In the longer term, the only true future proofing solution to the divide may come from 'fibre to the premises' solutions offering significantly higher speeds unaffected by the distances involved.

This is supported by a DTI report¹⁵ which states that differences in the availability of broadband services are likely to arise, especially for future new higher bandwidth services. It argues that while these technologies may offer higher bandwidths than today's technologies; the market alone may not deliver these services to areas with lower population densities or physically remote locations. Alternatively, such technologies may reach these areas much later than they are available elsewhere.

Conclusions

Given the absence until recently of a major University, and some of the other significant components which support innovation such as strong networks, the increase in R&D is an important development. While Cornwall and the Isles of Scilly are unlikely to reach the levels of innovation of the major urban economies, there is the potential given recent developments such as the Peninsula Medical School to increase both R&D employment and innovative activity.

Company led innovation, without necessarily employing dedicated research staff or leading to the filing of patents, is an important dimension of improving productivity, requiring further investment in capital and human resources. There are a reasonable number of companies of a size to consider product and process development as an important strand of company development.

The low proportion of employment in KBE sectors is a continuing and serious weakness of the economy, although many of these sectors favour larger, urban economies. Creating new opportunities to accelerate the growth of KBE employment will help to address the underlying problems of a low wage economy, building on existing strengths (accelerated growth in Carrick) and seeking more significant new/inward investment. One consideration is that KBE is defined in some circumstances as relating solely to a set of sub-sectors; however it is also about how knowledge is applied to every type of business and in every type of sector. Building knowledge as a competitiveness asset will be an important feature of future economic growth.

¹⁴ Pipe Dreams? Prospects for Next Generation Broadband Deployment in the UK, 2007, Broadband Stakeholder Group

¹⁵ Public Broadband Schemes - A Best Practice Guide, February 2007, DTI & OFCOM

The investment in broadband technology has been a significant boost to Cornwall and the Isles of Scilly, given its peripheral location. It is important that local businesses are able to access the latest broadband and related technologies if they are to remain competitive in the future. There is now a need to review the infrastructure provision in Cornwall and the Isles of Scilly in the medium term to determine to what extent further investment is needed, and at the same time increase the use of ICT in the day to day operations of business. This is particularly important in light of the DTI's guidance which suggests that higher bandwidth broadband services may not reach more rural or isolated areas if left to the private market led activity.

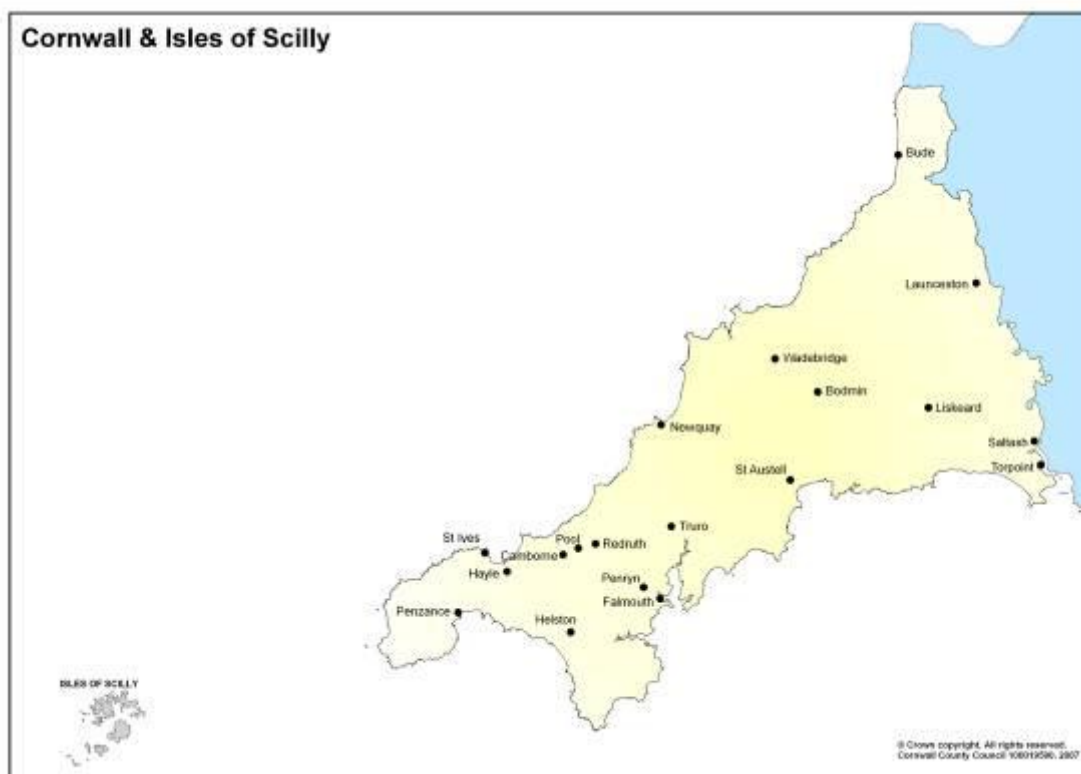
3.6 Towns and Settlements

Key Towns

There is no dominant urban area in Cornwall, instead Cornwall and the Isles of Scilly have a number of key towns, with some fulfilling particular functions. The 18 towns covered by the Cornwall Towns Study vary widely in size, from 7,137 in Launceston to 45,794 in the urban area of Camborne, Pool, and Redruth. Together they account for 140,000 jobs (representing almost two thirds of the total), just over half of the resident population, and some two thirds of the GVA of Cornwall and the Isles of Scilly. Almost 50,000 people live outside the towns and commute into them. While Camborne, Pool and Redruth combined is the largest 'urban area', as defined by population, Truro is the largest area in terms of employment.

The 18 key towns and their relative significance are:

- Regional Strategic significance attracting labour from a wider area – the network of Truro, Camborne, Pool and Redruth, Falmouth-Pennryn;
- Sub-Regional significance – St Austell, Newquay, Penzance;
- Local Service Centres – Bodmin, Wadebridge, Helston, St. Ives, Launceston, Liskeard, Bude, Saltash, Hayle and Torpoint.



There are six towns within Cornwall with a population of over 20,000, which reflects the peripheral and rural nature of Cornwall. These towns (Truro, Camborne/Pool/Redruth, St. Austell, Falmouth-Penryn, Penzance, and Newquay) are distinctly larger than the other settlements, which is reflected in the size of their economies and the roles and functions they accommodate. These towns tend to include particular concentrations of population-driven functions such as retail, education, health, public administration.

Few of the towns can be considered to be 'self contained'; however employment flow data does illustrate an aspect of self-containment within each of the towns. Truro is particularly strong in drawing employment into the town, with an economy much larger than any other Cornish town, relative to its population. Other towns that are strong in attracting employment include Penzance, Bodmin, Falmouth-Penryn, Launceston, Helston, and Bude; however in some instances the large inflow reflects the small population base, not the size of the economy.

The following are key issues common to each of the towns:

- The towns have witnessed employment growth, and positive changes regarding diversification, stability, and increasing earnings.
- There is now concern over the tightness of the labour markets, with employers and agencies reporting increasing difficulties in filling 'hard-to-fill' vacancies.
- The Cornish towns have relatively low skills levels, impacting on the town's potential for growth.
- There are issues to address in most of the town centres, evident through either regeneration programmes or proposals, which often include problems regarding traffic congestion. Across the towns more widely, there are issues concerning the availability of suitable sites and premises to accommodate employment growth.
- Given the low levels of 'self-containment', much of the Cornish Workforce travel by car to work, with environmental considerations. Increasing the degree of self-containment may generate environmental improvements.
- While a few of the towns are regarded as having strengths in the areas of productivity, innovation and enterprise, this has not yet translated to robust improvements to the local economy. In addition these strengths, particularly in manufacturing, may be vulnerable to decline.

The Cambridge Econometric forecasts predict a net growth of 31,083 jobs between 2006 and 2026, representing an increase of 22% on the current stock of 140,269. This increase would generate an additional £1.438bn annually. Employment is forecast to decline across all of the primary and secondary production sectors, besides the Printing and Publishing. Overall the towns have a focus of employment in manufacturing, but in particular, this will affect Bodmin, Camborne, Redruth, St Austell, and Falmouth. The growth sectors are predicted to be the service sectors, including Distribution, Retail, Hotels and Catering, Professional Services, Education, Health, and miscellaneous services. This will benefit Truro particularly, which is well represented in each of these sectors.

Research on behalf of the Post 2006 Group¹⁶ indicates that while growth has occurred elsewhere in the County, achieving sustainable development will depend upon concentrating new investment in the key towns. The key towns accommodate a significant and growing proportion of the employment base of Cornwall and the Isles of Scilly, particularly in the tourism and professional services sector. For instance, in spite of the rural nature of Cornwall and the Isles of Scilly, over half of all businesses are in the key towns.

This pattern is being reinforced by the rationalisation of primary and manufacturing industries within Cornwall and the Isles of Scilly and the growth of the service industries. The former two industries are

¹⁶ The Strategic Contribution of the Main Towns to the Economy of Cornwall, The Post 2006 Group, Roger Tym and Partners, 2006

largely out of town activities, in contrast to the service industries which are predominantly located within towns.

Whilst Cornwall and the Isles of Scilly have seen a significant population increase overall, this growth has not been experienced in all the key towns in Cornwall. The three strategic centres and Newquay have all seen their populations rise substantially in the past decade; a much more static picture is evident in St Ives, Bude and Bodmin. Whilst growth has also occurred elsewhere, achieving sustainable development will depend upon concentrating new investment and people in the key towns.

The growth in employment and diversification in the towns to some degree has been off set by a tightening of the labour market, self containment and low skills, highlighted above, which is compounded by physical constraints such as congestion and the availability of a suitable range of town centre premises and land¹⁷. Towns have significant employment potential provided the constraints are not exacerbated and sites and premises provision matches sector growth/floor space requirements. Cambridge Econometrics forecasts indicate that there is potential to increase the levels of employment in the Cornish Towns by 22% over 20 years to 2026 (equating to some 31,080 jobs) and an 86% rise in GDP. These are mainly in the construction, distribution and retail and service sectors. The forecasts do not include the potential impact of major economic initiatives.

The Draft Regional Spatial Strategy identifies Camborne, Pool and Redruth; Falmouth/Penryn; and Truro as playing an important role in accommodating growth. Other important locations which influence a wide economic hinterland include Bodmin; Penzance; Newquay; and St Austell.

Over the next 20 years, the population of Cornwall and the Isles of Scilly is expected to increase by an additional 100,000 to over 600,000 which, in conjunction with lifestyle changes, will require more than an additional 50,000 homes. This population growth will be associated with an additional 45,900 jobs in Cornwall and the Isles of Scilly (20% growth) by 2026; 30,000 of which will be located in the key towns. It is neither possible nor desirable to focus the majority of this growth in a select number of areas. Such an approach would lead to the urbanisation of Cornwall.

The Post 2006 Group research indicates that the population and employment growth of the past ten years has been driven by the underlying strengths of the economy, which includes 'a more diverse economic base, with niche employment growing on the basis of better connectivity and talented entrepreneurs in a wider range of sectors, including both traditional and new sectors'.

The changing sectoral patterns of employment will have a significant effect on employment within the key towns and it is estimated that some towns will benefit significantly with regard to employment. In absolute terms the largest employment growth is expected in the following centres.

Key Towns Witnessing the Largest Absolute Employment Change

Key Town	Employment Growth 2006-26
Truro	6,705
Camborne, Pool, and Redruth	4,254
St. Austell	2,674
Falmouth and Penryn	2,244
Penzance	2,227
Newquay	2,191
Bodmin	1,857

Source: Cambridge Econometrics

¹⁷ See page 14-15 Cornwall Towns Study August 2006, Roger Tym and Partners

As a result of a combination of factors – size, location, function, and economic hinterland – these seven centres have the capacity to absorb significant employment growth and to attract and nurture high growth and high value added companies. This scale of growth will allow the types of high quality office accommodation to be developed, and support new public transport provision which will support sustainable economic growth.

Rural Areas

Cornwall and the Isles of Scilly are predominantly rural in nature. Based on the Defra classification of urban and rural areas, only Kerrier is classified as having as ‘urban population’; accounting for 43.1% of its total population. However, all of the Local Authority areas, with the exception of the Isles of Scilly, have large market town populations, ranging from 13% in Kerrier to 55% in Carrick.

The Cornwall and Isles and Scilly Population, by Defra Rural Classifications¹⁸

Name	Total Pop (000s)	Total Urban Pop	Large Market Town Pop	Rural Town Pop	Village Pop	Dispersed Pop	Total Rural (excluding Large Market Towns)
Isles of Scilly	2.1	0.0%	0.0%	0.0%	93.2%	6.8%	100.0%
North Cornwall	80.8	0.0%	15.9%	31.2%	32.7%	20.1%	84.1%
Caradon	79.7	0.0%	17.8%	42.8%	25.3%	14.1%	82.2%
Penwith	63.1	0.0%	32.2%	32.7%	21.5%	13.6%	67.8%
Restormel	95.5	0.0%	44.0%	27.5%	17.7%	10.7%	56.0%
Carrick	87.8	0.0%	54.5%	12.2%	22.5%	10.7%	45.5%
Kerrier	92.5	43.1%	13.3%	11.8%	21.7%	10.1%	43.6%
South West	4,928	50.6%	15.3%	13.9%	13.8%	6.4%	34.1%
England	49,142	73.1%	7.6%	9.1%	7.2%	3.1%	19.3%

Source: Defra

Excluding Large Market Towns, rural areas still account for a significant proportion of the population, ranging from 44% in Kerrier to 100% of the population of the Isles of Scilly. These figures compare to 34% for the South West and 19% across the UK.

The rural population is predominantly located in rural towns or villages; however a sizable proportion of the population is classified as ‘dispersed’. For Cornwall this ranges from 10% (Kerrier), to just over 20% of the total population (North Cornwall). The dispersed population of the Isles of Scilly is broadly in line with the regional average (6.8% and 6.4% respectively), this however is a reflection of the high proportion of the population that reside in villages (93.2%) and may be a reflection of the area’s land constraints.

The rural nature of the economy also presents a number of key challenges, ranging from the availability and affordability of housing and access to key services. The overall IMD rankings mask considerable differences on each of the domains, reinforcing some of the key rural challenges:

- One in five “super output areas” in Cornwall are ranked in the 15% most income deprived areas in England.
- Employment deprivation which captures all of those not in work, not just those registered as unemployed, is most severe in Restormel and Penwith.
- On health deprivation, rankings are good relative to the other domains, reflecting lower than average mortality rates. Incidence of the major diseases has, however, increased since 2000.
- The Barriers to Housing and Services domain (which captures indicators such as distances to key facilities) shows a worsening position with more than half of the SOAs in Cornwall ranked in the 20% most deprived in England. This reflects the loss of services and facilities in many

¹⁸ Note people living in the Large Market Towns are defined as Urban in the Rural Definition. For the purposes of classifying Local Authorities these towns are considered to be Rural.

communities and the worsening of housing affordability ratios. Particular problems are evident in North Cornwall where four SOAs are within the 1% most deprived nationally.

- A significant proportion of households within Cornwall are at risk of fuel poverty, and this situation is likely to be exacerbated further by the trends in world energy prices. This provides the area with an additional incentive for increasing the local generation of energy through sustainable means.

The Cornwall and Isles of Scilly Rural Economic Strategy (2003) highlighted some of the key contributions that rural Cornwall can make to the overall economy, in addition to highlighting the areas' challenges. It notes that the predominance of micro-businesses in large part reflects the number of life-style businesses. However, despite studies suggesting that there is a willingness to grow amongst these sorts of businesses, many operate below the VAT threshold level and do not expand above this. Further whilst tourism plays a key role in many rural areas, the employment it generates is often seasonal and lower paid.

Declining employment in the land based industries has had a large impact on rural communities, whose economies have historically relied heavily on these sectors. For instance, the Agricultural sector must adapt to the consequences of the reform of the Common Agricultural Policy (CAP), which removed the link between farm subsidies and production introduced cross compliance, making subsidies dependent on meeting standards in key areas such as the environment, animal health, and welfare¹⁹. The recent emergence of other industries in rural areas, such as business services, is helping to create diverse local economies; although they do not always generate employment opportunities for local people.

The Isles of Scilly, with a population of just over 2,000, faces a number of challenges around demographics and housing, economy and employment, and transport. The scope for housing is restricted by finite supply of land (only 1600ha) and the overarching need to safeguard the environment. Many residents who need a home are reliant on local incomes and access to the limited housing stock is expensive, restricting the available workforce and presenting difficulties in retaining younger families. Tourism dominates the economy and accounts for a significant proportion of income.

Conclusions

Cornwall has a substantial number of key towns as well as a considerable number of other settlements which reflects the rural nature of the economy and the sheer size of the area. While significant employment is located in the key towns, a sizeable proportion of the employment base is based in smaller settlements. The development of smaller settlements and rural areas will help to accelerate employment growth and diversify the business base.

The towns also have a key role to play (accounting for two thirds of GVA and employment), as the expanding population and jobs base means strengthening of the roles of towns as centres for employment and service delivery, while taking account of increasing congestion and sustainable development principles. While there is a critical mass of development within the zone of Truro, Camborne, Pool, and Redruth²⁰ and Falmouth/Penryn, other centres such as Penzance, Newquay, Bodmin, St Austell and Newquay have a key role in the provision of employment and services. There is a need to plan and manage further development, taking account of transport provision as well as commercial and industrial development. This will require an area wide integrated development approach taking account of agreed planning policy.

Camborne, Pool, and Redruth have high levels of deprivation and a blighted environment. This has resulted in the designation of an Urban Regeneration Company. It will be important to ensure that interventions to secure new growth and investment are complemented by support measures so that these communities benefit and disparities narrow rather than widen.

Rural areas make up an important part of the economic base of the region and face pressures arising from a number of factors, such as the consequence of the CAP reforms. These are likely to affect the

¹⁹ Implementation of CAP Reform in the UK, House of Commons Environment, Food and Rural Affairs Committee, Seventh Report of Session 2003–2004

²⁰ Improving social, economic and environmental conditions is important here.

amount of land used for agricultural purposes, and sit in the context of declining traditional rural industries. In some areas, additional challenges are related to poor access to jobs and services. The lack of appropriate workspace, identified in the recent study of workspace, is exacerbating issues around the diversification of the rural economy as well as restricting the growth of knowledge based businesses, many of which are based in rural areas.

3.7 Infrastructure (Sites and Premises, Education Infrastructure and Transport)

Sites and Premises

Over the past five years, a number of developments, some of which have been supported by the Objective One Programme, have begun to address the mismatches in demand and supply for high quality sites and premises. Of the total stock of employment land, it is estimated that 60% is occupied. The majority of this land is in Restormel (150 ha), North Cornwall (135 ha) and Kerrier / CPR (101 ha). Approximately 50 out of the 577 hectares have been developed but are vacant.

In addition to the existing commercial land, a further 62 hectares of land is serviced with planning permission and 23 hectares is allocated as un-serviced without planning permission. A total of 135 hectares has been allocated as employment land, the majority of which is in Kerrier/CPR (52 ha) and Restormel (37 ha).

Recent studies have shown demand amongst businesses in a range of sectors for accommodation, although the commercial dynamics are not in place to witness substantial private or speculative investment. Much demand is perceived as latent, and there are increasing examples of successful public sector instigated speculative developments, such as Tolvaddon Energy Park in Redruth.

A recent comprehensive study, Employment Space Strategic Assessment 2007-2017, examined the property market context, future prospects using Cambridge Econometrics growth forecasts, floorspace and employment land forecasts and sectoral requirements. The study concluded that changing employment practices, including the prevalence of home working, use of the internet, and outsourcing of activities will affect the future demand for employment space. It also notes that access to skilled staff, accessibility to customers, high quality ICT infrastructure, and an attractive environment are important location requirements for many of the key sectors. In addition, while there are some specific key requirements, the report notes that sector specific developments are unlikely to be successful.

The study highlights that in some locations, a shortage of existing modern premises has resulted in a limited demand for employment properties and latent demand only becomes apparent when a new supply of speculative modern accommodation is brought to market. Furthermore, many companies remain located in premises which are not suitable to their business, since much of the existing property stock in Cornwall was developed in the 1960s and 70s and is coming towards the end of its economic life. In particular, the report highlights that there is a significant shortage of new premises in 185 sq m (2,000 sq ft) or smaller size range.

As of October 2006, there was estimated to be 70,000 sq m of vacant floorspace across Cornwall and the Isles of Scilly, representing a vacancy rate of 2.5% for general industry and 4.4% for offices. Overall 50% of the vacant stock is rated as either poor or very poor. However the report estimates that there is capacity for some 743,000 sq m of floorspace within Cornwall and the Isles of Scilly, which consists of the vacant floorspace and land supply. It estimates that there is sufficient supply of sites and vacant premises to meet projected demand in the majority of scenarios over a ten year period (2006-16) in all Travel to Work Areas (TTWAs) in Cornwall and the Isles of Scilly.

The Employment Space Strategic Assessment highlights the following issues:

- The poor environment and access;
- The limited supply of freehold units;
- The poor design and very intensive use of many units;
- The apparent desire amongst many occupiers for low cost, poorer quality accommodation; and
- The limited scope for refurbishment and / or re-use.

It concludes that there was continuing demand for smaller, flexible space, and increasing demand in centres such as Penzance, Redruth, St. Austell and Bodmin. In spite of recent rental increases, current values do not generally meet costs, resulting in financial deficits in schemes. This has limited the supply of sites and workspace. The report also identified the poor quality of much of the existing stock – poor design and access, limited scope for re-furbishing, limited supply of freehold, restricted car parking and servicing. It estimated that there is demand for an estimated 11% (273,300 sq m) of existing commercial stock to be replaced and / or substantially refurbished to the period 2017.

Surveys carried out in Kerrier and Restormel suggest that some 70% of businesses were expecting growth. A high proportion of businesses reported their premises as inadequate for their future needs and in addition to current concerns, future demand is likely to be significant, particularly for smaller units.

Employment land predictions based on two economic scenarios²¹ forecast 'very substantial' growth in B1 office floorspace (of between 51 to 69%) in addition to increasing demand for storage and distribution (B8) of between 8 to 10%. This contrasts to predictions of General Industry employment space, which is expected to decline by between 7 and 8% (or 98,600 to 108,800 sq m). Between 2006 and 2017, total employment space in the Cornwall Travel to Work Area (TTWA) is expected to increase by between 72,800 to 138,200 sq m (between 3 and 6%).

A snapshot of one month of property enquiries during 2005 showed a majority of enquiries were for office rather than industrial space, with almost half coming from RES priority sectors – IT, software, business services and creative industries.

The Employment Space study concluded that current provision was a constraint on economic and company growth, there is a need for the public sector to increase the delivery of serviced employment sites, gap funding had a role to play in persuading the private sector to investment given market conditions and there was a need to ensure an adequate supply of incubation accommodation and workspace in rural areas.

Combined Universities in Cornwall

The lack of a major Higher Education (HE) institution in Cornwall and the Isles of Scilly has historically been a major brake on growth – resulting in the out migration of educated young people, contributing to poor workforce skills and holding back the growth of knowledge based industries. As the analysis of competitiveness identifies, growing more knowledge based businesses is key to creating more sustainable jobs and incomes. There has been a recent reversal in the out migration of young people with evidence from the ONS migration datasets indicating that fewer younger people are leaving Cornwall and more are moving in. The peak year for in migration is 22, suggesting that significant numbers who leave at 18 return after graduating²². These figures are encouraging and coincide with recent developments: the Combined Universities in Cornwall initiative has sought to deliver a step change in HE provision, and become a key driver for growth and regeneration²³.

²¹ Cambridge Econometric Scenarios of regional GVA growth of 2.8% or 3.2% pa

²² Cornwall and the Isles of Scilly Strategy and Action Evidence Base, LINC

²³ Being established in two phases, the Initiative involves the creation of a 'hub' campus at Penryn and new or improved HE facilities at a dozen of Cornwall's further education colleges, and will cost £623 million up to 2025.

The Combined Universities in Cornwall (CUC) partnership includes the Universities of Exeter and Plymouth, University College Falmouth, The Open University, The College of St Mark & St John, Cornwall College, Truro College, and Penwith College. The CUC concept also encompasses the Peninsula Medical School, a partnership between the Universities of Exeter and Plymouth, and the NHS within Devon and Cornwall.

To date the project has attracted over £120 million of investment in two phases, the first £65 million of the initiative enabled the construction of the award-winning 'Hub' campus at Penryn (shared by University College Falmouth and the University of Exeter) and over a dozen new and renovated Higher Education Colleges. The CUC has filled 84 PhD and post-doctoral posts and has supported the creation of intellectual capital through £7.7 million Research Funding²⁴. The CUC has created around 430 new teaching and support jobs and has made available some 5,000 HE places. Furthermore, a major post-graduate presence and graduate placement programmes have linked the CUC institutions to the business base and links have also been established with external centres of research, contributing to the re-positioning of Cornwall as a place to learn.

In the longer term, the Phase 2 element is estimated to generate 2,480 jobs and £120m of GVA, excluding the benefits from incubation, knowledge transfer and other activity. Phase 2 is expected to create almost 2,900 HE places in Cornwall and the Isles of Scilly by 2010, contributing to a total of 7,750 HE places overall²⁵.

There are three main providers of Further Education (FE) within the area with over 8,000 full time students: the Cornwall College group²⁶, Penwith College, and Truro College. Alongside the developments in the HE student provision, research capacity is also being enhanced, particularly in the creative (University College Falmouth) and environmental technologies (Camborne School of Mines) sectors, but also in the other emerging sectors and research fields. To ensure that business benefits flow from the CUC partnership, a business outreach co-ordination service is being established. There is a need also to provide appropriate infrastructure to stimulate high growth knowledge intensive business activity in new innovation and Incubator Centres and Science Parks.

Transport

Newquay Cornwall Airport is the area's primary external link, providing connectivity for businesses, visitors and residents. The airport has grown rapidly in recent years and in 2004 handled approximately 280,000 passengers. Nine UK destinations are now served by three airlines, with important links to London Stansted, Leeds and Manchester. Given peripheral location of Cornwall and the extended journey times to reach Cornwall by road or rail from outside the South West, the growth of the Airport has provided a major boost to the image of the area and helped develop new commercial and tourism opportunities.

Traffic from Newquay Cornwall Airport is predominantly to London, accounting 67% of scheduled passenger volumes. Forecasts of scheduled passengers suggest that while London, and Gatwick in particular, will remain the main generator of traffic, it will become less important as passenger traffic becomes more diverse, in terms of passenger destinations.

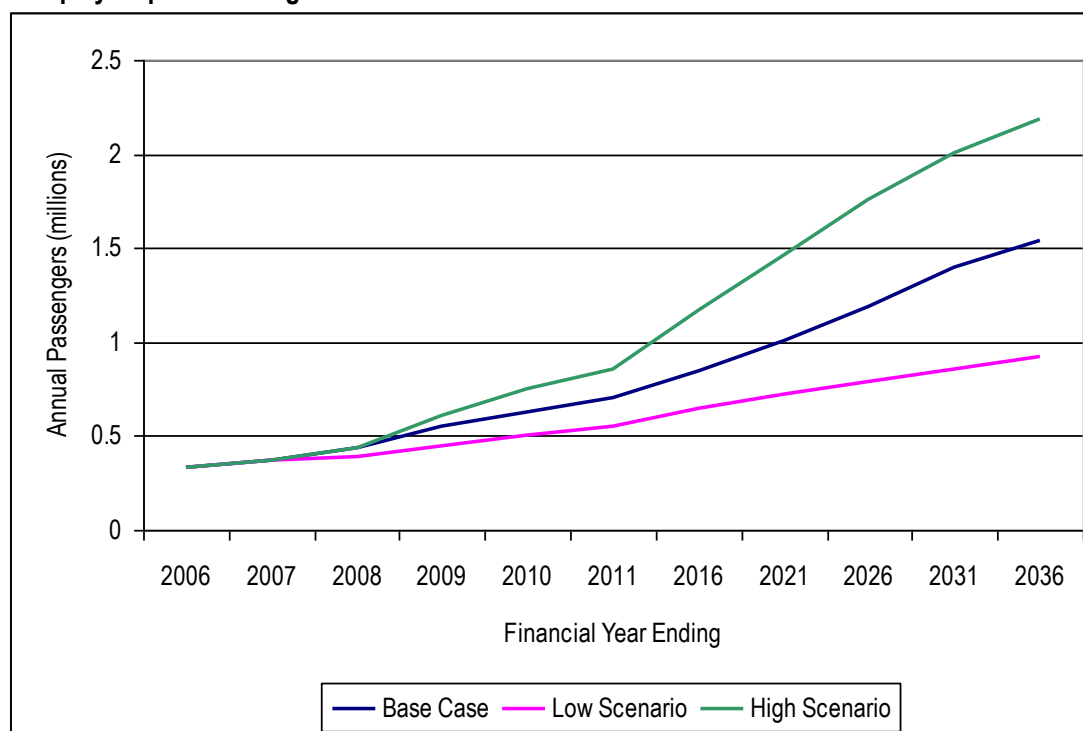
The provision of a number of scheduled passenger services is a relatively recent phenomenon at a facility which has a well-established RAF base. The future operation, ownership and management of the airport is currently being reviewed following the decision of RAF St. Mawgan to withdraw airside facilities and commercial operations and an Airport Development Fund has been set up to help generate the required levels of investment. Newquay Cornwall Airport is now a key economic driver. It directly and indirectly supports an estimated 610 jobs in the local economy and makes a contribution to GVA of £18.2m per annum, excluding benefits from military personnel and civilian jobs at RAF St. Mawgan.

²⁴ Combined Universities in Cornwall

²⁵ CUC Phase 2 Work In Progress Business Plan.

²⁶ With centres at Camborne, St Austell, Saltash, Falmouth, Stoke Climsland and Rosewarne.

Newquay Airport Passenger Forecasts



Source: AviaSolutions

Recent research with regard to the Airport has confirmed its important role in terms of business connectivity, as well as its potential catalytic effect with regard to employment and investment. As with all regional airports, leisure users help to sustain a number of the services critical to business users, and a significant proportion of passenger using low cost carriers are business users. A very large proportion of business users regarded the Airport as essential and almost half have cited the Airport as important in locating or retaining their business in Cornwall.

A study into the economic impacts of Newquay Cornwall Airport²⁷ highlighted that, while business demand accounts for only 20% of total scheduled demand (or passenger traffic of 70,000); strong inbound leisure demand offers the opportunity to introduce routes that can also benefit business traffic. It also notes that the importance of the airport to the local economy extends beyond the presence of air intensive sectors. Excluding on-site and tourism impacts, the Report predicts that Newquay Cornwall Airport has the potential to generate approximately 3,300 direct additional jobs within Cornwall over the longer term, and most of these will be in 'relatively high paid positions'. However, the report finds that realising the full potential of Newquay Cornwall Airport will only be achieved if it is one of a package of measures aimed at promoting the productivity of Cornwall including sites and premises, skills, and the use of ICT to transform business processes.

Travel by rail into and within Cornwall has expanded significantly over the past decade with an additional one million trips in 2004/5 in comparison to 1996. Rail accounts for only 4% of passenger trips in Cornwall, however, reflecting in part the limited coverage of the rail network – there is only one main train line through Cornwall, with five branch lines from it serving Gunnislake, Looe, Newquay, Falmouth and St Ives. Whilst there are mainline services to destinations including Manchester, Newcastle and Scotland, the extremely long journey times impact on the business community by constraining the ability to meet with customers and suppliers.

²⁷ Catalytic Economic Impacts of Newquay Airport: Draft Report,, Reference 2007

The main line provides an important strategic link to the rest of the UK, particularly Plymouth, Bristol and London, and services are generally well utilised in spite of the long journey times. Whilst the growth in passenger numbers has been positive, this increase corresponds to the trend nationally. Rail patronage continues to be constrained by a history of under-investment in the core infrastructure, long journey times, and infrequent and sometimes unreliable service provision.

Bus patronage in Cornwall is low compared to other areas. This is due to the rural characteristics of the County and its variable bus network. In 2004/05 bus passenger journeys dipped to 7.7 million but then climbed up to 8.22 million in 2005/06. In 2006/2007 patronage peaked at 9.31 million, although this is largely due to the impact of the free concessionary fare scheme. That said, other positive interventions have been made and further planned measures will hopefully see this trend continue.

The rural and semi-rural nature of much of Cornwall means that the area's roads take the strain for the bulk of trips. With a variable bus network, car usage has been growing, both amongst residents and by visitors. There are now 66% more vehicles in Cornwall and the Isles of Scilly than there were 20 years ago, and the number of multiple car households has increased rapidly. Whilst this growth is partly explained by the increasing population, it also reflects changing lifestyles and the weaknesses in public transport networks. The growth in car ownership has not been uniform, with low incomes contributing to low levels of car ownership in some communities. Transport inequalities appear to be growing rather than narrowing.

A report commissioned by the South West RDA²⁸ identified that each additional 100 minutes of travel time to London reduces productivity by approximately 6%, and every additional 100 minutes to the next four largest conurbations (of Leeds, Birmingham, Glasgow and Manchester) reduces productivity by 3%. Consequently the time penalty faces by businesses by businesses in Cornwall is considerable.

Congestion has worsened considerably, with unsurprisingly, large seasonal variations resulting from the five million annual visitors, the vast majority of whom arrive by road. As well as the strategic roads such as the A30 being increasingly affected by congestion, the growing number of vehicles is also adversely impacting on access to key towns, employment sites and visitor destinations – travel to work distances are significantly higher than the UK or even South West average. National research²⁹ has identified the strong relationships between economic growth, population, employment, and increased demand for travel. Measures to increase public transport patronage and restrain the growth in car usage is essential as part of a sustainable transport strategy for the area. In the longer term, key infrastructure improvements will be necessary to accommodate growth.

Cornwall has a wide range of ports. The major ones are located at Fowey and Par (serving the china clay industry), Falmouth (marine industry, ship repair and freight handling), and Truro (freight handling). Other secondary ports include Penzance, with its important sea connections to the Isles of Scilly, Newlyn, the principal fishing port, and Hayle, Looe, Padstow, Mevagissey, Newquay and St Ives being locally significant for the fishing and marine industries. These and other smaller harbours are now more of a focus for local tourism from both land and sea visitors.

The port of Fowey is the fourth most important port in the South West region in terms of freight handled, with over 1.5 million tonnes of port trade. Fowey is particularly significant in European terms, as one of the ports identified as part of the transport "Trans European Networks" (TENs). Par Docks handles over 0.6 million tonnes of freight per annum. The port of Falmouth handled about 1.00 million tonnes, mainly consisting of imported petroleum products. The port of Truro, although a smaller operation, handles over 50,000 tonnes per year and is looking to expand. Government and EU policies are encouraging short sea shipping solutions.

²⁸ Meeting the Productivity Challenge, 2005, University of the West of England, Bristol and the University of Bath for the South West RDA.

²⁹ The Eddington Transport Study, 2006, Department of Transport

At present, the only public service by sea from the mainland is the service to the Isles of Scilly that operates for freight throughout the year from Penzance and for passengers in the summer months. There has also been a significant expansion in the number of cruise liner visits to Cornish Ports (Fowey, Falmouth and Penzance) with Falmouth becoming the fourth most popular UK cruise destination, reflecting the new tourism attractions (National Maritime Museum, Tate St Ives and Eden Project) and changing tourism market in Cornwall.

The Local Transport Plan (LTP2) for Cornwall³⁰ highlights the role of transport in driving forward the economy of Cornwall. In particular, the key issues it highlights are:

- **Regeneration:** Cornwall has recently seen significant development in recent years and more are planned (e.g. at the Eden Project, the Peninsular Medical School, CUC, and the Tate St. Ives). The challenge is to allow regeneration and development to take place that promotes the environmental and economic and social objectives of Cornwall whilst also addressing the mounting congestion problems. Focusing on the seven key urban areas³¹, the LTP proposes the implementation of integrated land use and transport strategies which link to the longer term spatial planning emerging from the Regional Spatial Strategy (RSS).
- **Accessibility:** Access to housing and services (as measured by the Index of Multiple Deprivation (IMD)) is a particular for Cornwall, given its rural nature. Improving accessibility is a key theme of the LTP2 Strategy. Mapping and needs based evidence has helped to identify particular accessibility problems in Cornwall. Measures to improve accessibility are likely to be focused on community based transport solutions.

Appropriate transport solutions are being developed in the main strategic urban centres to ensure economic growth is not constrained and the impact of economic development initiatives is maximised through improving accessibility. The solutions include a range of measures that have been developed as part of area action plans and include improvements to public transport interchanges, the provision of park & ride facilities, enhanced rail services together with appropriate capacity improvements, which collectively will support the developments planned in the main centres of Cornwall. These solutions have been developed in line with the Cornwall's Transport Strategy Approach which has been tested by Strategic Environmental Assessment. Through the assessment process, the vision below was adopted as it was considered the most positive in respect of delivering local and national priorities and environmental, social and economic outcomes:

'Encouraging 'modal shift' together with an appropriate level of managing traffic (demand management) that reflects the rural nature of the County'

One sustainable transport solution developed to improve access between two key centres is the Truro Falmouth branch line upgrade. The road network on the Truro-Falmouth corridor is already frequently congested and there is no scope for improvement in capacity. Truro and Falmouth are main employment and retail centres in Cornwall. Significant housing and employment land allocations are planned for Falmouth, Penryn and Truro (including the Phase 2 Combined University for Cornwall (CUC) in Penryn, and further related education and research developments) which are creating a higher demand for accessibility along this corridor. Addressing these accessibility needs is an important element to facilitating economic regeneration in Cornwall.

Study work has been carried out which demonstrates that improvement of the rail service between Truro and Falmouth would provide good value for money as well as providing sustainable alternatives to road travel. The proposed improvements comprise a loop that allows passing trains and a doubling of scheduled service to two trains per hour. This will be located at Penryn Station and will include an extension of the existing station, removing the need for an over-bridge facility. A bus interchange facility

³⁰ Cornwall Local Transport Plan 2006-2011

³¹ Camborne, Pool and Redruth, Truro, Falmouth & Penryn, St. Austell, Newquay, Penzance, and Bodmin

will also be provided with links to Penryn town centre and a 10 minute scheduled service link throughout the day.

Cornwall's peripheral location and long journey times to the major conurbations have in the past limited the growth of its economy. The productivity gap between London and the South West is partly due to the journey time effect and growing congestion on Cornwall's strategic road network further exacerbates the situation, reducing the reliability of journey times and acting as a deterrent to inward investment.

A recent study examining future congestion scenarios in Cornwall identified several congestion 'hotspots' on the strategic road network over a period of twenty years. It showed how congestion will impact on Cornwall's economic growth aspirations by quantifying the negative GDP effects, which manifest in increased business time costs, decreased labour force participation and limited development of business clusters. The study reveals that if a 'do nothing' approach to transport is taken by 2026 increasing congestion will significantly constrain economic activity.

Conclusions

There remains an unmet demand for high quality accommodation of a range of types and sizes. Market conditions are such that in the vast majority of locations, development is constrained by rental levels. The quality of stock is also poor. The economic forecast suggests a demand for employment space which will not be met by the current level of development activity. The shortage of small, office and flexible space is constraining the growth on knowledge based and higher value added service businesses. There will be a need to ensure that new development takes account of capacity and sustainable development principles. This is particularly important in the case of the major towns, where some of the constraints relate to transport issues.

The CUC initiative has had a positive impact on the economy, both through increasing learning activities and also enhancing the area's research base and business/academic links. There are now over 5,000 HE places available and a substantial research presence as a result of the early success of CUC. In the medium term, CUC can provide a key source of knowledge based activity and help to attract and retain people and businesses in the area.

Given the peripherality of Cornwall and the Isles of Scilly, the retention and development of the Airport is a critical element in the strategy to re-connect the economy. Elsewhere in the UK, Airports are now key drivers of regional economies and recent research indicates that the Airport can generate substantial direct and indirect benefits and is integral to developing Cornwall and the Isles of Scilly as a business and investment destination, and increasing linkages to national and international markets.

The growth in population and economic activity envisaged over the next decade or so will place increasing pressure on the transport infrastructure. A range of solutions are required in order that congestion does not significantly worsen. The scale of population, household and employment growth indicate that the internal movement of people and goods is a high priority for the Programme.

3.8 Skills

Attainment

The skills deficit within Cornwall and the Isles of Scilly directly contributes to its low economic performance. A low skills base will contribute to lower levels of economic productivity and affect the investment decisions of businesses. Furthermore, the Leitch Review has highlighted a strong correlation between low skills and worklessness in many parts of the UK. Half of people with no qualifications are in work, compared to 90% of those with a degree and those with low skills tend to come from groups with employment rates below the national average (for example, people with disabilities, ethnic minorities,

and lone parents). More highly qualified workers are generally paid substantially more than less qualified workers and in the longer term, the Leitch Review suggests that investment in skills can help reduce income and poverty.

Literacy and numeracy underpin all levels of educational attainment, and holding basic literacy and numeracy skills are an essential pre-requisite for individuals to undertake productive employment across all sectors of the economy. Cornwall and the Isles of Scilly have relatively good levels of basic skills compared to nationally, however significant challenges remain. For example, 19% of Cornwall and the Isles of Scilly adult population (or 59,000 adults) have numeracy skills below level 3, compared to 21% for England. However, the figures for literacy are more promising with 1.8% (or 5,500) of Cornwall and the Isles of Scilly adults have literacy skills below entry level (compared to 5% nationally)³².

An additional challenge concerns reducing the number of young people Not in Education, Employment, or Training (NEET), which accounted for 5.6% of the Devon and Cornwall population in 2004.

Developing and retaining a productive employment base within Cornwall and the Isles of Scilly, will require a highly qualified workforce. The working age population of Cornwall and the Isles of Scilly is well represented among level 2 skills (70%), which is generally regarded as the minimum benchmark for basic skills necessary for entering employment. However, Cornwall and the Isles of Scilly falls behind the South West for level 3 and 4+ skills (43% and 20% respectively). A study in 2002 found that 6% of new graduates within the region are from Cornwall and the Isles of Scilly and that few new graduates to the South West region find work in Cornwall and the Isles of Scilly; those that do tend to be older (over 30) and are more likely to be self-employed³³.

Skills Gaps/Needs

The National Employer Skills Survey identified that skills shortages affect a range of sectors within Cornwall and the Isles of Scilly, particularly manufacturing, tourism, and retail. In spite of many jobs paying low wages, skills shortages are identified as the biggest problem for firms seeking new recruits. More than one in four employers reported difficulties in recruiting the desired number of staff, with the result in some cases that posts were left unfilled. Surprisingly, the worst recruitment problems were evident in the health sector, where in the public sector at least, pay and conditions are considered relatively attractive.

Recruitment difficulties affect all parts of the economy, even the booming construction sector where many of the jobs are well paid. The feedback from employers shows that skills gaps are evident across the spectrum of qualifications and experience from entry level and semi-skilled right through to higher order occupations. Analysis of recent inward migration patterns to Cornwall and the Isles of Scilly shows that a high proportion of individuals possess a range of skills and that this inward migration has helped to address some of the skills and recruitments of demands of employers.

Such gaps have serious implications for employers. The gaps increase the workload for other staff and therefore increase operating costs for businesses. With increased costs businesses experience difficulty meeting quality standards which results in loss of trade. Businesses are forced to focus on 'fire-fighting' rather than making strategic investments in future productivity, with consequent effects on the overall strength of the Cornwall economy.

Skills gaps are seen as one of the major barriers to business growth. Therefore, workforce development is one of the key factors underlying business competitiveness. A survey of Devon and Cornwall businesses (including the Isles of Scilly) concluded that businesses employing between 100 and 199 (63% of workforce) were more likely to train their employees. Those less likely to receive any training were those working in small businesses (between 1 to 10 employees) or those working in much larger organisations (200 or more). The impact of skills gaps upon business performance can be significant.

³² DfES Skills for Life and Census 2001

³³ Research Briefing Cornwall, Institute for Employment Studies (IES) for HERDA-SW, 2002

Approximately 49% of employers reporting a skills gap stated that it had resulted in increased workload for other staff. Other employers reported an impact on business performance in terms of increased operating costs, difficulties meeting quality standards and a loss of business to other competitors.

The Institute of Employment Research (IER) has forecast an increase of 35,000 jobs for Devon and Cornwall and the Isles of Scilly up to 2012 with full time employment declining and part time employment increasing. Growth is expected in those sectors which have driven the economy over the last five years – retail, hotels and restaurants, education, health and social work. In the forecast for the occupational growth there are expected to be a substantial number of higher skilled jobs – over 7,000 corporate managers and a significant number of professional and skilled trade jobs (although these figures also include Devon).

Conclusions

Overall some 40% of the workforce has low levels of qualifications and given the changing nature of employment, those who do not hold qualifications above the minimum level remain vulnerable to labour market change. There is a clear relationship between the level of qualifications held and employment. Nearly 90% of those holding level 4 qualifications are in work, compared to 73.8% of those whose highest qualification is a level 2, and just 53.3% of those without qualifications. There is a need to increase the numbers in the workforce qualified to levels 3 and 4 as part of the process of moving to a knowledge-based economy.

Raising the attainment of those coming through the statutory education system will have a direct impact on the skills and qualifications available to employers. It will also increase the likelihood of young people making a successful transition into work or further education, and eventually progressing into Higher Education. Developing a more highly skilled workforce with a greater representation of graduates and post graduates will help to boost competitiveness within the area.

Additional challenges concern recruitment difficulties and skills shortages, which are constraining the performance of companies. The skills of the existing workforce (skills gaps) and potential workforce (skills shortages) need to be improved to enable local businesses to increase productivity and efficiency levels. The scale of recruitment difficulties and skills shortages would suggest that the growth of the economy is being affected by labour related issues. This is affecting a number of the most important sectors in the economy, and hard to fill vacancies cover all levels and types of jobs.

The issues identified with regard to hard to fill vacancies highlights the challenge of addressing the issue – with a lack of skills and experience being the main factors. At the same time, the effects on business of skills gaps is considerable with operating costs rising, quality standards falling and delays in introducing new work practices impacting directly on value added and profitability. This makes addressing skills and recruitment issues one of the most important challenges for key stakeholders.

3.9 Un(der)employment and Worklessness

There were a total of 5,384 Job Seekers' Allowance claimants in Cornwall and the Isles of Scilly in August 2005, representing 1.8% of the total working age population. This compares favourably with the levels recorded across the UK but is slightly higher than in the South West as a whole. The claimant count has been falling for many years, although rates in Cornwall and the Isles of Scilly are more affected by seasonal change, due to the heavy reliance upon tourism related activities during the summer months. That said, long term unemployment is declining at a favourable rate although the level of youth unemployment is remaining relatively static compared to other age groups. On the International Labour Organization (ILO) measure, now recognised as a more accurate measure of

unemployment, some 3.7% of the economically active population were unemployed during June 2004-May 2005. Again, this is below the national rate (4.7%) but higher than in the region as a whole.

Number and Proportion of the Working Age Population Unemployed, by Duration (%)

	Aug-2001			Aug-2006		
	All Claimants	Over 6 Months	Over 12 Months	All Claimants	Over 6 Months	Over 12 Months
England (%)	2.5	0.9	0.5	2.5	0.9	0.4
South West (%)	1.7	0.5	0.3	1.6	0.5	0.2
Cornwall & Isles of Scilly (%)	2.3	0.8	0.4	1.8	0.6	0.2
Cornwall & Isles of Scilly (No.)	6,805	2,205.0	1,135.0	5,360.0	1,670.0	610.0

Source: ONS (Nomis) Claimant Count

Claimant Count Unemployment by Age, as a Proportion of the Total Claimant Count Unemployment

	Aug-01			Aug-06		
	Under 25	25-49	50 & Over	Under 25	25-49	50 & Over
England (%)	26.3%	57.5%	16.2%	31.6%	52.4%	16.0%
South West (%)	25.4%	55.7%	18.9%	31.3%	50.8%	17.9%
Cornwall & Isles of Scilly (%)	26.3%	51.7%	22.0%	31.8%	49.4%	18.8%
Cornwall & Isles of Scilly (No.)	1,790	3,515	1,500	1705	2650	1,005.0

Source: ONS (Nomis) Claimant Count

Underemployment is a particular issue in the area, with a very high proportion of men and women working part-time. There is also evidence to suggest that some highly skilled people are not in appropriate employment, and their skills are being under-utilised. This constrains the Cornwall and the Isles of Scilly economy and reduces overall levels of productivity.

There is now strong evidence that worklessness has become an entrenched problem, and this is disguised by focusing on the unemployed claimant count which captures only a small proportion of those without employment. Economic inactivity rates can be better captured through analysis of key benefits data.

There are approximately 39,600 benefits claimants, representing 13.2% of the working age population. This is slightly lower than the levels recorded nationally. The main claimant group is the sick and disabled (9.1% of the population), followed by unemployed (2.1%), lone parents (1.3%) and other (0.7%). While official unemployment fluctuates between some 5,500 and 6,500 claimants, those on sickness and disability benefits account for 27,300 claimants.

The majority of new Incapacity Benefit claimants expect to return to work, and a significant proportion do not have incapacities which will stop them returning to work. The three main causes of people moving on to health related benefits are mental/behavioural disorders, musco-skeletal disorders and heart, circulatory or respiratory disorders, although only a minority have severe health problems. A significant proportion nationally (and by implication in Cornwall and the Isles of Scilly) would like to work, although once a person has been on Incapacity Benefit for twelve months, the average duration of stay is eight years. This emphasises the need to provide support at an early stage. The tables show that there is a large sick and disabled cohort (19,600) in the 40-64 age range and a similar number (20,100) who have been claiming benefit for over two years.

Sick and Disabled DWP Client Group by Age, Feb 2006

	Under 19	25 to 30	40 to 64
England	3.0%	23.9%	73.0%
South West	3.4%	25.1%	71.5%
Cornwall & the IoS	3.1%	21.2%	75.7%
Cornwall & the IoS (no.)	800	5,500	19,600

Source: DWP Benefits Claimants 5% Sample, Nomis

Sick & Disabled DWP Client Group by Duration, Feb 2006

	Up to 6 Mths	6 Mths - 2 Yrs	Over 2 Years
England	6.4%	17.4%	76.1%
South West	7.2%	18.7%	74.1%
Cornwall and the IoS	7.4%	18.5%	74.2%
Cornwall & the IoS(no.)	2,000	5,000	20,100

Source: DWP Benefits Claimants 5% Sample, Nomis

Approximately 21.3% (63,300) of the working age population are classified as economically inactive and this is in line with the national rate. Within this figure there are a relatively high proportion of males who are inactive (17.1%), compared to the South West (14.8%) and UK levels (16.8%). Of those that are economically inactive in Cornwall and the Isles of Scilly, 32.1% (20,200), would like a job. This is much higher than the South West (24.7%) and UK (23.5%) levels. It is interesting to note that a third (32.1%) of those on benefits want a job (a cohort of some 20,200 people), again a higher proportion than the regional or UK levels (24.7% and 23.5%).

Key Benefits Data – February 2005

	UK	SW	Cornwall / IoS (%)	Cornwall / IoS (Total)
% of total working age population	21.9	19.2	21.3	63,000
% of males	16.8	14.8	17.1	26,200
% of females	27.4	23.9	25.7	36,900
% who do not want a job	76.5	75.3	67.9	42,800
% who want a job	23.5	24.7	32.1	20,200
% who want job – reason for not looking – discouraged worker	0.4	0.5	0.9	500
% who want job – reason for not looking – long term sick	7.2	7.5	13.2	8,300
% who want job – reason for not looking – looking after family/home	6.2	7.1	8.7	5,500
% who want job – reason for not looking – student	2.7	2.7	3.5	2,200
% who want job – reason for not looking – other	4.5	4.3	4.1	2,600

Source: Annual Population Survey (2005) NOMIS

The main reason for economic inactivity amongst those that would like to work was long term sickness. At 13.2% (8,300), the levels of people giving long term sickness as the main factor holding them back from entering employment was higher in Cornwall and the Isles of Scilly than the South West (7.5%) and UK levels (7.2%). Similarly the percentage of people who would like to work but could not because they were either discouraged workers, looking after family/home or students, were all higher in Cornwall and the Isles of Scilly.

Amongst people with disabilities, the working age employment rate (2005) is noticeably worse for males at 53.2% compared to the region and nation (62.5% and 53.2%), reflecting the transition from primary industries. Economic inactivity is also higher in Cornwall and the Isles of Scilly for people with disabilities – accounted for by the large percentage of inactive males of working age in 2005 with disabilities (46.8%) compared to the regional and national level (37.5% and 42.5%). There are very high levels of males of working age with disabilities who are economically inactive in North Cornwall and Caradon (63.2% and 62.3%).

The 2004 Index of Multiple Deprivation provides a snapshot of the economic and social well being of Cornwall and the Isles of Scilly across a basket of indicators. Overall, the area is ranked at the mid point of the local authorities in England (75th out of 148), although this hides significant internal differences – Penwith is amongst the 20% most deprived of districts nationally and is the most deprived local authority area in the South West region, whereas Caradon is ranked outside the worst 50%.

Multiple Deprivation is a contributing factor to social exclusion, which occurs when people or places suffer from a series of problems such as unemployment, discrimination, poor skills, low incomes, poor housing, high crime, ill health and family breakdown. Social exclusion may pass onto one generation to the next; for example, men whose fathers were unemployed are twice as likely to experience unemployment themselves between the ages of 23 and 33. In addition, worklessness is not distributed equally across the working age population, but disproportionately affects groups including the lowest qualified, disabled people, ethnic minorities, lone parents, and older workers³⁴. The Index of Multiple Deprivation (IMD) is examined in more detail in the rural section later.

Conclusions

While the unemployment claimant count has fallen over recent years, a much large number of people are affected by worklessness. The key 'workless' groups include those on Incapacity Benefits, lone parents and those with disabilities. There are also a small but significant number of young people who are not in education, employment or training.

The latest IMD rankings demonstrate the spread of deprivation across the area, with particular concentrations in West and North Cornwall. Camborne, Pool, and Redruth have high levels of deprivation and a blighted environment. This has resulted in the designation of an Urban Regeneration Company. It will be important to ensure that interventions to secure new growth and investment are complemented by support measures so that these communities benefit and disparities narrow rather than widen.

3.10 Environment

The quality of the environment is one of the distinctive assets of Cornwall and the Isles of Scilly, generating considerable benefits for residents and providing a major draw for economic migrants and businesses to Cornwall and the Isles of Scilly. The unique character of the Isles of Scilly is also a major strength. Natural resources provide the bedrock of a large part of the local economy, whether it is agriculture, fishing or tourism and contribute towards a quality of life and positive image well beyond the boundaries of Cornwall and the Isles of Scilly. Cornwall and the Isles of Scilly also face a number of environmental challenges, however, not least in the redevelopment of brownfield land particularly in urban areas where it arises from former mining activity, together with the wider legacy of mining, china clay and other extractive activities. The rehabilitation of pockets of brownfield and derelict land for both hard and soft end uses remains a key priority in order to address both the adverse impacts and secure economic, social and other benefits.

The most recent comprehensive audit of Cornwall and the Isles of Scilly reinforced the breadth and depth of the environmental assets, including an outstanding natural, built and historic environment, large areas of which are protected through National, European and International designations. In Cornwall alone, the Area of Outstanding natural Beauty (AONB) covers 27% of the total area and it possesses an outstanding coastline. Sites of Special Scientific Interest (SSSIs) and Special Areas of Conservation (SACs) also cover large areas of Cornwall and the Isles of Scilly. (Further information on the state of the environment is also provided in the SEA environmental baseline for the Programme – Nov 2006)

³⁴ ESF 2007-13 Operational Programme for England and Gibraltar

In 2002, the amount of waste produced in Cornwall and the Isles of Scilly each year stood at 7.28 million tonnes each year. It is estimated that there will be significant increases in the production of municipal waste over the next 20 years as a consequence of population, housing, and GDP growth³⁵. In some areas, such as household waste recycling, Cornwall and the Isles of Scilly are ahead of the UK average, albeit there is still some way to go to reach the national targets. Recycling of household waste was in line with the regional figure of 21% and ahead of that seen nationally (18%), in 2003/04. Since 2001/02 the growth of household waste recycling has been fastest in Cornwall and the Isles of Scilly; ten percentage points, compared to four points regionally and five nationally³⁶.

There is evidence of climate change in Cornwall and the Isles of Scilly including rising sea levels and coastal erosion posing threats to the coastal communities. In addition to the challenges presented by the need to conserve environmental assets and addressing environmental issues such as climate change, resource depletion and waste management there are also potential economic opportunities.

In 2005 Cornwall and the Isles of Scilly had the capacity to produce almost 50mw of renewable energy, enough to supply 43,747 homes, and amounting to 41% of the South West's total capacity. Within Cornwall, wind farms account for 78% of the total renewable energy capacity. The capacity of Cornwall is expected to increase further in 2006 with the construction of the 1.8MW Roskrow Barton wind cluster, which was approved in 2004. In addition Cornwall and the Isles of Scilly has a total of 71 heat schemes, with a current capacity of 3.43MW and the highest number of heat pumps installed, with a current capacity of 1.48MW.

Total CO2 emissions per capita are lower in Cornwall and the Isles of Scilly than across the South West (7.9 CO2 tonnes per 1,000 of population, compared to 8.2 tonnes regionally). Domestic emissions are in line with the region figure (2.7 tonnes per 1,000 of population), and the lower figure in Cornwall and the Isles of Scilly is attributable to the lower emissions attributable to industrial and commercial activities (2.5 tonnes, compared to 3.0 tonnes regionally)^{37, 38}.

More locally, both the Eden Project (which uses solar PV panels on its education centre to promote renewable energy practices) and the Regen South West's Wave Buoy, off the North Coast of Cornwall (which is measuring wave activity and may speed up the installation of the world's first wave farm) have been singled out for special praise by the DTI's top ten list of green energy projects in 2005.

Floods can cause severe damage to environmental and economic assets (individuals and businesses). Parts of Cornwall fall within the Environment Agency's River Tamar Catchment Flood Management Plan, which covers the area from North East of Bude in the north of Cornwall down to the Plymouth Sound. It identifies that the planned urban development within the catchment could worsen flooding and that there is a need to minimise future developments in areas at risk of flooding and to ensure that drainage systems for future developments are fully planned, using sustainable systems. It also highlights the potential risk from more intensive farming practices and identifies the increase of forest areas as a means of reducing run-off.

Environmental considerations have the potential to generate significant benefits to the sub-regional economy. Most notably, the Environmental goods and services sector is identified as a new and emerging sector which has the potential to support significant employment. Quality of life considerations may attract investment, businesses and workers to the sub-region, and the environmental practices of business can improve their efficiency, driving down business costs. Environmental practices will also lower the area's energy bill, which stood at £579bn in 2002, of which 98% left the local economy. In

³⁵ State of the Cornish Environment, 2002 Baseline

³⁶ Defra Municipal Waste Management Survey 2003/04 (Cornwall and the IoS Brief, GOSW)

³⁷ Defra 2005

³⁸ It is difficult to compare to the region, as the UK figure includes additional emissions not attributable to the regions (i.e. the regional figures are underestimated), consequently the defra spreadsheet does not produce a total UK figure per capita

addition, given the energy bill, significant contributions could be made to the local economy from generation and use of local sources of energy. At the regional level employment in the renewal energy sector alone is expected to increase from 1,140 Full Time Equivalent (FTE) in 2004/05 to between 14,000 and 17,000 by 2020³⁹.

Conclusions

The environment in Cornwall and the Isles of Scilly plays a key role in the economic and social well-being of the area and with further population and business growth anticipated, there will be a range of issues e.g. brownfield versus greenfield, to be tackled to meet the aspirations and challenges of sustainable development.

Environmental concerns will ensure that the issues surrounding environmental sustainability are maintained as a policy making priority. Perceptions of the quality of life will also assist in attracting business investments and workers to the sub-region. Coupled with the AONBs and coastline, this acts as a major asset.

Recent more recent issues surrounding rising world energy prices and concerns regarding oil dependency have also promoted the sustainability agenda. Local energy initiatives, including commercial ventures such as wind farms, in addition to micro-generation facilities will help in addressing these issues. Cornwall and the Isles of Scilly is in a position to lead on more sustainable consumption and production measures such as SME energy efficiency measures and the enhanced role of the environmental goods and services sector.

3.11 Ex Ante Evaluation

The Ex Ante Evaluator made comments at a number of stages of the development of the Operational Programme. As a result of these comments substantial changes were made to the analysis. These included a greater emphasis on trend as well as benchmark data; much more information on sectors; a more extensive treatment of evidence with regard to infrastructure and key towns. A summary of Ex Ante Evaluation issues and the corresponding treatment in the Operational Programme is contained at Annex G.

The Ex Ante Evaluator also had access to a considerable number of research reports. These included the Evidence Base for Strategy in Action, the Key Towns Study, and the Employment Space Strategic Assessment. Additionally, research related to the economic impact of the Airport was also included as part of the bank of evidence used to inform the development of the Programme. The stakeholders believe that the analysis presented in the Operational Programme along with the supporting evidence present a robust base for the development of the strategy.

³⁹ Cornwall Economic Forum Strategy and Action (September 2006 Draft), 2006-26

4 Strengths, Weaknesses, Opportunities and Threats

Cornwall and the Isles of Scilly have a number of strengths and weaknesses, as well as opportunities and challenges. The strengths include long term assets, such as the quality of life and culture of enterprise, as well as more recent developments such as the Combined Universities for Cornwall. The weaknesses are more fundamental and entrenched, focussed on the under-performance of the business base and limitations with regard to human capital. These continue to undermine competitiveness, in spite of recent progress, particularly knowledge based industries, where low levels of investment in research and development, limited high quality premises for businesses to expand, and the limited supply of highly skilled labour constrain growth.

Opportunities are based around a forward looking agenda, in Cornwall and the Isles of Scilly and globally, and take account of the internationalisation of trade and the opportunity (and need) to connect with the global economy through competitive businesses and a highly skilled workforce. Challenges are also forward looking, and while some relate to historic weaknesses, the major challenges relate to issues of globalisation and climate change.

Strengths		Weaknesses	
1	Strong and long established enterprise culture	1	Peripherality and poor external connectivity
2	Some strong sectoral performance	2	Low level of innovation, product and process development
3	Emerging niche specialist companies and sectors	3	Low levels of business investment contributing to low productivity
4	HEI /Knowledge Base- Combined Universities in Cornwall, Peninsula Medical School	4	Structural bias towards low-value added and seasonal economic activity
5	Broadband take up and awareness	5	Limited higher value added service sector economy, and consequent lack of graduate and higher skilled jobs
6	Strong Cornwall brand, increasingly linked to quality	6	Social, economic and environmental conditions in Camborne, Pool, and Redruth
7	Wide recognition of quality of life and a strong cultural identity	7	Comparatively weaker skills base of the workforce and persistent recruitment and skills shortages
8	Outstanding coastal, natural, and managed environment, including the Isles of Scilly	8	High levels of worklessness and pockets of severe deprivation
9	More positive external image increasingly based on quality	9	Poor transport connectivity between key centres, including public transport
		10	Limited provision and quality of business premises (property market failure)
Opportunities		Threats	
1	The potential for SMEs in certain sectors to take advantage of growing markets	1	Globalisation of trade, and potential effect on certain sectors, such as manufacturing
2	Opportunities arising from more widespread broadband and ICT adoption and application resulting in new business opportunities	2	Climate change and the need for transition to a low carbon economy, as reflected in the Stern Review.
3	Capitalising on Newquay Cornwall Airport and its catalytic effect	3	Increasing energy prices and uncertainty of supply
4	Responding to business and product opportunities arising from concerns about and responses to climate change	4	Competitive pressures on and restructuring of industries such as china clay, agriculture, fishing, and tourism
5	Exploiting new and growing tourism markets based on quality	5	South East growth attracts higher skilled and highly qualified people
6	Opportunities around HEI growth; potential for spin out companies and business collaboration	6	Outdated infrastructure constrains growth
7	Increasing markets and opportunities in the creative and cultural industries		
8	Increasing interest in regional and distinctive brands		

The following section summarises the headline challenges which emerge from the SWOT in three key domains: the business base, people and place.

4.1 The Business Base

Despite strong growth in employment since 1999, a growing business base and growth in some key sectors, underlying structural weaknesses remain within the Cornwall and the Isles of Scilly economy. These include low levels of productivity, a preponderance of businesses and employment in declining/low growth and low value added sectors, and a low number of medium sized and high growth companies. These weaknesses persist, and only limited progress has been made in transforming the structural bias in the economy.

These weaknesses result in a shortfall of good quality full-time work in high paid sectors and in spite of some modest recent improvements perpetuate a low wage economy. The business base is experiencing a continuing adjustment of primary industries, challenges in increasing profitability and wages in the tourism industry and securing economic growth from ICT take up and use.

The Threats outlined in the SWOT identify increasing levels of competition through the globalisation of trade. This includes low cost competitors in China and the Far East potentially affecting manufacturing companies, and increasing competition in service and value added sectors. Increasing globalisation is likely to expose more companies and markets in Cornwall and the Isles of Scilly to more competition, and as such, represents a double edged sword. Responding to this challenge requires a clear understanding of where the region has comparative advantages and medium to long term prospects. Given the scale of the economy, this is likely to involve niche sectors, in some cases based on a small number of high performing companies, and capitalising on a limited number of assets/advantages.

The analysis illustrates the relative resilience of the business base with some well represented South West RDA target sectors⁴⁰ with further potential for growth, a growing Higher Education base and expansion of the Further Education sector, and a steady increase in financial and business services. To ensure the gap does not widen with the national economy the key challenge is no longer the number of businesses and jobs, but the types of businesses and the quality of the jobs, with a need to focus on knowledge based growth sectors and higher skilled and higher paid employment. Taking advantage of the opportunities identified in new and growing markets, and reacting to the threat of increased globalisation, will require more companies to up-date the skills of their workforce.

The research undertaken by the University of the West of England to explain the productivity gap in the South West highlighted the low levels of capital per worker, industrial structure, and full/part time employment ratio. Addressing the issues will be important in improving productivity and low wages.

In some areas, insufficient momentum has been built in terms of developing the modern, knowledge economy crucial to economic growth. While time is required for new assets such as the CUC and the Eden Project to have their full economic impact, and for the area to strengthen its competitive advantage, the pace of change nationally and internationally places an imperative on accelerating the process of transformation.

4.2 People

The labour market in Cornwall and the Isles of Scilly has improved considerably – claimant unemployment is at its lowest level for many years (circa 6,500) whilst economic activity rates are on a par with the national average. In addition, the area has a relatively good record on basic skills, which augurs well for efforts to embed participation in lifelong learning. However, increasing participation rates and higher skill levels elsewhere has meant that there has only been a marginal improvement in the relative position. Whilst educational attainment has improved dramatically in Cornwall and the Isles

⁴⁰ Tourism, food and drink, creative industries, and the much smaller environmental technologies and marine industries.

of Scilly over the past decade, in line with national trends, this has not fed through into a step change in the qualifications and skills of the workforce⁴¹. Further a large proportion of workers with no or few qualifications are in key sectors which are predicted to grow, such as tourism and retail.

The current labour force does not have the skills and qualification profile needed to support an economy characterised by higher value added economic activity. The increasing globalisation of trade, including in high value added, highly skilled activities, makes a higher skilled workforce a fundamental of competitiveness.

There are considerable skills gaps reported by employers within their existing workforce. Investment in training is a key issue and the constraints facing many local businesses result in a vicious circle of low margins, insufficient workforce training, poor workforce skills and ultimately skills shortages and recruitment difficulties which undermines productivity and growth. Breaking this cycle is one of the biggest challenges for accelerating productivity improvements and economic growth.

The number of jobs in Cornwall and the Isles of Scilly is forecast to grow with a continued long term shift away from skilled trades, semi-skilled and elementary occupations. Given the nature of the skills shortages, and the current levels of both qualifications and experience, the growth of higher value added activities could be constrained. For large elements of labour demand, the solution is likely to involve up-skilling those already in employment. There are some key strengths to build on including the establishment of CUC and the expansion of FE/HE, high rates of participation in out of work learning and relatively good attainment levels amongst young people at school. Nevertheless, the very low levels of the workforce qualified to Levels 4 and 5 is a serious weakness.

Sectoral growth is currently being undermined by a shortage of skilled and experienced people able to take up new jobs and assist local companies to grow. Without a step change in the skills and qualifications base, Cornwall and the Isles of Scilly will struggle to make significant in-roads into the disparities in productivity and incomes which exist with other regions in the UK and internationally.

The research undertaken by the University of the West of England to explain the productivity gap in the South West highlighted skills as one of the factors which accounted for the 33% productivity gap between the South West and the national performance.

4.3 Place

The need to accommodate a growing population and increasing workforce has major implications for the spatial distribution of land for development. The major centres have a key role to play in accommodating new jobs and housing, although this will increase pressure on other infrastructure, including roads and public transport, education and health. There is a danger that economic growth will be constrained without additional investment in the economic infrastructure.

The major weakness remains the shortage of quality sites and premises, and this is now apparent across the area. Given the need to take advantage of new opportunities and further grow business in key sectors, this weakness will undermine efforts to move to a higher value added economy. There is a particular shortage of quality small, flexible space and office accommodation; the type of premises that some of the sectors most capable of taking advantage of new and growing markets require.

Research suggests that there is demand for high quality and flexible accommodation across the area, and that demand is no longer limited to a few major centres. This presents an opportunity and a challenge. There is the potential to support sustainable employment growth which does not lead to an increase in commuting; while the need to address market failure in the most cost effective way possible will require new and innovative solutions.

⁴¹ 2 in 5 of the workforce are qualified below Level 2 or possessed no qualifications and too few people are qualified to degree level or above.

Given the scale of housing investment, there will be a major issue of ensuring that growth is not impeded by transport bottlenecks and congestion. Given the importance of the environment and natural and managed environment to the Cornwall and the Isles of Scilly economy, ensuring that new development is located in the most sustainable locations is critically important. The attractiveness of Cornwall and the Isles of Scilly as a place to live and invest is an important strength which needs to be maintained. This is further supported by the distinctive cultural offer of Cornwall and the Isles of Scilly, which has associations with quality of life within the area and contributes to its tourism and investment offer.

The Threats and Opportunities highlight the important role of trade and commerce in a national and international context. This will involve increased connectivity, partly through ICT and broadband, and physically through people travelling to and from the region. Newquay Cornwall Airport is an invaluable asset, and further growth in passenger services and numbers will benefit the wider economy.

The research undertaken by the University of the West of England to explain the productivity gap in the South West highlighted travel time to London and other major UK conurbations as one of four key factors which explained the region's under-performance. Given the peripherality of the west of the region, this is likely to be an even greater contribution in a Cornwall and the Isles of Scilly context.

4.4 Conclusion

The forecast growth in employment will maintain Cornwall and the Isles of Scilly as a low paid, low skilled economy, with increased competition nationally and internationally likely to off set some of the gains in higher value added sector. The forecast suggests that a significant proportion of new employment will be in lower paid and skilled sectors. There is, therefore, further investment needed in economic drivers which can further stimulate the knowledge based economy.

The process of transformation will stall unless knowledge based growth can be further stimulated above the current economic projections. In short, in spite of the forecast employment growth, further intervention is required to ensure a sustainable and prosperous economy.

The structural bias of the economy towards lower value added activities, the low levels of the workforce qualified to Levels 4 and 5, and the shortages of quality small, flexible workspace and sites limiting new investment, are all major constraints in moving to a higher value added economy. The strengths and opportunities are in some cases limited and in others, modest in nature, although this reflects the scale of the economy. This makes them more rather than less important given the need to respond to the inexorable increase in global competition across an ever widening range of sectors and products. This suggests an intensification of efforts around those strengths and opportunities which can be further developed to secure a sustainable advantage for the region.

There is also a need to address those weaknesses which are inhibiting economic growth and undermining productivity, notably distance from markets and lack of quality workspace. Both of these factors are constraining the business and sectors which are central to the transformation of the economy. It is clear that a combined approach of building upon strengths and opportunities while reducing the drag of a number of weaknesses can establish an economic momentum which focuses on quality investment and jobs.

The result of the analysis points to addressing the drivers of productivity – investment, innovation, skills and enterprise – and the other factors identified as affecting the economic performance of the South West – industrial structure and travel time to markets. This focus needs to be aligned with local, regional, national and EU policy to reach a set of Priorities which can accelerate the process of transforming the economy.

5 Strategy for the Programme

This Chapter sets out the strategy for the Operational Programme and sets out how it contributes to both European and national policy and regional policy. It is presented in six sub sections. These are:

1. Introduction
2. Strategic Objectives and Priority Axes
3. Programme Contribution to Policy
4. Contribution to Regional and Sub-regional strategies
5. Business Support Simplification Programme
6. Technology Strategy Board
7. Meeting European Requirements

5.1 Introduction

Process for Choosing Strategy

The strategy for the Convergence Programme has been agreed after an extensive development process, which started with the early work of the Cornwall and Isles of Scilly Economic Forum in developing Strategy and Action 2007-21, the long-term economic development strategy for the area. In September 2005, the Economic Forum held a large conference at the Combined Universities in Cornwall, which more than 170 people attended from across Cornwall and the Isles of Scilly and the Region. This conference started the development process amongst stakeholders and resulted in the production of 24 outcome templates across 12 thematic areas.

Following this event an interim consultation process was undertaken from 28th February to 24th April 2006. This consultation focused on progress to date with draft documents relating to: Key issues and themes; Evidence review and analysis; Strategic context and Responses from the first consultation. The draft Strategy and Action went out to formal consultation on the 13th September with final responses received by the 1st November. The final draft was published on the 20th December. Strategy and Action is the Economic Development Strategy for Cornwall and the Isles of Scilly, therefore it is vital that Convergence funding aligns with this overarching economic strategy.

It is within the context of the draft Strategy and Action that the Convergence Programme was developed and the Programme document was aligned further as Strategy and Action was finalised. The process for identifying Convergence priorities involved the establishment of seven initial task and finish groups - innovation and competitiveness; diversity and equality; culture; infrastructure and place based regeneration; environment; and skills and learning. These groups were tasked with developing the focus on the priorities within the context of the ERDF funding; how cross cutting themes might be incorporated; any spatial priorities; what the delivery arrangements might look like; how Convergence funding could add value; and what further action was necessary.

Each group met twice during September 2006. Following the work of the task and finish groups, a regional consultation event was held on October 5th in Newquay to obtain input from key stakeholders with regard to the overall direction of the Programme. The event was a success with 120 attendees. The draft operational programme went out to consultation for a 12 week period ending on the 12th February 2007. During this time and subsequently, further task and finish groups were established to refine priorities based on the findings from the consultation.

In total over twenty task and finish groups were held involving some eighty stakeholders and this is in addition to the several hundred people attending briefing events. In addition, some sixty responses were received as part of the consultation exercise. This is the most extensive development process ever

undertaken for a European Programme and as a consequence the strategy developed has been fully tested and refined to meet the needs of the region.

The process of consultation was supported by a formal feedback process, which included a series of briefings for organisations and groups, as well as written feedback from a variety of organisations. A total of 63 formal replies were received as part of the consultation process, including responses from different elements or units of larger organisations. These submissions were in addition to the feedback provided at the three major consultation events (combined attendance of circa 300) and the 28 Task and Finish Groups held between August 2006 and February 2007. In total it is estimated that between 200 and 300 people were involved in the consultation and development process. These included local authorities, environmental agencies, community and voluntary groups, the private sector and interested individuals from a variety of backgrounds.

While the responses covered many elements of the Operational Programme there were three related themes which dominated responses. The first of these was a desire that the Programme reflected and enhanced the culture and environment of Cornwall and the Isles of Scilly; the second was a strong endorsement for the focus on environmental opportunities, particularly relating to concerns around climate change; and the third related to the need to manage growth in a sustainable manner.

This feedback, which reflected points that arose at a number of the other consultation events, were reflected in the emphasis given to environmental technologies and support for the drivers of a low carbon economy, and to the sustainable development principles which are a feature of Priority 4.

There was a strong support for Priority 1 overall. The most significant points were on the focus for the Priority. There was very strong support for environmental goods and services (including environmental technologies and renewable energy) and the potential for Cornwall and the Isles of Scilly to play a major role in developing this sector. There were however a number of responses which were concerned about the size of the sector or over reliance on it. These comments have been reflected in the revised document, where the financial allocations have been weighted towards the other strands.

Comments on Priority 2 were positive; although there were a considerable number of points made with regard to particular elements of the Priority and matters regarding effective delivery. There were two major themes which emerged from the responses received. These were enterprise culture and environmental goods and services (including environmental technologies and renewable energy.) The need to improve the enterprise culture was mentioned by a high proportion of respondents, including both working with young people and more broadly in terms of higher growth companies, with less reliance on micro businesses.

There were a number of issues raised with regard to economic infrastructure and place based regeneration. The main theme from respondents was for sustainable development, with better connectivity including public transport. A number of respondents flagged up the importance of public transport as a means of allowing people access to jobs and as a factor in reducing congestion around key towns.

The Airport was regarded as an important component of improving external connectivity, although this was accompanied by concerns about the environmental consequences of increasing air travel. The revised Operational Programme further strengthened the baseline data with regard to the Airport and also featured a greater emphasis on sustainability in terms of transport.

There was strong support for the digital strand and this reflects the success of actnow. The potential for digital technology to allow people to work at home and to allow businesses to access markets was considered to be particularly relevant to Cornwall, and in particular to rural parts and the Isles of Scilly. The need to guard against a digital divide was also mentioned.

Strategic Context

Cornwall and the Isles of Scilly has a strong track record in terms of employment growth, although this has been led by growth in lower paid and lower skilled employment. The evidence suggests there is a

need to accelerate the re-structuring process, and in particular to create jobs in new, higher skilled sectors of the economy where there are long term growth prospects.

Linked to this, is the need to capitalise on areas where Cornwall and the Isles of Scilly has a comparative advantage and/or can create the conditions for growth sectors and businesses to flourish. The evidence suggests a focus on the types of jobs and new starts, as much as the numbers, with a need to increase the numbers of enterprises using knowledge to produce high value added goods and services.

Cornwall and the Isles of Scilly are already well represented in a number of the key sectors identified by the Regional Economic Strategy as important economic drivers. This includes major employers such as tourism and food and drink; growing and significant sectors such as creative industries, and sectors with long term potential such as environmental technologies, renewable energy, and the marine sector. The work of the task and finish groups identified numerous examples of new and small companies developing new products and processes and operating in collaborative partnerships. This indicates that there are many opportunities to develop a knowledge based economy through accelerating the growth of innovative companies.

Over the next ten years, the quality of new employment opportunities will be as important as the quantity and there is a need to focus on increasing productivity as the means by which existing businesses will remain competitive and ultimately be in a position to pay better wages. The evidence suggests that improving productivity is an important objective across all sectors, not just growth or priority sectors. Fundamental to improving productivity is innovation, the development of ideas and use of creativity, knowledge and skills.

The key challenges for the new strategy are:

- **Accelerating the growth** of those sectors and businesses characterised by **high value added products and services** and developing networks and alliances which build a self sustaining economic momentum to allow for continued growth in the medium and long term.
- **Improving productivity levels across the business base**, a priority in an economy where the distribution of employment is important. Many people depend upon and need (for personal reasons) local jobs and these are provided by businesses in every sector. Increasing the ability of local businesses to survive and compete more effectively is an ongoing challenge.
- Building business capability to innovate and use **knowledge as the key competitive asset** is crucial to raising productivity of the business base.
- **Addressing the effects of peripherality**, re-connecting people and business to national and international opportunities, including not only directly, but through the exchange of experience, knowledge and ideas as a two way flow with other regions.
- **Securing economic growth in a responsible manner:**
 - Developing towns and settlements which are as attractive as the natural environment, engines of local employment, while taking a leading role in integrating the environment and economic regeneration, including more sustainable resource management and reducing greenhouse gases arising from economic growth; and
 - Increasing the range of opportunities available to the community.

Addressing Constraints

As a peripheral and rural region, Cornwall and the Isles of Scilly face a number of constraints to transforming its economy, some of which are similar to changes facing all regions. A number are highly specific and reflect the effects of prolonged market failure in key areas. The most important of these is the availability and quality of business premises available to the types of knowledge based businesses which are crucial to re-shaping the economy. This persistent market failure, in spite of evidence of demand, reflects the low returns on investment, and is partly linked to under-investment in many towns and employment centres.

There is an ongoing challenge to support people to realise their full potential. This includes within the workforce, and with young people, where there is a need to raise ambitions and aspirations of all young people, not just those who are academically successful. The development of a more highly skilled workforce, with an increased representation of graduates and post graduates, underpins the aspiration of moving to a knowledge based economy. Reducing the number of workless people is one of the most immediate challenges. The number of workless people is substantial, and the number on long term Incapacity Benefit is considerable. These challenges will be addressed through learning and skills support which will complement the Convergence strategy.

Building On Strengths and Opportunities

Cornwall and the Isles of Scilly have enjoyed a period of significant economic growth. This has allowed some progress to be made in narrowing the gap with other regions, although the predominance of low paid employment has continued. The economic forecasts indicate that lower paid employment will make up a significant part of additional employment over the next ten years. Changing the composition of employment growth is an important underlying objective.

Cornwall and the Isles of Scilly have a major intangible asset provided through its distinctiveness. It has a long history as a trading economy, and although this has diminished in recent times, there is a strong culture of entrepreneurship and innovation. The very strong sense of identity supports a distinctive brand and image, and this is enhanced by the strong cultural identity, which is closely linked to creativity. There are a number of economic opportunities which are linked to the distinctiveness of Cornwall and the Isles of Scilly.

There are three major opportunities which will be influential in re-shaping the economy. These are:

- A significant group of small, highly innovative companies with the potential to grow, across all sectors, and at a scale which is relevant to the economy. These companies are already forward looking and outward facing, and the potential to accelerate their growth and develop knowledge and trading networks is of enormous potential.
- The success of the Combined Universities in Cornwall, which along with other research centres, is establishing a research base within Cornwall, and a graduate and post graduate community with the potential to change the shape of the economy; and
- Global trade, knowledge networks and the changing dynamics of collaborative ventures and accessing markets, underpinned by an internationally competitive digital infrastructure.

There is also a need to modernise and strengthen the wider business base, increasing productivity and competitiveness. This will involve linking expertise and knowledge in higher education more effectively to local businesses and ensuring that companies access new and growing markets nationally and internationally. The opportunities distinctive to Cornwall are based on opportunities with regard to:

- Small enterprises, rather than large externally owned companies;
- Established networks and sectors around acknowledged strengths including environmental technologies, renewable energy, marine, creative and cultural industries, tourism;
- The brand of Cornwall and its potential to secure new investment and enhance local products;
- The development and stimulation of the market for new products and services, such as micro generation of energy.

These opportunities complement the other opportunities based around high growth companies, the further development of the research base and higher education expertise and the potential for new and collaborative ways of working in a global market.

Programme Strategy

In order to move to a more prosperous and sustainable economy, over the next ten and twenty years, Cornwall and the Isles of Scilly needs to:

- Develop a business base with a higher proportion of economic activity in sectors where the growth prospects are positive i.e. a more rounded, modern, knowledge based economy;
- Be characterised by an economy in which a greater proportion of employment is in higher paid jobs and where the workforce is highly skilled, at all levels, including those qualified at Levels 4 and 5, which traditionally has been a weakness in the workforce; and
- Have the economic infrastructure and attractive towns which attract and retain investment, directly supporting a knowledge based and more diverse economy.

This presents a major challenge as Cornwall and the Isles of Scilly do not have some of the assets which are driving the larger urban economies, and as a peripheral region is affected by the time and costs involved in working in national and international markets. Instead, it offers something more distinctive than urban agglomeration, and this can be developed as a strength rather than viewed as a weakness or a barrier – dispersed assets in attractive locations, which can help underpin the move to a knowledge based economy, supporting investment of a type and scale which enhances the attractiveness of Cornwall and the Isles of Scilly as a place to live and work.

This move to establish a momentum for transforming the economy, as distinct from encouraging economic growth for its own sake, requires a focused approach to secure the type of investment which will support the transforming agenda – building up intellectual capital, quality locations and accommodation; a skilled workforce; connectivity and access to markets; and a competitive supply chain.

The transformation of the economy will be underpinned by a culture which is:

- Forward looking; and
- Outward facing.

Forward Looking will be supported by an approach which invests in foresight and intelligence on future trends and developments which will impact on the economy and society; using networks and collaboration to stimulate new ideas and encourage their exploitation. It is closely linked to the theme of outward facing.

Cornwall and the Isles of Scilly have a long history of trading globally. In recent, years, however, this aspect of the economy has diminished, as key traditional sectors have declined. The **Outward Facing** theme will be supported through the increased connectivity of both strategic transport improvements and digital technology, and through businesses trading nationally and internationally, developing collaborative and cooperation arrangements with networks and regions throughout Europe and beyond.

These underlying themes will be supported by actions which improve the confidence and self esteem of the community, particularly young people, and are rooted in the historic role of Cornwall and the Isles of Scilly as trading partners with companies and countries from across the globe. There is also a need and opportunity to share the experience of addressing the issues of peripheral and rural economies with other regions across the world. Those involved in the Programme will incorporate working with other Member States into a structured process for exchanging ideas and knowledge.

The Programme has a single objective, supported by four operational objectives. The Programme objective is:

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

Successfully developing a high value added, high skilled economy is a major challenge which will need long term commitment from all of the key stakeholders. The effects of peripherality are profound, and overcoming the constraints of distance from markets cannot be under-estimated. The Convergence Programme can, however, establish a momentum of change which will need to continue for many years after the Programme has concluded.

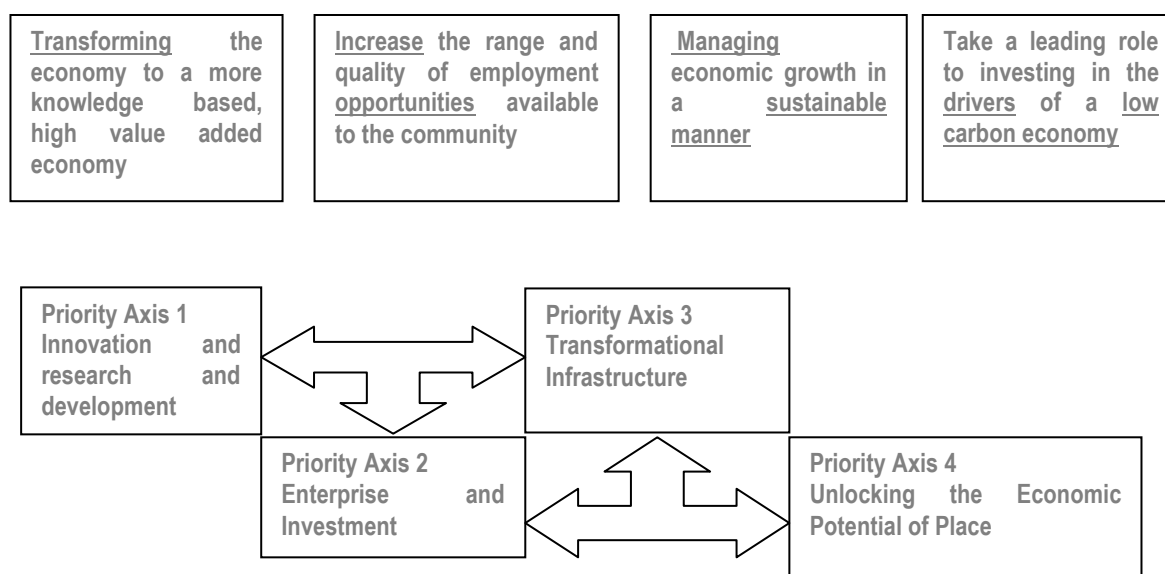
It is on this basis that four operational objectives have been set. These are:

1. Transforming the economy to a more knowledge based, high value added economy with a broader range of sectors, and a reduced dependence on low paid jobs;
2. Increasing the range and quality of employment opportunities available to the community;
3. Managing economic growth in a sustainable manner; and
4. Take a leading role in investing in the drivers of a low carbon economy

Addressing environmental pressures and concerns has a particularly high priority in an area where environmental assets are so important. The Convergence Programme will act as a European exemplar by supporting economic growth in a manner which takes account of the environmental consequences of growth. This will include; (i) working with the business community and wider population to both raise awareness of and develop responses which help to reduce greenhouse gas emissions, and (ii) incorporating the demonstration of environmental management considerations (in addition to economic development considerations) in the criteria for selecting programme activity.

The Convergence Programme will be taken forward through four main Priority Axes, and additional support will be provided for learning and skills through the Convergence ESF Framework and for the agricultural and fisheries sectors through accompanying programmes supported by EAFRD and EFF.

5.2 Strategic Objectives and Priority Axes



The priority development work is about defining the weight and emphasis between and within priorities. The policy analysis above shows that there is a high level of alignment between NSRF, the RES, Strategy and Action and ultimately the evidence base and SWOT. The strategic objectives (referred to above) cut across all three NSRF priorities and the aims of Strategy and Action.

Priorities for Action

The priorities for the Convergence Operational Programme in Cornwall and the Isles of Scilly are as follows:

- **Innovation and Research and Development** will seek to increase the rate of innovation and the economic benefits arising from the commercial application of research and development and other intellectual assets. The aim is to raise the productivity of companies through the application of a wide range of knowledge including product and process improvements. It will address the low levels of innovation, and will seek to provide the key infrastructure and support services needed to develop and sustain a culture of innovation.

This Priority will address the strengths and opportunities around existing sectors and new markets, and help to re-structure the economy through developing high growth and value added businesses. It will also address poor productivity (innovation is one of the key drivers of productivity).
- **Enterprise and Investment** will focus on accelerating the growth of businesses, with an emphasis on high value added companies and developing high value added sectors with growth potential. The priority will focus on addressing constraints and barriers to growth including low levels of investment, and seek to accelerate the adoption of new opportunities arising from digital and ICT. While the record of employment growth and enterprise formation has been good, the focus will be on the quality of opportunities, rather than magnitude.

This Priority will address the strengths and opportunities around existing sectors and new markets, and help to re-structure the economy through developing high growth and value added businesses. It will address some of the key factors relating to poor productivity, including capital investment and industrial structure.
- **Transformational Infrastructure** – this priority will seek to develop a limited number of infrastructure investments with the potential to directly contribute to the transformation of the economy. It will consider investments with regard to the airport, to enhance connectivity; digital infrastructure, again to enhance connectivity and stimulate new sectoral development; and the Combined Universities in Cornwall to further develop the research and knowledge base.

This Priority will address the strengths and opportunities around existing sectors and new markets, and help to re-structure the economy through developing businesses linked to knowledge, national markets and key sectors such as digital and media. It also addresses some of the key factors relating to poor productivity, notably distance from markets.
- **Unlocking the Economic Potential of Place** – This priority will focus on realising the potential of a number of centres to attract new investment and provide the high quality business accommodation needed to secure the knowledge based, high value added economy set out in the Programme objectives. This will include taking a holistic approach to place regeneration, taking account of both need and opportunity, and critically, ensuring development takes place in a sustainable manner.

The Convergence Programme is taking an inclusive approach to ensure that business, people and communities are able to benefit from opportunities. The strategy takes account of spatial prioritisation, with major investment focused on a number of major centres with the potential to accommodate employment growth in a sustainable manner. At the same time, investment in rural workspace and business accommodation in other centres will ensure that the Programme takes advantage of the location of knowledge based enterprises across the region.

While the first three Priorities (Innovation and Research and Development, Enterprise and Investment and Transformational Infrastructure) do not require a spatial component, investment plans will be expected to re-enforce investments made under Priority 4 Unlocking the Economic Potential of Place.

Cornwall and the Isles of Scilly is a rural and peripheral economy, with a distributed economic base. Stakeholders will ensure that account is taken of the needs of rural businesses and communities as well as those in the towns and larger settlements.

These priorities will be supported by the Convergence ESF Framework where priorities and actions include upskilling the workforce, developing research and higher levels skills and promoting graduate employment in smaller and medium sized companies. The ESF Framework will also increase the pool of labour through targeted support at the unemployed and economically inactive and work with young people not in education, employment or training. The successful investment of ESF resources, particularly with regard to higher level skills and research, is crucial to the success of the ERDF Operational Programme.

Programme Added Value

The Convergence Operational Programme has a significant budget, although given the ambition set out in the aim of the Programme there is a need to ensure that the maximum benefit is derived from the proposed Priorities. The implementation phase will take place in the context of clear expectations as regard contribution to the Programme's objectives ensuring additionality, as set out in Article 15 of the General Regulations 1083/2006. In summary, aims and operational objectives will be met by:

Programme Aim	Impact
To establish the momentum for transforming the economy to a high value added economy where knowledge, environment and quality of life underpin sustainable economic growth.	By creating 10,590 net additional new jobs and £370.5m of net additional value added, weighted towards high value jobs, equivalent to a five percentage point increase in employment.
Operational Objectives	Impact
Transforming the economy to a more knowledge based, high value added economy with a broader range of sectors, and a reduced dependence on low paid jobs.	By creating 8,000 net additional new jobs and £280m of net additional value added in knowledge based and/or higher value added sectors.
Increasing the range and quality of employment opportunities available to the community;	By creating 10,590 net additional jobs across a range of sectors and occupations.
Managing economic growth in a sustainable manner.	By supporting over 250,000m ² of new accommodation in sustainable locations, and developing knowledge networks and digitally connected communities.
Take a leading role in investing in the drivers of a low carbon economy	By assisting 630 enterprises involved in the provision of environmental goods and services (including environmental technologies and renewable energy) and over 1,260 additional jobs in these companies; and assisting 1,400 companies to be energy efficient.

Community Added Value

The quantum of monies made available to a UK Convergence region inevitably means that there will be significant added value from ERDF support. Both the scale of investments and the range of eligible activities and investments will lead to a major impact across the region. This is covered in the preceding section on Programme Added Value. The wider Community Added Value is less driven by impact and deals with broader and sometimes intangible benefits arising from Community support. These are:

- The opportunity to develop a knowledge based economy, in a peripheral region, where limited benefits of scale and concentration require new approaches to connectivity, networking and collaboration.
- The opportunity to focus on environmental goods and services enterprises and build a new sector based on knowledge and expertise able to trade nationally and internationally.
- The potential to re-connect Cornwall and the Isles of Scilly to the wider international and global community, through better physical and digital connectivity, the further development of centres of expertise and the development of a significant trading community involving business, academics and institutions.

Other Community Added Value benefits will emerge around the development of international knowledge networks as new centres of excellence are established and through Regions for Economic Change. The Community Added Value is considerable, touching every community and business in a direct or indirect manner. It is crucial to raise the confidence of the wider community and allowing stakeholders to develop a European exemplar of a peripheral and rural region securing transformational change.

Measuring Programme Impact

The Operational Programme will have a major impact on the economy, and help to begin the process of transformation to a higher value added and knowledge based economy. In order to monitor progress a set of strategic indicators will be agreed by the PMC, and these will be used to monitor progress. The strategic indicators will be based on reliable and authoritative data which is available on a regular basis. The indicative list of indicators is:

- Total GVA and GVA per head
- Proportion of GVA from designated high valued added employment
- Proportion of employment in designated high value added sectors;
- Proportion of the workforce with Levels 3 and Level 4 qualifications.
- Average earnings relative to the UK average.
- Business R&D expenditure induced

Progress with regard to these key strategic indicators, and the role of Programme investment, will be reported to the PMC on an annual basis. This report will also include reporting on equivalent contextual indicators for the Cross-Cutting Themes, with baselines, and where appropriate be supported through the use of Technical Assistance.

The European and National Policy Context

The ERDF Regulation

The ERDF Regulation, published in July 2006, states that the European Regional Development Fund should primarily focus on three priorities:

- Innovation and the Knowledge Economy;
- Environment and risk prevention;
- Access to transport and telecommunication services of general economic interest.

There are an additional two priorities, which, according to the ERDF regulation, may be taken up by programmes under the regional competitiveness and employment objective. These are: interregional co-operation; and sustainable urban development.

Lisbon Agenda

In March 2000 the Lisbon Council established the Lisbon Strategy with the aim of making Europe 'the world's most dynamic and competitive knowledge-based economy', capable of sustainable economic growth with more and better jobs and greater social cohesion by 2010. Due to slow progress made the Strategy was re-launched in March 2005 with a sharper focus on the key priorities of jobs and growth. The reform programme aims to provide a stable macroeconomic environment whilst making markets work more efficiently. The programme can be divided into four broad themes with key targets:

The Gothenburg Agenda

In 2001 the Gothenburg European Council added an environmental dimension to the Lisbon Strategy. It agreed a sustainable development strategy, which completes the European Union's political commitment to economic and social renewal. Priority areas include managing natural resources more responsibly, addressing threats to public health, ensuring sustainable transport and combating climate change.

The Community Strategic Guidelines

In July 2006 the European Commission adopted the Community Strategic Guidelines which established the areas important for the realisation of community priorities, in particular in relation to sustainability goals and to the renewed Lisbon Strategy for growth and jobs. The Guidelines provide a framework for delivering the Structural Funds and identify three main priorities for future spending. The Community Strategic Guidelines are used as the basis for drafting the UK strategic priorities that are outlined in the National Strategic Reference Framework.

The National Strategic Reference Framework

The National Strategic Reference Framework establishes the priorities for Structural Funds Programmes in the UK in 2007-13. The broad objectives for EU Structural Funds are governed by Community Strategic Guidelines. The UK's National Strategic Reference Framework assesses economic strengths and weaknesses, and ensures that national strategies contribute to the priorities of the Community Strategic Guidelines. The central economic objective remains to raise economic performance, increasing employment rates and narrowing the gap with major industrial competitors. In order to achieve this, the Framework outlines three priorities for the Convergence Programme which provide the framework for determining priority interventions and funding allocations.

- Promoting Innovation and knowledge transfer;
- Stimulating Enterprise and Business Development;
- Improving Accessibility and Connectivity;

In addition, Equal Opportunities and Diversity; and Environmental Sustainability are cross cutting themes.

5.3 Programme Contribution to Policy

This section reviews how the priorities listed above will contribute to European and national policies. These have been summarised below.

European Policy (Revised Lisbon Agenda and Community Strategic Guidelines)	UK policy (Lisbon National Reform Programme and National Strategic Reference Framework)	Programme Actions
Knowledge and Innovation – engines of sustainable growth		
Increase and improve investment in RTD	Promoting Productivity Growth; Promoting innovation and knowledge transfer	Priority 1 – Support will be provided to: develop specialist infrastructure for innovation and research and development including: a network of innovation centres and specialist research centres, with incubation and out reach services to stimulate investment. Other activities will link companies to University and HEI expertise; strengthening the research capacity in HEIs; and proof of concept funding for businesses to explore the potential of new ideas.
Facilitate innovation and promote entrepreneurship	Promoting Productivity Growth; Stimulating enterprise and business development ; Promoting innovation and knowledge transfer	Priority 1. Support will be provided for the management and use of knowledge within businesses; with a focus on management and exploitation of the full range of intellectual assets to generate business led innovations, products and process improvements. Priority 2. Support will be provided to encourage high quality, high growth new starts and accelerating growth of existing businesses with high growth potential. Support will also be provided for encouraging an enterprise culture with a focus on young people to raise confidence and aspirations. Priority 4 will support new centres and high quality accommodation which helps to accelerate business growth.
Promote the information society for all	Improving accessibility and connectivity	Priority 2. Will provide support for increasing the take-up and exploitation of ICT and broadband, including intensive support through support for high growth enterprises. Priority 3. Will provide the next generation of ICT infrastructure that will deliver bandwidth equivalent to any UK city for the key towns, acting as a magnet for innovative businesses.
Improve access to finance	Promoting Productivity Growth; Stimulating enterprise and business development	Priority 2 will aim to increase investment of the private sector through assisting SMEs to develop investor ready proposals and promoting and marketing the area as an inward investment location for high quality, high value added businesses.
An attractive area in which to invest and work		
Expand and improve transport infrastructures	Promoting Productivity Growth Improving accessibility and connectivity	Priority 3 will consider Newquay Cornwall Airport as a transport asset and a catalyst for economic growth in the surrounding area. Priority 4 may provide locally based transport packages to realise the economic potential of key locations.
To strengthen the synergies between environmental protection and growth.	Promoting Productivity Growth; Stimulating enterprise and business development (supporting CSGs 1.1.2: Strengthen the synergies between environmental	Priority 1 and 2 will support the growth of the environmental goods and services sector to develop a major new industry in Cornwall and the Isles of Scilly. Priority 2 will include also support for improving businesses environmental performance. Priority 4 will help to ensure that growth takes place in sustainable locations, reconciling growth with the need to

	protection and growth)	protect the environment.
Address Europe's intensive use of traditional energy sources	Promoting Productivity Growth;	Priority 1 and 2 will support the growth of the environmental goods and services sector to develop a major new industry in Cornwall and the Isles of Scilly. This will include developing the market for micro generation including through its use in capital build – Priorities 1, 2, 3 and 4. Priority 2 will include also support for improving businesses environmental performance.
Attract and retain more people in employment and modernise social protection systems	Employment Opportunity for All: Extending Working Lives	(Actions to be delivered under the complementary Convergence ESF Framework)
Improve adaptability of workers and enterprises and the flexibility of the labour market	Promoting Productivity Growth; Skills & Employment Opportunity for All: Developing a Skilled and Adaptable Workforce	(Actions to be delivered under the complementary Convergence ESF Framework)
Increase investment in human capital through better education and skills	Promoting Productivity Growth; Skills & Employment Opportunity for All: Equipping People to Realise their Potential; Opportunity for All: Developing a Skilled and Adaptable Workforce	Priority 1 and Priority 3 will provide new research and innovation centres and education infrastructure respectively through CUC and other research centres. This will increase the supply of post graduates available to work in the local economy. (Additional actions will be delivered through the complementary Convergence ESF Framework)
More and Better Jobs		
Attract and retain more people in employment and modernise social protection systems	Increasing Employment Opportunity for All	(Actions will be delivered under the complementary Convergence ESF Framework)
Improve adaptability of workers and enterprises and the flexibility of the labour markets	Increasing Employment Opportunity for All; Stimulating enterprise and business development	Priority 2 provide targeted business support to high growth businesses and new starts and businesses in addition to businesses in key sectors and niches to address weaknesses which inhibit growth across the business base. (Additional activities targeting the labour market will be delivered under the complementary Convergence ESF Framework)
Increase investment in human capital through better education and skills	Increasing Employment Opportunities for All	(Activities will be delivered under the complementary Convergence ESF Framework)
Gothenburg Agenda		
Combating climate change	Promoting Productivity Growth: Sustainable development, production and consumption and related innovation	Priority 1: Development of an Initiative to develop the environmental goods and services sector as a major new industry leading on the design, development and production of products relating to environmental and energy related opportunities. Priority 2: Improving the environmental understanding of businesses and business productivity through improving environmental performance. Investing in environmentally smart workspace and other capital build, including the embedding of micro generation, through Priorities 1, 2, 3 and 4.
Ensuring sustainable transport	Promoting Productivity Growth: Sustainable	Priority 4: New development will be supported in the most sustainable locations, wherever possible reducing commuting

	development, production and consumption and related innovation	patterns and in accessible locations.
Managing natural resources more responsibly	Promoting Productivity Growth: Sustainable development, production and consumption and related innovation	Environmental cross cutting theme across the whole of the Programme and specifically: Priority 1: R&D and Innovation in environmental goods and services Priority 2: Environmental performance in business and support for environmental good and services sector Priorities 1-4: commitment to BREEAM excellent or equivalent and embedding micro generation into capital build .
Treaty of Amsterdam		
Equality of opportunity for men and women Combat discrimination based on sex, racial or ethnic origin, religion or belief, disability, age or sexual orientation.	Employment Opportunity for All: Addressing Obstacles to Labour Participation	The equality & diversity cross cutting theme will ensure equality of opportunity.

5.4 Contribution to regional and sub-regional strategies

Regional Economic Strategy

The Regional Economic Strategy (RES) provides a shared vision for the development of the region's economy; "South West England will have an economy where the aspirations and skills of our people combine with the quality of our physical and cultural environment to provide a high quality of life and sustainable prosperity for everyone". The RES sets out three economic drivers central to the continued development of a successful and competitive economy in the South West:

- Innovation
- Skills
- Environment

In order to achieve this Vision the RES sets out three strategic objectives, and priority actions:

Successful and Competitive Business	Contribution of Convergence Priorities
Support business productivity Encourage new enterprise Deliver skills for the economy Compete in the global economy Promote innovation	Priority 2 will support business productivity through increasing ICT take-up and use, increasing private sector investment, accessing national and international markets, providing business infrastructure, accelerating business growth and improving environmental performance in business. Priority 2 will encourage new enterprise through actions to develop an enterprise culture and establishing a high growth programme that would focus on providing highly ambitious businesses with bespoke support which addresses the major constraints to growth. Delivery of skills for a knowledge based economy will be addressed through ESF, supported by ERDF investment in research centres. Priority 2 will encourage businesses to compete in the global economy through actions to reduce barriers which inhibit companies from trading nationally and internationally in order to significantly increase exports. Priority 3 will increase connectivity of the business community to national and international markets, physically, digitally, and through knowledge networks. Priority 1 will promote innovation through stimulating research and development, improving linkages between companies and HEI expertise, the establishment and operation of a network of innovation centres, specialist research centres, incubation space and grants to staff and students in HE and FE.
Strong and Inclusive Communities	

<p>Improve participation in the economy</p> <p>Regenerate the most disadvantaged areas</p> <p>Plan sustainable and successful communities</p>	<p>The Programme will improve participation in the economy through creating opportunities. Within Priority 2, activities to raise the confidence and aspirations of young people and develop an enterprise culture will improve participation in the economy.</p> <p>Priority 4 will contribute towards regenerating the most disadvantaged areas and developing sustainable communities through support for areas that require long term and significant support to address significant economic challenges; support for locations that require more limited and specific interventions to unlock significant opportunities; and project based support on single investment proposals.</p>
An Effective and Confident Region	
<p>Improve transport networks</p> <p>Promote and enhance what is best about the region</p> <p>Improve leadership, influence and partnership</p>	<p>Priority 3 will improve transport networks through actions to develop Newquay Cornwall Airport and surrounding infrastructure.</p> <p>The programme has been developed around the theme of promoting and enhancing what is best about the region. The areas distinctiveness is viewed as an asset to be developed to underpin the move to a knowledge based economy, supporting investment of a type and scale which enhances the attractiveness of Cornwall and the Isles of Scilly as a place to live and work.</p> <p>The programme has been developed through extensive consultation and partnership working. This will continue as the Programme moves into its operational phase.</p>

Regional Spatial Strategy and South West Cohesion Framework

The Draft Regional Spatial Strategy sets the regional context for planning in the South West until 2026. The Strategy recognises the diverse needs and potential of different places and parts of the region. Development is planned to meet the needs of all communities and to realise their potential. To deliver more sustainable communities and a more sustainable region, there will be:

- Significant change at a small number of strategically significant cities and towns; and
- Smaller scale change outside of those places to achieve more balanced communities and a better local environment.

In recognition of the diversity of the region, the emphasis for the western part of the peninsular is upon stimulating economic activity and development. The Regional Spatial Strategy prioritises Truro, Camborne Pool Redruth and Falmouth Penryn as areas capable of accommodating significant growth, while recognising that other towns and settlements have an important role to play. This fits with the SWOT analysis that identifies poor social, environmental and economic conditions in Camborne, Pool, and Redruth.

The implications of this strategy on priority refinement are important. The need to accommodate significant new employment over the next twenty years is a major challenge and there are implications for the spatial distribution of land for development. The major centres have a key role to play in accommodating new jobs, and this requires a distributed approach which takes account of capacity and sustainability. This is reflected in the proposed approach for Unlocking the Economic Potential of Place.

South West Cohesion Framework

The South West Cohesion Framework identifies key areas where EU policy can best support and add to the ambitions and needs of the South West. It identifies issues and potential around three Priority Areas: Environment & Accessibility; Productivity, Innovation & Enterprise; and Employment & Skills

The Cohesion Framework has also prioritised increasing earnings, the quality of employment and reducing east-west disparities. These align well with the proposed priorities within the Convergence Programme, which will make a major contribution to narrowing the gap between the east and west of the region.

Strategy and Action

The Cornwall and the Isles of Scilly Economic Forum has produced Strategy and Action as the economic development strategy for Cornwall and the Isles of Scilly. The Vision set out in Strategy and Action is: "to achieve sustainable prosperity with opportunity for all in Cornwall and the Isles of Scilly"

Strategy and Action is underpinned by four guiding principles. Two of these framework principles provide the link to the Lisbon agenda for competitiveness and two provide the link to the Gothenburg agenda. The four framework goals are as follows:

- To establish Cornwall and the Isles of Scilly as a knowledge economy and society;
- To ensure environmental sustainability;
- To remove economic and social disadvantage, foster cultural confidence and improve the well being of people;
- To establish Cornwall and the Isles of Scilly as a place for wealth creators and entrepreneurs and to improve economic value across all sectors.

Strategy and Action focuses on three strategic objectives:

1. Competitiveness – identifying the importance of the business start up and density rates; employment performance at the aggregate and sector level; and focusing on the sectors and the need to develop a high value economy;
2. People – identifying and addressing weaknesses in the labour market, such as skills and education issues, unemployment and worklessness, to move to a fully inclusive economy; and
3. Place – focusing on the social, business, and economic infrastructure which underpins the quality of life, the culture, and the economy of Cornwall and the Isles of Scilly.

Strategy and Action	Contribution of Convergence Priorities
Improve Competitiveness	
Stimulate Innovation and R&D Create Appropriate Employment Space Provide Business Support Encourage Sector Development Transformation into an Information Society for All	Priority 1 will stimulate Innovation and R&D through improving linkages between companies and HEI expertise, improving the management and use of intellectual capital within businesses to generate business led innovations, the establishment and operation of a network of innovation centres, specialist research centres, incubation space and grants to staff and students in HE and FE. Priority 2 and 4 will create appropriate employment space through ensuring that in areas of market failure, that appropriate accommodation is available for enterprises investing and re-investing in Cornwall and the Isles of Scilly with an emphasis on office based accommodation targeting knowledge based businesses. Priority 2 and Priority 3 will provide business support through increasing ICT take-up and use, and developing the digital infrastructure. Priority 2 will increase private sector investment, accessing national and international markets, providing business infrastructure, accelerating business growth and improving environmental performance in business. Priorities 1 and 2 will encourage sector development, in particular the growth of the environmental technologies sector to create a major new industry for Cornwall and the Isles of Scilly.
Develop People	
Achieve Economic Inclusion and Reduce Worklessness Provide the Best Start for Young People Support for Higher Education Improve Workforce Development	Priority 2 will provide the best start for young people through activities to raise aspirations and develop an enterprise culture. Priority 1 will support Higher Education through activities to enhance research capacity within growth sectors, supporting and developing research centres, improving links between HEIs and companies. Priority 3 will also support Higher Education through supporting the development of further research and learning facilities linked to the knowledge economy, provision of access points across the Cornwall and the Isles of Scilly, the development of facilities which link to key growth sectors and the research priorities supported with ESF support.
Enhance Connectivity	

and Place	
Ensure Energy Sustainability Provide and Improve Transport Infrastructure Build on a Distinctive Cornwall Develop Sustainable Communities Develop the Isles of Scilly	<p>Priorities 1 and 2 will contribute to ensuring energy sustainability through actions to develop the environmental goods and services sector and to improve resource use within businesses.</p> <p>Priority 3 will provide and improve transport infrastructure through actions to develop Newquay Cornwall Airport and surrounding infrastructure.</p> <p>The programme has been developed around the theme of building on a distinctive Cornwall, with distinctiveness as an asset which underpins the move to a knowledge based economy, supporting investment of a type and scale which enhances the attractiveness of Cornwall and the Isles of Scilly as a place to live and work.</p> <p>Priority 4 will contribute towards developing sustainable communities through 3 levels of support: 1) Support for areas that require long term and significant support to address significant economic challenges; and 2) Support for locations that require more limited and specific interventions to unlock significant opportunities.</p>

Strategy and Action sets out a broad and ambitious agenda. The Economic Forum has identified 10 Priorities that stakeholders wish to progress. These are regarded as important to making progress towards the Vision. The ten priorities are listed below:

1	Improve strategic connections for economic development	<p>Development of Newquay Cornwall Airport and new scheduled services</p> <p>Improvements to the rail system and services</p> <p>Road/connectivity developments</p> <p>Improvements to Ports and Harbours to facilitate increased use of the sea</p> <p>Maintain and improve transport infrastructure and connectivity for the Isles of Scilly</p>
2	Provide quality, well-designed employment space to develop a business-friendly environment	
3	Enhance the rural economy to create sustainable communities	
4	Build on the success of the Combined Universities in Cornwall to develop public and private sector world class research institutes, incubation services and research	<p>Enable knowledge-based businesses and employees to realise their potential,</p> <p>Stimulate competitiveness,</p> <p>Create quality jobs</p> <p>Encourage inward investment in strategically important industries</p>
5	Establish a 'Low-Carbon' Competitive Economy and create a sustainable energy and environmental technology industry	
6	Raise the aspirations and improve the employability of young people in a higher-wage economy	
7	Provide focussed support to growth businesses to help business to compete globally and develop sector and other local supply chains	
8	Provide a structured business and skills development programme and increase numbers achieving at least Levels 3 and above	
9	Transformation into an Information Society for All	<p>Provide locations in Cornwall with unlimited bandwidth</p> <p>Ensure That Every Business Gets Online and maximises the benefit of ICT</p> <p>Ensure That Every Household Gets Online</p>
10	Maintain, develop and enhance the image and brand of Cornwall and the Isles of Scilly as a place for business and utilise distinctiveness to encourage a high quality year-round visitor economy ensuring the continued management of the quality landscape.	

A number of these Priorities fit closely with the interventions proposed for the Convergence Operational Programme, while others relate to the Convergence ESF Framework. It is clear that the Convergence Programme will make a major contribution to Strategy and Action.

5.5 Business Support Simplification Programme

Business Support Simplification Programme UK Government expects ERDF to be aligned with and support the emerging strategy for the simplification of business support – the Business Support Simplification Programme (BSSP).

The BSSP has agreed a broad definition of business support:

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

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

All levels of government are working together to develop a flexible, comprehensive and shared portfolio of business support products deployable across the public sector, to meet business needs and deliver policy aims. Standard descriptions will provide assurance of the quality of a product's design and rationale. ERDF funding can be used to extend the scope of these products and improve access to priority groups. Genuinely innovative products will eventually become part of the shared portfolio. A standard approach to branding these products will allow for shared branding across funding streams.

Where ERDF proposals impact on business, they must be clear how they plan to use the Business Link information, diagnosis and brokerage model to best effect, simply duplicating this activity may not represent an effective use of funds. ERDF activity will add value to domestic funding and procurement will comply with EU and national guidelines on open and competitive tendering arrangements.

5.6 Technology Strategy Board

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

5.7 Meeting European Requirements

This section describes how various European requirements have been met including:

- Strategic Environmental Assessment;
- Lisbon Earmarking;
- Additionality.

Strategic Environmental Assessment

A Strategic Environmental Assessment was undertaken for the programme. The results can be found in Annex D. The Strategic Environmental Assessment included an Environmental Report and an SEA Statement which describes the issues raised in the Report and the consultation process. The SEA Statement summary table raised a number of issues and the formal response to these is included in the Annex. In summary, the stakeholders have responded positively to the issues raised and the Operational Programme and the Priorities have been amended where appropriate. In some other instances, commitment has been made to developing systems or procedures or undertaking research.

The stakeholders welcome the contribution which the SEA process has made to the development of the Operational Programme.

Lisbon Earmarking

It is a regulatory requirement that the Convergence Operational Programme should ensure that at least 60% of Convergence spending is focused on activities to support the Lisbon agenda. It is likely that nearly all activities funded under Innovation and Research and Development and Enterprise and Investment will be Lisbon compliant (estimated at 90% across the two Priorities). It is anticipated that at 70% of activities funded under Transformational Economic Infrastructure and 60% of Priority 4, Unlocking the Economic Potential of Place, will be Lisbon compliant. In total, it is expected that 80% of the Programme will be Lisbon compliant. In order to further prioritise Lisbon related activities, actions which are deemed non-Lisbon will be subject to a maximum of 50% of ERDF support.

Regions for Economic Change

The Convergence stakeholders are keen to be involved in Regions for Economic Change. In the framework of the Regions for Economic Change initiative the Managing Authority will:

- a) Incorporate into the mainstream programming process innovative operations related to the results of the networks in which the region is involved;
- b) Where appropriate, allow in the Monitoring Committee (or programming committee) a representative (as an observer) of the network(s) where the Region⁴² is involved, to report on the progress of the network's activities;
- c) Make provision for the regular reporting back of network activities to the Monitoring Committee (or programming committee) at least once a year to take note of the network's activities and to discuss relevant suggestions for the mainstream programme.
- d) Include a section in the Annual Report on the implementation of the regional actions regarding the Regions for Economic Change initiative.

Additionality

All UK Structural Fund programmes take into account the principle of additionality. The Convergence Operational programme observes the current procedure for additionality as set out in Article 15 of the General Regulations 1083/2006. Additionality for the Convergence Operational Programme is determined at the Member State level as part of the Annexes to the National Strategic Reference Framework.

⁴² A Region can be a Region (NUTS 2) or a Member State (e.g. when no Regional level foreseen in the OP).

6 Priority Axes

6.1 Introduction

This chapter provides a detailed description of the activities of the four Priority Axes including specific actions, outputs and results indicators, financial resources and likely categories of expenditure. The five Priorities are:

- Innovation and Research and Development
- Enterprise and Investment
- Transformational Infrastructure
- Unlocking the Economic Potential of Place
- Technical Assistance

These Priorities are being taken forward in an integrated manner to ensure that there is complementarity and synergy between actions and with other Funds. In many cases, packages of actions will link capital investment in new facilities, with revenue actions aimed at the business community, linked to training and learning initiatives which support the up-skilling of the workforce.

In addition to maximising the linkages between the four Convergence Priorities, there are two cross cutting themes which will influence the type of activities being supported and how actions are implemented. These are Equality of Opportunity and Diversity and the Environment.

Alignment with the other Funds – the European Social Fund, European Agriculture Fund for Rural Development and the European Fisheries Programme – is crucial to the success of the Convergence Programme and is set out in detail in a later chapter. There is a particularly strong alignment between the ERDF investments and the ESF actions supporting higher level skills and higher education.

In order to better consolidate the outward looking dimension of the programme and to offer more scope for networking in line with the programme strategy, it is intended to allow for the possibility (in particular through Priority 1) of using the opportunities offered by Art. 37(6)b of Regulation 1083/2006, i.e. financing of actions for interregional cooperation with, at least, one regional or local authority of another Member State. This offers the possibility to use programme resources to exchange experience, ideas and best practice with other regions on topics which are common for their respective programmes (small-scale interregional cooperation).

The use of JESSICA, aimed at providing resources from the OP to Urban Development Funds investing in projects included in an integrated plan for sustainable urban development (Art. 44 of Council Regulation (EC) No 1083/2006), will be considered during the Programme period and utilised if considered appropriate

6.2 Summary Financial Allocations

The table below sets out the financial allocations for the Convergence Programme in Cornwall and the Isles of Scilly in the 2007-2013 period. The resources focussed on a knowledge based economy are considerable, including all of Priority 1, the majority of Priority 2 and large parts of 3, and Priority 4. In terms of competitiveness and investment, again significant resources are devoted to this element of the Lisbon Agenda, with all of Priority 1, the majority of Priority 2, a significant proportion of Priority 3, as well as a large element of Priority 4. In total, it is expected that 80% of the Programme will be Lisbon compliant.

In terms of weighting there is a balance between the R&D, innovation and business focussed investment in Priorities 1 and 2, which will complement and reinforce the investment in key towns in Priority 4. The support provided for knowledge and skills and improved connectivity, particularly through

digital in Priority 3, will underpin and contribute to the innovation and competitiveness focus of Priorities 1 and 2. There are, therefore, very strong linkages between the Priorities.

Summary Financial Table (€m)			
	ERDF	National	Total
1 Innovation and Research & Development	105.013	35.004	140.017
2 Enterprise and Investment	130.011	54.504	184.515
3 Transformational Infrastructure	105.013	52.507	157.520
4 Unlocking the Economic Potential of Place	107.590	65.868	173.458
Technical Assistance	10.429	3.476	13.905
Total Convergence	458.057	211.359	669.416

6.3 Priority Axis 1: Innovation and Research and Development

Context and Rationale

The Innovation and Research and Development agenda is an important priority for the South West region and Cornwall and the Isles of Scilly. Within a global economy, it is no longer possible to compete on cost alone and there is a need to concentrate on added value through ideas, knowledge and technology.

Cornwall and the Isles of Scilly have relatively low levels of expenditure on research and development and a low proportion of enterprises involved in innovation and research and development. This is largely due to the (historic) industrial structure and low concentrations of those sectors which invest most highly in research and development including pharmaceuticals and aerospace, as highlighted by the relatively low level of employment in the Knowledge Intensive industries, as highlighted in the Chapter 3. The poor performance with regard to innovation and research and development is also reflected in the relatively poor exporting record. Many companies operate in local markets, where the need for innovation is less pronounced, and are sheltered from competitive forces by the distance of the local markets from major centres.

While peripherality and scale has historically provided some protection from external competitors, it has also had the effect of isolating businesses from accessing the expertise and support of leading edge institutions, and made it more difficult for companies to access networks and develop alliances and collaborations to exploit innovations and research and development.

Cornwall and the Isles of Scilly does have a track record with regard to practical innovation and research, although given the absence of a University and research institutions (until recently), it has been based on product and process development in the manufacturing base. Leading examples include the marine sector and some of the emerging environmental technology businesses.

Research carried out to explain the productivity gap between the South West and the national economy identified a 33% productivity gap, of which 6% (twenty per cent of the gap) was a result of industrial structure. There is a need to diversify from the current structure, and this is likely to include both new companies in high value added sectors, and helping existing companies to move in to new markets through product innovation.

Innovation focussed companies are difficult to identify through standard statistics, and can be found in all types of sectors and sub-sectors. To overcome this issue, the identification of recent developments has come through the Task and Finish Groups, and the up to date intelligence of those delivering key services. Where appropriate, support will be targeted at sector clusters, networks and supply chains.

New Opportunities

There are four factors which have come together over the 2000-2006 period to accelerate the scale and quality of innovation and research, and realise significant economic benefits for businesses. These are:

- The development of a knowledge asset base in new centres such as the Combined Universities in Cornwall⁴³ and the Eden Project;
- The development of global markets and demand for new products, with a major change in supply chain dynamics with development and design and marketing and sales being the value added services, with production often undertaken by collaborators and partners in other economies;
- The establishment of a group of innovation focussed companies which have chosen Cornwall as their preferred investment location; and

⁴³ Including University College Falmouth, University of Exeter (including Camborne School of Mines), and the Peninsula Medical School,

- The continued attraction of highly skilled people to the region, coupled with the graduates and post graduate pool of labour, which has secured a step change in the talent pool of young people.

Within the context of innovation and research and development, Cornwall and the Isles of Scilly have a major opportunity to build further its intellectual capital around environmental goods and services (including environmental and renewable energy). Demand for new and innovative products is increasing as concerns around global climate change and other environmental issues increase. The development of new markets nationally and internationally is augmented by the desire to establish a low carbon economy. This is likely to help create significant local markets, creating further opportunities for innovation and development, as well as marketing and installation.

There are also a number of assets which can be further developed to increase the propensity of businesses to undertake research and development, to exploit the outputs of the knowledge base and to innovate. These include the Combined Universities in Cornwall, which provides a conduit to the expertise of Exeter and Plymouth Universities, University College Falmouth and Higher Education more widely, and the Peninsula Medical School. In addition, Further Education Colleges have the potential to play a leading role in product and process improvements with SMEs. There is also potential to build capacity around those businesses which already undertake research and innovation.

Although there a number of assets and opportunities on which to take forward interventions there are a considerable number of barriers which act as a disincentive to both commercial research and development and innovation. Some of these are applicable throughout the country, but are more challenging locally given the peripherality of Cornwall from major markets. The major constraints include:

- Limited experience in intellectual property rights, licensing and joint ventures and collaborative partnerships;
- The availability and costs involved in accessing facilities and expertise to develop innovative ideas; and
- The availability of technical, business and investment finance to commercialise ideas.

Addressing these constraints will be important in developing Cornwall and the Isles of Scilly as an investment location for innovative businesses.

Aims and Objectives

The aim of this Priority is to enable Cornwall and the Isles of Scilly to compete as a centre for creativity, innovation and research and development. It has a key role to play in identifying and supporting those areas where Cornwall and the Isles of Scilly can establish specialist areas of expertise and knowledge, capable of attracting investment and talented people, building upon the already established business and sectoral strengths.

The strategic objectives are to:

1. Increase the intellectual capital of Cornwall and the Isles of Scilly through investments in the knowledge infrastructure and research capacity in higher education; increasing and where necessary supporting business investment in research and development and increasing HE/business collaboration;
2. Improve the productivity of companies through increasing the rate of innovation and the economic benefits arising from the pull through and exploitation of knowledge (research and development and other intellectual assets) including product and process improvements. Building understanding of drivers of innovation and using these to lever increased innovative behaviour by companies; and
3. Increase the number of high value added and innovative new start businesses.

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

There are strong linkages between this Priority and Priority 2 Enterprise and Investment. It is expected that some businesses and new starts supported under this Priority will migrate to Priority 2 support as ideas and innovations move to full scale production, and businesses seek additional access to finance and to develop in to national and international markets.

Overall Description of Activities to be Supported

There are a number of actions which will increase the level of innovation and stimulate business growth through the application of research and development. These include increasing business awareness and take up of support for R&D available from national and EU schemes and developing bespoke innovation and research and development support to take account of the nature and strengths of the business base.

Other key activities include linking the HEI and public and private research institutions based in Cornwall and elsewhere in the region to businesses with the ambition and potential to develop new products and processes. Where appropriate, the Programme will draw upon specialist expertise from across Europe and globally to ensure that businesses have access to the best expertise available.

Activities under this Priority will focus on quality not quantity, with the emphasis on helping companies to access the highest quality business advice and expertise. As such key strands of activity are shown in the table below:

Key strands of activity within Priority 1

Strands	Focus and activity
Stimulating research & development	<p>This strand is research focussed. Focus on building intellectual capital within Cornwall and Isles of Scilly through:</p> <ul style="list-style-type: none"> Enhanced research capacity in HEI particularly in growth potential sectors and increasing research skills available to business. Increasing business expenditure on research and development through providing support for exploring the potential of new ideas. Increasing the take up of research and development support from national and EU sources through working with companies and networks to build competitive capacity. Support and development of research centres (including Marine Renewable Energy and the Peninsula Medical School). Proof of concept funding, critical to the pre-commercial development of new ideas.
Supporting ideas, innovation & knowledge	<p>This strand is company focussed. Focus on linking companies to University and HEI expertise, with a particular emphasis on addressing a weakness in support provision, exacerbated by peripherality. It will include technology translation activities.</p> <p>A major theme will be the management and use of knowledge within businesses; with a focus on management and exploitation of the full range of intellectual assets to generate business led innovations, product and process improvements (linked to innovation centres). It will encompass the full range of intellectual property rights issues and the proactive identification of external drivers which might provoke innovation e.g. competition; regulatory change; consumer pressure; technological change; and translation to business messages.</p>
Innovation and incubation	<p>This strand focuses on new and enhanced facilities. Addressing the shortage of specialist support for companies and individuals to create and further develop ideas. This will include existing businesses incubating new ideas, and university staff and students, healthcare employees and other entrepreneurs looking at new start ups and new investment based around innovation and research. Support will include the establishment and operation of a network of innovation centres, specialist research centres, innovation centres and incubation space, and the provision of small grants to staff and students in HE and FE initially. Support will also be provided for university spin-out companies.</p>

Strands	Focus and activity
Environmental goods and services	The development of initiatives, particularly focused on Environmental Technologies and Renewable Energy, which could develop a major new industry in Cornwall and the Isles of Scilly. This will focus on developing an industry leading on the design, development and production for local use and export of products responding to environmental and energy related opportunities; building on real increases in intellectual capital in HE and elsewhere, in particular catalysed by construction of Wave Hub marine energy testing platform.

Environment

Activities supported under this Priority will be expected to demonstrate how the Cross Cutting Theme has been reflected in the project design and delivery. An awareness of the environmental impact of activities and identifying measures to minimise such impacts will underpin the Programmes Activities under this and other Priorities – further detail is provided in section 7.1.

Innovative activities will take a central role in addressing environmental concerns, and more specifically issues surrounding climate change. Product and process innovations can contribute directly to reducing greenhouse emissions, and innovative activities may identify means of climate change adaptation.

In addition, the Environmental Goods and Services Strand of Priority 1 will contribute to activities whose direct focus is the reduction of greenhouse gas emissions and increasing environmental sustainability.

Equal Opportunities and Diversity

Many areas of innovation and product and process development are gender dominated, a function of an emphasis on technical skills and a strong interest from manufacturing companies, where employment is predominantly male. In order to reduce any possible bias, service providers will be required to develop an access plan which anticipates and takes account of the possible barriers to the take up of services by key target groups identified under the Equality and Diversity theme. Particular attention will be paid to barriers facing women and people with disabilities. All new facilities will have to ensure that they are accessible by people with disabilities, and project sponsors will be encouraged to look at both opening hours and out-reach services to increase accessibility.

Complementarity with the Convergence ESF Framework

The main linkages with ESF will occur under Priority 5 of the Convergence Framework: Improving Skills of the Local Workforce. Under the Higher Education and Higher Level Skills strand of activity, ESF will seek to achieve sustainable prosperity and opportunity for Cornwall and Isles of Scilly Residents through the further development of Higher Education and building on the success of the Combined Universities in Cornwall (CUC). Proposed activities include:

- Research activities that support the training of researchers and post graduate studies;
- Graduate placement studies;
- Developing entrepreneurship and enterprise; and
- Employer led demand provision that meets skills need level 4 and above.

Activities supported under the ERDF Convergence Programme Priority 1 seek to promote research and innovation through stimulating business demand. A key constraint will be recruiting or employing the services of individuals with the necessary skills and experience. Activities supported by the Convergence ESF Framework, such as those identified above will assist in reducing these constraints. Relevant areas of focus for ESF Convergence Priority 5 are:

- The delivery of skills that will promote productivity among smaller businesses; and
- The further investment in CUC facilities, particularly with regard to research development and innovation.

Financial Resources

Priority 1: Innovation and Research & Development			2007-2013 €m
	EU	National	Total
Innovation and Research & Development	105.013	35.004	140.017

The allocation between activities will seek to ensure that the Priority objectives are delivered. Allocations similar to the measure approach in previous Programmes are therefore inappropriate. The indicative range allocated to each of the strands is likely to be in the following ranges.

Stimulating research & development	20%-40%
Supporting ideas, innovation & knowledge	15%-30%
Innovation and incubation	20%-35%
Environmental goods and services	10%-25%

A number of key principles will guide the project selection and appraisal process. These are:

- Contribution to the Programme objectives;
- Value for money in relation to the outputs and impacts
- The minimum ERDF contribution for the project to proceed and
- The incorporation of the equal opportunities & diversity and environmental sustainability cross cutting themes
- Clear evidence of market failure

In order to further focus resources in this Priority, an appraisal and selection process will be agreed which will incorporate a number of key criteria. This will include:

- Facilities with the potential to establish an international presence, and enhance the perception of Cornwall as a research and commercial centre;
- Facilities and services which link business to international expertise, networks and markets;
- Facilities and services which link local higher education expertise with local business and networks;
- Services which seek to encourage innovation and product development with regard to environmental goods and services (particularly renewable energy and environmental technologies);
- Services which are targeted at sector clusters/niches, networks and supply chains;
- Services which conform to the business simplification agenda.

This approach will help to ensure that the limited resources available are focussed in a way which ensures the maximum impact in relation to the strategic objectives of the Programme and adding value to existing provision. Support will not be available for generic business support for innovation.

Final Beneficiaries⁴⁴

Final beneficiaries will mainly include business development agencies, higher and further education institutions, research institutes and local authorities.

Target beneficiaries⁴⁵

Target beneficiaries will include higher and further education institutions, research institutes, prospective entrepreneurs, new and existing business, and inward locating businesses.

⁴⁴ Final Beneficiaries are delivery organisations that will receive ERDF funding to delivery Programme activity

⁴⁵ Target Beneficiaries are the individual organisations and businesses that will ultimately derive benefit from ERDF funded activity

Demarcation with other Priority axes

Priority 1 will focus on the development of ideas, research, product and process development where support is required to reach a fully commercial stage (this will include all pre-production work, including test marketing and prototype development). Priority 2 will focus on working with business where new products and processes are fully developed, and support is needed for business activities such as marketing, to allow the company to increase sales.

Priority 1 will support the development of research and innovation facilities. Support for higher education facilities where the aim is to strengthen under-graduate education will be considered for support under Priority 3.

Priority 2 will provide business support in areas such as marketing, and business planning to take forward new products developed with Priority 1 support. Where appropriate Priority 1 will support companies located in the key towns supported under Priority 4, although support will not be limited to these locations. It is expected that some innovation will be linked to the development of products and services stimulated by the up-grading of the ICT infrastructure supported under Priority 3

Outputs and Results

The following indicative targets have been set taking account of the anticipated investments and the likely impact.

Indicators	Target Number
Outputs	
Number of businesses assisted to improve their performance	1,540
Number of new business assisted (Subset of businesses assisted)	210
Number of environmental goods and services enterprises assisted (subset of business assisted)	280
No of firms involved in collaborative research & development projects (subset of businesses assisted)	280
Number of business within the region engaged in new collaboration with UK knowledge base (subset of business assisted)	280
Number of research and innovation centres supported	6
Proportion of premises constructed/upgraded to at least the BREEAM standard of excellent or equivalent (incubators etc)	90%
Results	
Gross new jobs created	2,187
Gross jobs safeguarded	837
No of patents granted and other IPRs and other IPR devices	140
Number of additional firms involved in business/cluster networks	700
No of SMEs launching new or improved products	1,956
Gross increase in GVA	£76.5m
Gross jobs created in environmental sectors (subset of job created)	560
Impacts	
Net additional safeguarded GVA	£29.3m
Net additional GVA	£57.8m
Net additional employment	1,653

The table below sets out the categories of expenditure and identifies those which contribute to the Lisbon Agenda. The Structural Fund regulations require at least 60% of Convergence funding to focus on these categories. In the case of Priority 1, it is expected that 100% of funds will focus on Lisbon compliant activities.

Priority 1 Categories of Intervention	Lisbon
01: R&TD activities in research centres	X
02: R&TD infrastructure and centres of competence in a specific technology	X
03: Technology transfer and improvement of cooperation networks between small businesses (SMEs), between these and other businesses and universities, post-secondary education establishments of all kinds, regional authorities, research centres and scientific and technological poles	X
04: Assistance to R&TD, particularly in SMEs (<i>including access to R&TD services in research centres</i>)	X
05: Advanced support services for firms and groups of firms	X
07: Investment in firms directly linked to research and innovation (<i>innovative technologies, establishment of new firms by universities, existing R&TD centres and firms, etc.</i>)	X
08: Other investment in firms	X
09: Other measures to stimulate research and innovation and entrepreneurship in SMEs	X
39: Renewable energy: wind	X
40: Renewable energy: solar	X
41: Renewable energy: biomass	X
42: Renewable energy: hydroelectric, geothermal and other	X
43: Energy efficiency, co-generation, energy management	X
68 Support for self employment and business start up	X¹
74 Developing human potential in the field of research and innovation, in particular through post graduate studies and training of researchers, and networking activities between universities, research centres and businesses.	X¹
¹ Article 34 (2) of Regulation 1083/2006 allows ESF type activities to be funded by ERDF provided that they are necessary for the satisfactory implementation of the operation and are directly linked to it. No type of ESF action will be funded, unless directly connected to an ERDF eligible investment under the Programme.	

Codes for the form of finance dimension

Code	Form of finance
01	Non-repayable aid
02	Aid (<i>loan, interest subsidy, guarantees</i>)
03	Venture capital (<i>participation, venture-capital fund</i>)
04	Other forms of finance

6.4 Priority Axis 2: Enterprise and Investment

Context and Rationale

Cornwall and the Isles of Scilly have a good track record in terms of business start ups and employment growth; however a substantial proportion of employment growth has been concentrated in education, health and retail employment. In spite of this strong growth, there are relatively few high growth companies and a low proportion of enterprises in knowledge based and high value added sectors. The evidence indicates that productivity is low across all sectors, with too few businesses involved in innovation and trading nationally and internationally. These factors explain in part the historic poor performance of the economy.

The Strategy and Action document sets out clear reasons why the development of a knowledge based economy is vital for Cornwall and the Isles of Scilly:

- Global pressures to re-focus investment away from large scale, high mass, low value production for mass markets, towards innovative, creative, knowledge rich, niche-market products and services that create value; and
- High value, low mass products and high value services are more location independent, reducing the peripherality effect and therefore particularly relevant to Cornwall and the Isles of Scilly.

The productivity of businesses is significantly below the regional and national averages. A key characteristic of the business base is a high proportion of low value added business activity. The most recent economic forecasts suggest that a large proportion of future employment growth will be in lower paid and lower skilled activities. The economy is dominated by micro-businesses (in terms of the numbers of businesses), and there is an under-representation of companies with 30-100 employees. Other factors which contribute to low productivity are remoteness from major markets, which leads not only to low levels of exports, but also a lower propensity for knowledge transfer and collaboration.

The limited number of businesses trading nationally and internationally is in contrast to the traditional role of Cornwall as a trading and exporting region. Historically, entrepreneurs have had strong trading links with other regions and counties, and re-establishing links and developing new markets is a key element in addressing the weaknesses of a low value added economy.

Research carried out to explain the productivity gap between the South West and the national economy identified a 33% productivity gap, of which 8% was a result of capital stock per employee, 6% to industrial structure and 10% to a mixture of factors such as ownership, part time – full time ratio and skills. There is a need to diversify the business base and address some of these constraints which are acting as barriers to improved productivity.

There is a major challenge with regard to the quality of accommodation and there is a severe shortage of flexible office base within Cornwall and the Isles of Scilly. The Cornwall and Isles of Scilly Employment Space Strategic Assessment (2007-17) has identified strong demand from employment space, including demand for an estimated 11% (273,300 sq m) of existing commercial stock to be replaced and / or substantially refurbished in the period to 2017.

The report highlights that demand for office space is expanding beyond Truro to centres such as St Austell, Redruth, Bodmin, and Penzance. However vacant stock is often in poor condition and the current rental values do not generally meet costs. The report also concludes that “at present the provision of employment space is not commercially viable in many parts of Cornwall and the Isles of Scilly due to low investment returns, high construction costs, and/or high levels of risk.”

New Opportunities

There are a number of factors which have come together over the past five years which offer the opportunity to accelerate the development of knowledge based economy and to address some of the underlying issues of poor productivity. These are:

- The development of global markets and demand for new products, with a major change in supply chain dynamics with development and design and marketing and sales being the value added services, with production often undertaken by collaborators and partners in other economies;
- The continued attraction of highly skilled people to the region, coupled with the graduates and post graduate pool of labour, which has secured a step change in the talent pool of young people; and
- The benefits of a sustained period of economic growth, with both internal and external perceptions changing to one where the Cornwall brand and location is valued in the marketplace.

While there are many positive recent developments with regard to the economy there are a number of underlying weaknesses which need to be addressed in a co-ordinated manner if the move to a knowledge based and more productive economy is to be successful. These barriers and constraints include:

- Low level of aspirations amongst some businesses and sections of the community;
- A chronic shortage of quality accommodation for small and medium sized companies;
- Weakness with regard to leadership, management and enterprise skills; and
- The availability and costs of accessing high quality advice and expertise; and
- A lack of investment and venture capital and high quality investor ready proposals.

Increasing business confidence, in part re-introducing more widely the historic role of Cornwall as a major trading economy, is important in addressing some of these barriers. As important is the need to further develop the concepts of enterprise and creativity as key characteristics of individuals, businesses and communities.

A major challenge for the Programme is the rural and peripheral nature of the eligible area. Knowledge based economies have to date evolved in areas where there is a critical mass of people with creativity, ideas and a culture of collaboration and competition. A key challenge for the Convergence Programme is to help develop a knowledge based economy which is based on quality and a scale which capitalises on the strengths of the rural economy and its key assets.

Activities under this Priority will focus on transforming the economy. This will focus efforts on improving productivity across the business base, not solely on elite groups or narrow sectors, developing a strong group of businesses trading nationally and internationally, capitalising on the use of ICT and broadband to reduce the effects of peripherality and establishing Cornwall and the Isles of Scilly as an investment location for value added and knowledge based business. Business intervention will include both thematic initiatives (such as increasing the use of ICT and broadband) and sectorally specific programmes, although the latter will be on a targeted basis.

Aims and Objectives

The aim of this Priority is to re-structure the economy to one with a higher proportion of high value added business, under-pinned by more productive enterprises across the business base. This Priority has a key role to play in addressing the low earnings, low skilled nature of the economy. The strategic objectives are to:

1. Increase the proportion of businesses and employment in high value added business activities;
2. Increase the quality of new starts through further developing the enterprise culture and supporting high growth and high value added new starts;
3. Increase the productivity of business through the provision of high quality support services in key areas including internationalisation, ICT take up and use, and investment support; and
4. Increase the scale of investment and re-investment by the private sector in Cornwall and the Isles of Scilly.

There are strong linkages between this Priority and Priority 1 Innovation and Research and Development. It is expected that some businesses and new starts involved in innovation and new product development will receive initial support under Priority 1.

There is also a strong link between the research and innovation support for environmental goods and services supported under Priority 1, and the development of high growth companies through the commercialisation of ideas and products, funded under Priority 2.

Overall Description of Activities to be supported

This Priority will focus on the process of transforming the economy, and as such will not fund generic new start and business support. The focus will be on high growth businesses, companies in high value added sectors, companies and enterprises in sectors with potential to significantly add more value. Support will be delivered through the most effective mechanisms, and where appropriate, sectoral and/or targeted support will complement interventions focused on particular types of support or addressing weakness relevant to businesses in various sectors.

Priority will be given to the high value / high growth sectors, clusters and niches identified in the Regional Economic Strategy and those outlined in the economic analysis supporting this Operational Programme. These priority sectors and sub sectors will be reviewed on a regular basis to ensure that new and emerging sectors are identified and supported at an early stage. In summary, where appropriate, support will be targeted at sector clusters, networks and supplies chains. The most recent research with the commercial and industrial property market highlighted the continuing need to intervene in both towns and more rural areas to provide appropriate and high quality business accommodation.

Key strands of activity within Priority 2

Strands	Focus and activity
New Enterprise	This strand will include the provision of targeted support to increase the number of new starts with high growth potential and the numbers of businesses started by young people (aged 25 and under). Interventions will include extending and coordinating enterprise work with the student population (Further and Higher Education). The objective of this strand is to raise the confidence and aspirations of young people, as well as stimulating new enterprise activity. Activities will encourage enterprise as a career option and encourage innovation and enterprise amongst FE and HE students.
High Growth Companies	This strand will provide intensive, bespoke support for a limited number of companies with the potential to grow rapidly, and will be primarily targeted companies with between 20 and 80 employees. There is a need and opportunity to establish a high growth programme which matches the best in Europe, focussed on the providing highly ambitious businesses with bespoke support which addressed the major constraints to rapid growth, internationalisation, mentoring, and improved market research activity / information and economic intelligence. This intervention would focus on high quality new starts and existing businesses, supporting those with growth potential and in knowledge based sectors through tailored business support activities.
Targeted Business Support	This strand will provide targeted business support, aimed at key sectors, networks, business clusters and niches (as set out in the earlier analysis), and actions to address weaknesses which inhibit growth across the business base. Targeted business support will focus on providing high quality support to sector, niches and networks in high value added areas and those with growth potential, although a strict sector approach will not be pursued. Support will be focussed on working with businesses with growth potential, aimed at improving competitiveness. This strand will include a small number of targeted initiatives, to focus on accelerating the growth of higher value added companies. Actions to address weaknesses which inhibit growth across the business base will include increasing the take up and exploitation of ICT and broadband; and assisting SME to develop investor ready proposals; market development; improving business productivity through improving environmental performance and developing new business opportunities relating to changing environmental standards; and reducing barriers which inhibit companies from trading nationally and internationally. Targeted business support will include attracting new investment to Cornwall and the Isles of Scilly and providing investor support and after care.
Business infrastructure for a modern economy	In areas of market failure, support will be provided to ensure appropriate accommodation is available for enterprises investing and re-investing in Cornwall and the Isles of Scilly. The emphasis will be on office based accommodation targeted at knowledge based business and appropriate space for high value added business activities. Priority will be given to the key towns where there is the potential to support the growth of high value added businesses, and rural areas with the potential to support knowledge based businesses.
Access to finance	A range of innovative finance initiatives including equity, where market failure in the provision of capital is clearly evident, to enable businesses to grow. This strand will work in tandem with the other strands of this Priority.
Environmental Goods and Services	Contributing to the development of an Environmental Goods and Services Initiative which will support a major new industry in Cornwall and the Isles of Scilly. The emphasis will be on developing an industry based on the design, development and production of products responding to environmental and energy related opportunities. This would include businesses working with research centres, specialist organisations and manufacturing and service companies, and also stimulating demand within Cornwall and the Isles of Scilly to create a regional market. This Priority will complement the work of Priority 1, which will focus on innovation and research and development, by providing access to new markets and specialist business support as products and processes are marketed.

Activities under this Priority may use the derogation set out in Article 34(2) which enables the European Regional Development Fund and European Social Fund to finance, in a complementary manner and subject to a limit of 10% of community funding to each priority axis of the Programme, actions falling within the scope of assistance from the other fund, provided that they are necessary for the satisfactory implementation of the operation, and are directly linked to it. In line with this provision, no ESF associated actions will be funded under this Priority unless they are directly connected to an ERDF eligible investment under the programme.

Environment

Environmental issues and considerations underpin the Programmes activities, supported activities will be expected to demonstrate how the Cross Cutting Theme has been reflected in project design and delivery and how specific recommendations have been addressed. Programme capital investment will be conditional on exceeding BREEAM rating of excellence or equivalent, based on the Future Foundations sustainable construction charter. Concerning improvements to environmental performance, particular consideration will be given to those sectors with the largest environmental impact, including higher ratios of carbon emissions to GVA, as support in these sectors would generate the greatest environmental improvements.

Under Priority 2, there are also specific opportunities for addressing environmental issues. Specifically these include the promotion of improved business productivity through improving resource and energy efficiency measures and the implementation of environmental management systems. Additional activities include the promotion of the environmental goods and services sector within the Convergence Area, contributing to a reduction of the area's environmental impact and the broader environmental impact of economic growth and development.

The UK government has stated that the “environmental industry is a dynamic and growing sector which makes and important – and increasing – contribution to the economy”⁴⁶. The programme will therefore make significant investment to encourage both business start-ups and business growth in key sectors including renewables.

Equal Opportunities and Diversity

To remove the potential for bias in Programme funded activities, service providers will be required to develop an access plan which anticipates and takes account of the possible barriers to the take up of services by any of the key target groups, identified under the Equality and Diversity theme. Particular attention will be paid to barriers facing women, people with disabilities, and people from Black and Minority Ethnic (BME) groups.

Complementarity with the Convergence ESF Framework

There are two strands of activity under Priority 5 of the Convergence ESF Framework: Improving Skills of the Local Workforce, both of which will support activities under Convergence ERDF Priority 2. They are:

- Workforce development; and
- Higher Education and higher level skills.

Under these strand ESF will focus on the need to address the under-utilisation of the region's skills base and to provide additional support for Cornwall and Isles of Scilly's small and micro businesses. Priority 5 will also focus on the delivery of skills which will increase business productivity, sectors and occupations where skills shortages have been identified, and providing management and leadership training for managers and workers in small enterprises (private and social enterprises with up to 50 employees).

⁴⁶ Securing the Future, The UK Government Sustainable Development Strategy, DEFRA, 2005

Large enterprises

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

Financial Resources

Priority 2: Enterprise and Investment			2007-2013 €m
	EU	UK	Total
Enterprise and Investment	130.011	54.504	184.515

The allocation between activities will seek to ensure that the Priority objectives are delivered. Allocations similar to the measure approach in previous Programmes are therefore inappropriate. The indicative range allocated to each of the strands is likely to be in the following ranges.

New Enterprise	10%-15%
High Growth Companies	15%-20%
Targeted Business Support	20%-30%
Business Infrastructure	30%-45%
Access to Finance	10%-15%
Environmental goods and services	10%-15%

A number of key principles will guide the project selection and appraisal process. These are:

- Contribution to the Programme objectives;
- Value for money in relation to the outputs and impacts
- The minimum ERDF contribution for the project to proceed and
- The incorporation of the equal opportunities & diversity and environmental sustainability cross cutting themes
- Clear evidence of market failure

In order to further focus resources in this Priority an appraisal and selection process will be agreed which will incorporate a number of key criteria. This will include:

- Facilities and services which prioritise key sectors identified in the Regional Economic Strategy and Strategy and Action;
- Facilities and services which link business to international expertise, networks and markets;
- Facilities and services which link higher education expertise with local business and networks;
- Services which seek to accelerate the growth of companies involved in environmental goods and service (including renewable energy and environmental technologies);
- Services which conform to the business simplification agenda.

Note: Under Priority 2 the region may use **JEREMIE** (Joint European Resources for Micro to Medium Enterprises). If this mechanism is used, resources will be drawn down from the Operational Programme and can be made available through the European Investment Fund (EIF.) An analysis on the potential use of JEREMIE and other financial mechanisms, including evaluation of activity in earlier programmes, will be considered by the Programme Monitoring Committee (PMC) within 1 year of Programme opening.

Final Beneficiaries

Final beneficiaries will include business development agencies, higher and further education institutions, local authorities and other bodies in the public, private and third sector.

Target beneficiaries

Target beneficiaries will include prospective entrepreneurs, new and existing business, and inward locating businesses.

Demarcation with other Priority Axes

Priority 2 will focus on working with business where new products and processes are fully developed, and support is needed for business activities such as marketing, to allow the company to increase productivity, added value and sales. Priority 1 will focus on the development of ideas, research, product and process development where support is required to reach a fully commercial stage (this will include all pre-production work, including test marketing and prototype development).

Outputs and Results

The following indicative targets have been set taking account of the anticipated investments and the likely impact.

Indicators	Target Number
Outputs	
Number of businesses assisted to improve their performance	4,900
Number of new business assisted (subset of businesses assisted)	700
Environmental goods and services enterprises assisted (subset of businesses assisted)	350
Businesses advised on improved environmental performance (subset of businesses assisted)	1,400
Businesses engaged in new knowledge base collaborations (subset of businesses assisted)	210
Premises built achieving BREEAM "excellent " rating	80%
Square metres of new or up-graded premises/facilities	93,000
Results	
Private sector investment arising from support	£360m
Number of companies using ICT (new and upgraded)	4,410
Number of jobs created	5,474
Number of jobs safeguarded	3,413
Gross increase in GVA	£191.6m
Gross jobs created in environmental sectors ¹	700
Number of additional firms involved in business/cluster networks (subset of businesses assisted)	1,050
Impacts	
Net additional GVA	£126.7m
Net additional employment	3,621
¹ Sub set of number of jobs created	

The table below sets out the categories of expenditure and identifies those which contribute to the Lisbon Agenda. The Structural Fund regulations require at least 60% of Convergence funding to focus on these categories. In the case of Priority 2, it is expected that 87% of funds will focus on Lisbon compliant activities.

Priority 2 Categories of Intervention	Lisbon
05: Advanced support services for firms and groups of firms	X
06 Assistance to SMEs for the promotion of environmentally friendly products and production processes	X
07: Investment in firms directly linked to research and innovation (<i>innovative technologies, establishment of new firms by universities, existing R&TD centres and firms, etc.</i>)	X
08: Other investment in firms	X
09: Other measures to stimulate research and innovation and entrepreneurship in SMEs	X
14: Services and applications for SMEs (<i>e-commerce, education and training, networking, etc.</i>)	X
15: Other measures for improving access to and efficient use of ICT by SMEs	X
39: Renewable energy: wind	X
40: Renewable energy: solar	X
41: Renewable energy: biomass	X
42: Renewable energy: hydroelectric, geothermal and other	X
43: Energy efficiency, co-generation, energy management	X
50: Rehabilitation of factory sites and contaminated land	
62: Development of life-long learning systems and strategies in firms; training and services for employees to step up their adaptability to change; promoting entrepreneurship and innovation	X ¹
63: Design and dissemination of innovative and more productive ways of organising work	X ¹
61: Integrated projects for urban/rural rehabilitation	
68 Support for self employment and business start up	X ¹
¹ Article 34 (2) of Regulation 1083/2006 allows ESF type activities to be funded by ERDF provided that they are necessary for the satisfactory implementation of the operation and are directly linked to it. No type of ESF action will be funded, unless directly connected to an ERDF eligible investment under the Programme.	

Codes for the form of finance dimension

Code	Form of finance
01	Non-repayable aid
02	Aid (<i>loan, interest subsidy, guarantees</i>)
03	Venture capital (<i>participation, venture-capital fund</i>)
04	Other forms of finance

6.5 Priority Axis 3: Transformational Infrastructure

Context and Rationale

Cornwall and the Isles of Scilly is a peripheral economy, located some distance from the major UK markets. The effects of peripherality have determined the structure of the economy and for many years constrained economic growth. As a consequence of the combination of population size and location, the historic business structure has been determined by a limited number of assets - tin and china clay, and agriculture and tourism. Besides tourism, which has experienced some decline in visitor numbers, these industries have declined dramatically and establishing new, sustainable economic strengths requires access to knowledge and markets in a different way to the past.

The development of transformational infrastructure is essential to the development of a knowledge based and more modern economy, with a reduced dependence on lower paid and lower skilled employment. The importance of economic infrastructure to support sustainable and higher levels of growth is now widely recognised in the context of city and urban economies. The importance of transport connectivity to markets and knowledge networks are regarded as key under-pinning assets in successful city regions. These are just as important in a rural context and even more important in peripheral locations.

Businesses in Cornwall and the Isles of Scilly face some of the longest journey times in Europe to reach national markets, and even longer journey times in accessing international markets. As importantly, suppliers and business collaborators face the same long journey times, and this restricts access to high quality advice, and increases the costs to the business community of accessing external expertise. It is important to continue to improve connectivity in all its forms to enable Cornwall and the Isles of Scilly to move to a more modern, better balanced economy. Crucial to this objective is the development in a sustainable manner of Newquay Cornwall Airport.

Research carried out to explain the productivity gap between the South West and the national economy identified a 33% productivity gap, of which 7% (twenty per cent of the gap) was a result of journey time from London and other major UK conurbations. Given the location of Cornwall at the periphery of the region, this effect is likely to be even more significant. The role of the Airport is crucial in addressing this major constraint to improving productivity.

To fundamentally change the economy and develop a sustainable and competitive economy requires catalytic and transformational interventions across a range of areas. This includes some of the proposed actions outlined in Priorities 1 and 2, and also applies to infrastructure. Improving the internal workings of the economy will improve efficiency, but on their own will be insufficient to secure the scale of change required to move to a more knowledge based economy. Instead, infrastructure which can transform the economic and business base, and act as catalysts in their own right are required to secure the step change required. Transformational infrastructure has a number of characteristics:

- Focussed on connecting people and businesses through communications, travel and networks to national and international expertise and markets;
- Changes external perceptions of the area as a place to trade with, or invest in;
- Offers demonstrable economic benefits of a significant scale, with a clear link to higher paid and higher skilled jobs;
- Has relevance to a significant proportion of the business base; and
- Increases community and business confidence.

There is a substantial body of research looking at competitive places and identifying critical success factors. This includes significant research carried out internationally looking at key factors in explaining successful locations. Within this research a number of common themes have emerged, notably – connections to knowledge networks and international markets; the crucial role of airports to business

and knowledge networks; and the importance of Universities as drivers of regional economies; and the increasing role of digital connectivity as an economic driver. There has been a significant expansion of regional Airports in the UK and Europe over the past ten years, and a number of regions are now much better connected to national and international centres. This has, by comparison, increased the peripherality of Cornwall and increased the need to establish much better air connections within the UK and internationally.

The Opportunity

It is only in the past ten years that the opportunity to develop infrastructure with the potential to transform the economy has been available to communities and business in Cornwall and the Isles of Scilly. This is a result of:

- The changes in the role of regional airports, air travel and airline economics, which now allow an opportunity to develop Newquay International Airport as a catalytic economic driver.
- The success of actnow in proving the case that a co-investment approach can provide broadband and digital investments in a peripheral and rural location, and subsequently increasing the take up of broadband and the business benefits.
- The establishment of the Combined Universities in Cornwall demonstrating a catalytic effect across a number of areas – business performance, graduate/business links and research and development.

A study into the catalytic effect of Newquay Airport highlights that potential for regional airports to contribute to reducing peripherality, supporting the viability of businesses in more remote locations and the development of knowledge based sectors and activities. It identifies adequate transport as a necessary, but not sufficient, condition for economic development, as transport can work best as part of a package of businesses and economic development measures to attract new investment to an area and support the growth of existing businesses⁴⁷. Knowledge based sectors tend to be relatively air intensive and access to air services is a key factor in their development. In 2003, the DfT identified the following sectors as having a higher Propensity To Fly (PTF): Financial Services, Energy and Chemicals, Biotechnology, Electronics and other hi-tech engineering, Aerospace, Creative industries, Business services, and higher order and internationalised elements of the public sector.

Digital infrastructure and its use have a very important role to play in reducing some of the effects of peripherality and helping companies to access new markets, without the need to travel. As importantly, there is a wider contribution to the development of an information society, with the many positive developments which benefits both people and communities. actnow has been successful in proving the case for co-investment in a peripheral and smaller market, although challenges remain in maintaining competitiveness. A recent DTI guidance note identified the key challenge for Cornwall and the Isles of Scilly, when it concluded that “the market alone may not deliver these services (higher bandwidths and cable technology) to areas with lower population densities or physically remote locations, or may deliver these much later than elsewhere”⁴⁸.

The Broadband Stakeholder Group highlight the likelihood that a significant minority of broadband users will see no real improvement in their broadband access speeds in the coming years and identifies that justifications for public sector intervention include the need to address market failure and the need to ensure the equitable distribution of welfare gains. While it highlights the difficulties in identifying areas of market failure and pre-empting market led activities, it also notes that it is likely that public sector interventions will be required to support deployment in low density (i.e. rural) areas⁴⁹.

⁴⁷ Catalytic Economic Impact of Newquay Airport: Draft Report 2007, Reference Economic Consultants

⁴⁸ Public Broadband Schemes – A Best Practice Guide, February 2007, DTI & OFCOM

⁴⁹ Pipe Dreams? Prospects for Next Generation Broadband Deployment in the UK, 2007, Broadband Stakeholder Group

In the short period of time since its creation in 2001 the Combined Universities in Cornwall has transformed the provision of University level education in Cornwall and grown the Higher Education base to over 5,000 students. The key ambitions of the Combined Universities in Cornwall are to

- Generate a significant inward migration of students;
- Create a world class research community (building on the successes of University College Falmouth and Camborne School of Mines, which predate the CUC); and
- Promote national leadership in community based Higher Education in Further Education that reaches across Cornwall and the Isles of Scilly to meet the needs of locally based learners and enterprises.

It has an extensive programme of activity with local companies, one of the largest graduate placement programmes in England, and has reached in to communities across Cornwall and the Isles of Scilly. Its effect has been profound, and is one of the key investments which has transformed the image and reputation of Cornwall as a place to learn and work.

CUC is now the single most important asset in the development of a knowledge based economy. The availability of a graduate pool of labour, the scale of post graduate research, the availability of research expertise in a broad range of areas are now fundamental to efforts to developing a knowledge based economy.

Aims and Objectives

Developing a limited number of major investments for transformational infrastructure is now critical in developing a platform which will allow for a step change in economic performance. These developments are focussed on improving connectivity between businesses in Cornwall and the Isles of Scilly and national and international knowledge and trading networks and new markets. The strategic objective of this Priority is to:

Accelerate the growth of the higher value added economic activity and the knowledge based economy through the development of transformational infrastructure, while securing sustainable economic growth.

These objectives will be achieved through major investment which will assist over 6,000 businesses to improve their performance, and lead to 2,835 net additional jobs and £99.2m of net additional value added. These new developments are inextricably linked to Priorities 1 and 2, and efforts to develop a more innovative, productive and outward facing business community.

Description of Potential Activities to be Supported

There are three elements to this Priority, all of which will be subject to detailed cost benefit analysis to determine the need for support, and the most appropriate type of support. Funding will only be provided where interventions are essential and for activities which are appropriate for support.

All proposals will be scrutinised to ensure value for money, to ensure that projects selected are the best possible choice against this criteria; reflecting careful consideration of the opportunity cost of channelling resources to investment projects, particularly where they will absorb a large share of available funds.

The potential activities to be supported are summarised below:

Newquay Cornwall Airport – Connectivity between the main towns of Cornwall and externally to the rest of the UK and Europe is a vital element of creating a successful knowledge based economy. Responsible air transport has a key role to play in accessing new markets and knowledge networks, and the level of business use of the Airport is considerable. Research has identified both business use and demand for services and the potential catalytic effect of further developing the Airport. There is an opportunity arising from the transfer of the Airport from a military to civilian operation to establish a commercially viable regional airport for Cornwall and the Isles of Scilly, which is an exemplar in terms of sustainable development.

There is a need to consider the need for support for: the development of environmentally friendly terminal and other facilities; the promotion of the Airport to attract new investment, potential business and commercial developments at or near to the Airport; associated interventions linked to business development, skills and recruitment; and support for environmentally friendly operation. Support for non airport related business facilities such as business parks will be supported under Priority 2 or 4, while training and recruitment initiatives will be supported through the Convergence ESF Framework.

Support will also be considered for improving public transport links and strengthening inter modal links, such as connecting the airport to the rural network for those making onward journeys.

Digital infrastructure - The Objective One Programme enabled an accelerated roll out of broadband technology in Cornwall and the Isles of Scilly. A demand led rollout has ensured availability of broadband across the region, and take-up has been driven higher still by targeted marketing, ensuring the benefits penetrate deeply into the rural communities.

There are limitations imposed by the current broadband technology. Whilst cities, towns and other areas close to their local telephone exchange can now enjoy next generation speeds of 8Mbit/s, whole swathes of rural areas are locked on significantly lower speeds at under 1Mbit/s, perpetuating a digital divide. There is now a need to consider and help develop a future proof solution that allows for much higher speeds and bandwidth and delivers a long term solution to maintain digital competitiveness. This could include the development of fibre optics, existing copper wire or wireless technology.

Priority 3 will support the development of future proofed ICT infrastructure. Support to stimulate the take up and use of ICT will be supported under Priority 2, and through the ESF Regional Framework with regard to ICT skills.

There is a need to consider support for: the development of a technical solution to develop competitive infrastructure for the business community; co-investment to ensure that new investment takes place in a timely manner; promotion of digital infrastructure to attract new investment; development of the digital applications sector able to take advantage of new infrastructure associated interventions linked to business take up and skills development.

Knowledge Infrastructure: the development of the Combined Universities in Cornwall has made a major contribution to the economy and has delivered considerable associated benefits with regard to research and development, the business community and the quality of the workforce. There is a need to further invest in CUC to capitalise on this early success and ensure there is sufficient critical mass to allow the Universities to make an even more significant contribution to the transformation of the economy. There is also a need to ensure that CUC builds sufficient critical mass to ensure the long term sustainability of higher education in Cornwall and the Isles of Scilly.

Support for higher education facilities where the aim is to strengthen under-graduate education will be considered for support under Priority 3. Priority 1 will support the development of research and innovation facilities.

The analysis presented earlier outlines the gap between Cornwall and the Isles of Scilly and the South West region with regard to patents, employment in knowledge industries, workforce qualified to Level 4 and above, and GVA per worker. While Priority 1 will stimulate research and development within the business base, capitalising on key knowledge assets, there is a need to increase the supply of people qualified to Levels 4 and above. Knowledge based industries draw upon graduates from a wide range of disciplines. There is a need to support graduate and post graduate facilities in high value / high growth businesses in key sectors such as creative industries, environmental technologies, and ICT, other key growth sectors, such as business and professional services also need to be supported by an available pool of labour qualified to degree standard.

There is a need to consider support for: the development of learning facilities linked to the knowledge economy; the provision of access points across Cornwall and the Isles of Scilly to encourage access; the development of facilities which link to key growth sectors and the research priorities supported with ESF support. .

All investments made under Priority 3 will be proportional to the economic impact and opportunity cost for the Programme, and be guided by the principle of the minimum funding required to secure the economic benefit. The funding gap will be based on a financial analysis of each proposal. In all cases, relevant competition and state aid issues will be taken into account.

Complementarity with other Priorities

Priority 3 will provide important new economic infrastructure relevant to the majority of companies in Cornwall and the Isles of Scilly. In order to maximise linkages, all investment plans will be accompanied by clear plans to maximise the benefits of investments through increasing the take up and use of new services by local companies. In addition, the investment planned for the major towns under Priority 4 will incorporate proposals to maximise take up of ICT.

Environment

Activities supported under this Priority will be expected to demonstrate how the Cross Cutting Theme has been reflected in the project design and delivery. An awareness of the environmental impact of activities and identifying measures to minimise such impacts will underpin the Programmes Activities under this and other Priorities – further detail is provided in section 7.1.

Proposals for the further development of Newquay Cornwall Airport will have a significant environmental focus, including measures to minimise its environmental impact and measures for minimising net CO₂ emissions including testing the business plans against likely changes in national and international taxation, regulation and carbon trading schemes, energy efficiency targets, renewable energy systems, and the promotion of off-setting. All proposals relating to the development of Newquay Cornwall Airport will comply fully with the EIA legislation, with Environmental Impact Assessments being undertaken when appropriate.

Programme capital investment will be conditional on exceeding BREEAM rating of excellence or equivalent, based on the Future Foundations sustainable construction charter.

All ICT projects are expected to be exemplars of environmental best practice – including life-cycle management of resources and energy use and in the use of ICT to reduce the need to travel whilst enabling connectivity both within the region, nationally and globally

Equal Opportunities and Diversity

The Equality Strand Cross Cutting Theme underpins all of the Programme Activities, which seeks to ensure that all members of society are able to benefit from and access the support proposed under this Programme. Under Priority 3, the main focus will be to ensure that the introduction of digital infrastructure does not widen the digital divide, and consequently access plans for all sections of the

community will be developed as new infrastructure is developed; and for the University theme, the access plans supported under the Convergence ESF Framework will help to provide route ways to higher education for those in employment and those who are economically inactive. All facilities will be expected to adhere to the relevant policies, and actively identify and tackle discriminatory recruitment and employment practices.

Complementarity with the Convergence ESF Framework

Priority 5 of the Convergence ESF Framework includes a strand targeted at Higher Education and Higher Level Skills. Activities under this strand will include activities aimed at promoting the training of researchers and post graduate training and increasing access to higher education. The Combined Universities in Cornwall is a significant focus of activity under this Priority.

Major Projects

Priority 3 is likely to include two investments, Newquay Airport and Digital Infrastructure, which are considered Major Projects as defined in Article 39 of Council Regulation (EC) 1083/2006. Full details will be notified in accordance with Article 39 in due course.

Financial Resources

Priority 3: Transformational Infrastructure			2007-2013 €m
	EU	National	Total
Transformational Infrastructure	105.013	52.507	157.520

The allocation between activities will seek to ensure that the Priority objectives are delivered. Allocations similar to the measure approach in previous Programmes are therefore inappropriate. The indicative range allocated to each of the strands is likely to be in the following ranges.

Newquay International Airport	20%-40%
Digital Infrastructure	30%-50%
Knowledge Infrastructure	30%-50%

A number of key principles will guide the project selection and appraisal process. These are:

- Contribution to the Programme objectives;
- Value for money in relation to the outputs and impacts
- The minimum ERDF contribution for the project to proceed and
- The incorporation of the equal opportunities & diversity and environmental sustainability cross cutting themes

In order to further focus resources in this Priority an appraisal and selection process will be agreed which will incorporate a number of key criteria. This will include:

- Clear and demonstrable market failure;
- Relevance to the business community and the development of a knowledge economy;
- Significant economic benefits in the medium and long term;
- High levels of accompanying investment;
- Capacity to link business to international expertise networks and markets;
- Robust business plans.

Final Beneficiaries

Final beneficiaries will include business development agencies, higher and further education institutions, local authorities and other bodies in the public and private sectors.

Target beneficiaries

Target beneficiaries will also include business development agencies, higher and further education institutions, local authorities and other bodies in the public and private sectors.

Outputs and Results

The following indicative targets have been set taking account of the anticipated investments and the likely impact.

Indicators	Target Number
Outputs	
Major investment projects	2
Premises built achieving BREEAM "excellent " rating or equivalent	90%
Results	
Number of businesses using new infrastructure	10,000
Number of businesses benefiting from up-graded ICT infrastructure	10,000
Number of businesses with improved performance (GVA)	6,000
Number of jobs created	4,000
Number of jobs safeguarded	2,000
Gross increase in GVA	£140.0m
Impacts	
Net additional safeguarded GVA	£70.0m
Net additional GVA	£99.2m
Net additional employment	2,835

The table below sets out the categories of expenditure and identifies those which contribute to the Lisbon Agenda. The Structural Fund regulations require at least 60% of Convergence funding to focus on these categories. In the case of Priority 3, it is expected that 75% of funds will focus on Lisbon compliant activities.

Priority 3 Categories of Intervention	Lisbon
01: R&TD activities in research centres	X
02: R&TD infrastructure and centres of competence in a specific technology	X
10 Telephone infrastructures (<i>including broadband networks</i>)	X
11 Information and communication technologies (<i>access, security, interoperability, risk-prevention, research, innovation, e-content, etc.</i>)	X
12 Information and communication technologies (TEN-ICT)	X
14: Services and applications for SMEs (<i>e-commerce, education and training, networking, etc.</i>)	X
15: Other measures for improving access to and efficient use of ICT by SMEs	X
23: Regional/local roads	
25: Public transport	
28: Intelligent transport systems	
29: Airports	X
75 Educational Infrastructure	

Codes for the form of finance dimension

Code	Form of finance
01	Non-repayable aid
02	Aid (<i>loan, interest subsidy, guarantees</i>)
03	Venture capital (<i>participation, venture-capital fund</i>)
04	Other forms of finance

6.6 Priority Axis 4: Unlocking the Economic Potential of Place

Context and Rationale

Place based regeneration is a major and fundamental component of the Convergence Programme. Cornwall and the Isles of Scilly have, in spatial terms, a distributed economic base, with a number of key towns, many of which are of a similar size. There is no overwhelmingly important centre, although some towns, such as Truro, play a particular function.

Place is fundamental to the development of a knowledge based and higher value added economy. Put simply, attractive places to live and work go hand in hand with a knowledge based economy. Oxford and Cambridge are obvious examples, while the resurgence of major cities such as Manchester and Bristol have been driven by investments which have made once derelict and abandoned quarters at the core of the conurbations attractive places to work. In these and numerous other examples, co-investment by the public and private sector has led to significant economic growth.

The recent work on key towns and future business space needs highlights the distributed nature of employment and the scale of opportunity in many other key towns and rural areas. The Convergence Programme will support the modernisation of the business infrastructure in locations with the potential to secure significant new investment and which can add to the process of transforming the economy. This will be done on a planned and phased basis, taking account of future demand, and drawing linkages with the Employment Space Strategic Assessment, which proposes a market driven programme that respects the environment and promote high quality design and challenging, but appropriate, sustainability. The provision of other key economic infrastructure will be linked to place based regeneration.

Given the forecast population and employment growth over the next ten and twenty years, and the importance of the environment and quality of life of key settlements, it is important that investment in towns and locations is managed in a sustainable manner. The assessment of infrastructure and its economic impacts in Cornwall has identified that congestion and journey time delays on the area's road network are set to become constraints on economic growth. The Draft Regional Spatial Strategy identifies Camborne, Pool and Redruth; Falmouth/Penryn; and Truro as playing an important role in accommodating growth. Other important locations which influence a wide economic hinterland include Bodmin; Penzance; Newquay and St Austell. These will be the focus for support under this Priority.

The Employment Space Strategic Assessment 2007-2017 outlines a long term and strategic approach to investment to ensure that property constraints are systematically addressed. It includes an approach based on reducing the scale and need of public sector intervention. The proposed interventions include a broad range of tools, including new and innovative mechanisms: direct development; gap funding; joint ventures and infrastructure development including developer contributions.

There is scope for the introduction of new mechanisms, including some of the new models developed by the European Commission, with potential to involve other stakeholders such as the European Investment Bank. While the Urban Regeneration Company in Camborne, Pool and Redruth is well established, additional capacity will be required in other areas to implement the proposed investment programme.

The assessment of infrastructure and its economic impacts in Cornwall identifies a further key challenge, i.e. the pressure on capacity of the existing transport network that will be generated by continued growth in GVA and employment. Connectivity within Cornwall and the Isles of Scilly will be essential to create the right conditions for further growth and public transport plans will be incorporated into investment plans funded under this Priority.

With specific regard to the Isles of Scilly; this isolated and fragile community faces a unique challenge with respect to transport and accessibility. The Islands' distinctiveness and diversification is a key environmental asset and developing and managing sustainable access by sea presents a major challenge. The current services and harbours are collectively a hub for local industry and employment.

With several strategic urban centres but no one principal urban centre Cornwall acts effectively as a 'dispersed city'. The main medical and administrative centre is Truro, the University hub is in Falmouth/Penryn, and important industrial centres are in Bodmin; and Camborne, Pool and Redruth. In order for the economy to operate efficiently it is vital that these towns are well connected in transport terms. Potential public transport related improvements include green access to Newquay Airport (funded under Priority 3); the Truro to Falmouth branch line; and re-engineering of CPR to allow for more bus based access and distribution

New Opportunities

There are a number of factors which have come together over the past five years which offer the opportunity to create places which support the development of a knowledge-based economy. These are:

- The benefits of a sustained period of economic growth, with both internal and external perceptions changing to one where the Cornwall brand and location is valued in the marketplace;
- Investment through Objective One in heritage led physical regeneration in a number of towns across Cornwall;
- Increasing demand from companies for new and better quality accommodation, although demand is insufficient to see a private sector led regeneration of place;
- The availability of more sophisticated mechanisms to develop joint ventures and to more effectively link public sector investment with major private sector investment; and
- Widespread recognition of the effects of piecemeal development and the need to invest in long term plans which deliver a qualitative improvement of place.

In terms of developing a knowledge based economy in a sustainable manner, a number of towns will play a role of acting as attractive locations for new investment. This will require adequate access and public transport provision, attractive environments, and the type of business accommodation suitable for new and re-investment opportunities. This physical agenda is closely linked to business development and learning and skills as complementary actions.

There are a number of constraints and issues which have to be addressed to ensure that a poor quality of place does not undermine the other investments seeking to develop a knowledge based economy. These are:

- The potential for un-planned investment to exacerbate problems of congestion and generate unsustainable commuting patterns;
- The need to balance scale with place, ensuring that new employment and investment does not have un-intended negative consequences;
- The scale of under-investment in some centres and the need for comprehensive and long term regeneration;
- The failure of the market to provide the quality of accommodation and place needed to secure new investment by existing and new business; and
- The potential for low investment returns to lead to poor quality design and materials in new development.

It is important that the quality of new development is of the highest standard and supports the other investments which are transforming perceptions of Cornwall as a place to live and work. The recently completed Employment Space Strategic Assessment 2007-2017 has developed a framework in which to take forward new investment linked to the development of a higher value added economy. It incorporates both re-establishing the market in the medium term with the need to take account of planning policy, and includes both strategic principles, such as sustainability and design, with the finalisation of Local Development Frameworks and an appropriate spatial framework.

Aims and Objectives

The strategic objective is to:

- accelerate the regeneration of Camborne Pool Redruth and St Austell and the Clay Country through the provision of infrastructure and other support which assist the development of a sustainable, knowledge based economy;
- develop in a sustainable manner, the capacity of key towns to accommodate new investment critical to the development of a knowledge-based and higher value-added economy; and
- support economic development in key towns which increase the use of public transport and reduce car use and congestion.

Description of Activities to be Supported

Activities will focus on strategic investment projects that:

- Support the Delivery of the Lisbon Agenda;
- Complement existing opportunities, such as the CUC in Falmouth/Penryn and the existence of the CPR Urban Regeneration Company; and
- Supports the Draft Regional Spatial Strategy and LDFs.

Key Strands of Activity within Priority 4

Strands	Focus and Activity
Integrated Place Regeneration	<p>Locations subject to major regeneration changes and requiring long term and significant support to address specific economic challenges. These are: Camborne, Pool, and Redruth; and St. Austell and the Clay Country.</p> <p>Activity under this strand will draw on a wide range of interventions reflecting the severity of issues. This will include local transport infrastructure, improving accessibility and managing congestion; site assembly and preparation; gap funding for new development; investment in public realm linked to new development; investment in iconic projects linked to the development of a knowledge based economy. Support will include sustainable development packages, to encourage public transport, manage the demand for access and provide the optimum infrastructure to accommodate further economic growth.</p> <p>Support will be made available within the context of an agreed Sustainable Integrated Development Strategy type approach (reference Article 8 of the ERDF Regulation).</p>
Realising Place Potential	<p>Locations which require more limited and specific interventions to unlock significant economic opportunities. Actions will be focussed on managing economic growth in a planned and sustainable manner. The focus of this strand will be the areas of Truro, Falmouth/Penryn, Newquay, Bodmin and Penzance/Isles of Scilly.</p> <p>Activities will include developing employment sites and premises, supporting new space, local transport investment, and investment linked to other ERDF investment funded by Priorities 1, 2 and 3. Support will include sustainable development packages, to encourage public transport, manage the demand for access and provide the optimum infrastructure to accommodate further economic growth.</p> <p>Support will be made available within the context of an agreed Sustainable Integrated Development Strategy type approach (reference Article 8 of the ERDF Regulation).</p>

Environment

In supporting the Cross Cutting Theme, any capital investment under this Priority will be conditional on exceeding BREEAM rating of excellence or equivalent, based on the Future Foundations sustainable construction charter. Furthermore, the active management of environmental issues within new build and the refurbishment of existing stock present the opportunity to stimulate the market for environmentally smart technologies, goods and services. These would take into account aims such as landscape and transport impacts, low / neutral carbon, and the use of secondary materials.

Sustainable Integrated Development Strategies will set the framework for investment in Priority 4. These will include a robust baseline of current conditions; a review of current land uses; an assessment of transport related matters; a clear aim and set of objectives; investment proposal covering infrastructure, business development and skills and learning, setting out long term plans for sustainable economic growth; milestones, risk assessment and implementation arrangements. These will be reviewed and updated periodically.

Proposals for Improvements to the local transport infrastructure will be developed to minimise their environmental impact, and all developments will be directly linked to quality of life improvements.

Equal Opportunities and Diversity

All interventions will review their potential impact on equality strand groups, as the spread of equality strand groups across Cornwall and the Isles of Scilly will affect the diversity impacts of geographically targeted interventions. Interventions must be accessible by any of the key groups identified under the Cross Cutting Theme, and potential barriers to take-up must be identified and addressed.

Complementarity with the Convergence ESF Framework

ESF support with regard to higher level skills and up-skilling of the workforce will continue to the development of a higher skilled workforce able to support the new investment and employment opportunities secured through Priority 4 investments.

Financial Resources

Priority 4: Unlocking the Economic Potential of Place			2007 - 2013 €m
	EU	UK	Total
Unlocking the Economic Potential of Place	107.590	65.868	173.458

The allocation between activities will seek to ensure that the Priority objectives are delivered. Allocations similar to the measure approach in previous Programmes are therefore inappropriate. The indicative range allocated to each of the strands is likely to be in the following ranges.

Integrated Place Regeneration	40%-60%
Realising Place Potential	30%-50%

A number of key principles will guide the project selection and appraisal process. These are:

- Contribution to the Programme objectives;
- Value for money in relation to the outputs and impacts
- The minimum ERDF contribution for the project to proceed and
- The incorporation of the equal opportunities & diversity and environmental sustainability cross cutting themes
- Clear evidence of market failure

In order to focus resources, an appraisal and selection process will be agreed which will incorporate a number of key criteria. This will include:

- Significant economic benefits in the medium and long term;
- The production of a high quality integrated sustainable development strategy, including a sustainable transport plan;
- High levels of accompanying investment;
- Improve use/take up of public transport
- Robust development and implementation plans;
- In support of planning policy; and
- Strong linkages to other ERDF investments.

Final Beneficiaries

Final beneficiaries will include business development agencies, higher and further education institutions, local authorities and other bodies in the public, private and third sector.

Target beneficiaries

Target beneficiaries will include prospective entrepreneurs, new and existing business, and inward locating businesses.

Outputs and Results

The following indicative targets have been set taking account of the anticipated investments and the likely impact.

Indicators	Target Number
Outputs	
Square metres of floorspace (m ²)	60,000
Hectares of land for development	58
Previously developed land prepared / developed (subset of land for development)	10ha
Redundant buildings developed for new economic use	40
Historic buildings / sites developed for new economic use	20
Sustainable Integrated Development Strategies Prepared	7
Projects achieving BREEAM "excellent" rating or equivalent	80%
Results	
Number of jobs created	3,751
Number of jobs safeguarded	2,517
Private sector investment £m	£157m
Gross increase in GVA	£131.3m
Impacts	
Increase in GVA (net)	£86.8m
Additional employment (net)	2481

The table below sets out the categories of expenditure and identifies those which contribute to the Lisbon Agenda. The Structural Fund regulations require at least 60% of Convergence funding to focus on these categories. In the case of Priority 4, it is expected that 60% of funds will focus on Lisbon compliant activities.

Priority 4 Categories of Intervention	Lisbon
02: R&TD infrastructure and centres of competence in a specific technology	X
08: Other investment in firms	X
09: Other measures to stimulate research and innovation and entrepreneurship in SMEs	X
10 Telephone infrastructures (<i>including broadband networks</i>)	X
14: Services and applications for SMEs (<i>e-commerce, education and training, networking, etc.</i>)	X
15: Other measures for improving access to and efficient use of ICT by SMEs	X
16: Railways	X
26: Multi Modal Transport	X
30: Ports	X
18: Mobile rail assets	
23: Regional/local roads	
24: Cycle tracks	
25: Urban transport	
28: Intelligent transport systems	
50 Rehabilitation of factory sites and contaminated land	
59: Development of cultural infrastructure ¹	
61: Integrated projects for urban and rural regeneration	
¹ Only where consistent with an approved integrated sustainable development strategy	

Codes For The Form Of Finance Dimension

Code	Form of finance
01	Non-repayable aid
02	Aid (<i>loan, interest subsidy, guarantees</i>)
03	Venture capital (<i>participation, venture-capital fund</i>)
04	Other forms of finance

6.7 Priority Axis 5: Technical Assistance

Context and Rationale

Partnership working, developmental work, publicity, monitoring and evaluation have been critical to the success of the previous Objective One Programme and it is intended to carry forward best practice to the Convergence ERDF Programme. Partners have high expectations as to the quality of Convergence ERDF investments and Technical Assistance (TA) will need to be used in a focused way so that it supports the development of these investments.

However, the administrative arrangements for Convergence ERDF are different to those operating in Objective One, as are the economic development structures in Cornwall and the Isles of Scilly. Partners wish to see a high degree of alignment between the operation of Convergence ERDF and mainstream activities. Therefore, a TA strategy that takes account of these differences will be adopted by the Programme Monitoring Committee.

Description of Activities to be Supported

Any use of Technical Assistance will be within the context of Article 45 of the EC Regulation 1083/2006 and will be applied to the following activities:

Strands	Focus and Activity
Developmental	Technical Assistance will support Programme Development and Capacity Building through: <ul style="list-style-type: none"> ▪ Support for investment preparation and appraisal, including delivery through a commissioning approach. ▪ Support for project development activity to ensure that the requirements of the Regulations are incorporated into the projects. ▪ Development and provision of training, guidance, and advisory and information services for successful applicants to ensure a controlled start to projects.
Management information	Support for the provision of management and monitoring information to ensure effective Programme management. Specifically, the Management Information strand will support: <ul style="list-style-type: none"> ▪ The employment of suitable expertise where necessary, potentially the secondment of staff to the Programme Secretariat. ▪ Training and development of personnel involved in the delivery of the programme. ▪ Embedding the Cross Cutting Themes. ▪ The production of good quality programme management information to facilitate decision making and programme operation.
Evaluation	Programme related analysis, monitoring, and evaluation forms an integral part of Programme delivery. Performance analysis and evaluation will help ensure focused and effective application of ERDF resources within the programme. Specifically, Technical Assistance will support: <ul style="list-style-type: none"> ▪ Development of the baseline data to measure programme performance, particularly results, impacts and value for money. ▪ Provision of required policy and socio-economic analysis updates to facilitate production of the Annual Implementation Reports. ▪ Commissioning evaluation studies and implementing the relevant findings at suitable intervals, including the mid-term and programme completion; ▪ Commissioning an independent impact assessment of the Programmes Cross Cutting Themes. ▪ Independent evaluation and value for money analysis of major projects and packages.

Partnership	<p>Delivery of the Convergence Programme will require successful collaborative and joint working across a range of partners. Activity under this strand will include:</p> <ul style="list-style-type: none"> ▪ Support for partnership working and the bringing together of potential beneficiaries. ▪ The co-ordination of the PMC and sub groups.
Communications	<p>The role of the Publicity and Communications strand is to ensure that communications are managed in an effective manner, assistance received from European funds is accurate, transparent and highly visible and public awareness of the positive impact of the Convergence Programme is maximised. Specific supported activities will include:</p> <ul style="list-style-type: none"> ▪ Establishing and maintenance of effective channels for communication and publicity. ▪ Guidance and pro-active monitoring to ensure all projects adhere to the publicity requirements applied to all grant offers. ▪ Execution of promotional events such as seminars and annual conferences.

Technical assistance will be used to produce a monitoring and evaluation plan for approval by the PMC within the first 12 months of the Programme. The monitoring and evaluation plan will include:

- Definitions of all of the indicators, guidance on the collection of data by project sponsors and intermediary organisations, and reporting procedures in relation to the governance arrangements of the Programme. It will also include proposals for any guidance and advice services needed to ensure appropriate monitoring.
- Arrangements for interim evaluations, both at the Programme and Priority level where appropriate. This will include the timing and coverage of evaluation, the use of independent evaluators; quality assurance procedures, oversight by the PMC;
- Both the monitoring and evaluation proposals will include, where appropriate, arrangements to review the types of companies being supported and the jobs being created, with a view to understanding progress towards developing a knowledge based economy.

Technical Assistance may be accessed by national, regional, and local authorities, bodies or individuals, including economic and social partners, who are preparing or involved in the implementation of the programme.

A Technical Assistance procedure has been incorporated in the TA Strategy which will, in turn, be adopted by the Programme Monitoring Committee. This procedure defines in detail the method of approach for the management and administration of funding allocated to the Technical Assistance priority axis. The match funding for Technical Assistance will be provided from other public local and regional organisations. External applications for technical assistance, i.e. those outside of the operation of the Programme Secretariat function will be expected to be submitted with the public sector match funding secured. Any Technical Assistance projects requiring funding providing suitable expertise for the Programme Secretariat function and support for programme and project management will be commissioned by the South West Regional Development Agency.

Financial Resources

Priority 5: Technical Assistance			
	EU	National	Total
Technical Assistance	10.429	3.476	13.905

Codes

	Technical assistance
85	Preparation, implementation, monitoring and inspection
86	Evaluation and studies; information and communication

7 Cross Cutting Themes

7.1 Environment

Introduction

Cornwall and the Isles of Scilly is a place where the environment and the economy work together. A robust and successful business base is critical to achieving sustainable prosperity – and this can only be achieved with the environment being fully integrated into the business practices of individual enterprises and the economy as a whole.

The 2000-06 Objective One Programme made considerable progress in mainstreaming environmental issues within an economic development context, and was highlighted in nationwide evaluations as representing best practice in this respect. It is clear, and in line with UK Sustainable Development policy and the concept of 'one planet living', that a step change, rather than just incremental growth of good practice, is required to meet environmental challenges, especially in relation to resource management and climate change.

In the face of global climate change there is now agreement among all mainstream UK political parties that a mixture of regulation and green taxation will be required, with the deliberate aim of changing business and consumer behaviour - and these will be in addition to the recent increases in energy costs associated with rising oil prices. As with any market shift, there will be a need for existing businesses to adapt, and for new businesses to take advantage of emerging market opportunities. The Convergence Programme has a key role to play in ensuring that the economy of Cornwall and the Isles of Scilly continues to develop and brings long-term, sustainable, benefits to its population, while at the same time seeking to reduce - not simply to slow the growth of - environmental impacts including greenhouse gas emissions.

The UK Government has made a commitment in the National Strategic Reference Framework to treating environmental sustainability and equality and diversity as cross-cutting themes for all future Structural Funds Programmes. This will include integrated strategies for addressing environmental issues and respecting the principles of sustainable development. This presents a challenge but more importantly an opportunity to develop new solutions and respond to new and expanding markets.

The productivity and efficiency of the business model will be transformed through the tools available from the Convergence Programme, including:

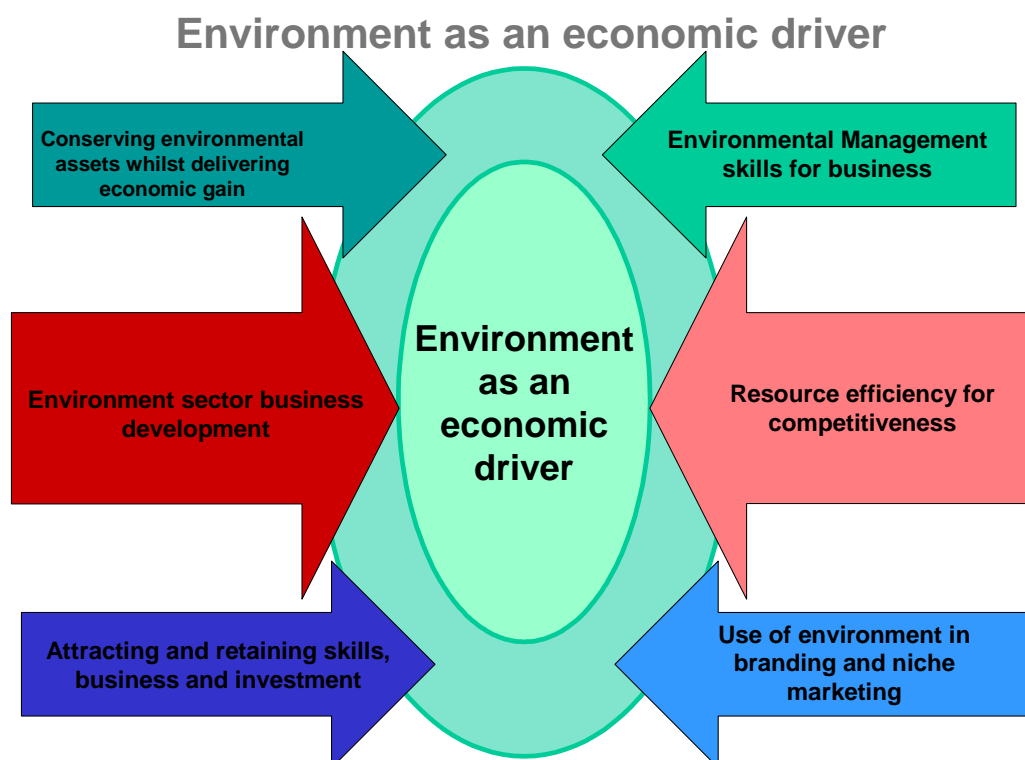
- Promotion of eco-innovation through research and technical development and incubation;
- Proofing of new economic activity and technologies against their environmental impacts; and
- Energy, and wider resource use, efficiency advice integrated into all types of business development, both capital and revenue.

In line with the Government's sustainable development strategy, the Convergence Programme will address this cross cutting theme through two perspectives:

1. **Recognising the potential impact of economic regeneration on the environment** - In the context of the Structural Funds Programmes, environmental sustainability means that whilst achieving their social and economic goals, projects should minimise their environmental impact and enhance environmental opportunities and benefits; and
2. **Recognising the potential economic benefit that the environment can bring** – Both Strategy and Action and the South West Regional Economic Strategy recognise that Cornwall and the Isles of Scilly have unique environmental assets and that the environment represents a significant potential driver of the economy, as the diagram below illustrates. In Objective One the concept of the environment as an economic driver enabled the environment to be

integrated across the full range of Structural Fund interventions and realise both environmental gains (resource, energy and waste savings) and economic gains (cost reductions, greater productivity, new business opportunities) in an integrated way.

The six strands of the environment as an economic driver



This section outlines the key environment issues facing the region, the objectives for the Programme in addressing these issues, how they will be monitored and key actions by Priority needed to address these issues.

Key Facts

- **The quality of the environment**
 - This is one of the unique assets of Cornwall and the Isles of Scilly, generating considerable benefits for residents and providing a major draw to the area for tourists, economic migrants and businesses. The most recent comprehensive audit of Cornwall and the Isles of Scilly reinforced the understanding of the breadth and depth of the environmental asset base, including an outstanding natural, built and historic environment, large areas of which are protected through National, European and International designations, such as the recently conferred Cornish Mining Landscape World Heritage Site. In Cornwall alone, the AONB covers 27% of the total area. SSSIs and SACs also cover large areas. (Further information on the state of the environment is also provided in the SEA environmental baseline for the Programme – Nov 2006)

Cornwall and the Isles of Scilly also face a number of environmental challenges, including:

- **Climate change**
 - Cornwall produces 10% of CO₂ emissions (7.9 tonnes CO₂ per capita) within the South West, lowest of all the sub-regions (8.2 tonnes CO₂ per capita in the South West), however, if national targets are to be met all areas will need to reduce emissions, and this is in the context of expanding economic growth;
 - Increased storminess and rising sea levels as a result of climate change (Mean sea level in Newlyn has risen by 15cm since 1915), resulting in increased coastal erosion;
- **Resource efficiency**
 - Total commercial and municipal waste is forecast to grow at between 1 and 3% per annum as a consequence of increasing population, housing and economic activity. More sustainable waste management will include methane reduction through the reduction in landfill, energy savings in the processing of raw materials, and the reduction in the consumption of non-renewable resources.
 - Defra and the waste management team of Cornwall County Council commissioned a resource management strategy that will help inform the Convergence Programme's approach to the management of commercial and industrial waste.

In facing these challenges, Cornwall and the Isles of Scilly has shown itself to be at the forefront of renewable energy production in the South West, generating 41% of the renewable capacity of the region. Cornwall and the Isles of Scilly have a total of 71 heat schemes, with a current capacity of 3.43MW and the highest number of heat pumps installed, with a current capacity of 1.48MW. Many of these latter schemes have been supplied by the local market.

More locally, both the Eden Project (which uses solar PV panels on its education centre to promote renewable energy practices) and the Regen South West's Wave Buoy, off the north coast of Cornwall (which is measuring wave activity and should speed up the installation of the world's first commercial wave farm) have been singled out for special praise by the DTI's top ten list of green energy projects.

Strategic Environmental Assessment: Issues

The Strategic Environmental Assessment identified a number of issues for the Programme, namely:

- **Energy Use and Climate Change** – Although the exact trajectory of climate change is far from definitive, the potential risks are accepted as important at the national, regional and programme area level. Collective governmental action is key – the EU as a whole (including through regulation, taxation and trading schemes) has a vital role to play in this, both in terms of reducing the global climate change impact of its own activities and in stimulating change in others.

Nationally, the NSRF states that all programmes must take account of the Government's goal to reduce the UK's emissions of carbon dioxide by 20% by 2010 and by 60% by 2050, in order to tackle climate change. Regionally and sub-regionally, there is an aspiration to trial methods of economic development that actively contribute to a low carbon economy. The implications of this, is that the Programme will target the drivers of a low carbon economy throughout its activities and investments including:

- Energy, and wider resource use, efficiency advice to businesses will need to be integrated into all types of business contact
- Promotion of eco-innovation, such as low carbon technologies, through the innovation Priority
- Proofing of new economic regeneration activity, including the development of new businesses, against their environmental impacts.
- On top of efficiency savings, renewable energy and other technologies will need to be used to reduce greenhouse gas emissions.

- **Transport** – Transport emissions make a significant contribution to both air pollution and the CO₂ emissions referred to above. However, the peripheral nature of Cornwall and the Isles of Scilly means that any increases in transport costs will impact to a greater extent on businesses and that these impacts will be greatest for those with large volumes of goods to transport.

The key issue for the Programme is to ensure appropriate cost effective connectivity to ensure economic regeneration and positively manage the environmental issues associated with improving transport infrastructure. This will be done in several ways:

- Transforming the economy to a more knowledge based economy with lower associated resource and transport costs.
- Developing local supply chains that enhance intra-regional links and reduce transport costs.
- Ensuring that improvement of the transport infrastructure, to reduce travel time and costs, represents best environmental practice.

All allied to an enhanced ICT infrastructure and the national and global trading connectivity that it brings.

- **Resource Use in Business** – The extent to which businesses use resources other than energy (e.g. water use and waste management) will depend on the nature of the business itself. The evidence suggests that those which produce high volumes of waste, or which depend on large supplies of water, are **likely** to benefit the most from environmental management business support. The challenge for the Programme is therefore to target:

- Environmental management support for all types of business
- More sustainable management of resources, including the management of waste - where the impact is greatest; this also gives the opportunity to develop new businesses and markets.

- **Buildings** – Both new and existing buildings have environmental impacts in terms of both their construction and their ongoing use – it is vital that both are targeted through the Programme:

- The impact of both the construction and use of buildings has been well studied and good practice standards are available such as BREEAM, which SWRDA has committed to using on all capital projects.
- The active management of environmental issues within new build and refurbishment of existing stock presents the opportunity to stimulate the market for environmentally smart technologies, goods and services.

- **Biodiversity and Landscape** – For Cornwall and the Isles of Scilly, Biodiversity and Landscape make up the very distinctiveness that helps retain and attract people to the area as both visitors and as migrants. Ensuring that this is protected is a high priority, although the extent to which this can be achieved under this Programme is limited, with the evidence base showing that the majority of direct pressures on both biodiversity and distinctive landscape are associated with agriculture and therefore fall under the remit of EAFRD and this is reinforced in the NSRF. The challenge for the Programme is to ensure that projects consider their potential impact on biodiversity and landscape in the application process and where appropriate in the planning and complementary regulatory processes.

The issues raised by the SEA consultants and responses to the OP and SEA consultation have been taken into account in developing the environmental cross cutting theme and detail of the Priorities. In developing appraisal and selection criteria, full account will be taken of these recommendations. All of the recommendations sit comfortably within the approach which stakeholders would expect to take

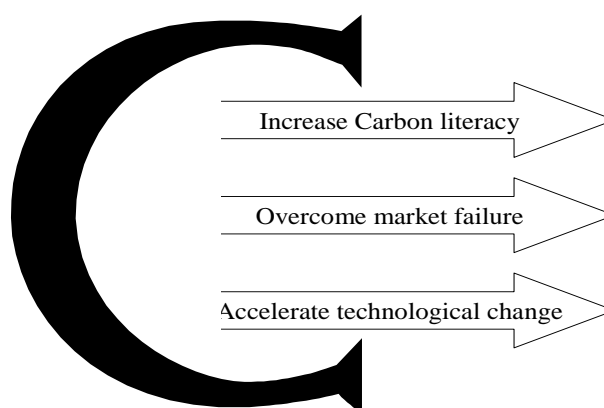
given the importance of environmental sustainability. Education and advocacy work will both explain why these recommendations are important and provide assistance to project sponsors.

Investing in the Drivers of a Low Carbon Economy

Whilst the putting of an appropriate price on the basket of greenhouse gases (carbon in shorthand) through taxes, regulation or trading is an international goal, such international steps are neither in themselves enough nor a part of the delivery of structural funds. (In addition, at present there is a lack of clarity and predictability as to the exact direction and intensity of international policy.) It is vital therefore that structural fund programmes play their part and this will include both investing in the drivers of change to a lower carbon economy across the whole of the programme and in leading by example – helping switch people and businesses away from high carbon goods and services and investing in low carbon alternatives.

Structural fund programmes present a particular set of opportunities for activities that will both meet the challenges of the emerging agenda and maximise the benefits of the economic opportunities created. The programmes give us the ability to manage this policy uncertainty by investing in the drivers of change – illustrated below -- and in piloting and trialling methods of monitoring, reporting and verification, both at the level of an individual project and at the level of a whole programme.

Driving a low carbon economy



The details of these drivers of change to a low carbon economy include:

- **Increasing Carbon Literacy** – enhancing the levels of understanding in energy and resource management and climate change
 - This is a vital step in removing institutional and non-market barriers and in developing monitoring, reporting and verification for individual businesses, programme investments, projects and at the level of the programme as a whole;
 - Awareness and understanding of the issues, the changing regulations, international carbon pricing (environmental foresight) – all must be part of the mainstream for business both in the diagnostic and subsequent support;
 - Developing the challenge of how “carbon responsible” are you, and can you be?

The aim is to generate a far more nuanced understanding of what the impact is both over the short term and long term and how this might be managed, and develop new solutions with smaller impacts developed.

- **Overcoming Market Failure** – removing the barriers to behavioural change, in particular action to encourage the greater efficiency in the use of energy and resources and the management of waste. This driver is vital because it has
 - Immediate economic impact in terms of efficiency gains;
 - Consequential opportunities provided by stimulating demand; and
 - created the readiness for the deployment of new technologies;
 And includes
 - The proofing of new economic regeneration activities, including business start-ups against their long-term environmental consequences;
 - Environmentally smart construction – reduced environmental impact and stimulation of local markets for environmentally smart products and services
 - Targeted support for the environmental goods and services sector (including environmental technologies and renewable energies sectors) as part of high growth programme
- **Accelerating Technological Change** – investing in research, development, innovation and deployment of high resource efficient and low carbon technologies.
 - HE- business collaboration will stimulate the development and deployment of a broad portfolio of resource efficient and low carbon technologies and reduce costs for early commercialisation. Innovation – the commercial application of knowledge – is crucial in reducing costs of such technologies.
 - Skills and knowledge creation – attracting, developing and maintaining human capital including basic research, directed research and knowledge transfer;

These drivers work together as a self reinforcing package. Existing barriers and market imperfections are likely to result in a weakened driver for innovation and therefore information and promotion, and investment in high resource and energy efficiency are vital to help the drive for innovation and the deployment of new technologies. (These need to be complemented by the delivery of training and skills and the development of human capital in both the workforce and research hubs.) Therefore the term ‘low carbon economy’ is shorthand for – low greenhouse gas emissions and high levels of resource conservation and sustainable waste management and is very much in line with the one planet living agenda.

Objectives

The Regional Economic Strategy outlines a vision for the South West. This vision recognises that the quality of our physical and cultural environment is central to providing a high quality of life for everyone. One of the South West’s aims is to show that **economic growth can be secured within environmental limits to bring prosperity to the region.** This aim complements that of Strategy and Action, the guiding principles of which include ensuring environmental sustainability and Strategy and Action also recognises the economic opportunities of pursuing a low carbon economy.

It is a firm commitment that the Convergence Programme will build on the foundations created by the delivery of the Objective One Programme, building on the concept of the environment as an economic driver and invest in the drivers of a low carbon economy. The Programme will be a pilot for an approach to regional development that invests in the integration of the drivers of a low carbon economy across all its activities. Partners believe that the delivery of this Programme provides an opportunity to show how this might be achieved, through testing methods for reducing greenhouse gas emissions at

the level of individual business, building, project and the Programme. As such the Programme will help to show the South West the way towards low carbon economic development.

A key part of this ambition is the very real potential for Cornwall and the Isles of Scilly to maximise the significant opportunities to use the environment to sustain and create economic growth. Most notably through:

- The sustainable use and management of resources, including energy, water and waste – environmental best practice can improve business efficiency by driving down business costs and reducing the risk of non-compliance with existing and emerging regulation;
- The exploitation of the research and development potential of the Combined Universities in Cornwall partnership to trigger eco-innovation, particularly for a lower carbon economy;
- The growth of the environmental goods and services sector (including environmental technologies and renewable energies sectors) is identified as a new and emerging sector which has the potential to support significant business growth and wealth creation;
- The embedding of energy and resource efficiency and renewable energy solutions into all types of business development.

The Convergence Programme's investment portfolio of projects will therefore include those that reduce greenhouse gas emissions compared with conventional approaches (e.g. energy efficient buildings and on site renewables; the reuse and recycling of commercial waste; and business advice on energy and resource efficiency); and that have the potential for realising a low carbon technological change (e.g. research, development and incubation of eco-innovation leading to business development).

Environmental good practice will lower the business cost base for Cornwall and the Isles of Scilly. In addition there is the potential to further develop local market based solutions for technologies such as earth energy heating. At a South West level employment in the renewable energy sector alone is expected to increase from 1,140 FTE in 2004/05 to between 14,000 and 17,000 by 2020⁵⁰.

Quality of life considerations, including the significant and notable asset base of the natural and historic environment, attract investment, businesses and workers to Cornwall and the Isles of Scilly. These have the potential to be reinforced into a more coherent package with the development of widespread environmental good practice within businesses together with the development of an enterprise base strong in environmental goods and services.

The environmental objectives of the Cornwall and Isles of Scilly Convergence Programme are to:

- increase:
 - The sustainable use of our natural resources, including land, water and the management of waste.
 - The sustainable use of energy, including both energy conservation and the use of renewable energy.
 - The business opportunities for the increased demands for environmental technologies, goods and services.
 - The awareness of businesses of the value of the environment and its role in economic development.

⁵⁰ Cornwall Economic Forum Strategy and Action (September 2006 Draft), 2006-26

- conserve:
 - The value of the natural and historic environments.
- use
 - The Programme and its projects as examples of the successful integration of economic and environmental goals, including the identification of good practice.

These complement the objectives of the South West's Integrated Regional Strategy.⁵¹

Monitoring

The programme monitoring strategy will include a section on Cross Cutting Theme evaluation and training by specialist advisors will be provided to ensure that monitoring officers have the capacity to effectively monitor and record cross cutting theme activity and data. This will include the collation of best practice case studies.

The following indicators have been developed for the Environment Cross Cutting Theme, taking account of provisional indicators set out in the draft Quantification Framework for ERDF prepared by DCLG. These will be kept under review as the Programme is monitored and evaluated. The Indicators will include:

- Number of buildings to a minimum BREEAM 'excellent' standard or equivalent /
- Number of environment and services sector businesses supported (including environmental technologies) /
- Number of environment and services sector businesses assisted (including environmental technologies Number of buildings refurbished/improved/adapted for productive use /
- Previously developed land prepared / developed /
- Number of businesses and buildings with embedded renewable energy and energy produced /
- Redundant buildings developed for new economic use /
- Businesses assisted to improve their environmental performance, including savings made

Compatibility with European Policy

The implementation of the objectives of the environmental Cross-Cutting Theme, driven by the concepts of the environment as an economic driver and investing in the drivers of a low carbon economy, will ensure that the Programme is totally compatible with the Sustainable Development Strategy adopted by the European Council of 15-16.06.06, and in particular point 25 on coordination of EC co-financing in the section on complementarity between ERDF and other EU policies and funding instruments.

⁵¹ Just Connect, An Integrated Regional Strategy for the South West 2004-2026

Overview of Actions by Priority

	Priority Axis	Impact on Environment	Response to be reflected in project design and delivery
Research, development and incubation of environmental goods and services, including Renewable Energies will result in new less resource and “green house” gas intensive technologies and the growth of emerging sectors.	Innovation, Research and Development	Environmental impacts associated with construction	Projects to be exemplars of environmental best practice in their design, construction and operation, including resource conservation, use of re-cyclates and embedding of micro generation / opportunities to drive the market in low environmental impact construction
The region’s HE/FE institutions hold specialist knowledge in some fields of environmental science and renewable le energy. Better links with businesses operating in these fields will result in the commercial exploitation of this expertise		Environmental impact associated with new products and services identified	Mainstreaming of environmental efficiency support into all mainstream and bespoke business support
			Proofing new technologies against their environmental impacts
The resource and energy efficiency and renewable energy strand of activity will support both existing and new businesses.	Enterprise and Investment	Environmental impacts associated with construction	Projects to be exemplars of environmental best practice in their design, construction and operation, including resource conservation, use of re-cyclates and embedding of micro generation. / opportunities to drive the market in low environmental impact construction
Growth of businesses responding to greater demands for environmental technologies, goods and services – including the potential for growth in exports.		Environmental impact associated with new and existing businesses	Mainstreaming of environmental efficiency support into all mainstream and bespoke business support activity.
Environmental management training resulting in more competitive sustainable businesses.			Proofing business development activities against their environmental impacts
Development of economically transformational infrastructure in the most environmentally smart way as exemplars for other public and private sector development	Transformational Infrastructure	Environmental impacts associated with construction	Projects to be exemplars of environmental best practice in their design, construction and operation, including resource conservation, use of re-cyclates and embedding of micro generation. / opportunities to drive the market in low environmental impact construction
		Material use impacts associated with new ICT infrastructure and its use	Projects to be exemplars of environmental best practice / use of ICT to reduce the need to travel whilst enabling connectivity both within the region, nationally and globally

	Priority Axis	Impact on Environment	Response to be reflected in project design and delivery
		Growth in use of airport leading to increased CO ₂ emissions	A package of measures to mitigate the carbon emissions, including energy efficiency targets, renewable energy systems and off-setting
Re-invigoration of key towns will improve their attractiveness to investors, as long as care is taken to maximise the design value of new development and maintain the historic character of areas.	Unlocking the Economic Potential of Place	Environmental impacts associated with construction	Projects to be exemplars of environmental best practice in their design, construction and operation, including resource conservation, use of re-cyclates and embedding of micro generation. / opportunities to drive the market in low environmental impact construction
Maximising the use of the embedded energy in existing economic infrastructure		Management of the need to travel	Development of sustainable local transport options within and between the urban areas

SEA Statement Summary Table

This table is also included in the updated Environmental Report which is submitted, together with the OP, to the European Commission.

Issue Raised by the SEA and Consultation	Response
Emphasise in the programme strategy that an important criteria in selection of activities will be the demonstration value of the activities proposed, in relation to environmental management as well as economic development.	The Commissioning approach will ensure that projects deliver in the most efficient manner both through value for money etc criteria as well as ensuring positive or at a minimum mitigated environmental impact. We are unlikely to make Environmental Management Strategy (EMS) a prerequisite for funding but would probably ensure that an (EMS) is developed as the project is implemented.
Adopt an overall aim of a moving towards a low carbon economy, rather than emphasising carbon neutrality.	We have adopted this in the text of the Operational Programmes.
Improve the baseline understanding of the environmental sector, and its needs and opportunities, as a priority	We recognised a need for a baseline. Work was jointly commissioned between Cornwall and the Isles of Scilly Objective One and South West Objective 2, to look at support given to the environment sector 2000-2006 and part of this work will be the mapping of the sector – this is being fed into the implementation phases of the Programme.
Put in place mechanisms to include an assessment of (and assistance with improving) environmental impacts in new products and in start-up and expanding businesses, as part of mainstream processes.	Yes, we will consider this when developing Innovation, FE/HE projects and proof of concept funding etc so that environmental implications of a process or product will be assessed alongside the concept development phase. <ul style="list-style-type: none"> • Target: Project assessment / evaluation criteria, to include this, developed by Autumn 2007
Consider the opportunity to widen the focus of environmental management on sectors with the largest environmental impact, including those with higher ratios of carbon emissions to GVA.	Yes, we will be looking to develop an integrated Business support service in the first year of the Programme. We are awaiting guidance from CLG, but we are keen that they are challenging, both in terms of the number of businesses assisted and the impact by targeting those businesses where the greatest savings can be made.
Re-visit the targets for businesses undertaking environmental management so that they better reflect the aspirations set out in the text of the programme.	The targets for businesses undertaking environmental management are yet to be developed as we are awaiting guidance from CLG, but we are keen that they are challenging, but are not just about the number of businesses assisted but also looks at the impact.
Ensure that business efficiency services are developed early in the life of the Programme, seek to promote their integration into mainstream service delivery, and ensure flexibility of approach	Yes, this is envisaged an early project for the programme delivering in 2008, brokered through mainstream business support services
Adopt BREEAM excellent as a minimum standard for new buildings, as proposed in the draft Programme	All Construction projects should be carried out in accordance with the best practice principles set out in the OGC Achieving Excellence in Construction initiative. <ul style="list-style-type: none"> ○ The appraisal of procurement options and the selection of the preferred project scheme must take into account of whole life value for money. ○ Clients are to pay all monies due promptly and in any event within the contractually required timescales. ○ Clients are to have in place systems to collect and analyse health and safety performance data for all projects on which they have a duty of responsibility. ○ Clients are to include within all their contracts involving construction that their scheme is registered with a suitable site management scheme such as the Considerate Constructors Scheme and to comply with

Issue Raised by the SEA and Consultation	Response
	<p>the appropriate Code of Practice.</p> <ul style="list-style-type: none"> ○ Clients are required to include a contract clause requiring that all members of their supply teams who are workers or regular visitors to a construction site are registered on the Construction Skills Certification Scheme (CSCS) or are able to prove competence in some other appropriate way. ○ An appropriate environmental assessment process such as BREEAM or CEEQUAL appropriate to the size, nature and impact of the project must be carried out on all projects with an excellent rating being the minimum acceptable standard. ○ All timber or timber products including timber used for temporary works are to be purchased in accordance with the Governments timber policy. ○ Any new procurement project must fall into the upper quartile of energy performance for the building type, except where specific operational requirements prevent this.
Consider specification of individual buildings in ways which increase the market for environmental technologies, taking into account aims such as landscape and transport impacts, low / neutral carbon, and use of secondary materials.	Yes, this will be part of the commissioning and appraisal of all build projects
Further development and scenario planning work on Newquay Airport proposals should take account of wider changes affecting the aviation sector, and the likely economic and environment impacts of outward bound flights	Yes, these will be undertaken before the project is commissioned and developed
Emphasise the importance of ICT in reducing the need to travel	This will be a key component of transformational infrastructure
Include references in the Programme to the environmental benefits of local sourcing, particularly in relation to food and drink	Local sourcing is a regional priority and goes beyond Food and Drink, to other sectors such as construction materials. This is another area which will be picked up in the cross fund structure.
Consider widening the scope of the Programme to include support for social economy and non-government organisations in local regeneration, including those which use environmental issues as a focus for training and work experience	The unlocking the economic potential of place Priority axis has an aspiration to work with local communities to improve the physical infrastructure of some of the most economically disadvantaged communities in Cornwall and the Isles of Scilly, alongside enterprise development; this will require the Programme to work closely with a range of stakeholders. This includes the development of Social Enterprise where appropriate to deliver the outcomes of the Programme and may include environmental activities such as recycling, composting, etc.
Consider the case for support to the tourism and cultural sectors, especially in relation to non-market assets on which these sectors rely	Businesses in the creative and tourism sectors will be supported where they support the focus on innovative high growth and high value, but we will not target the sectors for special support. 80% of EAFRD funding will be directed to agriculture – environment schemes which support and improve natural assets. Axis 3 of EAFRD also supports Sustainable Tourism
Put in place a senior, thematic group to oversee the environmental impact of the Programme, and (ideally) extend its remit to cover all EU Funds in the South West to promote integration, and to lead on awareness-raising issues	In Cornwall and the Isles of Scilly the South West RDA as Intermediary Body (Article 59) will have responsibility for aspects of managing a number of Funds. These include EAFRD, ERDF and EFF. The environment will be treated similarly across all Funds, with similar aspirations and appropriate targets. The South West RDA is committed in

Issue Raised by the SEA and Consultation	Response
	the Operational Programme to put in place a senior thematic group to cover all Funds, where it has influence. A reference group to help drive the environment as a cross cutting theme across in all European economic regeneration programmes in the South West has been established.
Involve members of this group in other decision-making bodies as appropriate	This is already the case, they have a role on the to be developed PMC, and in the proto regional governance structures for EAFRD and EFF.
Ensure project application, selection, guidance and monitoring materials integrate environmental concerns throughout	<p>As the projects are to be commissioned environmental aspects of the project will be considered from the earliest project development stage and applicants will need to show how they are achieving the environmental aspirations of the programme.</p> <ul style="list-style-type: none"> • Target: environmental criteria to be integrated into the application, selection, guidance and monitoring materials and processes by start of the Programme.
Include, in ways appropriate to the commissioning system employed, staff capacity to support projects to deliver environmental benefits, particularly in relation to behaviour change necessary in relation to carbon management	There will be dedicated resource to ensure that environmental benefits are captured as projects are developed. Cross Cutting theme resources will also be embedded into the Partnership Office.

The Managing Authority will report annually on progress towards and against the objectives and targets above

7.2 Equality and Diversity

Introduction

In 2000, the Government gave most public authorities in Britain a legal duty to promote race equality, and since then gender and disability duties have been implemented. The UK Government has made a commitment in the NRSF to treating environmental sustainability and equality as cross-cutting themes for all future Structural Fund programmes. The framework states that *'all structural fund programmes will respect the principles of non-discrimination and equal opportunities. Projects will be encouraged to take account of the needs of the local communities they serve, and where appropriate take account of good practice developed within the Equal Community Initiative.'*

The Integrated Regional Strategy has an aim *'to make sure that people are treated fairly and can participate fully in society'*.

This section outlines the key equality and diversity issues facing Cornwall and the Isles of Scilly, the objectives for the Programme in terms of addressing these issues, how equality will be monitored and key actions by Priority needed to address these issues.

Key Facts

	Key Facts
Gender	<p><i>Employment</i> – Women accounted for 48% of the total working age population, a slight decrease since 2000. Women are more likely to work in part-time jobs than their male counterparts.</p> <p><i>Average Earnings</i> – Female full time earnings are increasing faster than the male equivalent, however, they are still lagging in absolute terms.</p> <p><i>Economic Activity</i> – In 2005, women of working age had a lower economic activity rate (73%) than their male counterparts (85%).</p> <p><i>Unemployment</i> – Female unemployment has dropped significantly over the last ten years to 1.5% in 2005, compared to 4.5% for men. Women have a lower average duration of unemployment.</p>
Age	<p><i>Employment</i> - The over-50's have lower rates of employment (37.6%) than other age groups; however, this has grown from a rate of 33.6% in 2000.</p> <p><i>Unemployment</i> – Unemployment is highest (10.3%) amongst the 16-24 age group.</p> <p><i>Economic activity</i> – The over 50's have the lowest economic activity rates at 38.4%, however this has increased significantly since 1995 (31.8%).</p>
Ethnicity	<p><i>Population</i> – 1% of the population of the South West are from BME backgrounds compared to 2.3% in the South West and 9.1% nationally.</p> <p>In the 2001 Census about 34,000 people in Cornwall and 3,500 people in the rest of the UK considered their ethnic group to be Cornish. This represented nearly 7% of the population of Cornwall.</p> <p><i>Employment</i> – The employment rate is 81% for BME individuals compared to 75% for all people. This performance is better than that of England, with 59% and 75% respectively.</p>
Disabilities	<p><i>Population</i> – 22% of the working age population are classified as disabled and 19% have a disability that impacts on their ability to work.</p> <p><i>Employment and Economic Activity</i> – 57% of working age disabled people in Cornwall and the Isles of Scilly were classified as economically active, compared to 55% nationally and 78% for all people. There are distinct differences in economic activity rates ranging from 65% in Kerrier to 48% in Caradon.</p>
Note: An Equality Impact Assessment Screening is included at Annex B	

Issues

For Cornwall and the Isles of Scilly to achieve the economic growth targets proposed, all members of society need to be able to contribute their full potential. The key facts as detailed in the table above highlight the current inequalities within the region's workforce. Whilst legislation is in place (as detailed in the table below) to prevent discrimination within the workplace, inequalities remain. These inequalities mean that people are working below their full potential due to a number of barriers:

- Discrimination and harassment;
- Childcare and other logistical issues;
- Confidence and self esteem;
- Education and skills; and
- Awareness of opportunities.

Strand	Legislation
Race	Race Relations Act 1976 (Amendment) Race Regulations 2003
Disability	Disability Discrimination Act 1995
Gender	Sex Discrimination Act 1975
Gender	Sex Discrimination (Gender Reassignment) Regulations 1999
Sexual Orientation	Sexual Orientation Regulation came into force in December 2003
Age	Employment Equality (Age) Regulations 2006
Religion or Belief	Employment Equality (Religion or Belief) Regulations 2003

There are a number of barriers, such as childcare and other logistical issues; confidence and self esteem; education and skills; and awareness of opportunities where project sponsors can take positive actions to reach groups and increase participation.

The challenge for the Programme is to ensure that all members of society are able to benefit from and access the support proposed under this Programme. While many of the proposed activities are focused on developing a knowledge based economy, there is a risk with some of these activities that under-represented groups will be indirectly discriminated against. In instances where target sectors that are traditionally male dominated, it is important to identify how women or other under-represented groups will be able to access opportunities.

Equality Impact Assessment

Although it is a Programme rather than a policy, advice received from DCLG Equality and Diversity Unit (EDU) is that all Operational Programmes (OP) should be screened for their relevance to and potential impact on six strands of equality: Race, Disability, Gender, Sexual Orientation, Age and Religion/Belief. The screening will identify any adverse affect the Programme may have on any specific groups and also determine if a full assessment is required. An impact assessment will also fulfil the requirements of Article 16 of the General Regulations (EC) No 1083/2006.

The six strands of equality were taken into account in the early development of the Programme, and further work took place to develop the final Programme. This involved:

- Consulting all stakeholders as part of the full consultation process on the Draft Operational Programme;
- Undertaking the Equality Impact Screening Process; and
- Dependent upon the results of the Screening Process, undertaking a full Impact Assessment, and amending the Operational Programme to take account of the results.

The results of the Screening Process identified that the Programme was unlikely to have any negative effects in terms of key groups, but that specific actions were needed to ensure equality of opportunity and ensure participation by key groups. The Equality Impact Assessment is presented as Annex B to the Operational Programme.

The Equality Impact Screening Assessment identified the need to ensure access to services, with a need to be aware of constraints facing particular groups, and to ensure that new developments take account of needs.

As a result of this Screening Exercise the following additions were suggested to the Operational Programme and the initial approach to Equal Opportunities:

- Monitoring at the proposal stage of access for people with disabilities for all buildings and premises being supported by the Programme.
- Explicit plans incorporated into proposals for enterprise culture which focus on challenges faced by the priority groups.
- Development of an access strategy to accompany digital investment, to reduce the digital divide.
- Access plan targeting disadvantaged groups to accompany new investment in CUC
- Consideration of access, including public transport, for all major investments funded under Priority 4 and the production of employment access plans, possibly funded by ESF, for major investments under Priority 4.

These additions have been accepted as important elements in taking forward the Cross Cutting Theme.

Objectives

In the light of the issues identified above, the objectives for the Programme will be to:

- Increase the take-up of quality training and employment by under-represented target groups.
- Increase the number of people in under-represented groups accessing training and employment in higher skilled occupations and sectors where they are currently under-represented.
- Ensure that new facilities and developments take account of access needs which may restrict use by key groups.
- Ensure that business support is inclusive and responsive to the needs of all communities and under-represented groups.
- Increase the participation of people in under-represented groups in the management and implementation structures of the programme. It is important that partnerships, selection panels and other administrative groups are representative at all levels and positive steps are taken to gain the active involvement of under-represented groups.
- Increase the number of people under-represented groups owning their own business.

In order to ensure that the Cross Cutting Theme is implemented successfully, the following arrangements will be put in place: an Equality and Diversity Advisor in place at the beginning of the programme; an Equalities Advisory Group to provide specialist support; a comprehensive and robust data collection system; specific equalities training for everyone involved with the management and implementation process, including partners and project appraisers and robust and inclusive monitoring and evaluation systems.

In addition stakeholders will work with the Regional Equalities Networks and Equality South West to continually improve the evidence base, identify best practice and where necessary introduce new actions to ensure that the Cross Cutting Theme is successfully intergraded in to the implementation of the Operational Programme.

Monitoring

Monitoring will be an important tool in delivering the equality objectives. The programme monitoring strategy will include a section on cross cutting theme evaluation and training by specialist advisors will be provided to ensure that monitoring officers have the capacity to effectively monitor and record cross cutting theme activity and data. This will include the collation of best practice case studies. The following indicative targets have been set for Equal Opportunities and Diversity.

ERDF Indicators	Target Number
Number of persons from under represented groups ¹ assisted in starting a business	10% of all persons assisted
Number of women assisted in starting a business	40% of all persons assisted
Proportion of Programme committee and sub committee members who are women	50% of Committee members
¹ Defined as people from a black and minority ethnic background, and people with a disability	

There is a need to review the characteristics of people taking up new employment opportunities generated by the Convergence Programme. This will be important in assessing the distribution of benefits, and the extent to which key groups, such as older workers, are accessing these opportunities. This will be carried out through periodic surveys to provide a profile of those benefiting, rather than through the collection of monitoring data from project sponsors.

Actions by Priority

Priority Axis	Issue	Response
Innovation and Research and Development	There is a risk that supporting ideas, innovation and knowledge activity will be interpreted as only applying to the technical/engineering type companies which are traditionally male dominated.	Activities must encompass the whole of the business base and intellectual property spectrum, not just technically focussed companies. Promotional and marketing needs to target knowledge based service enterprises, and a broad range of occupations, not just those with technical skills. Emphasis on creativity as well as technology
	Access to research facilities	Ensure new provision and facilities accessing revenue support have appropriate access and facilities for people with disabilities. Accessibility of facilities, services and support needs to be addressed by project sponsors, in terms of physical access, facilities and support for childcare, and reducing any impression that services are for a limited group of companies or people.
Enterprise and Investment	Risk that groups may miss out on enterprise culture work.	Design materials and deliver activities which take account of barriers to participation. Ensure mentors and champions are drawn from all groups.
	Women and disadvantaged groups are less likely to start their own business	Target activities at women and under-represented groups taking account of specific barriers to the take up of opportunities.
	New starts in the knowledge intensive and high-growth areas are more likely to be male dominated	Monitoring and targeted activity at women and disadvantaged groups as required
	The environmental technologies sector is male dominated	Monitoring and targeted activity at women and disadvantaged groups as required
	Limited broadband coverage in certain areas	Provide 100% broadband across the entire area and increase bandwidth to support greater market where able.
Transformational Infrastructure	CUC, Airport, Digital Infrastructure	Develop the potential of CUC and new digital infrastructure to provide opportunities for key target groups, including older people.
Unlocking the Economic Potential of Place	Risk of not including disadvantaged communities	Link to ESF to target groups in areas where significant new employment is anticipated.
	Ensuring there are options for people without a car	Assessing potential impact on people without a car. Take account of transport and public transport links in planning major investments. Ensure that new premises and wider developments take account of the needs of people with disabilities.

8 Financial Allocations

Careful consideration has been given to the balance of funding between the four Priorities. This has taken account of a number of factors. The most important factor has been the contribution to the four Operational Objectives of the Programme.

Operational objective	Contribution
Transforming the economy to a more knowledge based, high value added economy with a broader range of sectors, and a reduced dependence on low paid jobs.	Priority 1 and 2 are focused on research, innovation and the development of knowledge based business. Priority 2 includes a focus on strengthening knowledge based sectors and/or which are under-represented. ESF related investment will provide support in higher level skilled training and research needed to support knowledge based economy; as will Priority 3 investment in ICT and knowledge infrastructure, as well as greater national and international connectivity through the Airport.
Managing economic growth in a sustainable manner	Priority 4 is focussed on the development of a number of major employment locations, with associated public transport improvements to ensure sustainable employment growth. It is complemented by Priority 3 and the ICT infrastructure critical to further developing home based and remote working.
Increasing the range of employment opportunities available to the community	Priority 4 and 2 will provide the business infrastructure which will accommodate significant employment growth, making more employment opportunities available across the region. It is complemented by Priority 3 which will support ICT infrastructure which will facilitate greater home working. This objective will complement ESF investment which will help people gain the skills to access better quality employment opportunities. Priority 2 will indicate a rural workspace strategy which will complement EAFRD investment in rural businesses.
Take a leading role in investing in the drivers of a low carbon economy	Priority 1 and 2 have a major focus on environmental technologies and renewable energy.

The other factors which have been taken into account in determining the allocation of resources are the limitations on absorption capacity with regard to research and development, an activity relevant to only a proportion of the business base, and the emphasis on knowledge based and growth industries in Priority 2, again restricting the relevance to a proportion of the business base. In terms of absorption capacity, the level of resources and number of businesses take account of the Objective One Programme, the growth in the economy, and the duration of the Programme i.e. seven years to build up demand for some key activities.

Taking account of these factors, the financial allocations of ERDF resources have been set at:

- 52.5% of resource in Priorities 1 and 2, with the Priority 2 receiving the largest Priority allocation, reflecting its role in strengthening competitiveness and the more focussed support of Priority 1 on research and innovation; and
- 47.5% of resources on creating the conditions for sustainable economic growth for a knowledge based economy, taking account of the critical economic infrastructure needed for a competitive economy in Priority 3, and the need to manage employment growth in a sustainable manner in the major centres in the region.

The final allocations of the Convergence Programme are outlined **below**. All ERDF funding is subject to the automatic de-commitment rules as specified in section 7 of Council Regulation (EC) 1083/2006. The figures below are in current prices⁵².

Table 1: Financial Plan of the Operational Programme giving the Annual Commitment of each fund in the Operational Programme

Operational Programme Reference (CCI number):

Year by source for the programme in €s

Year	ERDF	Total
2007		
In Regions without transitional support	€ 61,614,092	€ 90,044,370
In Regions with transitional support	€ 0	€ 0
Total 2007	€ 61,614,092	€ 90,044,370
2008		
In Regions without transitional support	€ 62,846,373	€ 91,845,256
In Regions with transitional support	€ 0	€ 0
Total 2008	€ 62,846,373	€ 91,845,256
2009		
In Regions without transitional support	€ 64,103,301	€ 93,682,162
In Regions with transitional support	€ 0	€ 0
Total 2009	€ 64,103,301	€ 93,682,162
2010		
In Regions without transitional support	€ 65,385,366	€ 95,555,803
In Regions with transitional support	€ 0	€ 0
Total 2010	€ 65,385,366	€ 95,555,803
2011		
In Regions without transitional support	€ 66,693,073	€ 97,466,919
In Regions with transitional support	€ 0	€ 0
Total 2011	€ 66,693,073	€ 97,466,919
2012		
In Regions without transitional support	€ 68,026,936	€ 99,416,260
In Regions with transitional support	€ 0	€ 0
Total 2012	€ 68,026,936	€ 99,416,260
2013		
In Regions without transitional support	€ 69,387,474	€ 101,404,584
In Regions with transitional support	€ 0	€ 0
Total 2013	€ 69,387,474	€ 101,404,584
Grand Total 2007-2013		
Total in Regions without transitional support	€ 458,056,615	€ 669,415,354
Total in Regions with transitional support	€ 0	€ 0
Grand Total 2007-2013	€ 458,056,615	€ 669,415,354

⁵² The NSRF announcement on 23 October used 2004 prices for the regional ERDF programme allocations. The programme allocations at current prices have had indexation applied at 2% in a cumulative effect.

Table 2: Financial Plan of the Operational Programme giving, for the whole programming period, the amount of the total financial allocation of each fund in the Operational Programme, the national counterpart and the rate of reimbursement by priority Axis

Payments are made as reimbursements of expenditure actually paid out according to the following plan.

Operational programme reference (CCI number):

Priority axes by source of funding (in €s)

	Community Funding (a)	National Counterpart (b) (=c)+(d))	Indicative Breakdown of the National Counterpart		Total funding (e) (=a)+(b))	Co-Financing rate (=a)/(e)) (f)	For information	
			National Funding (c)	Public Private Funding (d)			EIB Contributors	Other Funding
Priority Axis 1: Innovation and Research & Development	€ 105,013,000	€ 35,004,334	€ 35,004,334	€ 0	€ 140,017,334	75.00%		
Priority Axis 2 Enterprise and Investment	€ 130,011,000	€ 54,503,600	€ 31,956,007	€ 22,547,593	€ 184,514,600	70.46%		
Priority Axis 3 Transformational Infrastructure	€ 105,013,000	€ 52,506,500	€ 30,930,032	€ 21,576,468	€ 157,519,500	66.67%		
Priority Axis 4 Unlocking the Economic Potential of Place	€ 107,590,431	€ 65,868,297	€ 51,351,152	€ 14,517,145	€ 173,458,728	62.03%		
Technical Assistance	€ 10,429,184	€ 3,476,008	€ 3,476,008	€ 0	€ 13,905,192	75.00%		
Total	€ 458,056,615	€ 211,358,739	€ 152,717,533	€ 58,641,206	€ 669,415,354	68.43%		

9 Co-ordination

Complementarity with other Funds

ERDF is one of four Funds which will operate in the South West during the 2007-2013 period. The other Funds are:

- European Agricultural Fund for Rural Development Fund (EAFRD)
- European Fisheries Fund (EFF)
- European Social Fund (ESF)

There is also a Competitiveness ERDF Operational Programme (2007-2013) for the rest of the South West. Additionally, where appropriate, use will be made of support from the European Investment Bank.

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

European Agricultural Fund for Rural Development (EAFRD) and the European Fisheries Fund (EFF)

The National Strategic Reference Framework set out the European Agricultural Fund for Rural Development (EAFRD) and the European Fisheries Fund (EFF):

- EAFRD will focus on supporting diversification of rural economies at the local level. This will include interventions which support farm diversification and woodland enterprises; supporting the growth of micro enterprises, and improving skills and employment opportunities, where support is not available from elsewhere.
- The European Fisheries Fund will support the overall aims of fisheries management – a fishing sector that is sustainable, supports strong local communities, and managed as part of a set of coherent policies for the marine environment. There are five main priorities for funding under the EFF: helping the fleet to adapt fishing capacity and effort to available fish resources; providing support to various industry branches (aquaculture, processing, marketing); provision of aid for operations to support the collective interest of the sector; promoting the sustainable development of fisheries-dependent areas, and providing technical assistance to Member States to facilitate the delivery of aid.

The Rural Development Programme for England will be delivered through a Regional Implementation Plan with three Priority Axes. These are:

- Axis 1: Making Agriculture More Competitive and Sustainable.
- Axis 2: Enhancing the Environment and Countryside
- Axis 3: Enhancing Opportunity in Rural Areas.

The European Regional Development Fund (ERDF) and European Fisheries Fund (EFF) both share common objectives with the European Agricultural Fund for Rural Development (EAFRD). Each fund is guided by the cross cutting principles of Lisbon and Gothenburg Agendas of strong economic growth coupled with the sustainable use of natural resources.

To ensure all European Programmes are aligned and delivery is better co-ordinated, there will be a move towards a more strategic investment approach within the region, with a more proactive approach to the development of projects to deliver Programme objectives. The Convergence Area principles for aligning European funding are as follows:

- **Measurable added value:** resources do not replace mainstream funding, or support activity for which other sources of funding are more appropriate.
- **Transparency:** duplication of funding is avoided. Systems can guide the beneficiary to the most appropriate source of funding
- **Co-ordination:** funding is coordinated at a regional, sub-regional and local level to provide maximum impact.

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

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

Complementarity and demarcation between ERDF, EAFRD and EFF

England's Regional Development Agencies will deliver the ERDF, and the socio-economic elements of the RDPE (with the exception of the Regional Development Agency for London, which does not receive any EAFRD support).

The Regional Development Agencies will ensure coherence in the day to day management of the socio-economic support under the RDPE and the ERDF. They will ensure that work carried out at the regional level under the two funds is complementary, and robust project development and selection processes will ensure that any duplication is avoided. Administrative arrangements are in place to ensure complementarity and co-ordination, for example, common secretariats; exchange of personnel on regional management committees; exchange of information from databases. The RDAs will also be required to work closely with the Leader groups to ensure demarcation on the ground. These processes begin with the clear establishment of demarcation criteria at the regional level.

In the South West region we are considering an overarching body with representatives of all the Funds Governance Structures whose role will be to ensure alignment and demarcation. Project applications and local development strategies will be required to demonstrate how proposals align with other programmes and funding within a given area. This includes implementing provisions to ensure that measures supported under Convergence do not duplicate those funded by EAFRD and ESF in particular.

The table below sets out the way in which this will be delivered in Cornwall and the Isles of Scilly.

Complementarities and proposed demarcation criteria

Field of activity	ERDF focus	EAFRD focus	EFF focus
Priority Axis 1: Innovation and Research & Development			
Stimulating Research & Development	<p>Focused on building the intellectual capital within Cornwall and the Isles of Scilly.</p> <p>Activity will focus on enhancing the research capacity available to businesses, particularly in growth sectors, and increasing business expenditure on research and development through providing support for exploring the potential of new ideas.</p> <p>ERDF will not provide support on specialist and technical subjects specific to agriculture, food and drink linked to primary food and drink producers, forestry, or the fisheries sectors.</p>	<p>Focus on specialist and technical subjects specific to agriculture, food and drink linked to primary food and drink producers and the forestry sectors,</p> <p>Focusing on businesses employing less than 10 people.</p> <p>Targeting skills and knowledge transfer which are needed to grow or re-structure the business, operate best practice in environmental and resource management, and vocational skills</p>	<p>Focus on specialist and technical subjects specific to the fisheries sector</p> <p>Focused on businesses employing less than 50 people.</p>
Supporting Ideas, Innovation & Knowledge	<p>Focus on linking businesses to HEI expertise, with emphasis on addressing a weakness in support provision exacerbated by peripherality.</p> <p>ERDF will not provide support on specialist and technical subjects specific to agriculture, food and drink linked to primary food and drink producers, forestry, or the fisheries sectors.</p>	<p>Focus on specialist and technical subjects specific to agriculture, food and drink linked to primary food and drink producers and the forestry sectors, focusing on businesses employing less than 10 people.</p> <p>Targeting skills and knowledge transfer which are needed to grow or re-structure the business, operate best practice in environmental and resource management, and vocational skills</p>	<p>Focus on specialist and technical subjects specific to the fisheries sector</p> <p>Focused on businesses employing less than 50 people.</p>
Innovation and Incubation	<p>Focus on addressing the shortage of specialist support for companies and individuals to create and further develop ideas.</p> <p>Support will include the establishment and operation of a network of innovation centres,</p>	<p>Focused on collaborative groups focusing on businesses employing less than 10 people.</p> <p>Innovations and the adoption of new technologies focused on the agricultural, forestry and food and drink businesses sectors</p>	<p>Focus on specialist and technical subjects specific to the fisheries sector</p> <p>Focused on businesses employing less than 50 people.</p>

	<p>specialist research centres, and incubation space, and the provision of small grants to staff and students in HE and FE initially.</p> <p>ERDF will not provide support on specialist and technical subjects specific to agriculture, food and drink linked to primary food and drink producers, forestry, or the fisheries sectors.</p>		
Environmental Goods and Services	<p>Focus on developing an industry leading on the design, development and production for local use and export of products responding to environmental and energy related opportunities; building on real increases in intellectual capital in HE and elsewhere.</p> <p>ERDF will not provide support on specialist and technical subjects specific to agriculture, food and drink linked to primary food and drink producers, forestry, or the fisheries sectors.</p>	<p>Adding value and developing the supply chain for the forestry sector Focused on sector needs which drive growth, re-structuring and environmental good practice for the following sectors</p> <ul style="list-style-type: none"> • Land based • Forestry • Food and drink • Non food crops 	<p>Focus on specialist and technical subjects specific to the fisheries sector Focused on businesses employing less than 50 people.</p>
Priority Axis 2: Enterprise and Investment			
High Growth Companies	<p>Providing intensive, bespoke support for a limited number of companies with the potential to grow rapidly, and will be primarily targeted companies with between 20 and 80 employees.</p> <p>ERDF will not provide support on specialist and technical subjects specific to land based businesses</p>	<p>Focused on rural services improvements delivered through rural social enterprises.</p> <p>Focused on business support for diversifying land based businesses (agriculture, horticulture and forestry) to broaden the economic base.</p>	<p>Focus on specialist and technical subjects specific to the fisheries sector</p> <p>Focused on businesses employing less than 50 people.</p>
Productive Businesses	<p>Support is focused on new starts with high growth potential and businesses owned by young people (25 and under) and targeted business support aimed at key sectors, networks,</p>	<p>Focus will be on support to improve competitiveness and diversification of agriculture and forestry, and to assist the development of sustainable, rural social and micro enterprises.</p>	<p>Focus on specialist and technical subjects specific to the fisheries sector</p> <p>Focused on businesses employing less than 50 people.</p>

	<p>business clusters and niches. Further support will ensure appropriate accommodation is available for businesses investing and re-investing in Cornwall and the Isles of Scilly.</p> <p>Focus will be on high growth, knowledge intensive businesses. ERDF will not support investments by farmers in diversification such as creation of work space. ERDF will not provide support on specialist and technical subjects specific to land based businesses.</p>	Activity will not focus on high growth, knowledge intensive businesses outside of the land based sector.	
Environmental Goods and Services	<p>Emphasis will be on developing an industry based on the design, development and production of products responding to environmental and energy related opportunities beyond land based businesses.</p> <p>This would include businesses working with research centres, specialist organisations, manufacturing and service companies, in addition to stimulating demand within Cornwall and the Isles of Scilly to create a regional market.</p> <p>ERDF will not provide support on specialist and technical subjects specific to the land based sector</p>	<p>Adding value and developing the supply chain for the forestry sector</p> <p>Focused on sector needs which drive growth, re-structuring and environmental good practice for land based businesses in the agriculture, horticulture and forestry sectors</p>	<p>Focus on specialist and technical subjects specific to the fisheries sector</p> <p>Focused on businesses employing less than 50 people.</p>
Priority Axis 3: Transformational Infrastructure			
Transformational infrastructure	Activity will focus on the provision of key economic infrastructure. This will be limited to Newquay Airport; development of future proofed ICT infrastructure; and enhanced knowledge	No activity is envisaged under this strand	No activity is envisaged under this strand

	infrastructure supporting development of research and innovation facilities.		
Priority Axis 4: Unlocking the Economic Potential of Place			
Unlocking the economic potential of place	This will provide targeted integrated developments in a small number of key towns including Camborne/Pool/Redruth, St Austell, Truro, Falmouth/Penryn	No related activity is envisaged under this strand	No related activity is envisaged under this strand. Consideration on demarcation with EFF will take place alongside consultation on the national EFF Operational Programme.

EAFRD, EFF and ERDF will be segregated by business type, for example farm and forestry and fisheries businesses will not be eligible for certain services especially under the Priority Axis 1: Innovation and Knowledge as they already have this provided by Axis 1: Competitive Farming and Forestry in the EAFRD, and by Axis 2 of EFF, by business size, or by geographic designation. Axis 3 of EAFRD on Rural development, works with geographically targeted Community Led Development and will target traditionally low performing sectors such as food and drink and tourism. These are not the target groups for Axis 2 of Convergence which is will target high growth businesses as well as the developing environmental technologies and renewable energy.

The Convergence ESF Framework

The England and Gibraltar European Social Fund (ESF) Programme will contribute to the sustainable economic growth and social inclusions by extending employment opportunities and developing a skilled and adaptable workforce. The Operational Programme for England and Gibraltar establishes the national priorities for the programme period (2007-2013) in line with the Lisbon Agenda and the Government's employment and skills strategies. Within these priorities the Convergence ESF Framework sets out how ESF spending will support employment and skills priorities.

There are three ESF Priorities relevant to the Convergence Area:

- **Priority 4: Tackling Barriers To Employment Opportunities** – through tackling barriers to work faced by disadvantaged groups, this priority will seek to increase employment, and reduce unemployment and inactivity;
- **Priority 5: Improving Skills of the Local Workforce** – will aim to develop a skilled and adaptable workforce by reducing the number of people without basic skills, increasing the number of people qualified to level 2 and level 3, higher level skills and higher education; reducing gender segregation in the workforce, and developing managers and workers in small enterprises; and
- **Priority 6: Technical Assistance** – funding under this priority will be available to finance the preparatory, management, monitoring, evaluation, information and control activities of the Operational Programme.

ESF Funds will target in particular:

- People who are unemployed or economically inactive, especially people with disabilities or health conditions, lone parents, older workers, and ethnic minorities;
- Young people Not in Education, Employment, and Training (NEETS) and at risk of becoming NEET;
- People without a full, relevant level 2 qualification;

- People without a full, relevant level 3 qualification in sectors where there are skills shortages at this level, in small and medium sized enterprises (up to 250 employees), and for women and ethnic minorities in sectors and occupational areas where they are under-represented;
- Research and research skills, and graduate placements as part of the process of developing higher education.
- Managers and workers in small enterprises (up to 50 employees).

There are likely to be close links between targeted support under ESF Priority 4, aimed at disadvantaged groups, and ERDF Priority 2 and Priority 4, where increasing the pool of employment ready candidates will be important in supporting companies to grow.

The support made available under ESF Priority 5 includes management and leadership training for companies with less than 50 employees, as well as actions addressing skills shortages, and up-schilling of the workforce. This ESF funded activity will complement the Enterprise and Investment Priority where support will be provided to help companies grow their businesses. Many growth plans will include skills dimension, and ERDF and ESF will work together to accelerate business plans.

The Priority 5 focus on level 4 and 5 skills levels and the development of higher education is of considerable importance to the objective of moving towards a knowledge based economy. While ERDF will fund a number of research and innovation facilities. ESF has a role to play in supporting post graduate research and in further developing graduate placement programmes. This focus on research and research skills will make a significant contribution to developing the knowledge capital supporting the process of transformation, helping to make the area more attractive to inward investors. It is therefore closely linked to the regeneration of place.

Links between the Competitiveness and Convergence Programmes (ERDF)

The South West region, excluding Cornwall and the Isles of Scilly, will benefit from a Competitiveness ERDF Operational Programme between 2007-2013. The analysis supporting the Operational Programme highlights the intra regional disparities between east and west, with those areas most adjacent to Cornwall lagging furthest behind.

There are close links between the west of Devon and east Cornwall and south east Cornwall and Plymouth. There are a number of strands of activity which are relevant to the two Programmes, including renewable energy and environmental technologies, innovation and enterprise. It will be important that businesses in Cornwall and the Isles of Scilly and the west of the region collaborate and are part of regional networks and collaborative activities. There is a strong commitment to ensuring complementarity and the alignment of activities across the Programmes.

There are considerable opportunities for collaboration between the two Programmes. These are summarised below:

Innovation	<p>Encouraging participation in regional knowledge and innovation networks, particularly linking Plymouth and its knowledge assets to businesses in the Convergence area, and vice versa.</p> <p>Developing joint ventures and partnerships across the region, particularly with business in West and North Devon and Plymouth.</p> <p>Promoting Cornish knowledge assets in Cornwall to businesses in the wider region.</p> <p>Environmental technologies and renewable energy – developing region wide networks, particularly linking to business in the west of the region.</p>
Enterprise	<p>Encouraging participation in regional business and trade groups, particularly linking business in Cornwall and the isles of Scilly with the west of the region.</p> <p>Developing joint ventures and partnerships across the region, particularly with regard to internationalisation of trade.</p>

	<p>Developing sectors and networks, such as in the marine industries, where there are shared changes in terms of innovation, product and process development and accessing new markets.</p> <p>Environmental technologies and renewable energy – developing collaborative ventures, shared market research.</p>
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Procedures will be put in place to ensure that there is an awareness of planned interventions, and the potential for collaborative and complementary actions are prioritised in the delivery phase.

Sustainable Development Strategy

In accordance with point 25 of the Sustainable Development Strategy adopted by the European Council of 15-16.06.06, Programme activity will be coordinated to enhance complementarities and synergies between various strands of Community and other co-financing mechanisms such as cohesion policy, rural development, LIFE+, research and development, the Competitiveness and Innovation Programme and the European Fisheries Fund. Complementarity between ERDF and other EU policies and funding instruments will ensure funding is used in an optimum way to promote sustainable development.

Territorial Cooperation

The whole of the South West of England is eligible for the Territorial Cooperation (TC) objective. Cornwall and the Isles of Scilly in particular will benefit from the both the trans-national, through the North West Europe and Atlantic Area programmes, and the inter-regional strands. It has also for the first been included in the cross-border strand which represents a significant opportunity for that part of the region to work with partners across the Channel.

In the 2007-2013 programming period, the TC objective has acquired the same status as the Convergence and Competitiveness programmes and its focus has shifted with the emphasis firmly on competitiveness, innovation and sustainable development (Lisbon/Gothenburg) rather than on spatial planning. Another new component of TC is the Regions for Economic Change (RfEC) initiative under the interregional strand which would enable the region to have innovative ideas tested and rapidly disseminated into the Convergence, Competitiveness and Cooperation programmes.

There are therefore some clear complementarities between the Convergence and the TC programmes relevant to Cornwall and the Isles of Scilly. It is expected to use the synergies between these programmes to deliver some key strategic outcomes, for example activities to increase the capacity of regions for R&D, to support the efforts for the internalisation of the economy, to develop stronger regional policies and to stimulate energy efficiency and the development of renewable energies.

Seventh Research Framework Programme

Given the commitment in this Operation Programme to innovation and research and development, the complementarity with FP7 is acknowledged. Investment priorities identified in the Convergence Programme will, where appropriate, complement FP7 thematic research areas. The regions Science and Industry Council will coordinate promotion of all R&D activities and funding mechanisms.

10 Implementing Provisions

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CORNWALL AND ISLES OF SCILLY CONVERGENCE OPERATIONAL PROGRAMME - 2007/13

IMPLEMENTING PROVISIONS

1. REGULATORY CONTEXT

In accordance with the requirements of Article 37(1)(g) of Council Regulation (EC) No 1083/06 of 11 July 2006, this chapter sets out the implementation provisions for the Cornwall and Isles of Scilly Convergence Operational Programme ("the OP").

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

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

2. MANAGING AUTHORITY, CERTIFYING AUTHORITY AND AUDIT AUTHORITY

Managing Authority: Role and Functions

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

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

The MA for the OP is the Secretary of State for Communities and Local Government (SSCLG). The address is Eland House, Bressenden Place, London SW1E 5DU, England, United Kingdom. The functions of the MA will be carried out by officials of the Department of State headed by SSCLG (the Department for Communities and Local Government) within the ERDF Programme Strategy and Coordination (PSC) Division located in Eland House and within the ERDF Programme Delivery Team (PDT) based within the OP area. The MA is functionally independent from the Certifying Authority and the Audit Authority.

The specific tasks of the MA to be carried out by the PDT are as follows:

- (a) ensuring that operations are selected for funding in accordance with the criteria applicable to the OP and that they comply with applicable Community and national rules for the whole of their implementation period;
- (b) verifying that the co-financed products and services are delivered and that the expenditure declared by the beneficiaries for operations has actually been incurred and complies with Community and national rules; verifications on-the-spot of individual operations may be carried out on a sample basis in accordance with the detailed rules to be adopted by the Commission in accordance with the procedure referred to in Article 103(3);

- (c) ensuring that there is a system for recording and storing in computerised form accounting records for each operation under the OP and that the data on implementation necessary for financial management, monitoring, verifications, audits and evaluation are collected;
- (d) ensuring that beneficiaries and other bodies involved in the implementation of operations maintain either a separate accounting system or an adequate accounting code for all transactions relating to the operation without prejudice to national accounting rules;
- (e) ensuring that the evaluations of OPs referred to in Article 48(3) are carried out in accordance with Article 47;
- (f) setting up procedures to ensure that all documents regarding expenditure and audits required to ensure an adequate audit trail are held in accordance with the requirements of Article 90;
- (g) ensuring that the certifying authority receives all necessary information on the procedures and verifications carried out in relation to expenditure for the purpose of certification;
- (h) guiding the work of the Programme Monitoring Committee, now known as Local Management Committee (LMC) and providing It with the documents required to permit the quality of the implementation of the OP to be monitored in the light of its specific goals
- (i) drawing up and, after approval by the monitoring committee, submitting to the Commission the annual and final reports on implementation;
- (j) ensuring compliance with the information and publicity requirements laid down in Article 69;
- (k) providing the Commission with information to allow it to appraise major projects.

The specific tasks to be carried out by the PSC include:-

- i. providing guidance and instruction, as appropriate, on the interpretation of the rules and criteria contained in the Structural Funds Regulations and in documents issued by the Commission over the programming period in relation to the ERDF;
- ii. providing the contractual terms on which ERDF support is to be given, including, where relevant, state aid and procurement advice;
- iii. determining and issuing national eligibility rules;
- iv. providing guidance and instruction, as appropriate, on the management and control framework, accountancy rules to be followed by grant beneficiaries and others involved in with the implementation of operations, systems to be used for the maintenance of accounts and the other records, information and publicity requirements, including monitoring, and any other matters relating to the management and of the OP as necessary;
- v. establishing written standards and procedures for verifications undertaken by the PDT in compliance with Article 13.2 of Commission Regulation 1828/2006, and ensuring that the PDT keeps records for each verification, stating the work performed, the date and the results of the verification, and the

measures taken in respect of the irregularities detected thereby, and obtaining assurance that the monitoring and verification activities are adequately carried out in accordance with that Regulation;

- vi. prescribing the information to be provided to the Certifying Authority in relation to expenditure verification and verification procedures, the form in which this information is to be provided and how frequently it is to be provided;
- vii. appointing the Chair of the Local Management Committee (LMC)
- viii. receiving evaluations, annual and final implementation reports and submitting them to the Commission
- ix. assisting as necessary with policy and technical support for the appraisal of major projects and the notification required for appraisal by the Commission;
- x. laying down and operating a mechanism for the payment of ERDF resources;

Certifying Authority: Role and Functions

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

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

- a) drawing up and submitting to the Commission certified statements of expenditure and applications for payment;
- b) certifying that:
 - i) the statement of expenditure is accurate, results from reliable accounting systems and is based on verifiable supporting documents;
 - ii) the expenditure declared complies with applicable Community and national rules and has been incurred in respect of operations selected for funding in accordance with the criteria applicable to the OP and complying with Community and National rules;
- c) ensuring for the purposes of certification that it has received adequate information from the MA on the procedures and verifications carried in relation to expenditure included in statements of expenditure;
- d) taking account for certification purposes of the results of all audits carried out by or under the responsibility of the Audit Authority;
- e) maintaining accounting records in computerised form of expenditure declared to the Commission;
- f) keeping an account of amounts recoverable and of amounts withdrawn following cancellation of all or part of the contribution for an operation. Amounts recovered will be repaid to the general budget of the EU, prior to closure of the OP by deducting them from the next statement of expenditure.

Audit Authority: Roles and Functions

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

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

- a) ensuring that audits are carried out to verify the effective functioning of the management and control system of the OP;
- b) ensuring audits are carried out on operations on the basis of an appropriate sample to verify expenditure declared;
- c) presenting to the Commission within 9 months of the approval of the OP an audit strategy covering the bodies who will perform the audits referred to under points a) and b), the method to be used, the sampling method for audits on operations and the indicative planning of audits to ensure that the main bodies are audited and that audits are spread evenly throughout the programming period; [note: where a common system applies to several OPs, a single audit strategy may be submitted];
- d) by 31 December each year from 2008 to 2015:
 - i) submitting to the Commission an annual control report setting out the findings of audits carried out during the previous 12 month period ending on 30 June of the year concerned in accordance with the audit strategy of the OP and reporting any shortcomings found in the systems for management and control of the programme. The first report to be submitted by 31 December 2008 will cover the period from 1 January 2007 to 30 June 2008. The information concerning the audits carried out after 1 July 2015 will be included in the final control report supporting the closure declaration referred to in point (e);
 - ii) issuing an opinion, on the basis of the controls and audits that have been carried out under its responsibility, as to whether the management and control system functions effectively, so as to provide a reasonable assurance that statements of expenditure presented to the Commission are correct and as a consequence reasonable assurances that the underlying transactions are legal and regular.
 - iii) submitting, where applicable under Article 88, a declaration for partial closure assessing the legality and regularity of the expenditure concerned;

[Note: when a common system applies to several OPs, the information referred to in point (i) may be grouped in a single report, and the opinion and declaration issued under points (ii) and (iii) may cover all the OPs concerned];
- e) submitting to the Commission at the latest by 31 March 2017 a closure declaration assessing the validity of the application for payment of the final balance and the legality and regularity of the underlying transactions covered by the final statement of expenditure, which will be supported by a final control report.

Where audits and controls are carried out by a body other than the AA, the AA will ensure that such bodies have the necessary functional independence from the Managing Authority. The AA may choose to employ private sector auditors to carry out system and operation audits under its responsibility.

Management and Control: description of systems

The AA will be responsible for drawing up the report and the opinion referred to in Article 71(2), describing and assessing the management and control systems and giving an opinion on their compliance with Article 58 to 62.

3. PARTNERSHIP AND COMMITTEE STRUCTURE

General

The OP has been developed and will be implemented in accordance with the principles of partnership set out in Article 11 and national rules and practice. The partnership principle will be operated throughout the lifetime of the OP.

The Secretary of State, for the UK Government, has organised a partnership to cover the preparation of the OP with a wide variety of national, regional and local authorities and bodies, which are competent to contribute towards the aims, objectives and contents of the OP. Competent authorities and bodies include:

- (a) local, urban and other public authorities;
- (b) economic and social partners;
- (c) any other suitable bodies representing civil society, environmental partners, non-governmental organisations;
- (d) bodies responsible for promoting equality between men and women.

Local Management Committee (LMC)

In accordance with Article 63, the Member State will set up a Programme Monitoring Committee, known at OP level as the Local Management Committee (LMC) within three months from the date of the notification to the Member State of the Commission decision approving the OP. The membership and role of the LMC will reflect the strategic nature of the prescribed tasks of the LMC set out in Article 65.

Reflecting the principle of partnership, the membership of the LMC will be drawn from representatives of the bodies of the partnership organised under Article 11. It will, therefore, reflect national, local and sectoral interests in the OP, and will aim to be balanced in terms of gender. On its own initiative, or at the request of the LMC, the Commission may participate in an advisory capacity. Where the European Investment Bank or the European Investment Fund is contributing to the OP, they may be represented in an advisory capacity.

The chairperson of the LMC will be the nominated Director of DCLG with responsibility for Cornwall & Isles of Scilly European Regional Development Fund, representing the MA. The Deputy Chair of the LMC will be a local partner and will be appointed by the LMC partnership, the Cornwall & Isles of Scilly Convergence LMC Terms of Reference allow the appointment of two Deputy LMC Chairs.

The Chair will approve all LMC minutes and papers before they are distributed to the LMC members for agreement.

Duties of the Local Management Committee

The LMC will draw up and agree its own Rules of Procedure. These procedures will be publicised and made available on the programme website. The MA representative, as a member of the LMC, will have a role in ensuring that the rules of procedure are robust, are designed to ensure delivery and contain all appropriate checks and balances.

At its first meeting the LMC will approve detailed provision for the proper and efficient discharge of the duties assigned to it, including, the frequency of its meetings and procedures to deal with conflicts of interest. This will be contained within the LMC's Rules of Procedure. The LMC will satisfy itself as to the effectiveness and the quality of the implementation of the OP. To this end the LMC will carry out the tasks set out in Article 65.

The MA will approve the rules of procedure in accordance with Article 63(2).

Sub-committees and working groups of the LMC

Reflecting its agreed terms of reference and rules of procedure, the LMC may at any time set up such sub-committees or working groups or other groups as it thinks appropriate to enable it to fulfil its responsibilities (e.g. geographically, sectorally or thematically based). The LMC may be supported by a sub-committee or working group. The membership of sub-committees and groups will be agreed by the LMC, reflecting the partnership principle set out in Article 11. The terms of reference and rules of regional sub-committees and groups will be approved by the LMC in accordance with Article 63(2). The use of sub-committees or working groups does not absolve the LMC from its responsibility for the proper performance of its tasks as set out in Article 65.

4. MANAGEMENT AND CONTROL SYSTEM

The Secretary of State, for the UK Government, will establish management and control arrangements for the OP in accordance with Article 58.

This will ensure that Community funds are used efficiently and correctly and that assistance is managed in accordance with all applicable Community rules and in accordance with the principles of sound financial management. The detailed requirements set out in the Structural Funds Regulations will be observed throughout the period of the OP. The AA will assess the system and give an opinion on compliance with Articles 58, 59 and 60 prior to its submission to the Commission in accordance with Article 71.

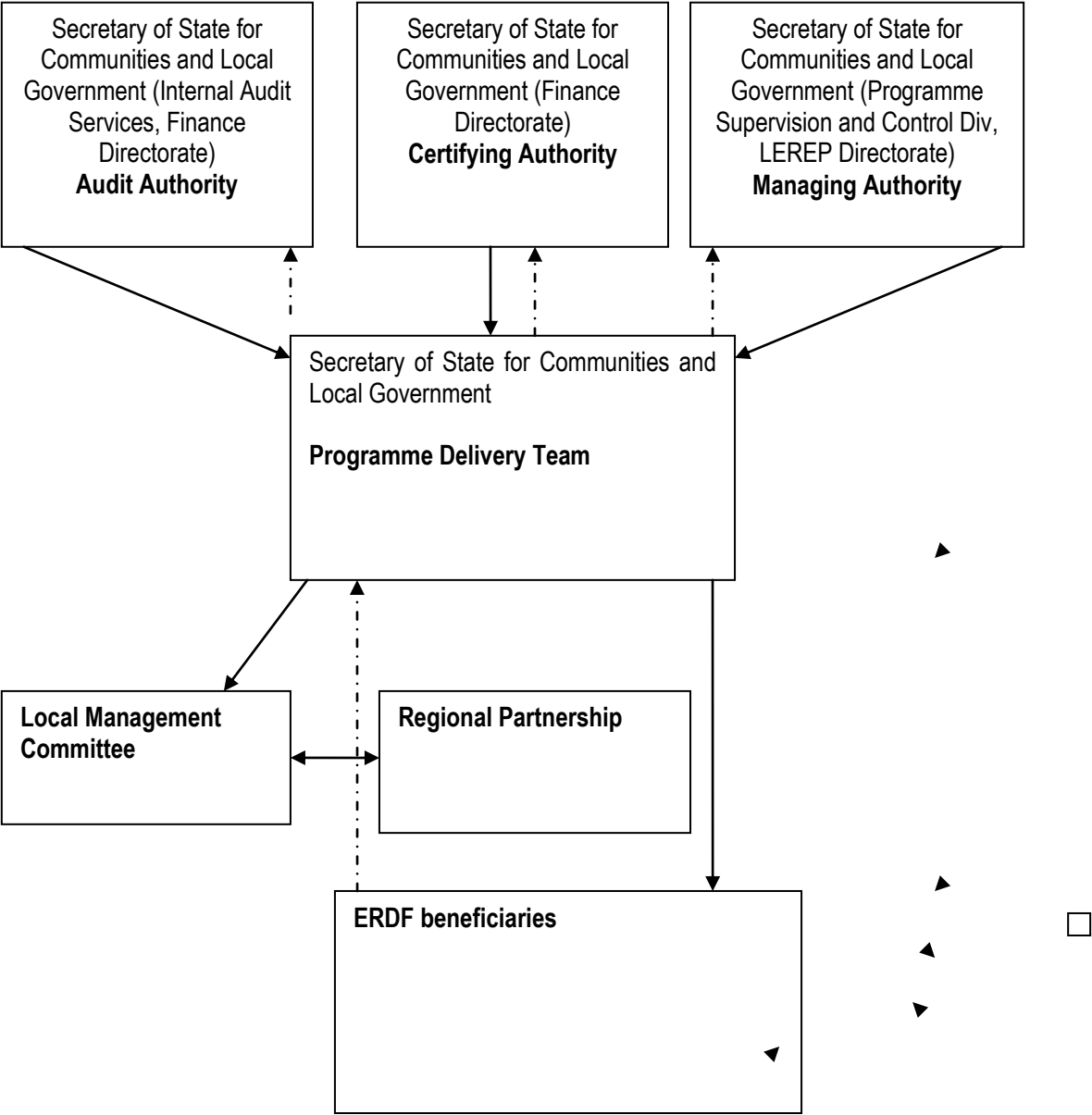
The organisation structures for ensuring sound management and control are set out below.

Diagram 1 illustrates the structure at a global level.

Diagram 2 illustrates the separation of functions with the Department for Communities and Local Government.

Diagram 3 illustrates the separation of functions within the Programme Delivery Team.

Diagram 1 - Global Management and Control System for ERDF Convergence and Regional Competitiveness Programmes in England.



The direction of the solid arrow denotes the direction of management and control. The dotted arrows denote the direction of accountability.

Diagram 2 - Separation of functions with the Department for Communities and Local Government
(The direction of the arrows denotes reporting lines)

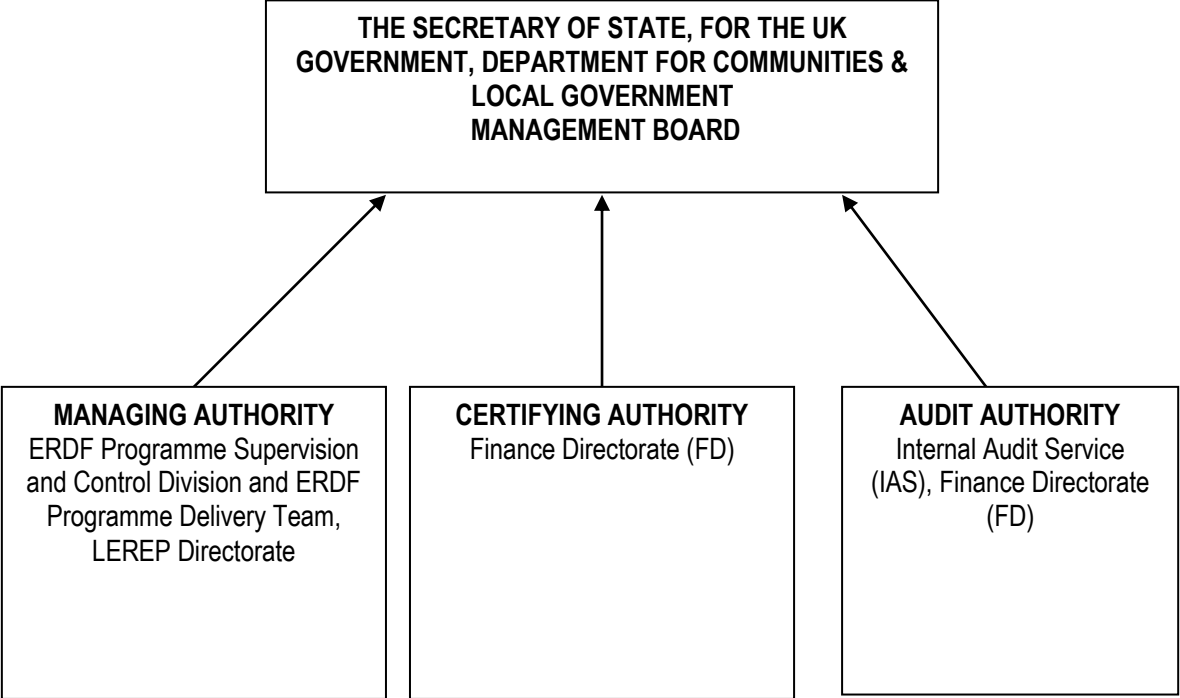
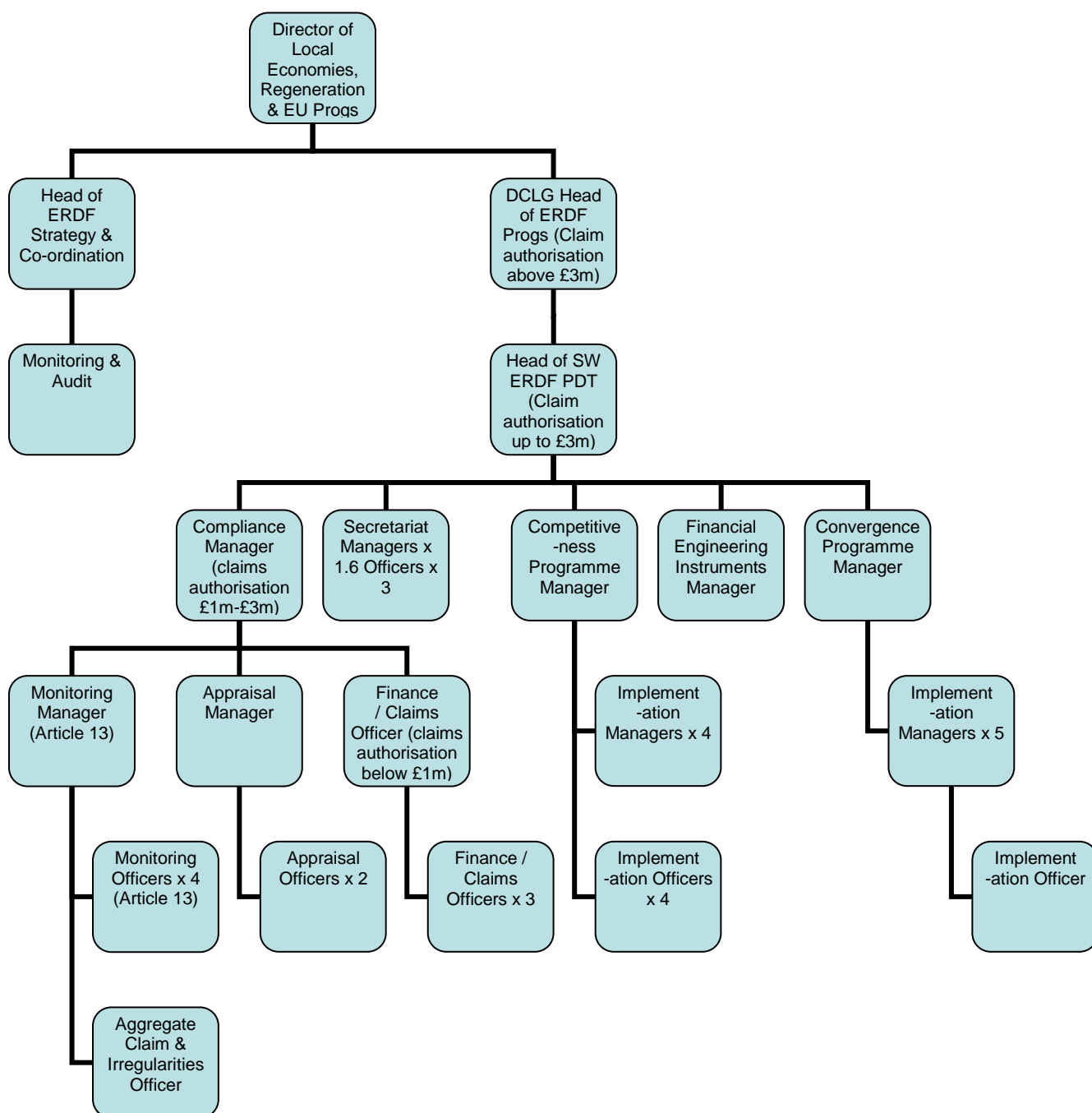


Diagram 3 - Separation of functions within the South West MA Programme Delivery Team.



Grant offer/approval functionally separate at Officer & Manager level from monitoring/claims/verification

Appraisal functionally separate at Officer & Manager level from monitoring/claims/verification

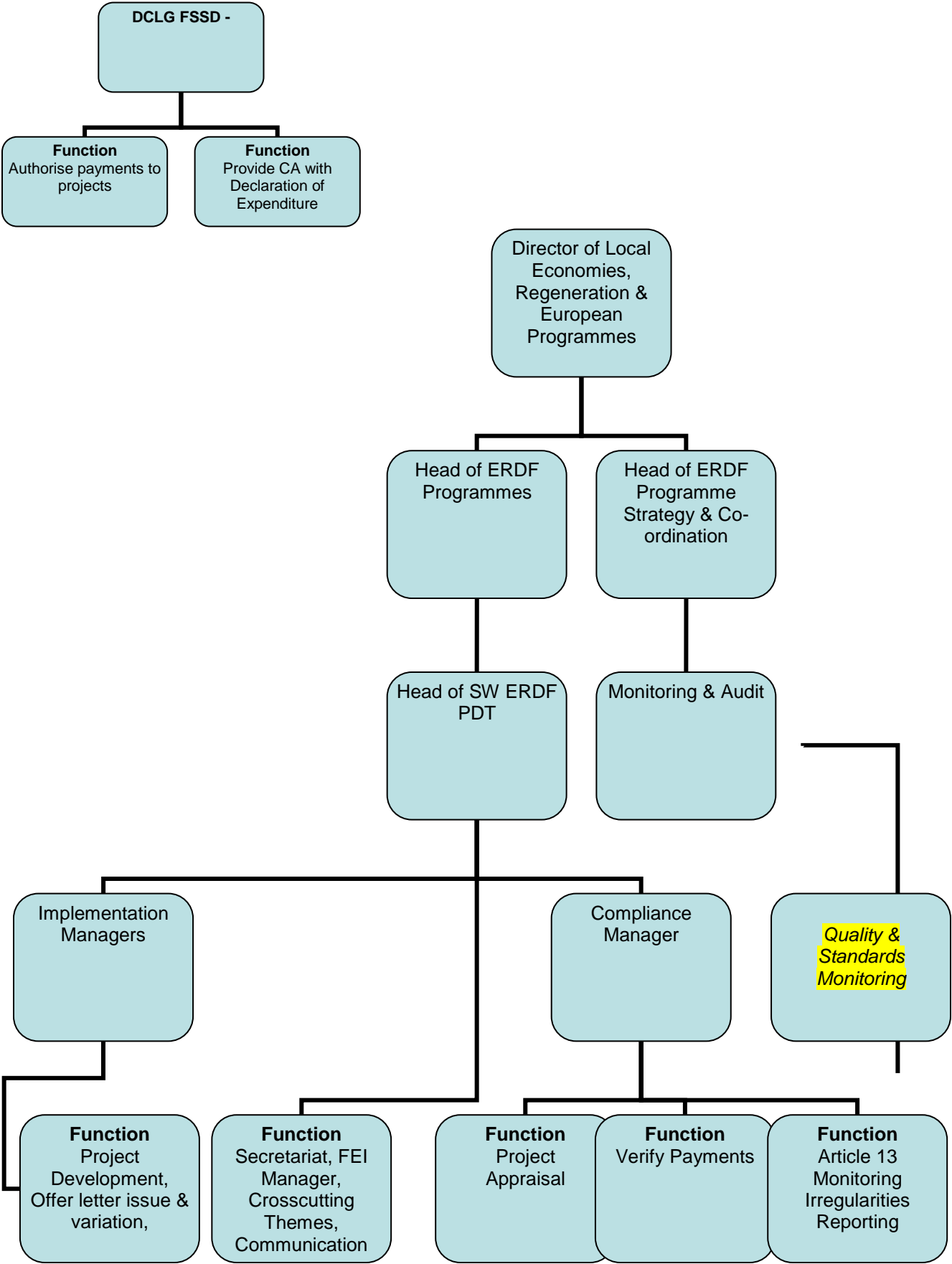
Monitoring functionally separate at Officer & Manager level from appraisal/approval

Recording of claim on MCIS undertaken by beneficiaries for all new projects from 1 April, older projects will be added to system by October 2012

Verification of claims functionally separate at Officer & Manager level from appraisal/approval

Claims authorisation/certification functionally separate at Officer & Manager level from appraisal/ approval

Diagram 4 - Separation of Functions Overview.



Proportionality

The proportional control arrangements set down in Article 74 will not apply to the OP.

Global Grants

The Member State or the MA may entrust the management and implementation of a part of an OP to one or more intermediate bodies (A 42 bodies), designated by the Member State or the MA, including local authorities, regional development bodies or non-governmental organisations, in accordance with the provisions of an agreement concluded between the Member State or the MA and that body.

The Secretary of State, for the UK Government, does not have any intention to designate any A 42 body for the OP.

Selection of operations for ERDF support

The LMC is responsible for considering and approving the criteria for selecting the operations financed under the OP. The MA will be responsible for putting forward proposals to the LMC for selection criteria. The role of the LMC is outlined in section 3 of these Implementing Provisions.

On behalf of the LMC, the MA may establish an Investment Framework which sets out the activities and operations that the LMC have agreed they wish to see delivered under the OP. The Investment Framework must be approved by the LMC. It may identify bodies or organisations that it believes are competent to deliver operations in line with the framework. Any framework will comply with Public Procurement Regulations (which implement EC public procurement directives), so far as they are applicable.

The procedure for selecting operations may take a variety of forms. For example:

Open bidding: where an open invitation is published for applications for the support of operations that meet a specified priority or objective of the OP;

Limited bidding: where a limited number of project sponsors is identified and invited to bid for the support of operations or sets of targets or outputs that meet a specified priority or objective of the OP;

Non-competitive selection: where a single project sponsor (or perhaps two or more) is either selected as appearing to be the only suitable and capable vehicle for delivering a specific operation or set of programme targets or outputs and invited to submit an application for financial assistance; or applies for financial assistance on its own initiative for the support of an operation or a set of targets or outputs that appears to meet a priority or objective of the OP.

The MA, in deciding in broad terms the nature and scope of the criteria and processes for the selection and appraisal of projects, and in putting forward proposals to the LMC for such criteria, will ensure that all processes and criteria take full account of the need to secure compliance with the requirements of the Public Procurement Regulations (which implement EC Public Procurement Directives) or the need for suitable competitive tendering where the Regulations do not apply.

Once the criteria and investment strategy have been adopted by the LMC, the MA will be responsible for managing the processes of developing operations, appraising proposals for operations, and making recommendations to the LMC or its appropriate sub-committees or groups.

5. COMPUTERISED EXCHANGE OF DATA

The MA will develop and maintain appropriate data exchange systems to support the provision of information to the Commission and the efficient and effective management of the OP. The MA will ensure that the system allows data to be exchanged electronically with the system used by the Commission. The system will be accessible for use by the MA, the CA and the AA. The system will record and monitor operation outputs and the results of monitoring, verifications and audits undertaken in relation to programme operations. Such systems will be in place for the OP before the MA makes the first interim application for payment.

6. MONITORING ARRANGEMENTS AND SYSTEMS

General

The Secretary of State, for the UK Government, will ensure that the management and control system for the OP sets up an efficient system for monitoring the programme and individual operations supported by the programme, and requires the MA and the LMC to ensure the quality of the implementation of the programme.

Monitoring tasks of the MA both in relation to the OP as a whole and to individual operations will be carried out through the PDT arm of the MA, which will work with the LMC. In order to assist the LMC to discharge the tasks set out in Article 65, the MA will provide updates on the progress of the OP in meeting its targets

Monitoring by the MA under Article 60(b) will be carried out in accordance with Article 13 of Commission Regulation 1828/2006. Monitoring will be conducted by reference to the financial indicators and the indicators referred to in Article 37(1)(c) which are specified for the OP and set out in the Indicators section of the programme.

Monitoring will also cover the effectiveness of financial controls and compliance with the Structural Funds Regulations and national rules that regulate matters of finance or propriety. Monitoring will be conducted in line with any guidance or instructions issued by the Commission and any national guidance concerning monitoring and the performance of verification function set out in Article 60(b).

Annual reports and final reports

In accordance with Article 67(1), by 30 June 2008 and by 30 June in each subsequent year the MA will send the Commission an annual report. The MA will send the Commission a final report on the implementation of the OP by 31 March 2017.

Each report will be examined and approved in plenary by the LMC before it is sent to the Commission. The Managing Authority will review the report before it is sent to the Commission.

The reports will contain the information set out in Article 67(2).

In accordance with Article 68, every year, when the annual report on implementation referred to in Article 67 is submitted, the Commission and the MA will examine the progress in implementing the OP, the principal results achieved over the previous year, the financial implementation and other factors with a view to improving implementation.

The operation of the management and control system raised in the last annual control report, referred to in Article 62(1)(d)(i), may also be examined.

7. EVALUATION ARRANGEMENTS AND SYSTEMS

The Secretary of State, for the UK Government, will carry out evaluations in relation to the OP in accordance with Articles 47 and 48, and the MA will have a role under Article 60(e) in ensuring that evaluations are carried out.

An *ex ante* evaluation for the OP has been carried out in accordance with Article 48(2) by an independent consultant. Alongside the *ex ante* evaluation, a Strategic Environmental Assessment was carried out in accordance with the requirements of Directive 2001/42/EC, also by an independent consultant. Both documents are annexed to the OP.

In accordance with Article 48(3), during the programme period, the Secretary of State, for the UK Government, will carry out evaluations linked to the monitoring of the OP, in particular where that monitoring reveals a significant departure from the goals initially set or where proposals are made for the revision of OPs, as referred to in Article 33. The results will be sent to the LMC and to the Commission.

The Commission may carry out strategic evaluations. Under Article 49(2) the Commission may carry out, on its own initiative and in partnership with the UK Government evaluations linked to the monitoring of the OP where monitoring has revealed a significant departure from the goals initially set. The results will be sent to the LMC.

In accordance with Article 49(3), the Commission will carry out an *ex post* evaluation for each objective in close co-operation with the Secretary of State, for the UK Government, and the MA. The *ex post* evaluation will cover the elements required by Article 49(3). It will be carried out by independent assessors and will be completed no later than three years after the end of the programming period.

On behalf of the Member State, the PDT may also draw up under Article 48(1), in accordance with the principle of proportionality set out in Article 13, an evaluation plan presenting the indicative evaluation activities which the UK Government intends to carry out in the different phases of the implementation of the OP.

8. FINANCIAL IMPLEMENTATION

Financial contributions by the Funds

Article 34 provides that operational programmes shall receive financing from only one Fund, save as otherwise provided in paragraph 3 (which is not relevant for the UK). Accordingly, the OP will receive funding only from the European Regional Development Fund.

This programme will not be seeking to use the derogation set out in Article 34(2), whereby the ERDF and the ESF may finance, in a complementary manner and subject to a limit of 10% of community funding for each priority axis of an operational programme, actions falling within the scope of assistance from the other fund, provided that they are necessary for the satisfactory implementation of the operation and are directly linked to it.

The MA will carry out an ongoing assessment of risk that the OP will fail to meet its financial and other targets, in particular the N+2 spend targets.

The MA will regularly monitor, increasing in frequency towards the end of the year, on the progress of the OP in meeting its N+2 targets. It will take the necessary course of action where the achievement of these targets is under threat.

At project level, risk will be assessed on the track record of the applicant, the nature of the project, the amount of the ERDF intervention and the total cost of the operation.

Differentiation of rates of contribution

In accordance with Article 53(1), the contribution from the Fund at the level of the OP will be calculated with reference to:

- (a) total eligible expenditure including public and private expenditure; or
- (b) public eligible expenditure

and will be subject to the ceilings set out in Annex III to Council Regulation 1083/2006.

The ERDF contribution for the OP will be subject to a maximum of 75% of the total eligible cost of the OP. Co-financing of support given by the ERDF will come from both a variety of public and private sources and both will be reflected within the OP Financial Table.

It will be a requirement of the OP that the source of co-financing for operations is identified prior to the issue of the formal approval of the operation.

Technical Assistance

Under Article 46 the Fund may, at the initiative of the Secretary of State, for the UK Government, finance the preparatory, management, monitoring, evaluation, information and control activities of the OP, together with activities to reinforce the administrative capacity for implementing the Fund within the limit of 4% of the total amount allocated for the OP (the limit for the Convergence and Regional competitiveness and employment objectives). As a matter of best practice, co-financing of Technical Assistance operations will be secured prior to formal approval of the individual operation.

The LMC will be invited to approve a plan for the use of Technical Assistance during the lifetime of the OP. This will be sent to the Commission for information. The Technical Assistance plan will be kept under review and may be changed, subject to the agreement of the LMC. However, the amount allocated will not exceed the 4% limit set down in Article 46.

Community budget commitments

Article 75 provides that the Community budget commitments in respect of operational programmes shall be effected annually for each Fund and objective during the period between 1 January 2007 and 31 December 2013. The first budget commitment shall be made before the adoption by the Commission of the decision approving the OP. Each subsequent commitment shall be made, as a general rule, by 30 April each year.

De-commitments

Provisions and procedures relating to de-commitment are laid down in Articles 93, 94, 95 and 96.

9. FINANCIAL FLOWS AND PAYMENTS**General**

In setting up the system for managing and controlling the payment and expenditure of the ERDF contribution, the Secretary of State, as Member State, will: (a) observe all relevant requirements of the Structural Funds Regulations and these Implementing Provisions; (b) apply the standards of management and control generally applicable to the handling and expenditure of UK public funds; and (c) follow such general guidance and instructions as the UK Government and the Commission may provide from time to time on the management of European Community funds. The MA and the CA will operate the system according to the same requirements and standards.

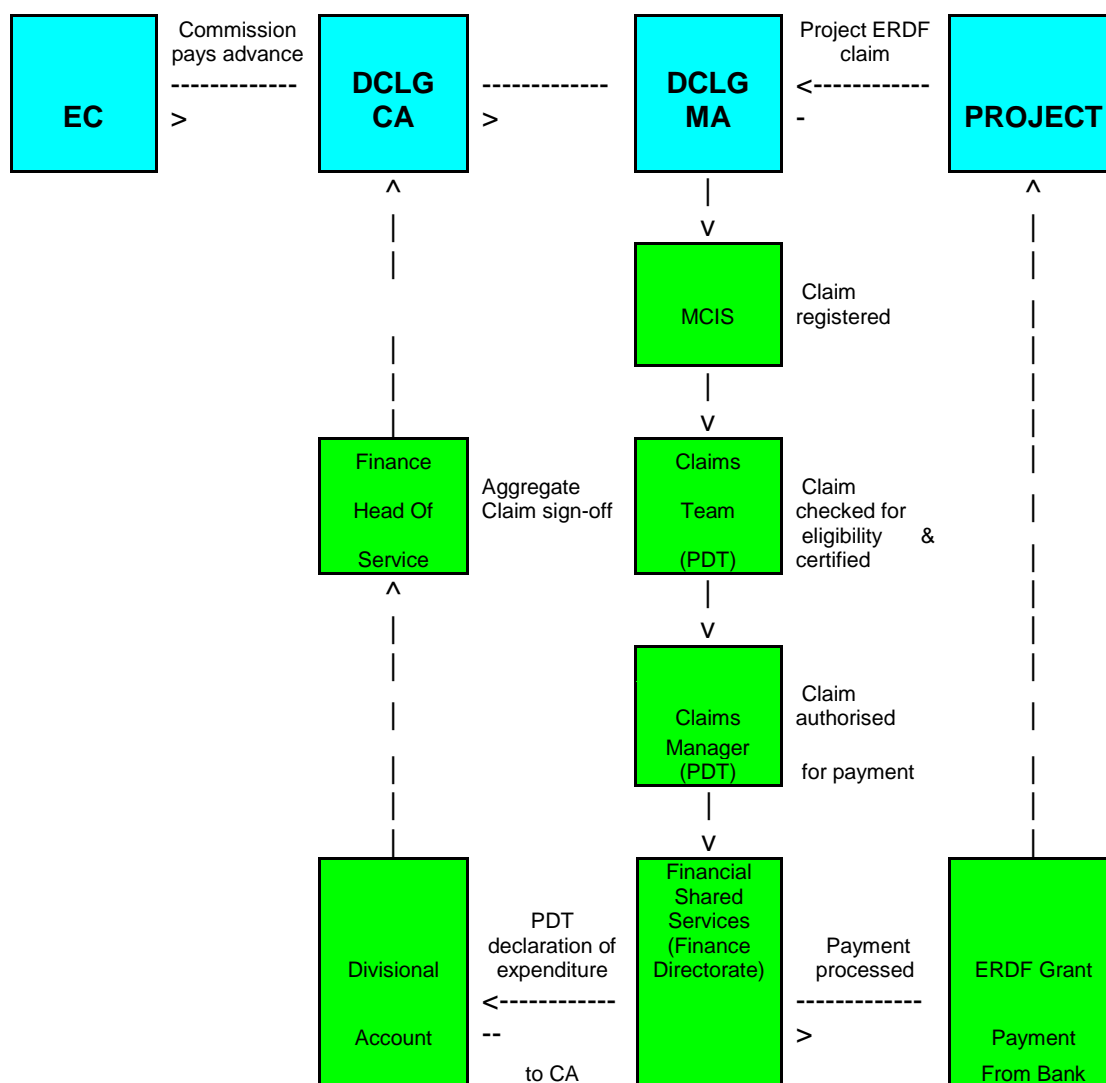
Financial Flows

Financial flows will operate in accordance with the Structural Funds Regulations and the following procedures:

The MA will be responsible for making offers of ERDF grant to persons responsible for selected operations. Offers of ERDF support will require grant recipients to comply with EC and national rules on eligibility of expenditure and with the requirements of the Public Procurement Regulations (which implement EC Directives on public procurement) or the need for suitable open selection procedure where the Directives do not apply. This also applies to applications for Technical Assistance support where the MA is the applicant. Operations will make declarations of interim claims expenditure to the MA. The MA will be responsible for verifying the validity of declared expenditure against the offer of grant and the eligibility conditions and other conditions set out in the grant offer.

The MA will make payments for operations subject to verifying declarations of eligible expenditure. No amount will be deducted or withheld; no charges will be levied.

Diagram 5: Financial flows overview for 2007-13 ERDF OPs



The MA through the PDT will submit to the CA declarations of interim expenditure. These declarations will cover the aggregate of eligible payments claimed by operations, including global grant applications. Submissions will be accompanied by all the necessary supporting information required to demonstrate the eligibility of expenditure under the Structural Funds Regulations, national eligibility rules, UK financial management requirements and any additional requirements of the CA. The submission will be signed by the Head of the PDT.

The CA will draw up and submit to the Commission certificates of expenditure and applications for payment, in accordance with Article 78 and in the form prescribed in Annex X to Commission Regulation 1828/2006. The CA will review all information received from the MA under Article 61(c) (concerning procedures and verifications carried out in relation to expenditure) and from the AA under Article 61(d) (results of audits, including the annual control report). It will carry out such checks as it thinks are necessary and appropriate to satisfy itself as to the eligibility of expenditure claimed.

Payments

Payments from the Commission will take the form of: pre-financing; interim payments; and payments of the final balance. Payments will be made to the UK Government and received in a Treasury Account at the Bank of England. The MA will be authorised to draw down amounts from the account for the financing of the OP.

The UK Government will make appropriate arrangements to ensure that sufficient funds are available to meet the MA's declarations of eligible expenditure in advance of receiving interim payments from the Commission. Such arrangements will comply with UK Government Accounting and Budgeting requirements.

Use of Euro and conversion rates

In accordance with Article 81, all Statements of Expenditure and applications to the Commission for payment will be made in euros. Annual and final implementation reports will use the euro to report on expenditure. Amounts of expenditure incurred in sterling, in delivering operations, will be converted into euros using the monthly accounting exchange rate of the EC in the month during which the expenditure was registered in the accounts of the CA. This rate will be published electronically by the Commission each month.

10. FINANCIAL MANAGEMENT AND CONTROL ARRANGEMENTS

General provisions

Responsibility for providing an effective system of management and control of the OP lies with the Member State. The management and control system will comply with the requirements of Article 58 and will be subject to the reporting requirements laid down in Article 71.

Organisation

The MA will ensure that there is an appropriate separation of functions within its organisation between the units which are responsible for the functions of the MA falling within the following broad categories:

- appraising operations and issuing and varying offers of ERDF grant;
- verification of payment claims and monitoring operations; and
- financial matters, including making payments for operations and submitting declarations of expenditure to the CA.

The MA and CA will ensure that this separation of functions is maintained throughout the lifetime of the OP.

Accounting Systems

In order to facilitate the verification of expenditure by Community and national authorities, the MA, in exercising the function in Article 60(c), will ensure that all bodies involved in the management and implementation of the OP maintain either a separate accounting system or an adequate accounting codification capable of providing detailed and complete summaries of all transactions involving Community assistance.

Documentation

The MA will ensure that the requirements of Article 90 regarding the keeping of available documents are complied with.

Audit

Besides being subject to the activities of the AA, audit by the Commission and audit by the European Court of Auditors, the financial control and management system will be subject to audit by the UK domestic audit authorities (the National Audit Office).

Irregularities and financial corrections

The management and control system of the OP and steps taken by the MA to ensure that it is properly adhered to by all bodies concerned in the management and control of the programme will guard against irregularities while securing that any that do occur are detected, investigated and corrected. The MA will have a primary role in the detection, investigation and correction of irregularities (particularly by virtue of its responsibility for monitoring and verification), and will be responsible for recovering grant in appropriate cases.

The Secretary of State, as Member State, will be responsible under Article 98 for investigating irregularities and making financial corrections.. The MA will notify irregularities to the Department for Business, Innovation and Skills (BIS), which is the central co-ordinating Department for the Member State with respect to the Structural Funds programmes.

BIS, acting for the Member State, will communicate with the Commission about irregularities and corrections.

The MA will report to the AA any cases involving fraud. BIS will report them to the Commission's OLAF service.

The MA will fulfil its responsibilities for the prevention, detection and investigation of irregularities and that it acts on reports prepared by the AA on any suspicion of irregularity.

11. INFORMATION AND PUBLICITY

The MA will ensure that information and publicity measures conform to the provisions of Article 69 of Council Regulation 1083/2006 and Articles 2 to 10 of Commission Regulation 1828/2006, to ensure the full visibility of the funds throughout the programming area.

Publicity forms an integral part of the programme strategy and the MA will ensure that the benefits of the ERDF is communicated to the wider public.

Innovative publicity activities and campaigns using print, broadcast and creative media will help the Managing Authority to clearly promote and position the ERDF brand. These activities will be developed proactively and implemented in collaboration with the European Commission in Brussels, the Representation Office in London and Information relays and networks in the UK, which will ensure the visibility and transparency of the funds at a local, regional and national level.

Potential project sponsors and final beneficiaries/fund recipients will be informed of funding opportunities and also the publicity requirements linked to receiving ERDF funding during the programming period.

To this end, the MA will draw up a budgeted communication plan, which must be agreed by the LMC and submitted to the Commission within four months of the adoption of the OP.

The Communication plan will set out:

- the objectives of the plan and the target groups;
- activities in support of publicity and information including events, seminars and project launches, for potential applicants, partners and the wider public
- bodies or persons responsible for the implementation of the plan;
- the budget for implementing the plan; and
- evaluation frameworks for the plan.

The MA will report on progress in implementing the plan (including examples of publicity activities) to the LMC and also in the annual implementation report. The communication plan will be easily accessible and will be published on the OP website.

Information will be provided by the MA to potential beneficiaries in accordance with Article 5 of Commission Regulation 1828/2006, including the publicity and information measures that they are required to undertake to comply with Articles 8 and 9 of that Regulation.

Project sponsors will be required to observe the publicity elements of Commission Regulation 1828/2006, especially with regard to signage, including billboards, plaques and promotional material.

Funding for publicity and communications will be provided through the Technical Assistance budget for the OP. The financial table for the OP will specify the amounts dedicated to the Technical Assistance Priority Axis.

12. SUPPLEMENTARY OBJECTIVES

Sustainable Development

The OP will promote the objectives of sustainable development as required by Article 17.

These objectives have been reflected in the programme strategy and objectives. The programme has been subject of a Strategic Environmental Assessment as required under Directive 2001/42/EC.

The Managing Authority will, in accordance with Article 10 of (EC) Directive 2001/42/EC, monitor the significant environmental effects of the OP in order, inter alia, to identify unforeseen adverse effects and be in a position to undertake appropriate remedial action. This monitoring will be undertaken at three levels:-

First, the Environmental Report has suggested a selection of tracking indicators that can be used to monitor the environmental performance of the area. The Managing Authority will monitor against these indicators, where appropriate, to determine changes that occur and potential relationships with programme activities. As stated in the SEA, data for the majority of these indicators can be obtained from readily available sources. Performance against these indicators will be reported in the Annual Implementation Reports.

Secondly, the effectiveness of mainstreaming Environmental Sustainability as a Cross Cutting Theme will be assessed through the relevant Priority level indicators. Progress against the Priority level indicators will be reported in the Annual Implementation Reports and discussed at meetings of the LMC.

Thirdly, the Environmental Report proposes checking criteria to appraise the appropriateness of individual supported activities where they would result in a physical development. These criteria will be used, where appropriate, at project development stage so that potential adverse effects of supported activities are appropriately managed. Projects that have significant negative effects that can not be mitigated and outweigh positive benefits will not be supported by the OP.

Procedures will be in place to detect any project with a potentially negative effect on Natura 2000 sites and other sites designated for nature conservation. These will be scrutinized by the MA in consultation with the Competent Environmental Authorities to ensure that no activities will be supported that will cause damage to designated sites. The appraisal process will also cover opportunities to strengthen the environmental aspects of projects and the guidance that is being developed will advise on how this is to be done and how it will be monitored.

The MA and the LMC will be required to implement the OP having regard to the objectives of sustainable development. In particular, the selection criteria for operations, outputs and indicators will take account of the need to protect and promote environmental sustainability. This will also involve assessing the impact of operations on these objectives, on appraisal and during the course of project monitoring and evaluation.

Gender equality and equal opportunities

The OP will promote the objectives of equal opportunities and non-discrimination on the basis of race, ethnic origin, religion or belief, disability age or sexual orientation, as required by Article 16.

These objectives have been reflected in the programme strategy and priorities. The programme has been subject to an Equality Impact Screening as required by UK legislation, the results of which are in a technical annex to the OP.

The MA, and the LMC will be required to implement the OP having regard to the objectives of equal opportunities and non-discrimination. This will involve assessing the impact of operations on these objectives, on appraisal and during the course of project monitoring and evaluation.

Major projects

Financial assistance may be given under the OP for the support of major projects. A major project is defined in Article 39 as an operation:

- which comprises an series of works, activities or services intended in itself to accomplish an indivisible task of a precise economic or technical nature;
- which has clearly identified goals; and
- whose total cost exceeds €50 million.

When the MA appraises a major project, it will inform the Commission before deciding to approve support under the OP and provide the information necessary for appraisal of the project by the Commission as set out in Article 40 using Annex XXI to Commission Regulation 1828/2006).

Complementarity with the European Social Fund

The MA will work with the MA for the national ESF programme (the Department for Work and Pensions) to ensure effective co-ordination of decisions taken in the implementation of the OP and the national ESF programme.

The MA will be responsible for advising the LMC on what co-ordination with the ESF programme is necessary for meeting the objectives of the OP. The MA will put in place appropriate communication and liaison arrangements with the MA for the ESF programme. The MA and local partners will consider whether a joint ERDF and ESF monitoring committee to aid co-ordination would benefit the OP.

The LMC may at any time meet jointly with any committee or group set up by the MA of the national ESF programme to discuss matters of mutual interest and to ensure effective co-ordination.

Complementarity with the European Agricultural Fund for Rural Development and the European Fisheries Fund

The MA will work with the MA for the EAFRD and EFF programmes (the Department for Environment, Food and Rural Affairs) to ensure effective co-ordination of decisions taken in the implementation of the OP and the national EAFRD and EFF programmes.

The MA will be responsible for advising the LMC what co-ordination with the EAFRD and EFF programmes is necessary for meeting the objectives of the OP. The MA will put in place appropriate communication and liaison arrangements with the MA for the EAFRD and EFF programmes.

The LMC may at any time meet jointly with any committee or group set up by the MA of the EAFRD and EFF programmes to discuss matters of mutual interest and to ensure effective co-ordination.

13. USE OF RESERVES

National Performance Reserve

A Member State may establish a National Performance Reserve for each of the Convergence or Regional Competitiveness objectives, consisting 3% of its total allocation for each objective. The UK Government has decided not to operate a national performance reserve for the OP.

National Contingency Reserve

A Member State may reserve an amount of 1% of the annual Convergence allocation and 3% of the annual Regional Competitiveness allocation to cover unforeseen local or sectoral crises linked to economic and social restructuring. The UK Government has decided not to operate a National Contingency Reserve for the OP.

14. FINANCIAL ENGINEERING

In accordance with Article 44 of 1083/06, the ERDF may be used to co-finance financial engineering schemes for enterprises, primarily small and medium enterprises. The MA will ensure that financial engineering operations supported by the ERDF are set up and implemented in compliance with Articles 43, 44 and 45 of Commission Regulation 1828/06.

Any proposal to set up financial engineering instruments will have to be agreed by the MA.

15. STATE AID

Any public support under this programme must comply with the procedural and material rules applicable at the point in time when the public support is granted. The Member State, and in particular the MA of each OP, is fully responsible for compliance of the Structural Funds operations within the programme with the EC state aid rules.

The Member State, and the MA are responsible for ensuring that operations and activities supported under the OP are compatible with the common market. "