

**EAST MIDLANDS 2007-13  
ERDF COMPETITIVENESS  
OPERATIONAL  
PROGRAMME**

## CONTENTS

<b>SECTION 1: EXECUTIVE SUMMARY .....</b>	<b>4</b>
<b>SECTION 2: SOCIO-ECONOMIC ANALYSIS SUMMARY .....</b>	<b>8</b>
2.1 Introduction .....	8
2.2 Employment .....	13
2.3 Competition .....	15
2.4 Enterprise .....	16
2.5 Innovation.....	18
2.6 Investment.....	20
2.7 Skills.....	21
2.8 Environment .....	21
2.9 Equalities.....	23
2.10 Rural.....	23
2.11 Urban .....	24
2.12 SWOT .....	25
2.13 Key Challenges .....	26
<b>SECTION 3: STRATEGY.....</b>	<b>28</b>
3.1 Introduction .....	28
3.2 Process for Chosen Strategy .....	28
3.2.1 Ex-ante Evaluation.....	29
3.3 The Programme Context.....	30
3.4 Lessons and Best Practice from the 2000 – 2006 UK Structural Fund Programmes.....	33
3.5 The Programme Strategy .....	35
3.5.1 Programme Priority 1: Increasing productivity through innovation .....	37
3.5.2 Programme Priority 2: Improving resource efficiency in businesses and communities .....	37
3.5.3 Programme Priority 3: Increasing sustainable economic and enterprise activity in disadvantaged communities.....	38
3.6 Community Added Value.....	40
3.7 Programme Implementation and Delivery .....	42
3.8 Monitoring and Evaluation.....	42
3.8.1 Approach to Outputs, Results and Impacts .....	42
3.8.2 Targets for outputs, results and impacts for the Operational Programme.....	43
3.8.3 Cross Cutting Themes .....	45
3.8.4 Evaluation of the Programme .....	45
3.9 Key Policy Linkages .....	47
3.9.1 European Strategies .....	47
3.9.2 National Strategies .....	49
3.9.3 Inter-regional Strategies .....	51
3.9.4 Regional Strategies .....	51
<b>SECTION 4: PRIORITY AXES .....</b>	<b>55</b>
4.1 Introduction .....	55
4.2 Priority Axis 1: Innovation and sustainable business practice .....	56
4.2.1 Context and Rationale .....	56
4.2.2 Aims and Objectives.....	57
4.2.3 Description of Activity and Indicative Actions.....	57
4.2.4 Outputs and Results .....	60

4.3	Priority Axis 2: Sustainable economic and enterprise activity in disadvantaged communities.....	61
4.3.1	Context and Rationale .....	61
4.3.2	Spatial Targeting Methodology .....	61
4.3.3	Aims and Objectives .....	63
4.3.4	Description of Activities and Indicative Actions .....	64
4.3.5	Outputs and Results .....	67
4.4	Priority Axis 3: Technical Assistance.....	68
4.5	Inter-regional Co-operation .....	69
<b>SECTION 5: CROSS CUTTING THEMES .....</b>		<b>70</b>
5.1	Environmental Sustainability .....	70
5.1.1	CCT Definition .....	70
5.1.2	CCT Objective .....	70
5.1.3	CCT Best Practice from 2000-06 Programmes.....	71
5.1.4	Opportunities for CCT integration in the Priority Axes .....	72
5.1.5	Strategic Environmental Assessment .....	72
5.2	Equality .....	73
5.2.1	CCT Definition .....	73
5.2.2	CCT Objective .....	73
5.2.3	CCT Best Practice from 2000-06 Programmes.....	73
5.2.4	Opportunities for CCT Integration in Priority Axes .....	74
<b>SECTION 6: FINANCIAL ALLOCATIONS .....</b>		<b>76</b>
6.1	Programme Intervention Rate .....	76
6.2	Financial Allocation by Priority Axes.....	76
<b>SECTION 7: COORDINATION .....</b>		<b>78</b>
7.1	European Social Fund.....	78
7.2	European Agricultural Fund for Rural Development (EAFRD) and the European Fisheries Fund (EFF).....	79
7.2.1	Strategic and administrative arrangements to ensure on-going complementarity and coordination .....	82
7.3	Framework Programme 7 (FP7) and Competitiveness and Innovation Programme (CIP) .....	82
7.4	Territorial Cooperation.....	83
7.4.1	North West Europe .....	83
7.4.2	North Sea Region .....	83
<b>SECTION 8: IMPLEMENTING PROVISIONS .....</b>		<b>78</b>
<b>SECTION 9: GLOSSARY AND ABBREVIATIONS.....</b>		<b>109</b>
<b>SECTION 10: DEFINITIONS .....</b>		<b>110</b>
<b>SECTION 11: REFERENCES.....</b>		<b>111</b>

## **ANNEXES**

- Annex 1 Ex-ante Report
- Annex 2 Strategic Environmental Assessment
- Annex 3 Full Socio-economic Analysis
- Annex 4
  - a. Priority Axis 1 Logic Chain
  - b. Priority Axis 2 Logic Chain
- Annex 5 Spatial Targeting Data Tables
- Annex 6 Equality Impact Assessment
- Annex 7 Categorisation

## **SECTION 1: EXECUTIVE SUMMARY**

This document, the East Midlands Operational Programme (EMOP), sets out the region's strategy for delivering ERDF funds for the period from 2007 to 2013 under the EU's new Structural Funds Competitiveness and Employment Objective. The value of ERDF allocated to the region is €268,495,983, which will be matched equally with national public and private match funds to provide a total programme value of €536,991,966.

The strategy has been developed to support the region's agreed vision for economic development and growth:

*that by 2020 the East Midlands will be a flourishing region - with growing and innovative businesses, skilled people in good quality jobs, participating in healthy, inclusive communities and living in thriving and attractive places.*

It is based on an analysis of the region's main challenges, needs, strengths and opportunities as set out in the socio-economic and SWOT analyses, and the policy frameworks and drivers set down in the European Commission's Community Strategic Guidelines and the UK's National Strategic Reference Framework. In addition, the Programme is both set within the framework of, and will contribute to the delivery of, the Regional Economic Strategy (RES). EMOP seeks to add value by enhancing and extending RES commitments to the Lisbon and Gothenburg agendas.

The document is structured as follows:

### Section 2: Socio-Economic Analysis Summary

The analysis shows that whilst the region is performing well in some areas, with high levels of employment and relatively high levels of economic growth, it still performs less well than the UK average on productivity. This is a consequence of the region's industrial structure, its reliance on traditional production activities and the low level of the skills base. It is also the case that whilst some parts of the region have been enjoying strong growth and improved economic performance in recent years, there are particular localities that are starting from a low base, with high levels of deprivation and low levels of economic activity. Often these are areas that have suffered from decades of decline associated with industrial restructuring and changes to the rural economy.

The analysis points to a number of specific weaknesses that need to be addressed by the Programme:

- Relatively poor performance of the region in respect of process and product innovation;
- Low rate of new business formation in some localities;
- Relatively low levels of resource efficiency in the production of waste and low levels of renewable energy generation;
- Limited employment opportunities of people living in disadvantaged and remote areas that can be categorised in three groups: urban, coastal/peripheral and former industrial areas; and
- Low level of skills, in particular the continuing lag in level 4 attainment, that could act as a constraint on the economic development of the region.

### Section 3: Strategy

This section sets out an approach that will enable ERDF to support the region's growth goals by addressing specific weaknesses and exploiting opportunities.

The overall **Strategic Programme Objective** is "to become a region of highly productive, innovative and sustainable businesses and support the most disadvantaged of our communities to realise their economic potential".

This will be achieved under three Programme Priorities:

- Increasing productivity through innovation;
- Improving resource efficiency in businesses and communities; and
- Increasing sustainable economic and enterprise activity in disadvantaged communities.

Programme Priority 1 is concerned with increasing productivity through innovation. Resources will be thematically targeted to focus on increasing the number of businesses investing in R&D activity and improving the effective commercialisation of this activity to create spin out companies and to improve products, processes and services in order to achieve productivity gains. Resources will be targeted at the region's key sectors and high growth businesses to maximise the region's competitive advantage.

Programme Priority 2 is concerned with the development and adoption of new technologies, processes and services with the aim of cleaner, more efficient production processes. This will aim to strengthen competitiveness by improving productivity, whilst contributing to a sustainable low carbon economy. The overall approach is to reduce the demand for energy and resources by raising awareness, changing behaviour and providing expert support to businesses on sustainable consumption and production issues.

Programme Priority 3 is concerned with increasing sustainable economic and enterprise activity in disadvantaged communities in urban, coastal/peripheral and former industrial areas and will be spatially targeted to focus resources on the most disadvantaged areas whilst exploiting the potential linkages to adjacent areas of economic growth. These areas require additional support and investment to help create the right conditions to generate new and sustainable forms of economic activity that will lead to a diversification of the economic base towards more knowledge-based employment. The aim is to create new indigenous economic opportunities through enterprise support, access to finance, access to resources and support and reviving local infrastructure and environments.

The section also sets out the approach to monitoring and evaluation and contains the Programme level target indicators as summarised in the tables below. It also summarises the linkages between key national and regional policies.

### Outputs expected from the Operational Programme

Output	Target
No of businesses assisted to improve performance*	9,300
No of businesses engaged in new collaborations with the UK knowledge base	2,300
Public and private investment leveraged (€)	216,000,000
Sq metres of new or upgraded floorspace (internal premises)	36,100
No of people assisted start a business	2,700
Brownfield land reclaimed or redeveloped (ha)	17

\* it is anticipated that approximately 20% of these businesses will receive support related to energy and resource efficiency.

## Results expected from the Operational Programme

Result	Target
No of jobs created	8,600
No of businesses improving performance	7,200
GVA resulting from businesses improving performance (€)	263,000,000
No of graduates placed in SMEs	4,000
No of new businesses created and new businesses attracted to the region	2,000

## Impacts expected from the Operational Programme

Impact	Target
Increase in GVA (€)	221,000,000
Increase in employment	4,600
Increase in businesses	700

### Section 4: Priority Axes

This section provides a detailed description of the focus and activities in each of the main Priority Axes, including indicative actions, output and result indicators.

#### **Priority Axis 1: Innovation and sustainable business practice**

The Priority Axis seeks to create a high value-added economy by supporting specific actions to increase innovation activity in the region's key sectors and high growth businesses and supporting a programme of resource efficiency activities in support of Programme Priority 1 and Programme Priority 2. It will build on the region's key strengths and exploit opportunities.

43% (€115,453,273) of the Programme's ERDF allocation will support four strands of activity:

- Supporting knowledge and technology transfer, innovation and R&D;
- Innovation support for business;
- Creating the environment for innovation; and
- Resource efficiency.

#### **Priority Axis 2: Sustainable economic and enterprise activity in disadvantaged communities**

Priority Axis 2 will target resources at areas of need with low levels of economic and enterprise performance to help create the right conditions to generate new and sustainable forms of economic activity which will lead to a more knowledge intensive economic base.

Under Priority Axis 2, 53% (€142,302,871) of the Programme's ERDF allocation will be used to support four key strands of activity:

- Enterprise support;
- Access to finance;
- Access to resources and support; and
- Reviving local infrastructure and environments.

#### **Priority Axis 3: Technical Assistance**

Technical Assistance funds will be available to support the management, monitoring, evaluation, information and control activities of the EMOP, together with activities to reinforce the administrative capacity for implementing the funds. This will include the Programme's

publicity and communication strategy, support for the cross cutting themes, and the development of programme monitoring and evaluation systems.

Section 5: Cross Cutting Themes

This section sets out the objectives and the approach for ensuring that the commitment to the two themes, Environmental Sustainability and Equality, is mainstreamed across all aspects of the Programme.

Section 6: Financial Allocations

This section sets out the rationale for allocating the resources and for setting different maximum intervention rates for the Priority Axes as contained in the summary table below.

**Summary Financial Table Euros**

	<b>ERDF</b>	<b>National Public</b>	<b>National Private</b>	<b>Total</b>	<b>PA Grant Rate</b>
<b>PA1 Innovation and sustainable business practice</b>	115,453,273	142,974,111	30,205,798	288,633,182	40%
<b>PA2 Sustainable economic and enterprise activity</b>	142,302,871	74,507,636	10,068,599	226,879,106	62.72%
<b>PA3: Technical Assistance</b>	10,739,839	10,739,839	0	21,479,678	50%
<b>Total</b>	<b>268,495,983</b>	<b>228,221,586</b>	<b>40,274,397</b>	<b>536,991,966</b>	<b>50%</b>

Section 7: Coordination

This section explains how the EMOP will complement the activities supported under the ESF element of Structural Funds Competitiveness and Employment Objective, the European Agricultural Fund for Rural Development, the European Fisheries Fund as well as links to other funding programmes, e.g. Framework Programme 7 and Interreg.

Section 8: Implementing Provisions

This section sets out the overarching principles for the strategic delivery of the Programme, including details on roles and responsibilities of the Managing, Certifying and Audit Authorities and Intermediate Bodies; partnership arrangements; and delivery and management processes.

## **SECTION 2: SOCIO-ECONOMIC ANALYSIS SUMMARY**

This section provides a summary of the full socio-economic analysis that is annexed to the Operational Programme. This analysis has been used to develop the strategy for the Operational Programme and contains data that will act as a baseline against which the progress of the Programme will be measured.

### **2.1 Introduction**

The East Midlands is England's fourth largest region, covering an area of 15,607km<sup>2</sup>. It consists of six counties - Derbyshire, Leicestershire, Lincolnshire, Nottinghamshire, Northamptonshire, and Rutland. The region's main population centres are the cities of Derby, Nottingham, Leicester and Lincoln, and the towns of Northampton and Mansfield.

The region is served by a number of key transport facilities and routes:

- East Midlands Airport - Nottingham, Leicester, Derby in North West Leicestershire;
- The M1 motorway which runs from north to south through the region, and the main A1 road to the east of the M1;
- The main A14 road running east to west through the region; and
- The Midland and East Coast Mainlines, which are the principal rail routes through the region.

#### Population

Although the East Midlands is the fourth largest region in terms of area covered, it has the second smallest population of the English regions. The population of the East Midlands was just over 4.3 million in 2005, which is 7.2% of the UK total. Of this, 51% is female and 49% is male. In addition, 9% of the East Midlands population is from an ethnic minority background. The East Midlands is one of the more rural regions in England, with 29.5% of the population resident in rural areas.

Population growth in the East Midlands was faster than the national average between 1995 and 2005. The East Midlands population grew by 5.2% compared to 4.2%, which is closer to the rates of growth in the Greater South East<sup>1</sup> than the northern and midlands regions. The population of the East Midlands is projected to reach 4.8 million by 2028 and the Milton Keynes South Midlands (MKSM) growth area could add an additional 100,000 to the region's population.

- **Key point:** population growth provides opportunities - via larger labour and product markets - for economic development in the East Midlands.

#### Deprivation

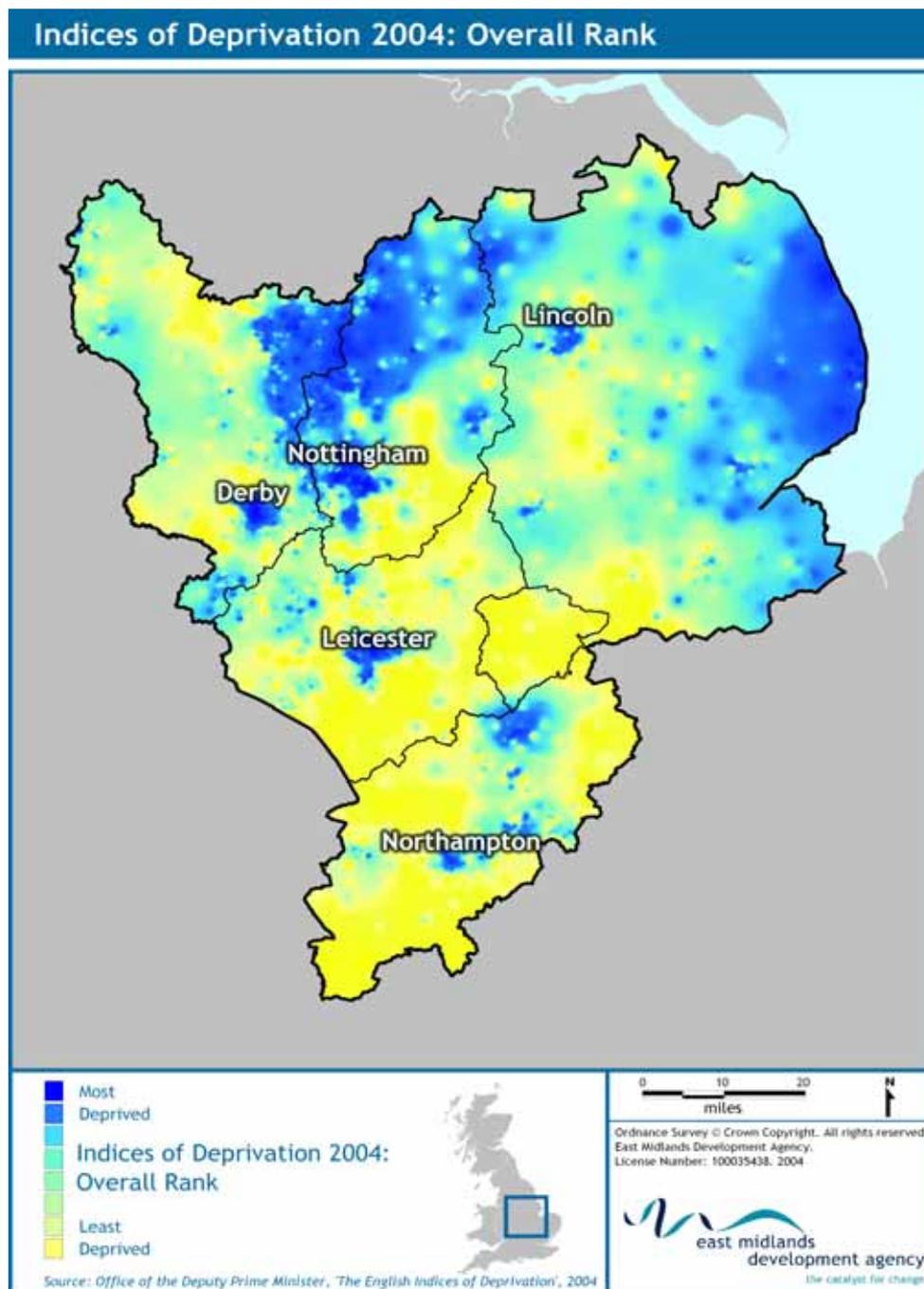
The Index of Multiple Deprivation (IMD) 2004 shows that levels of deprivation in the East Midlands are concentrated in the urban centres, the former coalfields area, remote rural areas and the Lincolnshire coast. Nottingham is the most disadvantaged district in the region and South Northamptonshire the least disadvantaged. In general, districts in the north of the region tend to have higher levels of deprivation than those in the south.

- **Key point:** areas of need have been identified as the urban centres, the former coalfields, remote rural areas and the Lincolnshire coast.

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<sup>1</sup> The Greater South East includes the East of England, London and the South East.

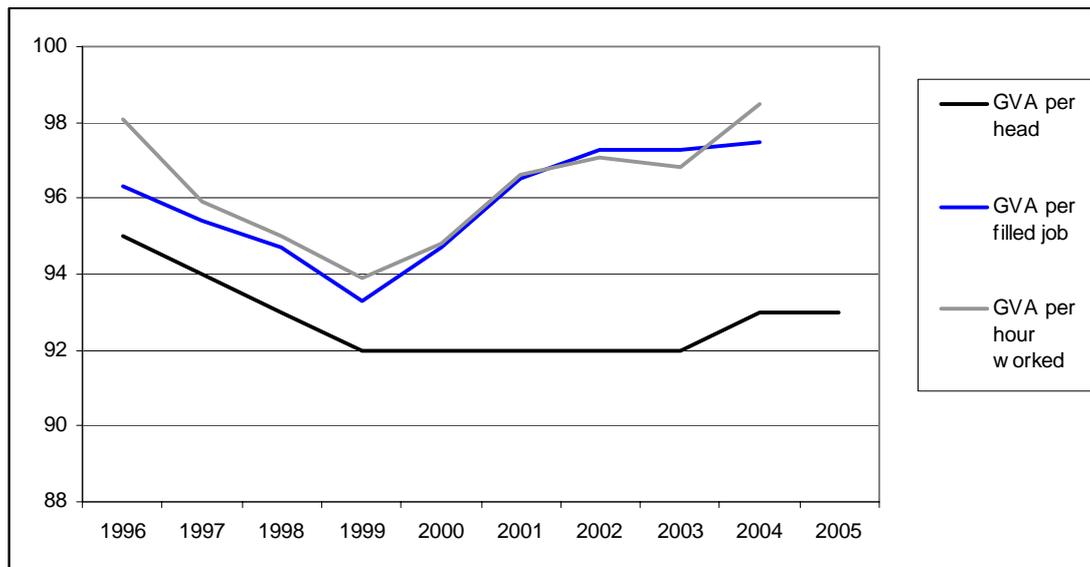
**Map 1: Index of Multiple Deprivation 2004: Overall Rank**



Economic Context

Chart 1 shows that between 1996 and 2005 Gross Value Added (GVA) per head in the East Midlands fell from 94.4% of the UK average to its current level of 93%. This fall occurred early during this period and since 1999 GVA per head in the East Midlands has stabilised before increasing in the last two years. On measures of productivity, the gap between the East Midlands and the UK is narrower: GVA per filled job was 97.5% of the UK average in 2004 and GVA per hour worked was 98.5% of the UK average in 2004. On both of these measures there has been an upward trend since 1999, so that the region has regained the position it held in the mid 1990s.

**Chart 1: Change in output and productivity in the East Midlands (UK=100)**



Source: Office for National Statistics

Within the East Midlands, GVA per head is highest in Nottingham, Leicester and Derby and lowest in East Derbyshire, North Nottinghamshire and Lincolnshire. However, it should be noted that commuting patterns influence these figures. The data shows that Derby, East Derbyshire, South Nottinghamshire, Leicester and Northamptonshire have improved their position relative to the UK between 1995 and 2004 (which is the latest year for which sub-regional data is available). In contrast, South and West Derbyshire, Nottingham, North Nottinghamshire, Leicestershire and Rutland, and Lincolnshire have all fallen relative to the UK average between 1995 and 2004.

- **Key point:** levels of output and productivity in the East Midlands are below the UK average - the Regional Economic Strategy aims to close this gap.
- **Key point:** in addition, there are significant sub-regional disparities within the East Midlands in terms of economic performance.

#### Key Sectors in the East Midlands

The previous Regional Economic Strategy (RES), *Destination 2010*, gave priority to the development of a small number of clusters - Aerospace, Motorsport, Food & Drink, Healthcare, Creative Industries, Clothing & Textiles, and Environmental Technologies. The consultation for the current RES, *A Flourishing Region*, proposed a new approach to sectors and clusters. It gives greater emphasis to sectors - highlighting the need for a regional sector policy and proposing policy principles - but recognises that there is still a place for some limited cluster development within such a policy.

During that consultation process a number of criteria were used to determine candidate sectors for support during the lifetime of *A Flourishing Region*. The criteria used were an attempt to identify those sectors in which the East Midlands has a comparative advantage:

1. The proportion of the East Midlands economy accounted for by each sector;
2. The output location quotient for each sector, so that concentration as well as scale is accounted for in the analysis;
3. The proportion of total full-time equivalent (FTE) employment in the East Midlands that is accounted for by each sector;
4. The FTE employment location quotient for each sector, again accounting for concentration as well as scale;

5. Levels of productivity per FTE worker in the East Midlands, relative to the UK. This is a measure of regional comparative advantage;
6. Forecast output growth for the period 2004-14;
7. Forecast FTE employment growth for the period 2004-14;
8. Forecast productivity growth for the period 2004-14;
9. The number of large employers (those with 200+ employees) in the East Midlands. This is an attempt to capture the strategic significance of each sector in the region; and
10. Annual average gross full-time earnings for each sector in the region, which is an attempt to capture the quality of employment in each sector.

The results of this exercise showed how each of 30 sectors in the East Midlands are ranked against these indicators, along with an overall average score. The top five sectors are the manufacture of Transport Equipment, the manufacture of Food & Drink, Business Services, Construction and Health.

Following the consultation period on the new RES, it was proposed that Business Services should not be considered for priority support in the new RES as it is too disparate a sector to formulate targeted policy intervention to address market failure.

The rationale for adopting this approach was to have a robust, data driven method for identifying key sectors in the East Midlands economy. In order to get coverage in the data, the decision was taken to adopt sector classifications that were based on the two digit standard industrial classification breakdown, either individually or grouped if the data were not robust enough at this level of detail. This means that this exercise did not identify environmental technologies as a key sector in the East Midlands as it is not possible to define this sector using this methodology.

### **Transport Equipment**

This sector includes the manufacture of motor vehicles, trailers and semi-trailers and the manufacture of other transport equipment.

- **Scale:** This is one of the larger manufacturing sub-sectors in the region, accounting for 3.5% of the region's economy and 1.9% of employment in the region in 2004. An output location quotient of 1.9 shows that this sector is much more significant to the East Midlands than it is to the national economy.
- **Productivity:** Levels of productivity are estimated to be about one third higher than the national average in the East Midlands. Transport Equipment has the highest productivity of any sector in the region.
- **Growth prospects:** Output growth in the East Midlands (29% for the period 2004-14) is forecast to be higher than the national average (around 8%). A small fall in employment is forecast, though this fall is not as severe as that expected for the UK.
- **Employment quality:** This is a high quality employment sector, with average annual earnings almost a third above the East Midlands average in 2004.
- **Strategic significance:** There were a significant number (more than 30) of large employers in this sector in the East Midlands in 2003. This sector contains the motorsport and aerospace presence in the region, which are parts of internationally-recognised clusters<sup>2</sup>.

### **Food & Drink**

This sector is defined simply as the manufacture of food products and beverages.

- **Scale:** Food & Drink is the largest of the manufacturing sub-sectors in the East Midlands, accounting for just under 5% of the region's economy and just over 3% of

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<sup>2</sup> *Cluster Development: The Way Forward*, DTZ Pleda Consulting, March 2005

employment in the region in 2004. An output location quotient of 2.0 shows that this sector is much more important regionally than it is nationally.

- Productivity: The East Midlands has a slight productivity advantage in this sector with output per FTE worker around 5% higher than the UK average in 2004.
- Growth prospects: The Food & Drink sector is forecast to grow more strongly in the East Midlands than nationally during the period 2004-14. The forecast is for output growth of around 30% (compared to 9% for the UK) and employment is forecast to grow by just over 4% (compared to a decline of -15% for the UK).
- Employment quality: average annual earnings in the Food & Drink sector were around 9% below the regional average in 2004.
- Strategic significance: There was a significant number (more than 70) of large employers in this sector in the East Midlands in 2003.

### **Construction**

- Scale: Construction is one of the larger sectors in the region, accounting for 8.2% of the region's economy and 8.7% of employment in 2004. An output location quotient of 1.3 shows that this sector is more significant to the East Midlands than it is to the national economy.
- Productivity: Levels of productivity in Construction are estimated to be about one fifth higher than the national average in the East Midlands.
- Growth prospects: Output growth in the East Midlands (27% for the period 2004-14) is forecast to be higher than the national average (around 24%). Employment growth is forecast to be twice as fast as that for the UK, and could be higher as this baseline forecast includes only half of the proposed MKSM development<sup>3</sup>.
- Employment quality: Average annual earnings in the Construction sector were around 5% above the East Midlands average in 2004.
- Strategic significance: There were a significant number (more than 30) of large employers in this sector in the East Midlands in 2003. However, as noted above, the Milton Keynes South Midlands development is a significant opportunity for construction companies in the East Midlands, with a significant house-building programme in place up to 2021, and with further development proposed in the period 2021-31. There is also a significant opportunity for construction companies in the region to benefit from infrastructure projects that will be put in place in the run up to the 2012 Olympics in London.

### **Health**

Health has been defined to include the provision of care as well as the manufacture of medical instruments and equipment and pharmaceuticals.

- Scale: Health is one of the larger sectors in the region. In 2004 it accounted for around 7.5% of the East Midlands economy and around 10% of total FTE employment. Location quotients show that the whole sector is just as important to the East Midlands economy as the national economy and the chemicals sector is relatively more important in the East Midlands than nationally.
- Productivity: the Health sector in the East Midlands has a small productivity disadvantage with levels of output per FTE employee around 91% of the UK average;
- Growth prospects: Health is forecast to be one of the faster growing sectors in the East Midlands, with total output growth of 44% forecast between 2004 and 2014. This compares with 40% for the UK. FTE employment in health is also forecast to grow more quickly than the national average in the East Midlands;

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<sup>3</sup> Experian assume half of the proposed development will go ahead in their baseline forecast. It should be remembered that this is an independent forecast and cautious assumptions are made on the basis of the significant risks associated with a project of this scale.

- Employment quality: average annual earnings in the Health sector were around 10% below the average for the East Midlands in 2004. However, the Chemicals sub-sector had average earnings almost one quarter above this average;
- Strategic significance: there was a significant number (more than 70) of large employers in the Health sector in the East Midlands in 2003. There are increasing opportunities for those in the Health sector, with the demand for products and services driven by the significant demographic changes taking place in the region.
- **Key point:** the RES has identified Transport Equipment, Food and Drink, Construction and Health as key sectors in the region.

### Business Demography

At the beginning of 2006 there were over 127,000 VAT registered businesses in the East Midlands, which is 6.9% of the UK total. Just over one fifth of these businesses are in the five major urban areas in the region - Derby, Leicester, Lincoln, Northampton and Nottingham. The majority of VAT registered businesses in the region are in the service sector, but this proportion is almost four percentage points below the UK average.

The VAT registered business stock in the East Midlands increased by 15% between 1996 and 2006, slightly above the increase for the UK. The most significant increases have been in the south of the region.

- **Key point:** the most significant increases in the business stock have occurred in the south of the region.

## 2.2 Employment

### Economic Activity

The economic activity rate in the East Midlands is above the average for Great Britain (79.5% compared to 78.4%) and has been throughout the period 1999-2005. There are significant disparities in economic activity within the East Midlands. The economic activity rate is particularly low in Nottingham and Leicester, the former coalfields area and on the Lincolnshire coast. Activity rates are generally higher in the south of the region.

### Employment

The employment rate in the East Midlands is also above the average for Great Britain (75.8% compared to 74.5%) and has been throughout 1999-2005. As with the activity rate, there are significant disparities within the East Midlands. The employment rate is generally low in the urban areas, the former coalfields and on the Lincolnshire coast, while higher employment rates are to be found in the south of the region.

- **Key point:** labour market participation is generally high in the region but there are areas of low participation in the urban centres, the former coalfields and on the coast.

The structure of employment in the East Midlands in terms of those who are employees and self employed, and who work full-time and part-time, is very similar to the average for Great Britain, though there has been a modest increase in the proportion of self-employment both regionally and nationally between 1999 and 2005.

There are some notable differences between the industrial structure of the East Midlands and the rest of the country. Despite declining in recent years, the manufacturing sector still accounts for a relatively large share of employment (just over 16% in the East Midlands compared to 11% for the UK). Relatively large manufacturing sub-sectors include the manufacture of transport equipment and food and drink. The public sector and distribution, hotels and catering sectors are significant, with each accounting for around one quarter of

employment in the region. However, banking, finance and insurance is relatively less significant in the East Midlands. Because the East Midlands still has a relatively high proportion of people employed in manufacturing, it is more vulnerable than other regions to the ongoing challenges posed by globalisation.

The industrial structure of the East Midlands economy means that the occupational composition of employment differs from the national average. The East Midlands has lower proportions employed in professional, associate professional and technical occupations, compared to the national average. Although there are higher proportions employed in skilled trades, a relatively large share of employment in the East Midlands is in lower skilled occupations such as plant, process and machine operatives and elementary occupations.

- **Key point:** the changing structure of the East Midlands economy means that the nature of employment is changing, presenting both threats (such as the loss of employment in traditional sectors) and opportunities (from the development of new sectors and markets).

### Unemployment

Unemployment is relatively low in the East Midlands. In 2005 the unemployment rate in the region was 4.7% compared to 5% for Great Britain. Unemployment in the region has been below the national average throughout the period 1999 to 2005. As with activity and employment, there are significant disparities within the region with unemployment particularly high in the cities (in Nottingham, which has the highest unemployment rate in the region, it is more than twice the national average).

However, the unemployment data does not capture the full scale of those in the region who are out of work. 'Real unemployment'<sup>4</sup> is defined to include all those who might reasonably be expected to have been in work in a fully-employed economy. This is a wider group than just the claimant unemployed or the ILO (International Labour Organisation) unemployed, in that it seeks to include those individuals who, despite being willing and able to work, have moved on to other benefits or out of the benefits system.<sup>5</sup> 'Hidden' unemployment is the difference between this group and 'visible' claimant unemployment. This hidden unemployment tends to be concentrated in the former coalfields area and in Mansfield and Bolsover. Seven percent of adults of working age are estimated to be hidden unemployed in this way.

- **Key point:** unemployment in the region is generally low but there are areas where it is relatively high, particularly in the cities. In addition there are significant numbers of 'hidden unemployed', individuals who could work if employment were available, and these tend to be concentrated in the former coalfields.

### Labour Market Participation by Group

Levels of labour market participation and employment tend to be relatively low among women, those from ethnic minority groups and those with disabilities. For example the economic activity and employment rates for women in the East Midlands are around 9 and 8 percentage points below the equivalent male rates. Those with disabilities are less than half as likely to be economically active or in employment as those without disabilities. Finally,

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<sup>4</sup> This section draws upon '*Hidden Unemployment and its Relevance to Labour Market Policy in the East Midlands*', C Beatty and S Fothergill, Sheffield Hallam University, 2004

<sup>5</sup> We are not suggesting in any way that benefits claims are fraudulent, or that health problems are anything less than real. The point is that in parts of the country where there is effectively full employment, people with health problems or disabilities are more likely to find work that is compatible with their personal circumstances.

those from ethnic minority groups have activity and employment rates that are both 12 percentage points lower than the equivalent figures for those who are white.

- **Key point:** labour market participation is relatively low among women, those with disabilities and those from ethnic minority groups.

### Earnings

Median gross annual earnings in the East Midlands were £18,433 in 2006, which is 95% of the UK average. Within the East Midlands the highest median earnings are in Derby (where they are 24% above the UK average) and the lowest in Lincolnshire (where they are just 85% of the UK average). The gap between the East Midlands and the UK has narrowed as earnings increased by 34.6% in the region between 1999 and 2006 compared to an average increase of 31% for the UK.

- **Key point:** the combination of high employment rates and low levels of earnings have led to the East Midlands being characterised in the RES as in a 'low pay low skills equilibrium'.

## 2.3 Competition

Competition is important because it encourages firms to become more efficient (i.e. to reduce costs and prices) and to innovate (to exploit a new idea and gain a market advantage). There are various ways that companies can compete (on price, quality, etc). OECD research<sup>6</sup> suggests that an anti-competitive regulatory environment and delays in implementing pro-market reforms are associated with poor multi-factor productivity performance. The OECD also cites a number of studies<sup>7</sup> which show that domestic competition has a positive impact on firm level productivity in the UK.

It is difficult to measure the competitiveness of a national economy but the more efficient regulatory systems are and the stronger the competition regime, the more efficiently an economy works. The UK is generally well regarded on these measures. These systems and regimes would apply to all regions so this does not provide a useful way of assessing how competition in this sense impacts on productivity at regional level.

Based on readily available data, the Treasury/ Department for Business, Enterprise and Regulatory Reform<sup>8</sup> (BERR) Drivers of Productivity Framework assesses the extent of competition in a region by examining the extent to which companies in a region are exposed to international markets. The rationale for this is that those who export will generally be subject to much greater levels of competitive pressure and be more productive than those companies that serve local markets. Because of the difficulties associated with measuring service sector exports and activity, this data is influenced in a significant way by the scale of manufacturing activities in regional economies. On this basis, the East Midlands has one of the most open regional economies in the country.

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<sup>6</sup> *Regulation, Productivity and Growth: OECD Evidence*, Giuseppe Nicoletti and Stefano Scarpetta, OECD, January 2003

<sup>7</sup> *Product Market Competition, Wages and Productivity: International Evidence from Establishment Level Data*, D Blanchflower and S Machin, Centre for Economic Performance Discussion Paper No 286, 1996

*Competition and Corporate Performance*, S Nickell, Journal of Political Economy Volume 104, 1996

*What Makes Firms Perform Well?*, S Nickell, D Nicolitsas and N Dryden, European Economic Review 41, 1997

<sup>8</sup> Previously the Department for Trade and Industry (DTI)

## 2.4 Enterprise

Enterprise is important because new businesses increase competition, providing an incentive for new products and processes. It leads to a more efficient economy through a process of 'churn' whereby new enterprises with new products and processes lead to the closure of companies that are not able to compete, thus freeing resources for more productive uses. Enterprise is not just about new businesses (though this is the focus of much of government policy) but also about a culture that recognises, encourages and supports entrepreneurs and entrepreneurial ways of working.

Total Entrepreneurial Activity (TEA) is a measure of entrepreneurial activity calculated as the sum of nascent entrepreneurs and baby businesses. TEA was 6.1% in the East Midlands in 2006, compared to 5.8% for the UK. Levels of TEA in the region have fluctuated around 6% between 2002 and 2006. Data for the East Midlands<sup>9</sup> shows that TEA varies between different groups of the population. Notably, entrepreneurs in the East Midlands are most likely to be aged between 35 and 44, (and this group is more entrepreneurial in the East Midlands than the UK). In addition, entrepreneurial activity also varies by ethnic minority group within the region.<sup>10</sup> Among Indian, Pakistani and the Black Caribbean populations TEA is higher than among White British people.

- **Key point:** TEA has fluctuated around 6% in the East Midlands between 2002 and 2006, and there remain differences between various segments of the population.

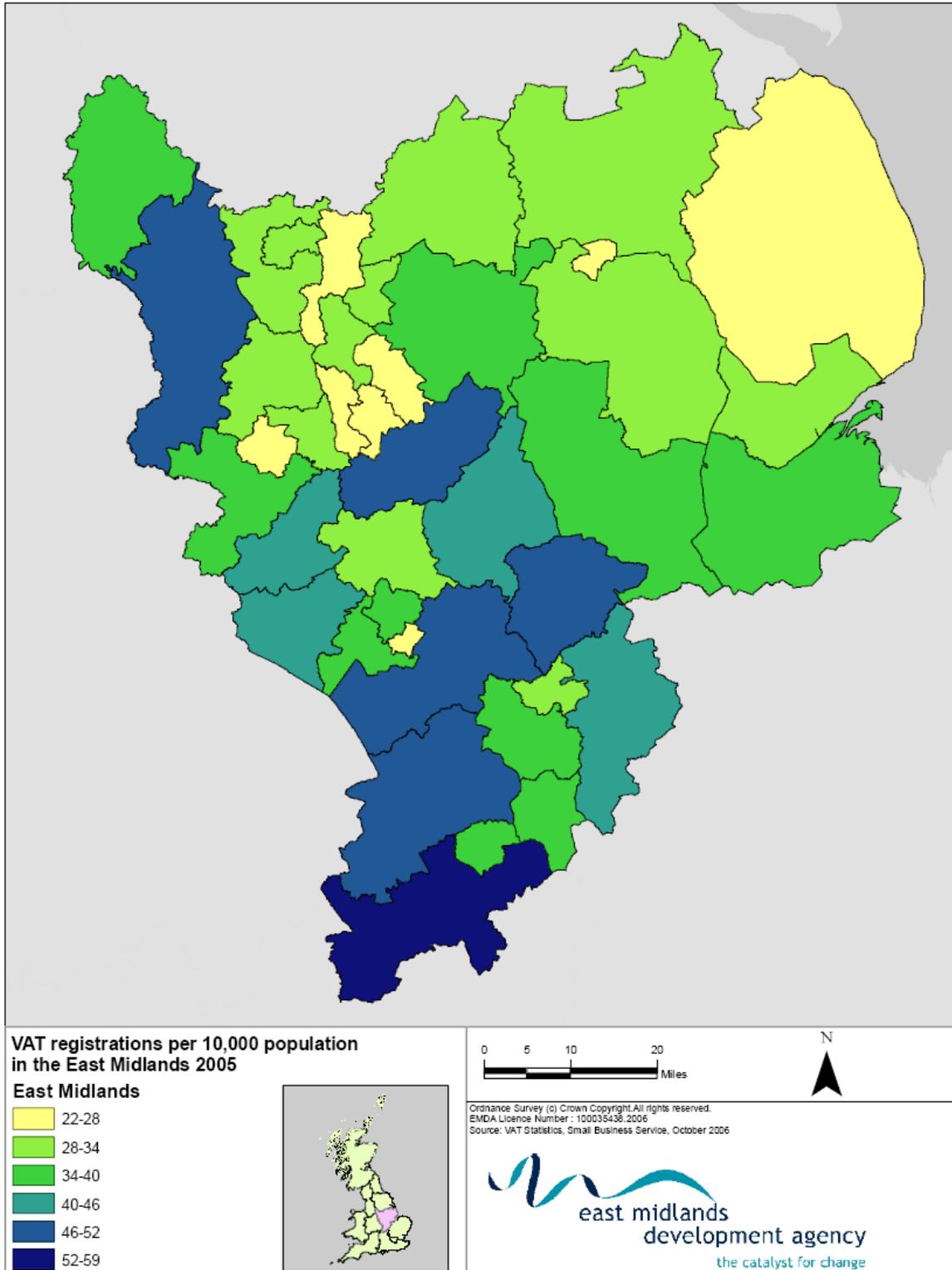
A second measure used to assess enterprise is the number of VAT registrations per 10,000 population. This is below the UK average in the East Midlands (35 compared to 37 in 2005) and has been throughout the period 1994-2005. Map 2 shows that there is a wide variation in the number of VAT registrations per 10,000 population within the East Midlands. The highest levels are in South Northamptonshire and Daventry and the lowest levels are in Gedling, Broxtowe and Nottingham. The number of VAT registrations per 10,000 population is generally higher in the south of the region.

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<sup>9</sup> *GEM UK East Midlands Summary Report 2006*, London Business School, March 2006.

<sup>10</sup> For more information on enterprise among ethnic minority groups see *Ethnic Minority Enterprise and Business Support in the East Midlands*, T Jones and M Ram, De Montfort University, emda RES evidence commission, August 2005.

**Map 2: VAT registrations per 10,000 population 2005**



- **Key point:** the number of VAT registrations per 10,000 population in the East Midlands is below the national average and there are significant variations within the region.

Business start-ups are important but they are only part of the story. It is essential that businesses survive so that employment can be maintained and increased throughout the companies' lifespan. The three-year business survival rate for businesses registering for VAT in 2002 in the East Midlands is above the national average and has increased between

1995 and 2002. Within the region the highest survival rates are in Derbyshire and Lincolnshire.

- **Key point:** a business is more likely to survive for three years in the East Midlands compared to the UK.

## 2.5 Innovation

Innovation can be described as the successful exploitation of new ideas - either new products or new processes. A stream of constant, successful innovation is therefore essential if an economy is to remain competitive and standards of living are to increase. Innovation is not just about products and processes that are completely new but also about those that are new to a particular firm i.e. the diffusion of new products and processes.

Empirical evidence shows a positive correlation between levels of innovation indicators and measures of economic performance. In a global economy where the scope to compete on a cost basis is increasingly limited, innovation is one way in which developed economies can maintain competitive advantage - 'it offers firms a high-road, high-wage, high-growth strategy.'<sup>11</sup>

A number of critical success factors have been identified as contributing to a successful innovation system.<sup>12</sup> These include: the capacity to absorb and exploit knowledge and technology; the regulatory framework and competition regime; access to finance; sources of new technological knowledge; and the extent and depth of networks and collaboration.

The literature is clear about the fact that there are significant economic benefits to be gained from innovation. Recent research published by the OECD<sup>13</sup> shows that the impact of business R&D on multi-factor productivity (MFP)<sup>14</sup> has been increasing over time. This research shows that the impact of R&D may vary by type. For instance, it is shown that a 1% increase in business R&D leads to a 0.13% increase in MFP, a 1% increase in foreign R&D leads to a 0.44% increase in MFP, whilst a 1% increase in public R&D leads to a 0.17% increase in MFP. Research published by the Institute for Fiscal Studies<sup>15</sup> shows that, based on a sample of UK companies, patents have a significant impact on firm level productivity and market value.

Levels of business enterprise research and development (R&D) are above the national average in the East Midlands (at 1.5% of GVA compared to 1.4% of GVA for the UK in 2003) and have been throughout 1995-2003. However, in the East Midlands this tends to be concentrated in a small number of multinational companies, disguising the majority of businesses with little R&D activity. Levels of government R&D in the East Midlands are below the national average, while higher education R&D in the East Midlands is in line with the national average. The proportion of employees employed in high and medium technology industries is above the national average in the East Midlands but has been declining in recent years (as it has in all regions of the UK).

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<sup>11</sup> *Innovation Policy*, C Oughton and M Frenz, Birkbeck, University of London, *emda* RES evidence commission, August 2005.

<sup>12</sup> *Competing in the Global Economy- The Innovation Challenge*, Economics Paper No7, Department for Trade & Industry, November 2003.

<sup>13</sup> *R&D and Productivity Growth: Panel Data Analysis of 16 OECD Countries*, Dominique Guellec and Bruno van Pottelsberghe de la Potterie, OECD, 2001.

<sup>14</sup> Multi-factor productivity is also known as total factor productivity.

<sup>15</sup> *Real Options, Patents, Productivity and Market Value: Evidence from a Panel of British Firms*, Nicholas Bloom and John Van Reenan, Institute for Fiscal Studies, 2000.

- **Key point:** the headline figure for R&D looks positive but this hides the fact that public sector R&D in the region is relatively low and that a large proportion of businesses in the region undertake very little R&D.

The East Midlands has a proud tradition of scientific excellence and research breakthroughs including the development of Magnetic Resonance Imaging (MRI) at the University of Nottingham, and Genetic Fingerprinting at the University of Leicester. The most recent Research Assessment Exercise identified a number of strong departments in the region's universities. These included the 5\* rated departments in Biological Sciences at the University of Leicester and the Built Environment at Loughborough. In addition, there are departments rated 5 in science and engineering disciplines at the Universities of Nottingham, Leicester and Loughborough.

The region has a history of linking research with manufacturing innovation. These links must be developed and harnessed in order to maximise the contribution of the region's Higher Education Institutions (HEIs) to the economic growth of the region. In addition there are upwards of 40 innovation centres, incubators and science parks in the East Midlands with several infrastructure facilities planned or under construction. Research for *emda*<sup>16</sup> has set out a number of characteristics that dedicated physical infrastructure for innovation should possess. This includes clearly stated innovation and technology objectives for the infrastructure development; the identification of target clients as dependent upon technology or other sources of innovation for competitive advantage; and on-site access to both business and technology management advice. This research suggests that few of the identified facilities in the region possess all of these characteristics. This research has also identified a lack of suitable grow-on space in the region. It should be noted that this is based on the views of a limited number of stakeholders and there is a lack of systematic evidence in this area.

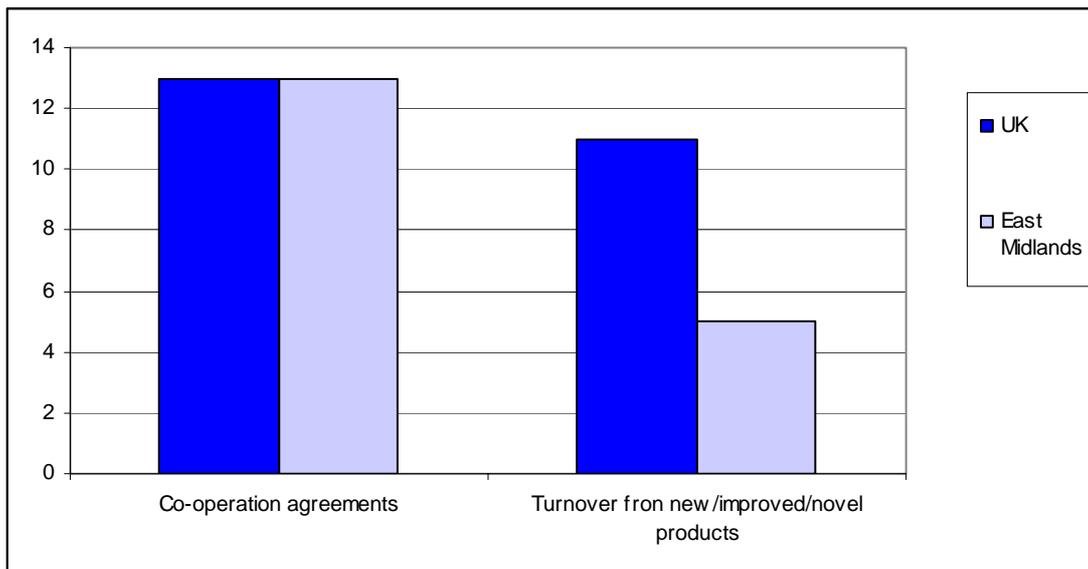
- **Key point:** there is a lack of suitable grow-on space among the physical innovation infrastructure in the region.

Co-operation arrangements are considered important as a means of transferring the knowledge produced by universities and other institutions into the business sector for successful commercial exploitation. Data from the Fourth Community Innovation Survey, illustrated in Chart 2, shows that 13% of companies in the East Midlands have co-operation agreements on innovative activities, which is in line with the UK average. However, only 5% of companies' turnover is attributable to new or improved products in the region, which is less than half of the national average.

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<sup>16</sup> *Review of Infrastructure Facilities to Support Innovation Across the East Midlands*, CM International, March 2005.

**Chart 2: Co-operation arrangements and turnover accounted for by new and improved products (%)**



Source: CIS4, Department of Trade & Industry, July 2006

- **Key point:** levels of commercialisation of innovation activities in the East Midlands are relatively low.

## 2.6 Investment

Investment is important because by increasing the amount and quality of capital available, a worker is able to produce more outputs. It is estimated that every 1 percentage point increase in total investment leads, in the long term, to a 0.05 percentage point increase in the growth rate of labour productivity<sup>17</sup>. Data on business investment shows that levels of investment have been falling since 1998 and since then levels of investment by UK owned companies in the East Midlands have been below average. Levels of investment by foreign owned firms in the East Midlands have also fallen.

In addition to adequate amounts of capital to work with, adequate land and property provision are necessary for economic competitiveness. Well functioning and responsive markets for land will facilitate economic progress. Changing final demand patterns and changing sources of goods and services mean that there will be a changing pattern of land and property use in regions such as the East Midlands.

Between 2000 and 2005 the amount of factory floorspace in the East Midlands has fallen, but there has been an increase in office floorspace. Data on rent shows that there has been an increase for industrial, retail and office space in the East Midlands between 2001 and 2006. Finally, with the exceptions of Nottingham and Northampton, typical land values have increased in the East Midlands between 2001 and 2006. In 2006, however, there was no location in the East Midlands where typical land values were above the average for England and Wales.

As noted in the introduction, there are a number of major transport assets in the East Midlands. Despite this there are still accessibility issues that impact on the ability of some groups to participate in economic activity. This is particularly the case in the sparse hamlets and isolated dwellings found in the rural parts of the region.

<sup>17</sup> *Productivity in the UK 5: Benchmarking UK Productivity Performance*, HM Treasury and the Department of Trade & Industry, March 2004

Developments in communication systems are beginning to alleviate the need for the physical movement of goods and people and access to services. Around 93% of residential delivery points in the East Midlands could receive a broadband connection through digital subscriber lines (compared to over 95% for England). In addition forty percent of businesses in the East Midlands have a broadband connection and 25% traded online in 2005.

- **Key point:** as 75% of businesses do not trade online, opportunities exist to increase levels of e-commerce in the East Midlands.

## 2.7 Skills

This section looks at measures of adult skills in the East Midlands. The region has been described as being in a 'low pay low skills equilibrium', characterised by, "a combination of low wages and high employment."<sup>18</sup> The qualifications of economically active adults (aged 16-59/64) will be used as an indicator of skill levels in the current workforce.

In 2005, 10.9% of the economically active in the East Midlands had no qualifications, which is above the average of 9.9% for Great Britain. However, the gap has narrowed as this proportion fell by 3.5 percentage points in the East Midlands between 1999 and 2005 compared to a fall of 2.4 percentage points for Great Britain. Within the East Midlands the proportion of the economically active with no qualifications varies significantly, between a low of 3.3% in Derbyshire Dales and a high of 19.1% in Derby in 2005.

The East Midlands compares favourably against Great Britain in terms of the proportion of the economically active with their highest qualification at Levels 2 and 3 and has seen faster growth in the numbers qualified at this level than Great Britain between 1999 and 2005.

However, for higher level qualifications, the East Midlands lags behind the rest of the country. Just under 27% of the economically active in the East Midlands were qualified to Level 4 or above in 2005, compared to over 30% for Great Britain. There are significant variations within the East Midlands on this measure. In Rushcliffe 56.6% were qualified to Level 4 and above in 2005, but the corresponding figures for Boston and Bolsover are particularly low (at 7.1% and 12.2% respectively).

- **Key point:** levels of skills in the region are relatively low and could act as a constraint on the future economic development of the region, particularly in those areas that already exhibit multiple deprivation.

From the perspective of employers, 9% reported a vacancy that was hard to fill in the East Midlands, and that these hard to fill vacancies are more likely than average to be skills shortage vacancies. Key skills gaps identified by employers in the East Midlands include communication, customer handling and team working skills. In addition, there are significant gaps in management skills.

## 2.8 Environment

The environment acts as a source of inputs for economic activity (raw materials and fuels for example), and a sink for some of the outputs (such as waste and air emissions). Environmental hazards such as flooding can constrain economic growth in some areas, while the environment also provides amenities that contribute to individuals' quality of life. A substantial part of the evidence presented here is based on data collated to inform the Strategic Environmental Assessment (SEA) and Sustainability Appraisal of the RES and the Strategic Environmental Assessment of the Operational Programme<sup>19</sup>.

<sup>18</sup> IER, 'DTI Skills Research Programme: Tackling the Low Skills Equilibrium', November 2003

<sup>19</sup> The SEA is available to download from <http://www.goem.gov.uk/goem/euro/struct-funds/ERDF07-13/?a=42496>

### Climate change

Predicted climate change for the East Midlands is expected to be substantial with temperatures increasing by up to 5°C by the 2080s. This climate change would have a range of economic, social and environmental effects including damage to buildings through subsidence, greater flooding, less water available and impacts on animal and plant species in the region.

### Greenhouse gases

Carbon dioxide is the main greenhouse gas emitted in the East Midlands, with smaller contributions from methane and nitrous oxide. Between 1990 and 1998 total Global Warming Potential (GWP) emissions fell from over 60 billion kg CO<sub>2</sub> equivalents to 33 billion in 1999. Since 1999 total GWP emissions have increased to over 35 billion kg CO<sub>2</sub> equivalents. The fall in emissions between 1990 and 1999 is thought to be linked to the introduction of more efficient electricity generation plant together with some substitution of fuel burnt in power stations. The difficulty of achieving further reductions in a climate of continuing demand for electrical power can be seen in the trend since 1999.

### Energy

The majority of energy in the East Midlands is generated from fossil fuels. The East Midlands coal fired power stations account for 10-15% of UK generating capacity. However, a number of so-called 'clean coal extraction technologies' exist to derive energy from coal without mining it, several of which are used in the region.

The region has seen a small increase in the generation of electricity from renewable sources in recent years but does not generate as much as other regions. Renewable energy generation accounts for less than 2% of total regional capacity<sup>20</sup>.

- **Key point:** levels of renewable energy generation in the region are relatively low and an increase in these sources will contribute to reducing greenhouse gases and addressing global warming.

### Waste

Total waste arisings in the East Midlands were 20.4 million tonnes in 2002-03, 10.8% of the total for England. Forty-eight percent of this waste was produced by construction and demolition, 40% came from industry and commerce and 12% from municipal and household sources. The amount of waste deposited in landfill in the East Midlands is slightly higher than the average for all English regions, but the proportion of all waste which is recycled - 43% - is the same as in England as a whole. The East Midlands is less resource efficient than average.

Total gross value-added for the East Midlands in 2003 was £61,681 million. This means that the region generates £3,020 of GVA for every one tonne of waste produced. The average for England in the same year was £4,328 of GVA generated for every one tonne of waste produced. Therefore, the East Midlands is significantly less resource efficient than the national average on this measure.

- **Key point:** levels of resource efficiency are relatively low in the East Midlands and increasing this will provide an opportunity to contribute to the RES objective of closing the productivity gap between the region and the UK.

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<sup>20</sup> East Midlands Regional Assembly, *Towards a Regional Energy Strategy: A Sustainable Approach to Energy in the East Midlands*, 2003.

### Biodiversity and the historic environment

The East Midlands has a rich and diverse historic environment, including former industrial sites such as the Derwent Valley Mills World Heritage Site, country houses and archaeological sites. However, biodiversity has declined more quickly in the East Midlands than in any other region.

## **2.9 Equalities**

Inequalities exist both between areas within the East Midlands and between segments of the population in the region.

On a range of indicators - such as deprivation, employment, unemployment, enterprise and skills - the data identifies the urban centres, the former coalfields and the coastal areas of the region as relatively poor performers.

There is a common theme to the available labour market data, which shows that economic activity and employment rates are relatively low and unemployment rates relatively high among women, those with disabilities and those from ethnic minority groups. For example, the economic activity rate among women is nine percentage points lower than for men, for ethnic minorities the activity rate is twelve percentage points below the average, while for those with a disability the activity rate is less than half that of those without a disability.

There is relatively limited data on equality in other policy areas but differences in entrepreneurial activity can be identified which show that White British people tend to be less entrepreneurial than other groups.

- **Key point:** disparities exist both between areas within the East Midlands and between segments of the population in the region.

## **2.10 Rural**

The East Midlands is one of the more rural regions in England, with around 30% of its population resident in rural areas, which is ten percentage points above the average for England. It is important to make a clear distinction between the issues facing 'non-sparse' rural areas - principally the region's towns and villages and the isolated 'sparse' rural areas, concentrated in Lincolnshire (and also evident in Derbyshire, even if they are not classed as 'sparse').

The region's towns and villages are, for the most part, relatively prosperous, with higher levels of economic activity, qualifications, and earnings. Where deprivation is evident, it is faced by relatively small groups who face exclusion related to their individual circumstances. However, 'sparse' hamlets and isolated dwellings, although accounting for relatively small numbers of people, have quite different characteristics and often face acute challenges related to their remoteness, reliance on agriculture and associated activities, with limited employment opportunities in other sectors.<sup>21</sup>

The rural districts in the region tend to have faster growing populations. Between 1995 and 2005 the fastest population growth in the East Midlands was recorded in Rutland and districts in Lincolnshire and Northamptonshire. However, population growth in these areas tends to be driven by increases in the pensionable age. These trends are expected to continue.

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<sup>21</sup> Policy think piece contributed to the RES evidence base, Glyn Owen, 'Change in the Countryside: raising economic wellbeing through targeted intervention', August 2005

Rural areas tend to have lower levels of GVA per head, though it needs to be borne in mind that commuting patterns impact on this data. It should be noted that Lincolnshire, for example, has a level of GVA per head that is 77% of the UK average. The corresponding figures for North Nottinghamshire and South & West Derbyshire are 76% and 82% respectively.

The labour market in the region's rural areas tends to be buoyant with high rates of economic activity and employment and low rates of unemployment. For example, in South Northamptonshire the economic activity rate is around ten percentage points above the regional average. However, the analysis has highlighted a number of rural districts (such as East Lindsey) with low levels of labour market activity, which are often a function of relative isolation and poor transport links. Levels of enterprise, as measured by the number of VAT registrations per 10,000 people, are also, generally, highest in the rural areas of the region (Daventry and South Northamptonshire).

Finally, the rural areas of the region tend to have higher proportions of people with higher level qualifications and smaller proportions with no qualifications. However, it should be remembered that these are resident based data and many people who live in rural areas will commute away to work.

- **Key point:** rural areas are generally prosperous but contain sparse areas and pockets of severe multiple deprivation.

## 2.11 Urban

The key urban centres in the region include Derby, Leicester, Lincoln, Northampton and Nottingham. In the East Midlands, 69.8% of the population live in the most densely populated urban areas, which is almost eleven percentage points lower than the England average. Urban areas tend to under-perform against regional and national averages on a range of indicators, though there are some exceptions.

Demographic patterns are quite different in the urban areas compared to the rural areas. The age structure of the population differs from the average in the two largest urban areas of the region. Leicester and Nottingham have relatively large working age populations. Ethnic minority populations tend to be concentrated in urban areas. In Leicester around 40% of the population is from an ethnic minority background. However, population growth in urban areas is relatively low and in some cases population is declining.

Levels of GVA per head are relatively high in the urban areas but the figures are affected by commuting patterns. On other economic and labour market indicators the region's urban areas tend to under-perform. Economic activity and employment rates tend to be relatively low and unemployment rates relatively high in urban areas (for example the employment rate in Nottingham and Leicester is around eleven percentage points below the regional average while Nottingham has the highest unemployment in the region). Levels of enterprise, as measured by the number of VAT registrations per 10,000 people, tend to be below average in the urban areas and there tend to be high proportions of the economically active with no qualifications and low proportions qualified to NVQ Level 4 and above in the regions urban areas.

- **Key point:** the urban areas in the region tend to under-perform on a range of economic and labour market indicators.

## 2.12 SWOT

The socio-economic analysis is summarised in a SWOT analysis in the table below. This SWOT analysis has been compiled on the basis of both the preceding socio-economic analysis and informal input from regional stakeholders through the consultation process and workshop events held in the region between July 2006 and March 2007.

<b>STRENGTHS</b>	<b>WEAKNESSES</b>
<p>High levels of labour market activity, including high employment and low unemployment rates</p> <p>High 3 year business survival rate</p> <p>High levels of Business Enterprise Research &amp; Development</p> <p>Strong HE research base with a number of 5* and 5 rated departments</p> <p>High levels of exports</p> <p>Strategic transport infrastructure e.g. East Midlands Airport - Nottingham, Leicester, Derby and the M1 / A1</p> <p>Competitive commercial property markets</p> <p>Diverse natural and historic environment in the region</p>	<p>Below average levels of output and productivity</p> <p>Over-representation of (low value-added) production activity</p> <p>Low levels of VAT business registrations</p> <p>Low skill levels: -high proportion of economically active with no qualifications -low proportion of economically active with higher level qualifications</p> <p>Below average innovation performance: -low levels of research &amp; development in SMEs -low levels of innovation outcomes -lack of 'move-on' space for growing innovative businesses</p> <p>Low proportion of businesses in the East Midlands using ICT and trading online</p> <p>Sub-regional economic disparities: -low levels of labour market activity in the major urban areas -pockets of severe multiple deprivation, including areas of derelict land and buildings -accessibility and sparse population in rural parts of the region</p> <p>Environmental impacts of production: -relatively low levels of renewable energy production -relatively low resource efficiency in respect of waste</p>
<b>OPPORTUNITIES</b>	<b>THREATS</b>
<p>Rapid population growth (including the Milton Keynes- South Midlands growth area) will drive economic growth by creating larger markets</p>	<p>Changing industrial structure may result in lower levels of economic activity and disproportionately impact parts of the region</p> <p>A continuing lag in Level 4 attainment may</p>

<p>Expansion of East Midlands Airport - Nottingham, Leicester, Derby</p> <p>A number of strong sectors have been identified (e.g. transport equipment and food and drink) that have the potential to contribute to a reduction in the productivity gap between the East Midlands and the UK</p> <p>Increasing the links between businesses and HE will offer the potential to increase innovation outcomes</p> <p>Entrepreneurial activity is increasing in the region, and if harnessed and supported will help to increase the business stock</p> <p>A changing industrial structure provides an opportunity to develop new products and markets, and effect changes in the occupational structure</p> <p>Development and exploitation of low carbon technologies will help to improve resource efficiency in the region</p>	<p>result in continuing hard to fill vacancies and skills gaps, and potential relocations out of the region by employers</p> <p>Ageing population will increase dependency and reduce the size of the labour pool in the region</p> <p>Climate change may damage the regional economy, decrease levels of biodiversity and decrease people's enjoyment of the environment</p>
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### 2.13 Key Challenges

The socio-economic analysis and SWOT show that whilst the region is performing well in some areas, with high levels of employment and relatively high levels of economic growth, it still performs less well than the UK average on productivity. This is a consequence of the region's industrial structure, its reliance on traditional production activities and the low level of the skills base. It is also the case that, whilst some parts of the region are enjoying strong growth and improved economic performance in recent years, there are particular localities that are starting from a low base, with high levels of deprivation and low levels of economic activity. Often these are areas that have suffered from decades of decline associated with industrial restructuring and changes to the rural economy.

The development of the East Midlands Operational Programme (EMOP) must be set within the context of rapidly changing global conditions. This includes dynamic economic change as developing countries (particularly China and India) are integrated into the global economy. Low value added mass production typifies these changes, activities on which the East Midlands has had a traditional reliance. This means the East Midlands must act to maintain and increase its competitiveness and contribute to the goals of the Lisbon Agenda. Given the relative high employment rate and low unemployment rate in the region there is limited scope for increasing economic performance simply through increased labour market participation. The challenge is therefore to make the region and its workers more productive and internationally competitive. The UK Government has identified five drivers of productivity: innovation, enterprise, investment, skills and competition. The first three of these are amenable to intervention at the regional level. Skills intervention will primarily be the focus of ESF activity while ERDF will look to add value through interventions in innovation and enterprise activities.

The region has undergone significant restructuring in recent years with a shift away from production to the service sector. However, long term economic growth depends on the region as a whole having more active and growing businesses providing better quality and

well paid jobs. There is also a need to respect and support the region's equality and environmental sustainability goals.

The socio-economic analysis highlights a positive trend in enterprise activity (despite the low levels of VAT business registrations) and strong business survival rates in the East Midlands as a whole. Whilst there is also above average levels of business enterprise research and development in the multinational companies located in the region and average levels of R&D activity in the region's universities, the key weaknesses are below average levels of innovation and low levels of R&D in SMEs. Understanding where the best opportunities lie for regional economic growth will help identify how additional investment to support innovation and R&D weaknesses through the EMOP will contribute to increasing business competitiveness and productivity.

Four key sectors have been identified as having the potential to make a significant contribution to economic growth – Transport Equipment, Food and Drink, Construction and the Health sector – based on their current scale of activity, strategic significance, quality of employment, current and forecast productivity levels and growth prospects. Supporting their innovation needs and harnessing the region's research expertise is seen as a critical to ensuring these sectors maintain their comparative advantage. Supporting innovation in businesses with high growth potential that are based in localities with strengths in traditional manufacturing and rural industries also offers significant opportunity to contribute to regional economic growth and address intra regional disparities. This is explored more in Section 3.5.

There is also opportunity to be gained by supporting innovation and exploiting high levels of expertise to address weaknesses in resource efficiency and improve waste management and to increase sustainable business practice throughout the region. The socio-economic analysis has highlighted that the East Midlands is one of the less resource efficient regions in the UK. An opportunity exists to address this providing both productivity and environmental benefits. The rationale is explored more in Section 3.5.

The region's unique spatial dimension provides a number of opportunities and challenges that need to be supported in promoting long-term sustainable and balanced growth. Whilst some parts of the region are enjoying strong growth and improved economic performance, there are particular localities and communities that are starting from a low base with high levels of deprivation and low levels of economic and enterprise activity. These are the urban centres, the former coalfields area and the Lincolnshire coast which all exhibit deep rooted problems of multiple deprivation.

It is important to improve the economic opportunities for these communities, by stimulating enterprise activity, providing access to high quality jobs and linking communities with opportunities in high performing sectors and locations in order close the gap between the best and worst performing parts of the region. In taking forward these issues, it is acknowledged that solutions may have to be tailored to meet the needs of the region's urban and rural areas.

An important component in helping improve the regional economy is the need to address the low skills low pay equilibrium that acts as a constraint on the economic development of the region. Further analysis and strategic approach to address this issue is contained in the regional ESF Framework. It will be important to ensure that ESF support for extending employment opportunities and providing skills for employment link in to initiatives under the EMOP. The linkages between the EMOP and the ESF OP are explained in Sections 7 and 8.

## **SECTION 3: STRATEGY**

### **3.1 Introduction**

The region's agreed vision for economic development and growth:

*that by 2020 the East Midlands will be A Flourishing Region - with growing and innovative businesses, skilled people in good quality jobs, participating in healthy, inclusive communities and living in thriving and attractive places*

contributes fully to the EU's Lisbon agenda.

The key influences in developing the Operational Programme's strategy have been the analysis of the region's main challenges, needs, strengths and opportunities as set out in the socio-economic and SWOT analyses, and the policy frameworks and drivers set down in the European Commission's Community Strategic Guidelines and the UK's National Strategic Reference Framework. In addition, the Programme is both set within the framework of, and will contribute to the delivery of, the Regional Economic Strategy. The Operational Programme seeks to add value by enhancing and extending RES commitments to the Lisbon and Gothenburg agendas.

### **3.2 Process for Chosen Strategy**

The Government Office for the East Midlands (GOEM) formed the Regional Strategic Partnership (RESPE) in accordance with Article 11 of the Structural Funds' General Regulation. Membership consisted of GOEM (Chair), East Midlands Regional Assembly, East Midlands Development Agency (*emda*), Local Government East Midlands<sup>22</sup>, East Midlands Business Forum, East Midlands Employment, Skills and Productivity Partnership (*esp*), Engage East Midlands<sup>23</sup> and representatives of the environmental sustainability and equality cross cutting themes.

RESPE was responsible for:

- Determining the process to be followed in developing the strategy;
- Agreeing how the socio-economic analysis and strategy should be developed;
- Agreeing each stage of the development of the strategy by considering regular papers and drafts; and
- Deciding how and when stakeholders were to be consulted.

The Group also ensured that the European Commission and the Department for Communities and Local Government (DCLG) were kept informed of progress, and ensured appropriate engagement with the consultants charged with producing the Strategic Environmental Assessment and Ex-Ante Evaluation.

In a commitment to ensuring maximum stakeholder engagement, an initial, informal consultation process took place in mid 2006. A draft socio-economic analysis (in the form of a detailed SWOT) and a proposed strategic objective and priorities were circulated to key stakeholders<sup>24</sup> and published on the GOEM website. Two regional events were held,

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<sup>22</sup> LGEM represents the Unitary, County and District Councils in the region. LGEM provided three elected members for the RESPE Group.

<sup>23</sup> The regional umbrella organisation for voluntary and community organisations in the East Midlands.

<sup>24</sup> Key stakeholders included: Local Authorities, Sub regional Strategic Partnerships, Local Strategic Partnerships, third sector organisations including social enterprise networks, environmental and equality organisations and groups, business and trade associations, universities and colleges, arts and heritage organisations.

attended by over 160 people. The feedback from these workshops and written submissions from other stakeholders were used to take forward the early draft of the strategy.

Further developments of the strategy were checked and approved by RESPE and the final, proposed shape of the Programme was agreed on 4 December 2006. The draft East Midlands Operational Programme (EMOP) was then published for a formal twelve-week consultation period on 18 December 2006. Copies of the EMOP (and supporting documents) were distributed electronically to key stakeholders as well as being available on the GOEM website. Hard copies were provided on request. A parallel consultation on the draft Environmental Report also took place.

On 19 January 2007, a regional consultation event was held to provide stakeholders with a detailed overview of the draft EMOP and its process for development, and to allow in depth workshop discussions to consider the questions put forward in the consultation document. The views expressed by stakeholders were summarised and made available on the GOEM website shortly after the event. A number of sub-regional consultation events were also organised by local and sub-regional partnerships to ensure grass-root engagement in the process.

In addition to the main regional consultation event, two stakeholder workshop discussions were held in February 2007 to discuss the approach to spatial targeting. Again, the main conclusions from the discussion were summarised and made available on the GOEM website shortly after the events.

The twelve-week stakeholder consultation process closed on 12 March 2007 and a total of 50 written responses were received. Representatives from GOEM and *emda* reviewed the submissions and summarised the key points into a paper which was considered by the EMOP Drafting Group on 27 March 2007 and which formed the basis of recommendations for amendments to the EMOP. At a meeting on 10 May 2007, RESPE endorsed these recommendations and approved the EMOP for submission to the European Commission.

In general, most respondents supported the focus of the Programme but raised some issues around the balance of the Programme, the split of funding between Priority Axes and the robustness of the spatial targeting methodology (in relation to the use of data covering a single year). In response, RESPE adopted the proposals put forward by respondents with regard to a 43%, 53%, 4% split between the Priority Axes and adjusted the spatial targeting methodology to utilise data over a five year period – this resulted in an additional two areas joining the target list.

A formal response to the consultation which summarises responses, issues and organisations involved in the consultation process is available at: [http://www.goem.gov.uk/497296/docs/347293/347311/GOEM\\_Response\\_to\\_Forma1.pdf](http://www.goem.gov.uk/497296/docs/347293/347311/GOEM_Response_to_Forma1.pdf)

Finally, following discussions with the Commission as part of the negotiation process, a range of amendments were made to the EMOP. There has been no change to the overall strategy and priorities for funding that were agreed by the Regional Strategic Partnership following extensive consultation and hence there has been no impact on the Ex-ante Evaluation and Strategic Environmental Assessment.

### **3.2.1 Ex-ante Evaluation**

Ecotec were appointed as ex-ante evaluators and they also managed, on a sub contractual basis, the Strategic Environmental Assessment (SEA) undertaken by Halcrow.

The EMOP drafting team worked closely with the ex-ante evaluators throughout the development of the strategy, enabling key points to be discussed and, in the majority of cases, incorporated into the document, resulting in a more cohesive and robust strategy for delivering ERDF.

The ex-ante evaluation recognises that, in general, the strategy has been developed from the evidence base contained in the socio economic analysis. However, views and needs of stakeholders have also influenced some of the policy choices where there is limited evidence and/or data available and these are highlighted in the final strategy.

A copy of the full ex-ante report is at Annex 1. The final Post Adoption SEA Statement is at Annex 2 and Section 4 of the statement sets out in more detail how the responses to the Environmental Report consultation have been incorporated into the EMOP. The full Environmental Report (and accompanying annexes) which was consulted on to produce the Post Adoption SEA Statement can be downloaded from the GOEM website at <http://www.goem.gov.uk/goem/euro/struct-funds/ERDF07-13/?a=42496>.

### **3.3 The Programme Context**

#### European Policy Context

The key driver for both European and national policy frameworks is the Lisbon Strategy<sup>25</sup>, first agreed by the European Council in March 2000 and refreshed in March 2005. The renewed focus is on delivering stronger, lasting growth and creating more and better jobs. Following this agreement, the Commission adopted an 'integrated guidelines package' which recommends concrete priority actions for other European (e.g. Cohesion Policy) and national (e.g. the UK's National Strategic Reference Framework and National Reform Programme) policies to redress Europe's weak growth performance and insufficient job creation.

In October 2006, the European Council adopted the Community Strategic Guidelines (CSG) on economic, social and territorial cohesion for 2007 to 2013, providing a framework for the National Strategic Reference Framework (NSRF) and Operational Programmes. In accordance with the Lisbon integrated guidelines for growth and jobs, the CSG requires that programmes supported by cohesion policy should seek to target resources on:

- Enhancing the attractiveness of Member States, regions and cities by improving accessibility, ensuring adequate quality and level of services and preserving their environmental potential;
- Encouraging innovation, entrepreneurship and growth of the knowledge economy by research and innovation capacities, including new information and communication technologies; and
- Creating more and better jobs by attracting more people into employment, improving adaptability of workers and enterprises and increasing investment in human capital.

The CSG also require at least 75% of operations in Competitiveness Programmes contribute to delivering Lisbon targets. In order to demonstrate this 'Lisbon Earmarking', Programmes are required to provide details of the level of ERDF expenditure against relevant Lisbon targets. These tables are at section 4.2.3 and 4.3.4 and in Annex 7.

In addition, the CSG states that cohesion policy should:

*“focus to a greater extent on knowledge, research and innovation, and human capital and that the overall financial effort in support of these fields of action should be significantly increased;*

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<sup>25</sup> For Europe “to become the most competitive and dynamic knowledge-based economy in the world, capable of sustainable economic growth with more and better jobs and greater social inclusion”.

*that Member States and regions should pursue the objective of sustainable development and boost synergies between the economic, social and environmental dimensions;*

*that Member States and regions should pursue the objective of equality between men and women at all stages of the preparation and implementation of programmes and projects;*

*that Member States should take appropriate steps to prevent any discrimination on the basis of gender, race or ethnic origin, religion or belief, disability, age or sexual orientation during the various stages of implementing the Funds.”*

These principles have had a strong influence in shaping the direction of the EMOP strategy and, in particular, determining the type of activities to be supported. The linkages between the CSG's priorities and EMOP Programme Priorities and Priority Axes are set out in Section 3.9.

The UK's Lisbon National Reform Programme (NRP) sets out the Government's strategy for delivering long term sustainable growth through: macroeconomic policies for jobs and growth; promoting higher productivity; and increasing employment opportunity for all. The links between the NRP priorities and EMOP's Priority Axes are also set out below in Section 3.9. The strategy highlights the Government's commitment to boosting productivity across all English regions, by according flexibilities to the Regional Development Agencies to enable them to build capacity to contribute to the delivery of Regional Economic Strategies. The East Midlands Operational Programme has been developed within the framework of the East Midlands Regional Economic Strategy (RES) – *A Flourishing Region*.

#### National Policy Context

The UK's NSRF sets out how the Structural Funds will be used to contribute to the EU's objectives for cohesion, growth and jobs.

The Government's strategy for the Structural Funds in England reflects both the CSG and the Government's regional policy agenda, which is defined by a Public Service Agreement (PSA) to:

*“improve the economic performance of all English regions and reduce the gap in economic growth rates between regions”.*

The NSRF sets out four main priorities for ERDF funding under the competitiveness objective for England:

- Promoting innovation and knowledge transfer;
- Stimulating enterprise and supporting successful business;
- Ensuring sustainable development, production and consumption; and
- Building sustainable communities.

The EMOP has been developed to support the NSRF and the linkages are described in Section 3.9.

#### Cross Cutting Themes

As set out above, the CSG provide a clear set of principles on the approach Operational Programmes should take with regard to the environmental sustainability and equality cross cutting themes. This is in line with the EU's sustainable development strategy, which was first discussed at the Gothenburg European Council in June 2001 and renewed in June 2006.

At the national level, the UK Government has made a commitment in the NSRF to treating environmental sustainability and equality as cross-cutting themes for all future Structural Funds Programmes. The commitment to environmental sustainability in the NSRF is in keeping with the Government's Sustainable Development Strategy<sup>26</sup> of March 2005, which emphasises the importance of taking an integrated approach to policy-making, recognising both the potential impact of economic policies on the environment and the potential economic benefits that environmental policies can bring.

The use of environmental sustainability as a cross cutting theme is particularly relevant to this Programme, as it provides the environmental component of the Community's strategy for sustainable development: placing environment policy in a broad perspective, as well as considering specific economic and social aspects. The link is made between environmental issues and the European objectives for growth, competitiveness and employment, Programme Priority 2 is concerned with working with business to achieve more sustainable forms of production and consumption.

The inclusion of equality as a cross cutting theme fits within the context of the European Social Agenda 2005-2010 which was launched as an essential pillar of the Lisbon growth and jobs strategy. The Agenda has a key role in promoting the social dimension of economic growth and has two key priorities: employment; and fighting poverty and promoting equal opportunities.

Further details on the cross cutting themes are available in Section 5. As well as opportunities for specific actions to support the equality and environmental sustainability themes in the Priority Axes (see Section 4), there is an expectation that all projects will demonstrate consideration of the cross cutting themes.

The socio-economic analysis and SWOT (Section 2) highlight a number of challenges under these themes that must be addressed as part of a balanced strategy to deliver the overall aim of EMOP. This analysis has been complemented by the Strategic Environmental Assessment and the Equality Impact Assessment screening, which have informed the development of the Programme.

### Regional Policy Context

The East Midlands Operational Programme has been developed to fully align with the RES - *A Flourishing Region*.

The fundamental purpose of the RES is to improve economic performance and enhance the region's competitiveness by addressing the market failures that prevent or limit sustainable economic development, and supporting regeneration and business development.

The RES is informed by the most comprehensive evidence base assembled on the East Midlands, its economy, and its strengths and challenges. The EMOP's socio-economic analysis draws heavily on this RES evidence base.

The RES identifies a number of major global economic drivers that will require collective action, including the emergence of the Asian economies, rising energy costs, the impact of climate change, and the resulting pressures on communities and localities arising from the unevenness, not just the pace, of change. The East Midlands faces particular challenges in relation to globalisation, as a result of its traditional strengths in manufacturing. Demographic changes (including the ageing population and migration) are particularly significant in the region, alongside lower than average skill levels.

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<sup>26</sup> [www.sustainable-development.gov.uk/publications/uk-strategy/uk-strategy-2005.htm](http://www.sustainable-development.gov.uk/publications/uk-strategy/uk-strategy-2005.htm)

On some measures, the economy of the region is doing well – with high levels of employment and relatively high economic growth. However, the region still has lower than average levels of productivity and faces a particular challenge (as stated above) in raising skills levels. It is critical that support is given to these under performing areas, as well as those with the greatest opportunities.

In order to increase productivity so that the region can match and then exceed UK levels, the RES identifies a need to focus actions on the key economic drivers:

- **Skills** – addressing the relatively high proportion of people with no qualifications and enabling more of the workforce to develop higher level skills;
- **Innovation** – helping to increase investment in research and development by businesses, particularly small and medium sized enterprises – and ensuring far more good ideas are translated into new or improved products or services;
- **Enterprise** – improving rates of company formation and survival, and creating a culture of enterprise which begins at school; and
- **Investment** – improving levels of investment particularly in the service sector, so the region is equipped to maximise the opportunities from this fast growing part of the economy.

The European Policy context was considered as part of the RES development process and it recognises the role that EU funds, and ERDF in particular, will have in delivering the region's objectives. The region's agreed vision is to create *A Flourishing Region*, which fully supports the Lisbon and Gothenburg strategies, and is underpinned by three thematic objectives:

- **Raising productivity** – to increase wealth by making the East Midlands and its people more productive;
- **Ensuring sustainability** – to develop and enhance the region's communities and its assets of physical infrastructure and the natural environment to ensure they contribute effectively to the region's productivity and economic wellbeing, both now and into the future; and
- **Achieving equality** – to reduce economic inequalities and increase productivity by ensuring that everyone has the opportunity to contribute to and benefit from sustainable economic growth.

These objectives provide the strategic framework for the Operational Programme.

### **3.4 Lessons and Best Practice from the 2000 – 2006 UK Structural Fund Programmes**

The UK Government has developed a Good Practice Guide for the 2007 – 2013 EU Operational Programmes.<sup>27</sup> The guide sets out key messages that should be considered in the design of programmes and project level interventions. The analysis is presented thematically to accord with the priorities of the National Strategic Reference Framework and is summarised in the table below.

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<sup>27</sup> DCLG April 2006: The 2007-13 EU Operational Programme Good Practice Guide.

<b>Priority One: Promoting Innovation and Knowledge Transfer</b>	
<b>Knowledge Transfer</b>	<p>There is a need for a strategic and coherent approach to knowledge transfer as part of regional economic development. There should be a clear framework of investment priorities that define priority areas for investment where maximum economic change can be effected.</p> <p>The programme should support a portfolio approach mixing riskier interventions with other tried and tested activities.</p> <p>The type and quantity of outputs need to reflect the overall strategic approach.</p>
<b>Priority Two: Stimulating Enterprise and Supporting Successful Businesses</b>	
<b>Property for SMEs</b>	<p>Support for SME premises needs to be well aligned with RDA activity (the main source of activity) both at strategic and operational levels.</p> <p>There is a need to better define the reason for market failure and the justification for investment in SME premises.</p> <p>Programmes should adopt a portfolio approach, supporting early stage incubation units and larger workspace units and grow-on space on more traditional terms to support the process of sector/cluster development of knowledge transfer.</p>
<b>Cluster Activity</b>	<p>There should be complete strategic alignment in terms of support for cluster development, and given the reduced level of funding it may be necessary to focus on certain types of cluster intervention. Though this should be within a portfolio to mitigate against potential risks of certain interventions.</p> <p>Investment to support cluster activity should be part of a broader based approach to supporting business competitiveness as evidence of impact of interventions on a few sectors/cluster is weak.</p> <p>Support for cluster development may be needed at sub- regional as well as regional and national level.</p>
<b>Priority Three: Ensuring Sustainable Development, Production and Consumption</b>	
<b>Employment Land</b>	<p>There needs to be a strong justification of the sustainability of sites when seeking investment to develop employment land.</p>
<b>Priority Four: Building Sustainable Communities</b>	
<b>Employment Land</b>	<p>There needs to be integration and alignment with RDA priorities for strategic sites, spatial development and business competitiveness. The nature and extent of market failure needs to be clear and the evidence for future investment needs to be informed by existing provision and the level and nature of the demand of current and emerging sectors. There needs to be a</p>

	greater emphasis on balancing the risks and rewards between the public and private sector in such schemes.
<b>Enterprise</b>	<p>Careful consideration needs to be given in terms of the levels of investment to be made in stimulating and supporting enterprise. The capacity of an area to generate sufficient demand for the products or services of new business should be a significant factor in determining the allocation of resources.</p> <p>There should be alignment with mainstream provision and delivery structures. The design of programmes needs to focus on slimmer delivery structures and the coordination of provision.</p>

The key messages identified in this Good Practice Guide, along with more region-specific issues from the 2000-06 East Midlands Objective 2 Programme, have shaped the EMOP and its focus on concentration and integration. It is clear that the major consideration for this Programme has been its strategic and operational alignment with regional strategies and funding streams. Experience under the 2000-2006 Objective 2 Programme has highlighted that it is critically important that the ERDF Programme works together with domestic funding streams in support of regionally agreed priorities, whether these are overarching regional aims, regional business support strategies, area-based initiatives, or capital investment plans.

For example, the BioCity initiative that was funded under the 2000-2006 Objective 2 Programme, is a groundbreaking healthcare and bioscience innovation and incubation centre and is the result of effective partnership and co-operation between HEIs and business. In addition to the provision of laboratory and office space for new, growing and innovating businesses, business support services are available to BioCity tenants, tailored to the bioscience and healthcare sector. A team of specialist advisors provide early stage and strategic advice, business plan development, assistance with fundraising and grants, business information and networking opportunities and contacts and synergies with other companies in the BioCity community. The initiative has potential to roll-forward and provide best practice for similar projects under the EMOP.

It is also clear that ERDF funding needs to be targeted more effectively to ensure maximum impact. This has to be balanced with the use of a portfolio approach which can allow for changes over the lifetime of the Programme, as well as facilitating some limited riskier interventions alongside more tried and tested activities. The precise mix of interventions and delivery arrangements will be contained in an Investment Framework which will be developed and agreed by the Programme Monitoring Committee.

In addition, there are clearly a number of practical implementation lessons from the region's experience of the 2000-2006 Objective 2 Programme that must be taken into account when developing the processes and systems that will underpin the 2007-13 ERDF Programme, for example:

- The need to adopt a strategic commissioning approach to ensure alignment of EU and domestic funding streams;
- The implementation of robust performance management from the outset; and
- The equal importance of closely monitoring programme outcomes (outputs, results and impacts) in addition to inputs (spend).

### **3.5 The Programme Strategy**

As described in Section 2, the development of the Programme must be set within the context of changing patterns of economic activity and emerging opportunities in the region, nationally and globally. The Community Strategic Guidelines and National Strategic Reference

Framework provide the main policy context for the Programme and focus on strengthening competitiveness and increasing productivity through a knowledge based economy whilst supporting social and environmental considerations and action. These principles also guide the East Midlands Regional Economic Strategy.

The socio-economic analysis shows that low productivity levels across the region are explained by over representation in low value added industries. This means that with relatively high economic activity and low unemployment, with the exception of some disadvantaged areas, increasing productivity is dependent on increasing value added in the economy by supporting innovation.

The analysis also points to a number of specific weaknesses that need to be addressed by the Programme:

- Relatively poor performance of the region in respect of process and product innovation;
- Low rate of new business formation in some localities;
- Relatively low levels of resource efficiency in the production of waste and low levels of renewable energy generation;
- Limited employment opportunities of people living in disadvantaged and remote areas; and
- Low level of skills, in particular the continuing lag in level 4 attainment, that could act as a constraint on economic development of the region.

It also highlights the region's growth opportunities; in particular the key sectors that have the potential to close disparities in economic performance. The changing industrial structure provides an opportunity to develop new products and markets and encourage the development of a highly skilled labour force. The region has emerging strengths with respect to the development and exploitation of low carbon technologies and sustainable waste management that will help improve resource efficiency in the region. This also offers economic opportunities for businesses to facilitate the exploitation of opportunities from the commercialisation of low carbon technologies, processes and services.

The reduced level of ERDF available to the region compared to the 2000-2006 Objective 2 Programme was also taken into consideration in determining the focus of the strategy. Whilst the funds are available throughout the region under the new Competitiveness and Employment Objective, the strategy must accord with the Community Strategic Guidelines which set out the need to target resources both thematically and geographically and to contribute to the Lisbon growth and jobs agenda. Through the consultation process it was agreed that in order to ensure the required impact, there needs to be a balanced programme of focused interventions that will support opportunities for growth as well as targeted support for areas of need. This will be achieved by:

- Targeting resources thematically to maximise regional opportunities by supporting innovation in the region's key sectors identified in section 2.1 as being: Transport Equipment, Construction, Food and Drink and Health , high growth businesses (defined by the demonstration of an annual increase in turnover of over 15%) and innovation to support resource efficiency needs;
- Spatially targeting resources to increase economic and enterprise activities in the most disadvantaged areas;
- Implementing the Programme through a strategic commissioning approach to ensure maximum impact; and
- Fostering synergies with other EU and national policies.

The overall Strategic Programme Objective therefore is:

*To become a region of highly productive, innovative and sustainable businesses and support the most disadvantaged of our communities to realise their economic potential.*

This is underpinned by three operational objectives or Programme Priorities:

- Increasing productivity through innovation;
- Improving resource efficiency in businesses and communities; and
- Increasing sustainable economic and enterprise activity in disadvantaged communities.

### **3.5.1 Programme Priority 1: Increasing productivity through innovation**

Innovation is one of the key drivers of productivity. The region has agreed that the term “innovation” is defined in its broadest sense as a process that converts ideas into new products, new services, new ways of running and also new ways of doing business. It is this definition that will guide this Programme Priority on innovation.

The socio economic analysis highlights that levels of R&D in the region are relatively high, but this is concentrated in a small number of large multinational companies. The region lags behind when it comes to translating activity into market outcomes as demonstrated by data from the Third Community Innovation Survey: 4% of company turnover is attributable to new or improved products, which is less than half the national average. This suggests a need to increase the number of businesses investing in R&D activity and the need to improve the effective commercialisation of this activity to create spin out companies and to improve products, process and services, in both the manufacturing and service sectors in order to achieve productivity gains.

One of the key challenges is to create and support an innovation culture or environment by promoting networks of individuals, organisations and facilities. Businesses need support to commercially exploit research excellence and thereby build an economy dependent on expertise and knowledge. Equally, universities must be motivated to reach out and support business R&D and knowledge transfer needs. Businesses need help to deploy new technologies and processes to enable more efficient and flexible production in both manufacturing and services and there is a need for businesses in the region to make use of and/or bring to market the latest technologies.

In order to achieve greatest impact from the reduced level of ERDF resource, partners have agreed that the funds to support the innovation priority should be used to maximise the region’s competitive advantage by targeting resources at the region’s key sectors, high growth businesses and in support of resource efficiency needs.

The EMOP will help deliver the regional Innovation Strategy and Action Plan (ISAP) which provides a framework to co-ordinate investment to support innovation priorities. The Community Added Value is explained in Section 3.6 below.

### **3.5.2 Programme Priority 2: Improving resource efficiency in businesses and communities**

The East Midlands, like other English regions, faces the increasingly acute challenges created by climate change and the way in which we use our natural resources. The socio-economic analysis highlights that the region has relatively low levels of resource efficiency and there is a need to help businesses and communities transform the way resources are used.

Whilst improving productivity is the key aim of the Programme and the region as a whole, this is not at any cost and sustainable development is a key principle underpinning all economic activity. The aim of a low carbon economy is to have cleaner, more efficient production processes which strengthen competitiveness. The development and adoption of new technologies, processes and services is critical to this and links with the Programme Priority for innovation. The overall approach is to reduce the demand for energy and resources by raising awareness, changing behaviour and providing expert support to businesses on sustainable consumption and production issues.

There is a particular need to accelerate renewable energy developments throughout the region and to maximise the high level of expertise that exists in the region around low carbon technologies. Carbon dioxide emissions in the region exceed the English average, with Nottingham and Leicester ranking in the UK's top ten cities with the highest carbon emitted per square kilometre. Recently there has been a small increase in the generation of electricity from renewable sources, though the region lags behind other English regions.

Given the level of funding available under the Programme, resources will not be used to fund renewable energy infrastructure, however, support will be available to harness the expertise that exists in the region around low carbon technologies and to accelerate renewable energy developments and to support the commercialisation of enabling low carbon technologies processes and services. There is an opportunity to link support under this theme to Programme Priority 3 by promoting and supporting initiatives concerned with localised waste management and localised renewable energy services.

### **3.5.3 Programme Priority 3: Increasing sustainable economic and enterprise activity in disadvantaged communities**

The socio-economic analysis highlights that whilst some parts of the region are enjoying strong growth and improved economic performance in recent years, there are particular localities with high levels of deprivation and low levels of economic activity. The analysis highlights the region's urban centres, the former coalfields area and the Lincolnshire coast as areas with severe pockets of multiple deprivation and with low levels of labour market activity among women, those with disabilities and those from ethnic minority groups. Often these are areas that have suffered from decades of decline associated with industrial restructuring or changes to the rural economy and can be categorised into three broad groups, with common challenges that are exacerbated by local conditions.

- Urban areas: the region's cities are often characterised as areas of great wealth alongside areas of severe multiple deprivation. For example, Nottingham has the highest level of GVA per head of any NUTS3 area in the East Midlands but is also the most deprived district in the region as measured by the Index of Multiple Deprivation. There is a challenge to ensure that those who suffer from economic exclusion are able to benefit from the huge economic opportunities that are available in their localities. This can be achieved through activities that will provide tailored programmes of support that will address particular needs of the community in the areas of enterprise, access to finance and improved access to employment opportunities.
- Coastal/peripheral areas: these areas suffer from their isolation to the main centres of economic activity in the region. In Lincolnshire, GVA per head is just 77% of the UK average and there are areas with very low levels of earnings (85% of the national average in Lincolnshire). The key challenges in these areas are to overcome the locational disadvantages that are exacerbated through poor transport and communications links, overcoming reliance on weak, heavily casualised labour markets with extensive use of temporary and seasonal workers. There is a need to create more higher value added businesses and develop the

knowledge base in these areas. This can be achieved through activities that will provide tailored programmes of support that will address particular needs of the community in the areas of enterprise, increasing access to finance, accessibility / connectivity, and the provision of support for small scale, local infrastructure to support enterprise development.

- Former industrial areas: East Derbyshire and North Nottinghamshire both have very low levels of GVA per head (around three quarters of the national average) and contain pockets of severe multiple deprivation (Mansfield, Bolsover and Ashfield are the 3<sup>rd</sup>, 4<sup>th</sup> and 5<sup>th</sup> most deprived districts in the East Midlands). In addition to labour market difficulties (for example an employment rate of under 70% in Bolsover) caused by industrial re-structuring, these areas face a number of physical challenges associated with environmental degradation (which is a legacy of their industrial past), the need to regenerate localities, isolation from centres of economic activity in some cases and a long term challenge of economic renewal. These challenges can be addressed through activities that will provide tailored programmes of support that will address the particular needs of the community in the areas of enterprise and access to finance, improving access to employment opportunities and the rehabilitation and development of local environments to create more attractive places in which people can live and work.

These areas require additional support and investment to help create the right conditions to generate new and sustainable forms of economic activity that will lead to a diversification of the economic base towards more knowledge-based employment.

The Programme will focus on stimulating economic and enterprise activity in the most disadvantaged areas, whilst exploiting the potential linkages to adjacent areas of economic growth.

It is important to note that there are a number of fundamental reasons why it is harder to set up and sustain a business in disadvantaged areas, as well as for under-represented groups, including:

- Lack of access to business networks, appropriate business support and role models;
- Weak market demand and market linkages;
- Lack of suitable land and premises for SMEs;
- Poor and unattractive environments, including high levels of crime;
- Negative perceptions of disadvantaged areas as a place to do business;
- Poor climate for private sector investment, which hinders the development of local supply chains;
- Accessibility of place e.g. remote rural areas and coastal towns that are hindered by poor infrastructure in attracting economic activity and resources;
- Higher levels of debt and poor credit history, which makes it harder for entrepreneurs to access finance (grants and soft loans) as well as making it difficult for local people to purchase the goods and services that these entrepreneurs are selling at market rates;
- Lack of facilities (e.g. affordable childcare, culturally sensitive support); and
- Low levels of confidence and basic skills, particularly for those making the transition from welfare benefits to self-employment.

These issues affect localities and communities to different degrees and thus the nature of the intervention needs to respond to local conditions and requirements in order to create an enterprise culture. It is envisaged that the appropriate partnership will be responsible for identifying the priorities for support in a defined area and will define a package of activities to support local enterprise needs. This is likely to include investment in employment land and/or sites, provision of premises and facilities and improvement to local environments.

One of the main issues highlighted above is access to appropriate business support. Individuals and certain social groups (black and minority ethnics, lone parents, women and disabled people) from disadvantaged communities are less likely to access support from the mainstream business support offer. The region's Business Birthrate Strategy identifies that a particular focus should be placed on the urban centres and the former coalfields. The Programme will therefore enable bespoke programmes of support to be developed to enhance and extend the mainstream offer in target localities to support enterprise creation. For example, ERDF funding may be used to extend the core 12-month period of support for start-ups to 24 or 36 months in disadvantaged areas. This will include bespoke initiatives to promote enterprise opportunities to support resource efficiency needs.

It will be important for economic and enterprise activities in disadvantaged areas to align closely with Local Area Agreements<sup>28</sup> (LAAs), particularly the 4th Theme on Economic Development and Environment, and the targeted Local Enterprise Growth Initiative<sup>29</sup> (LEGI) areas. In addition, activities will need to demonstrate how they support relevant sub-regional and local plans and strategies, such as the Coastal Action Zone and Urban Action Plans.

By June 2008, GOEM will have negotiated a new Local Area Agreement in each of the City and County Council areas in the region. These negotiations are likely to cover indicators concerning the economic development of the areas. *emda* will be closely involved with these negotiations and, wherever possible, complementarity between the LAA Framework and the ERDF Programme will be identified.

At present the Local Enterprise Growth Initiative (LEGI) is operational in only three of the spatially targeted districts under Priority Axis 2 – Ashfield, Bolsover and Mansfield. There will be no final decisions regarding any further LEGI rounds until after the Government's Comprehensive Spending Review reports in the Autumn of 2007.

Addressing the low skills base is a particularly pertinent issue for the region's disadvantaged areas and the links with the Regional ESF Framework will be important if these areas are to maximise potential from the Structural Funds programmes.

### **3.6 Community Added Value**

One of the key aims of European regional policy is to ensure the added value of Structural Funds. A '*Review of Added Value of Structural Funds*' undertaken by the European Policies Research Centre on behalf of IQ-NET<sup>30</sup> provides a general definition of added value as "*something which has been enabled or which could not have been done without Structural Fund assistance*".

It is important to note that one of the added value outcomes from previous Structural Funds programmes is policy added value. The EU programming approach has influenced English regional policy development which has become more integrated and coherent. In the East Midlands, the RES and its related regional and sub regional strategies and action plans take

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<sup>28</sup> A Local Area Agreement is based on the Sustainable Community Strategy for that locality and sets out the priorities for a local area and are agreed by national Government and the Local Strategic Partnership (LSP). They have four key policy areas or themes: children and young people, stronger and safer communities, healthier communities and older people and economic development and environment.

<sup>29</sup> LEGI is a national initiative that aims to release the productivity and economic potential of the most disadvantaged local areas and their inhabitants through enterprise and investment – thereby boosting local incomes and employment opportunities."

<sup>30</sup> IQ-NET is a network of Managing Authorities of Structural Fund Programmes from across the EU its aim is to improve the quality of Structural Fund programming through exchange of experience

account of the European policy context and the need to utilise European funds to support their delivery.

To this end, the additional ERDF resource available to the region through the EMOP will increase the level of investment to support the key CSG and NSRF policy areas of innovation and enterprise. ERDF will be used to enable enhanced programmes of support to be delivered and it will accelerate the rate of the delivery of regional and sub regional strategies and action plans, thereby producing outputs and impacts in support of the Lisbon growth goals during the period of the Programme.

Under Priority Axis 1, Community Added Value will be demonstrated by providing additional ERDF funds to existing regional and national resources to support the delivery of the regional Innovation Strategy and Action Plan (ISAP) that sets out the region's ambition to become "a dynamic region founded on innovative and knowledge-focused businesses, competing successfully in a global economy". The additional investment will, for example, extend and accelerate activity and enable more companies across the region to participate. It may also facilitate the establishment of additional innovation support networks (iNets) that would not come forward without ERDF support.

Other Community Added Value benefits may emerge during the Programming period, particularly around the linkages with international knowledge networks through Regions for Economic Change.

Under Priority Axis 2, ERDF will allow certain forms of support to be provided in localities where there is limited mainstream provision.

The Programme will support delivery of the regional Business Birthrate Strategy (BBS) by providing enhanced and bespoke support in target localities. The BBS sets out four main objectives for improving enterprise in the region:

- Building an Enterprise Culture – providing the skills and confidence needed for young people to take risks as an entrepreneur or enterprising employee later in life;
- Increasing the Number of People Considering Starting a Business – improving awareness of the option of self employment and the support available to achieve it;
- Increasing Business Start-up Rates – support to people with a business idea to move them into sustainable self employment; and
- Ensuring that New Businesses Survive and Grow – support for the first three years of operation to ensure the business remains viable and achieves growth aspirations where relevant.

The first two objectives align with the Employment component of the CSG's Competitiveness and Employment Objective and, as such, will add value to the Regional ESF Framework (the linkages between ESF and ERDF are set out in Section 7). ERDF support will add value to the BBS objectives of Increasing Business Start-up Rates and Ensuring that New Businesses Survive and Grow. The additional resources will allow a focus on the outreach and mentoring role of enterprise support in disadvantaged areas where communities often face multiple disadvantage which is not addressed by mainstream business support services. The interventions must be developed to accord with the Business Support Simplification agenda and will provide a bridge through the provision of in depth and extended programmes of support that will then link into the mainstream offer.

The Programme will support a focus on responding to the region's resource efficiency needs and, as such, will maximise opportunities to be gained in moving towards a low carbon economy. ERDF will be used to support the region's innovation and R&D needs to improve resource efficiency measures and will also encourage new enterprise to exploit opportunities emerging from low carbon technologies, processes and services in disadvantaged areas.

At an operational level, the appraisal and selection processes will need to confirm Programme added value before any investment is approved.

### **3.7 Programme Implementation and Delivery**

One of the Programme's key delivery principles is the need for improved strategic and operational integration, as recommended in the DCLG Good Practice Guide. The proposed actions will be developed and delivered to support appropriate regional, sub-regional and local strategies and action plans. In particular, all business support initiatives will be developed to accord with the new regional business support model.

Guidance from the European Commission and DCLG also recommends that the programmes should experiment with new approaches and manage the accompanying risk by pursuing a portfolio approach that can balance "riskier" (e.g. novel or untested) interventions with proven activities. Added value will also be achieved by directing funds at riskier interventions that would not otherwise be possible without EU intervention. The EMOP seeks to achieve this balanced approach.

The specific mix of interventions and associated delivery mechanisms will be developed under an Investment Framework. The Investment Framework will be developed and agreed by the PMC. It will provide a programme of detailed interventions specifying the types of activities to be delivered, expected outputs and results, level of funding and timescale for delivery and any specific eligibility criteria over and above ERDF Regulations. The Investment Framework will also set out how the operations for ERDF support will be selected, in line with Section 8.4 of the Implementing Provisions.

### **3.8 Monitoring and Evaluation**

Monitoring and evaluation will have a key role to play in ensuring the quality and effectiveness of the EMOP. Assessing the impact of the Programme will be achieved by:

- Monitoring output indicators for each Priority Axis;
- Undertaking appropriate level evaluations at key times during the Programme period; and
- Tracking progress of Programme impact indicators: GVA, employment rate and business creation rate.

In addition, an effective monitoring and evaluation strategy will be critical for the PMC in order to assess the spatial distribution and impact of the funding and to ensure that the delivery of the Programme is supporting the overall aims of improving the performance of the region as a whole and addressing intra-regional disparities.

#### **3.8.1 Approach to Outputs, Results and Impacts**

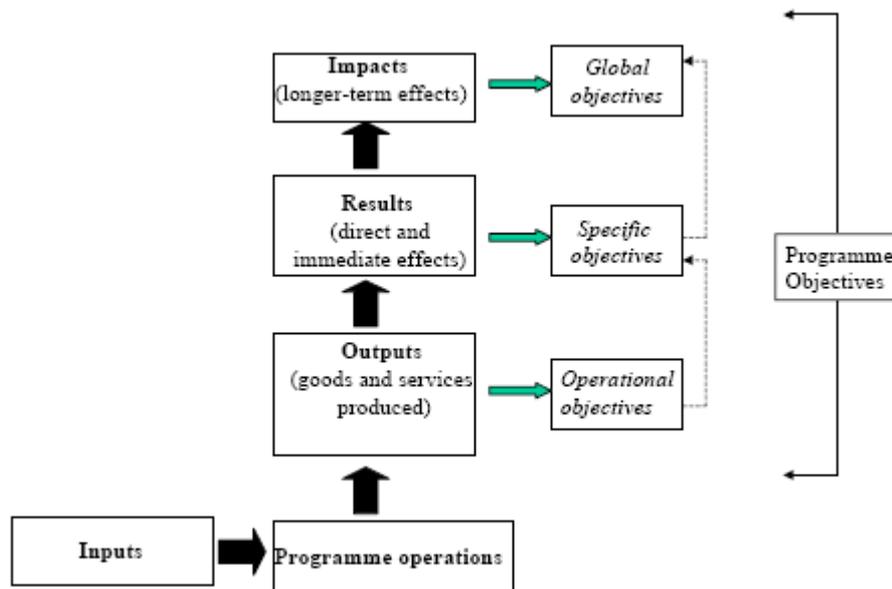
In line with best practice, a clear framework and logic chain underpins the Operational Programme. This framework is consistent with the Rationale, Objectives, Appraisal, Monitoring, Evaluation and Feedback cycle described in the HM Treasury Green Book. The rationale and objectives of the Operational Programme are set out in Section 3.5. ERDF and the national match funding acts as the input into achieving these objectives, buying a range of activities that produce outputs that lead to results and impacts:

- **Inputs:** resources from ERDF and other finance;
- **Programme operations:** activities secured by the inputs;
- **Outputs:** the goods and services created by the activities (e.g. number of businesses assisted);
- **Results:** the immediate effect of the outputs (e.g. number of gross jobs created); and

- **Impacts:** the wider impact of the supported activities taking into account displacement, leakage and additionality.

This logic chain is illustrated in the following chart.

**Chart 3: The Programme Logic Chain**



Source: *Indicators for Monitoring and Guidance, European Commission, January 2006*

Indicators for monitoring and measuring the progress of the Operational Programme have been developed at the national level. The development process took account of previous experience of what can be realistically measured on a timely basis (the approach was mindful of national policy to reduce the administrative burden on business). Regions select those indicators most applicable for measuring progress and delivery of activities in their Operational Programmes. These indicators will be monitored and reported in the annual reports. Additional regional indicators specific to the Programme may be developed and agreed by the PMC as part of any programme monitoring and evaluation framework.

### 3.8.2 Targets for outputs, results and impacts for the Operational Programme

A summary of the projected outputs from the Operational Programme is provided in Table 1 below (further detail is provided at Priority Axis level in Section 4). These indicators have been chosen from the national menu based on the content of the Operational Programme and initial allocation of resources between indicative activities. The table shows that the Operational Programme is expected to generate the following outputs in relation to the funding made available to the region through the ERDF Competitiveness Programme:

- Over 9,000 businesses assisted to improve performance;
- Over 2,000 businesses engaged in new collaborations with the UK knowledge base;
- €216 million of public and private investment leveraged;
- Over 36,000 square metres of new or upgraded floorspace;
- Around 2,700 people assisted to start a business; and
- 17ha of brownfield land reclaimed.

It is expected that these outputs will result in:

- Over 8,000 jobs created;
- Over 7,000 businesses improving their performance;

- Around 2,000 new businesses created; and
- Around 4,000 graduates placed in SMEs.

It should be noted that for ‘business assistance’ activities (for which only SMEs are eligible), the nature of assistance will be recorded and monitored in terms of whether it is:

- Innovation activity;
- Energy efficiency activity;
- Resource efficiency activity; or
- Enterprise activity.

Business assistance will also be recorded and monitored according to whether assistance was provided to a social enterprise.

Whilst it might be possible to set targets for these types of business assistance, it has to be considered whether or not this is desirable from the perspective of delivery and achievement of the Programme targets. Evidence from previous programmes exists that allows a reasonable degree of certainty to be attached to the proposition that a given level of funding will buy a particular amount of business support that will lead to job creation and other economic benefit. More detailed information that would allow a link to be made between resource and quantity of business support aimed at energy efficiency interventions and subsequent job creation and other economic benefit, for example, is not available. However, by monitoring these categories of intervention, the final evaluation of the Programme will be able to assess their effectiveness in this way. Given the priority attached to improving resource efficiency in businesses and communities in the EMOP, it is anticipated that approximately 20% of the businesses assisted to improve their performance will receive support related to energy and resource efficiency.

**Table 1.1: Outputs expected from the Operational Programme**

<b>Output</b>	<b>Target</b>
No of businesses assisted to improve performance*	9,300
No of businesses engaged in new collaborations with the UK knowledge base	2,300
Public and private investment leveraged (€)	216,000,000
Sq metres of new or upgraded floorspace (internal premises)	36,100
No of people assisted start a business	2,700
Brownfield land reclaimed or redeveloped (ha)	17

\* it is anticipated that approximately 20% of these businesses will receive support related to energy and resource efficiency.

**Table 1.2: Results expected from the Operational Programme**

<b>Result</b>	<b>Target</b>
No of jobs created	8,600
No of businesses improving performance	7,200
GVA resulting from businesses improving performance (€)	263,000,000
No of graduates placed in SMEs	4,000
No of new businesses created and new businesses attracted to the region	2,000

**Table 1.3: Impacts expected from the Operational Programme**

<b>Impact</b>	<b>Target</b>
Increase in GVA (€)	221,000,000
Increase in employment	4,600
Increase in businesses	700

### 3.8.3 Cross Cutting Themes

Activities to support the cross cutting themes have been mainstreamed into the development of the Operational Programme. For example, the Programme will support indicative activities aimed at improving sustainable consumption and production in the region and it is anticipated that this will have both economic and environmental benefits. Priority Axis 2 includes indicative actions to support the development of social enterprises to deliver services that will improve the economic, environmental and social capacity of a local area.

The OP will be subject to the legal requirements to monitor beneficiaries by gender, ethnicity and disability along with age. For the purposes of this monitoring activity, ethnic groups based on those used in the 2001 Census of Population will be used. In addition, the Programme will monitor the size of business supported.

The OP has been subject to a Strategic Environmental Assessment, the aim of which is to assess the potential for adverse impact of the OP on the environment and to propose mitigation where these effects have been identified. A number of indicators have been identified and can be found in the Environmental Report. They include the following:

- Total emissions of principal air pollutants (NO<sub>x</sub>, PM10 and SO<sub>2</sub>);
- CO<sub>2</sub> emissions by end user;
- Proportion of river length of 'good' or 'fair' chemical and biological quality; and
- Waste generated per unit of GVA.

### 3.8.4 Evaluation of the Programme

The rationale, aims and objectives of the Operational Programme have been set out above, along with the expected outputs, results and impacts. However, to ensure that the OP remains on track to deliver these outputs and outcomes, a framework for monitoring and evaluation will be put in place. This will ensure that feedback from Programme performance is a key input into the management of the Programme on an on-going basis. The PMC will approve and be responsible for a monitoring strategy in line with the Regulations as set out in Section 8.6.

In order to monitor and evaluate the effectiveness and impact of the Programme the following procedures will be put in place:

- Annual reports will set out the outputs generated by each Priority Axis in each year of the programme. These reports will also assess progress against the SEA monitoring indicators;
- An interim evaluation should assess the first three years of the Operational Programme, detailing progress on expenditure, outputs generated so far and the economy, efficiency and effectiveness of the Programme to this date; and
- Final evaluation will assess the overall impact of the Operational Programme against the aims and objectives set at the beginning of Section 3 and the contribution the Programme has made to the achievement of agreed regional outcomes set out in the Regional Economic Strategy.

The Operational Programme will contribute to the regional outcomes identified in the Regional Economic Strategy, *A Flourishing Region*. The relevant indicators which provide the context in which the Operational Programme will operate are all analysed in detail in the socio-economic analysis presented in Annex 3. The baseline figures for these indicators are summarised in the table below, alongside the targets for 2009. These targets will be updated and revised in 2009 when the RES is reviewed (or as part of the anticipated development of an interim Single Integrated Regional Strategy). These indicators will be monitored by *emda* on an annual basis during the lifetime of the Regional Economic Strategy.

**Table 2: Summary of relevant regional baseline indicators**

Indicator	Baseline	RES Target
Gross value added per head	93% of the UK average (2005)	n/a
Gross value added per hour worked	98.5% of the UK average (2004)	To increase GVA per hour worked to the UK average
Employment rate - region	75.8% (2005)	To achieve an employment rate of 76% by 2009 and to remain at least one percentage point above the UK average
Employment rate- Priority Axis 2 target areas	70.1% (2005)	n/a
VAT registered business start up rate- region	34 per 10,000 population (2005)	Increase the rate of VAT registrations to 40 per 10,000 population and be at least level with the UK average
VAT registered business start up rate - Priority Axis 2 target areas	30 per 10,000 population (2005)	n/a
3 Year VAT registered business survival rate	72.2% (2002)	Maintain a 3 year survival rate above the UK average and be at least 71%
Business enterprise research & development as % of GVA	1.5% (2003)	n/a
Gross domestic expenditure on research & development as % of GVA	1.8% (2003)	To increase Gross Domestic Expenditure on R&D to 2.5% of GVA
Turnover accounted for new and improved products	5% (2005)	To increase the proportion of business turnover to new and improved products to 6%
Waste generated per £million GVA	384.2 tonnes (2003)	To move towards the national average in waste produced per £million GVA

It is important that the OP contributes to the RES aim of closing the productivity gap that exists between the East Midlands and the UK, and it is on this basis that GVA per head and GVA per hour worked have been chosen as suitable indicators. In addition, the RES also prioritises the issue of addressing disparities within the East Midlands and, on this basis, Table 2 also includes a number of indicators that relate specifically to the Priority Axis 2 target areas. It should be noted, however, that no targets are set for these areas in the RES as the monitoring framework measures progress in a smaller number of the most deprived

districts in the East Midlands. The indicators set out above for the Priority Axis 2 areas will therefore be monitored over time to ensure that the gap is being closed.

Data for these indicators is available from official sources through the Office for National Statistics (ONS) and other UK government departments. GVA data is published annually in the ONS publication '*Regional, sub-regional and local gross value added*', while the employment rate is taken from the Annual Population Survey/Labour Force Survey which is also published by the ONS. Data on the VAT registered business base and research and development is published by the Department for Business Enterprise & Regulatory Reform. Finally, data on turnover from new and improved products is available from the Community Innovation Survey.

### 3.9 Key Policy Linkages

#### 3.9.1 European Strategies

##### Community Strategic Guidelines

The priorities in the EMOP support all three CSG priorities. The table below shows the specific links between the EMOP's Priority Axes and the CSG.

<b>Community Strategic Guidelines for Cohesion Policy</b>	<b>East Midlands Operational Programme</b>
<p>Guideline 1: Making Europe and its regions more attractive places to invest and work</p> <ul style="list-style-type: none"> <li>• Expand and improve transport infrastructures</li> <li>• Strengthen synergies between environmental protection and growth</li> <li>• Address Europe's intensive use of energy resources</li> </ul>	<p>The Programme will promote the development and application of technologies, products and processes to support resource efficiency needs.</p> <p>Activities will be funded under Priority Axis 1 to promote the benefits of greater efficiency in the use of energy among businesses and to provide support for businesses to establish and develop environmental management systems, develop new technologies, products, processes and services to improve resource efficiency.</p> <p>Support will be available under Priority Axis 2 to improve the green and built environment to create more attractive places for communities and encourage investment by businesses and for businesses and social enterprises in under performing areas to exploit opportunities related to the resource efficiency agenda.</p>
<p>Guideline 2: Improving knowledge and innovation for growth</p> <ul style="list-style-type: none"> <li>• Increase and improve investment in Research, technology &amp; Development</li> <li>• Facilitate innovation and promote entrepreneurship</li> <li>• Promote information society for all</li> <li>• Improve access to finance</li> </ul>	<p>Activities under Priority Axis 1 are designed to facilitate innovation and encourage the uptake of new technologies, products and service, to raise productivity. Activities under Priority Axis 2, are concerned with stimulating enterprise in disadvantaged communities in order to move towards a more knowledge-based economy, and includes support to improve access through ICT.</p>

<b>Community Strategic Guidelines for Cohesion Policy</b>	<b>East Midlands Operational Programme</b>
<p>Guideline 3: More and better jobs</p> <ul style="list-style-type: none"> <li>• Attract and retain more people in employment and modernise social protection systems</li> <li>• Improve adaptability of workers and enterprises and the flexibility of the labour market</li> <li>• Increase investment in human capital through better education and skills</li> <li>• Administrative capacity</li> <li>• Help maintain a healthy labour force</li> </ul>	<p>The EMOP will deliver new, high quality jobs under both Priority Axes. In addition, specific activities to respond to the workers adaptability will be supported under the Regional ESF Framework. Implementation arrangements for both the EMOP and Regional ESF Framework will ensure linkages between the two programmes.</p>

UK National Reform Programme

The table below shows the relationship between the NRP and the objectives and Priority Axes of the EMOP.

<b>EMOP EMOP Priority Axes</b>	<b>UK NRP Priorities</b>		
	<b>Macroeconomic policies for jobs and growth</b>	<b>Higher productivity</b>	<b>Increasing employment opportunity for all</b>
<b>Innovation and sustainable business practice</b>	Low: the EMOP is not a macroeconomic programme.	High: through supporting the commercialisation of innovation in high growth businesses and key sectors.	Medium: through new employment opportunities from new businesses and spin out companies.
<b>Sustainable economic and enterprise activity in disadvantaged communities</b>		Medium: through support for enterprise in local areas and among target groups.	High: through increasing employment opportunities through enterprise initiatives.

UK National Strategic Reference Framework

The overarching aim of the EMOP is concerned with increased productivity within a sustainable framework and hence directly supports the Government's strategy. The table below sets out how EMOP's strategic objectives specifically support the UK's NSRF.

NSRF Pillars (ERDF)	EMOP Priority Axes	
	Innovation and sustainable business practice	Sustainable economic and enterprise activity in disadvantaged communities
<b>Promoting innovation and knowledge transfer</b>	The focus of activities under Priority Axis 1 is on supporting SMEs to increase their take up and application of knowledge to improve productivity. This will be achieved harnessing the contribution from the region's HEIs and creating and supporting an innovative environment.	Support will be available to encourage enterprises to exploit opportunities around the low carbon technology and resource efficiency agendas
<b>Stimulating enterprise and supporting successful business</b>	Under Priority Axis 1, spin out companies may be created from increased R&D activity and collaboration.	Priority Axis 2 will focus on stimulating enterprise in disadvantaged areas.
<b>Ensuring sustainable development, production and consumption</b>	Specific actions under Priority Axis 1 will support innovation to improve resource efficiency in businesses. In addition, the principles of sustainable development, production and consumption will underpin all activities.	Priority Axis 2 will support actions that enable local businesses and social enterprises to exploit opportunities arising from the resource efficiency agenda. In addition the principles of sustainable development, production and consumption will underpin all activities.
<b>Building sustainable communities</b>	Businesses supported under Priority Axis 1 may well be located within disadvantaged areas and their increased success and competitiveness may benefit those areas.	Priority Axis 2 is concerned with improving local economies through economic renewal and will support a range of actions to build sustainable communities.

### 3.9.2 National Strategies

#### Securing the Future - UK Sustainable Development Strategy

Securing the Future is the Government's national Sustainable Development (SD) strategy. It seeks to promote development to enable "*all people throughout the world to satisfy their basic needs and enjoy a better quality of life, without compromising the quality of life of future generations.*"

The two overriding principles of the strategy are; living within environmental limits, and ensuring a strong, healthy and just society. These are supported by three further principles which are concerned with how these overriding principles will be achieved: achieving a sustainable economy; promoting good governance; and using sound science responsibly.

The EMOP fully integrates the principles and priorities of Securing the Future. In particular, Programme Priority 2 contains actions concerned with supporting businesses to improve their capacity and behaviour in relation to improving energy efficiency and using resources

more effectively – this can be summarised as sustainable consumption and production (SCP).

Programme Priority 3 is concerned with supporting disadvantaged communities in improving their economic and enterprise performance. This priority aligns with the creating sustainable communities priority of Securing the Future.

#### Opportunity for All

The 2005 Opportunity for All Report is the seventh annual social inclusion action plan produced by the UK Government. It provides an update on Government progress towards delivering a fairer, opportunity rich society.

Programme Priority 3 is focused on stimulating the sustainable economic renewal of disadvantaged communities in the East Midlands. The economic renewal approach is closely linked to the Government's Neighbourhood Renewal agenda and provides a framework to help communities develop indigenous and sustainable economic activities. As such, economic renewal is concerned with addressing the inequalities that persist between different communities in the East Midlands. In addition, Government statistics (Index for Multiple Deprivation, 2004) demonstrate that people living in less prosperous communities tend to experience more disadvantage and exclusion than others. Consequently, the EMOP will not only aim to help to create sustainable communities, but provide new opportunities for people with a quality of life below the East Midlands average.

#### 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 businesses, they must be clear how they plan to use the Business Link information, diagnostic 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.

#### Technology Strategy Board

The Technology Strategy Board (TSB) is a new Executive Non-Departmental Public Body, which is being set up to develop a coherent UK-wide strategy for technological innovation and to deliver a programme of Government financial support to encourage business investment in, and use of, technology across all sectors of the UK economy. Where Structural Funds interventions aim to promote innovation and knowledge transfer, they will

seek to achieve alignment with national priorities and maximise the benefits from collaborating with TSB supported programmes.

### **3.9.3 Inter-regional Strategies**

#### SMART Growth: The Midlands Way

Smart Growth is a growth strategy focusing on ways of maximising the benefits of cross-regional working in the East and West Midlands. It seeks to build on, and complement, existing regional strategies such as the Regional Economic Strategies and the Regional Spatial Strategies, but not to replace or duplicate them. Its key driver is to help address the productivity 'gap' between the Midlands' regions and other parts of England. The initiative is not yet fully developed, but there are clear areas of alignment with the EMOP. The Midlands Way strategy and the EMOP have a number of synergies, particularly around innovation and environmental sustainability.

#### The Northern Way

The Northern Way is the inter-regional strategy for the North of England seeking to reduce the £30billion output gap between the North and the South. A key element of the Northern Way is the work being taken forward under the City Region Development Plans. The Sheffield City Region includes parts of north Derbyshire and Nottinghamshire and initiatives developed under EMOP will, where appropriate, seek to align with the Sheffield City Region Development Plan.

### **3.9.4 Regional Strategies**

#### The East Midlands Integrated Regional Strategy

The East Midlands Integrated Regional Strategy aims to provide a framework to ensure policies and strategies are not prepared in isolation but in a compatible and integrated way. It provides an overarching regional vision:

*the East Midlands will be recognised as a region with a high quality of life and sustainable communities that thrives because of its vibrant economy, rich culture and environmental diversity and the way it creatively addresses social inequalities, manages its resources and contributes to a safer, more inclusive society.*

The IRS is delivered through a number of supporting strategies including the RES and the Regional Spatial Strategy (RSS). The EMOP therefore complements and supports the IRS through links to these supporting strategies and the use of the RES as the guiding framework for the Programme.

#### Regional Spatial Strategy

The East Midlands Regional Spatial Strategy (RSS) provides the spatial policy framework for the region. It creates the policy framework within which Local Authorities will prepare their Local Development Frameworks (LDFs). The RSS allocates housing figures to Housing Market Areas and Districts, sets employment land requirements, and identifies key transport infrastructure schemes, as well as addressing wider issues including energy, natural resources, and environmental protection. Together, the RSS and RES provide the context for regional working to both capture opportunities from growth and development, and to address the regeneration challenges faced by the region's most disadvantaged communities.

The EMOP shows a good level of alignment and synergy with many of the objectives of the RSS including objectives to 'address social exclusion through the regeneration of disadvantaged areas and reducing regional inequalities', and 'to promote and improve economic prosperity, employment opportunities and regional competitiveness'. The EMOP

also complements the RSS by looking to encourage and capture the economic benefits within the context of promoting sustainable development.

#### East Midlands Urban Action Plan

The East Midlands Urban Action Plan (UAP) sets out a framework for urban renaissance for the region. The UAP prioritises actions on the urban areas of Corby, Derby, Leicester, Lincoln, Nottingham and Northampton, and provides an approach to help shape urban development throughout the region. It provides a delivery plan which identifies five priority themes for activities. These are: land supply; public realm; skills and business development; transport; and culture, tourism and sport. The plan identifies a number of priority projects, most of which fall outside the scope of the EMOP, though there may be elements of the projects that will form part of a package of interventions to support the development needs of targeted disadvantaged urban areas under Priority Axis 2.

EMOP investment in urban areas will need to reflect the Government's approach to functional sub regions or city regions to ensure that the benefits flowing from the economic relationship between a city and its surrounding area are maximised. The success of the region's cities depends heavily on the connections with neighbouring towns and cities in the region and rural hinterland, and therefore the connections made, particularly through the spatial targeting of funds under Priority Axis 2 of the programme will be crucial.

#### Regional Rural Delivery Framework

The Regional Rural Delivery Framework (RRDF) for the East Midlands has been developed through a comprehensive consultation and development process on regional priorities in a rural context, encompassing environmental, economic and socio-economic objectives. The East Midlands RRDF priorities are:

- Increasing the quality of the region's green areas (green infrastructure);
- Improving enterprise, innovation and employment opportunities;
- Improving accessibility to jobs and services;
- Developing active communities;
- Supporting existing land-based rural businesses;
- Addressing climate change; and
- Affordable rural housing.

The Rural Development Programme for England (EAFRD) 2007-13 will be an important tool to support the achievement of the strategic priorities in the above plans, and will be focused accordingly, especially in those areas where other resources are not applicable. The EAFRD will be delivered through a series of Regional Implementation Plans (RIP) in the English regions. The East Midlands RIP sets out the principles, priorities and delivery proposals which have been agreed by partners to deliver the EAFRD within the region. The RIP sets out three principal regional themes: enhancing the environment and countryside; making agriculture and forestry more competitive and sustainable (competitiveness, collaboration and diversification); and enhancing opportunity and quality of life in rural areas. The programme will be underpinned by a skills development theme. The EMOP has taken full account of the emerging RIP priorities in developing its approach to delivering the third Programme Priority under Priority Axis 2. Further information is provided in Section 7 on how activities will be coordinated between the EMOP and the East Midlands RIP.

#### Regional Energy Strategy

The East Midlands Operational Programme fully aligns with the Regional Energy Strategy. In particular, the EMOP links closely with the aims and activities of the 'Energy for Enterprise' work stream which is concerned with business productivity and the opportunities that a low carbon economy presents.

The following actions are common to both Priority Axis 1 of the EMOP and the Energy for Enterprise work stream in the Energy Strategy:

- Supporting energy efficiency;
- Supporting businesses in adopting Environmental Management Systems;
- Supporting businesses in adopting new technologies and processes; and
- Exploitation of the business opportunities associated with the development and deployment of new energy technologies.

The Strategy identifies seven priorities for action, two of which are particularly relevant to, and clearly underpin the Priority Axes of the EMOP:

- Priority 3 on Business Performance - Improving the productivity and performance of businesses in the region through more efficient use of energy and resources.
- Priority 4 on Economic Exploitation - Enabling the region to exploit new economic opportunities from new and emerging technologies, processes and services.

### Regional Waste Strategy

The East Midlands Regional Waste Strategy (RWS) aims to:

- Work towards zero growth in waste at the Regional level by 2016;
- Reduce the amount of waste landfilled in accordance with the EU Landfill Directive;
- Exceed Government targets for recycling and composting; and
- Take a flexible approach to other forms of waste recovery.

There is strong alignment between EMOP's proposed activities and a number of key priorities in the RWS including:

- Improving resource efficiency use;
- Developing markets for recycled materials; and
- Reducing construction and manufacturing waste.

### Regional Environment Strategy

The East Midlands Regional Environment Strategy, published in spring 2002, sets out the high level environmental aims and objectives for the region. The Environmental Strategy is a cornerstone of the Integrated Regional Strategy and is concerned with all issues relating to the natural and cultural heritage, air, land and water components of the environment. The following are the key objectives relating to the environment:

- To protect, improve and manage the rich diversity of the natural, cultural and built environmental and archaeological assets of the region;
- To manage change by enhancing and conserving the environmental quality of the region including high standards of design and to maximise the re-use of previously used land and buildings;
- To manage the natural resources of the region including water, air quality and minerals in a prudent manner and to seek to minimise waste and to encourage re-use and recycling of waste materials; and
- To involve people, through changes to lifestyles and activities in minimising adverse local, regional and global environmental impacts.

The EMOP links to and supports the Regional Environment Strategy and is further supported by the environmental sustainability cross cutting theme.

Sub-regional Investment Plans

The seven Sub-regional Strategic Partnerships (SSPs) in the East Midlands have each produced a Sub-regional Investment Plan (SRIP) which sets out a programme of investment in economic development activities to reflect the diversity, and maximise the impact, of expenditure at local level.

The SRIPs have been developed from the RES evidence base and have been developed to support the regional economic priorities defined in the RES.

More specifically the SRIPs are designed to:

- Encourage more strategic, longer term planning;
- Encourage fewer, larger, better quality projects, more joined up delivery and more strategically focused programmes which address sub-regional priorities;
- Give a message that SSPs are focal points for economic development;
- Provide stake holders with a greater sense of ownership; and
- Ultimately provide SSPs with a template for future procurement and commissioning of projects.

As set out in Section 3.6, the SRIPs have been developed with a view to maximising the European funds available to the region.

## **SECTION 4: PRIORITY AXES**

### **4.1 Introduction**

This section aims to build on the overall Programme strategy set out in section 3.5 above and provides: a detailed description of the focus and activities of the two main Priority Axes; indicative actions; and output and result indicators.

The Programme has been influenced by lessons learnt from the study of programme approaches and project level interventions in the 2000 – 2006 Objective 1 and 2 programmes in the UK (as summarised in section 3.4 above), and the European Commission's paper on the results of experience in the area of innovation<sup>31</sup>.

The Priority Axes are:

- **Innovation and sustainable business practice;**
- **Sustainable economic and enterprise activity in disadvantaged communities; and**
- **Technical Assistance.**

Building a knowledge-based economy underpins the main Priority Axes alongside an approach to mainstreaming the cross cutting themes of environmental sustainability and equality. Further information on the approach to the cross cutting themes is set out in Section 5.

One of the key challenges for the Programme will be to focus and prioritise actions and activities in order to achieve maximum impact. A combination of thematic and spatial targeting will be used to address this challenge and support the underpinning focus on the knowledge economy.

Funding under the Programme will be directed primarily at SMEs, however, support may be available for large companies involved in RTD activities. In the case of assistance granted from the Structural Funds to a large enterprise, the Managing Authority undertakes to request an assurance from the enterprise concerned that the assistance will not be used in support of investment that concerns the relocation of its production or service facilities from another Member State of the European Union. In addition, support to an enterprise will be assessed at appraisal stage in order to satisfy appropriate market failure tests. This will ensure that ERDF funds do not displace planned private sector investment and deliver added value.

The thematic approach under Priority Axis 1 will ensure that the funding to support innovation is available throughout the region, including the disadvantaged areas which will be eligible for additional support under Priority Axis 2. Projects will be encouraged to make appropriate linkages with activities and/or expected outputs under both Priority Axes and this will be tested through appraisal at individual project level, and monitored at Programme level during implementation.

The Priority Axis structure and indicative delivery approach has also been developed to allow sufficient flexibility for the Programme to respond to changes during the lifetime of the programming period.

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<sup>31</sup> DG Regio: *Innovative strategies and actions – Results from 15 years of Regional Experimentation*.

## 4.2 Priority Axis 1: Innovation and sustainable business practice

### 4.2.1 Context and Rationale

The challenge, as set out in Section 2.13, is to increase economic performance by making the region and its workers more productive and internationally competitive, by increasing skill levels, the knowledge base and innovation. The region's businesses will need to become more innovative and produce higher value-added goods and services with more highly skilled people in order to compete in a rapidly changing global economy. Innovation support is particularly important to accelerate renewable energy developments and to address resource efficiency needs.

This Priority Axis will therefore seek to increase business competitiveness by increasing the rate and level of innovation and improving resource efficiency by enabling businesses to develop and exploit new products, processes, technologies, services and markets.

The region needs to harness the knowledge and expertise that resides in the region's Higher Education Institutions (HEIs). However, companies, particularly SMEs, find it difficult to access support from HEIs and the region's HEIs do not always view SMEs as natural clients. There is, therefore, a need to ensure that SMEs are easily able to communicate their requirements with each other, with large companies within the supply chain and with HEIs.

The region's businesses need support to help them access the knowledge and ideas that can help them grow and prosper in higher value markets. A lack of funding is cited in the ISAP as one of the key barriers to innovation. A study is currently underway to consider access to finance to support innovation activities and the findings of this will be taken into account when bringing forward activity under the Investment Framework. Provision will therefore be made under this Priority Axis to support access to finance, management and leadership support and activities to embed the changes.

There is also a need to create an effective environment for innovation and to have the physical infrastructure assets in place to maximise the potential growth of innovative businesses throughout their development. The region has, in recent years, invested in new infrastructure facilities including science parks, incubators and innovation centres. However, a review<sup>32</sup> of physical incubation and innovation facilities available across the region identified a list of key criteria (set out in the table below) that should feature in such a development. It found that few existing facilities meet all the criteria. Investment under the Programme in innovation facilities will be assessed according to market failure and the degree to which a proposed facility meets these criteria. The region may utilise the JESSICA tool to support investment in innovation infrastructure.

**Table 3: Key Criteria for Effective Infrastructure for Innovation**

Essential features	Desirable features
<ul style="list-style-type: none"> <li>• Innovation and technology objectives of the infrastructure clearly stated</li> <li>• Target clients identified as depending on technology or other sources of innovation for their competitive advantage</li> <li>• Onsite access to both business and technology management advice</li> </ul>	<ul style="list-style-type: none"> <li>• The presence of a connection to the (broadly defined) knowledge base</li> <li>• A focus on both internal innovation and external 'virtual' supports</li> </ul>

<sup>32</sup> *Review of infrastructure facilities to support innovation across the East Midlands*, CM International UK Ltd, March 2006

ICT is considered as an enabling technology and often viewed as the '4th Utility' that should be integrated into new developments and processes. As such, support for ICT will be implicit within interventions designed to enable the development of new processes rather than as a stand alone ICT project.

Given the level of resource available and the need to achieve an impact over the programming period, ERDF will be used to support the region's competitive advantage by targeting key sectors, high growth businesses and supporting a programme of activities under a resource efficiency strand.

High growth businesses will be eligible for support, with priority given to the key sectors. The region has already agreed that a High Growth Firm is defined as one demonstrating an annual increase in turnover of over 15%. Additional criteria have also been established and will be incorporated, where appropriate, into the Investment Framework and used to guide delivery of individual projects. This Priority Axis will also support innovation, knowledge transfer and R&D activities to improve resource efficiency and facilitate renewable energy developments.

#### **4.2.2 Aims and Objectives**

The Priority Axis seeks to create a high value-added economy by supporting innovation and sustainable business practice. It will build on the region's key strengths and exploit opportunities.

The main objectives are to:

- Increase the number of businesses investing in innovation;
- Raise the overall level of business investment in innovation;
- Improve the effectiveness of ideas commercialisation;
- Recognise and build on regional strengths to ensure sustainable competitive advantage;
- Increase the frequency and value of business / university interactions;
- Build business resilience and productivity through resource efficiency and adaptation to climate change measures; and
- Maximise the economic and environmental benefits of the deployment of renewable energy and low carbon technologies.

#### **4.2.3 Description of Activity and Indicative Actions**

Innovation networks (iNets) will be established for each of the region's key sectors in order to deliver actions in support of the region's Innovation Strategy and Action Plan (ISAP). It is envisaged that these structures will also be involved in the delivery of innovation actions under this Priority Axis, though this will need to be agreed by the PMC as part of the Investment Framework development and approval process. iNets will act as the focus for interaction between business and universities in the region by bringing together partnerships of regional businesses, universities and the public sector that will also represent regionally significant concentrations of innovation, technological and scientific excellence. iNets will provide specialist Information, Diagnostic and Brokerage (IDB) services to businesses in their area of focus. The activities will be delivered to fully accord with the East Midlands simplified business support model whereby operational delivery of innovation support will be through a register of accredited specialised innovation support providers – typically consultancies or university commercial providers.

Other interventions are likely to be developed to enhance and extend regional business support packages to support high growth business and resource efficiency programmes, that

will need to complement any activities being delivered under the iNet structure. These will be defined under the Investment Framework.

The majority of the funding will be used to support interventions with proven impact potential. A percentage of the allocation, to be agreed as part of the Investment Framework, will be used to support regional pilot projects, likely to be concerned with commercialising the region's expertise in enabling technologies and the deployment of renewable energy technologies.

**Indicative Actions**

<b>Strand</b>	<b>Indicative Actions</b>
<b>Supporting Knowledge and Technology Transfer, Innovation and R&amp;D</b>	Activities to identify and support the development of emerging and enabling technologies through HEI / business collaborations, including support for spin outs.
	Collaborative R&D projects between SMEs and HEIs to develop new products, services and processes to improve business performance including grant funds.
	Activities to promote the benefits of enabling technologies and processes to SMEs and support for SMEs to assess the implications of new technologies and processes, including ICT – e.g. events.
	Activities to support technology and knowledge transfer through either HEI / business collaboration or business-to-business collaboration including support for graduate and undergraduate placement schemes.
<b>Innovation Support for Business</b>	Information, diagnostic and brokerage activities.
	Expert advice to improve technical, managerial and workforce competence to enable SMEs to innovate in order to bring about and exploit new products, processes, services and create new markets, including support for the regional Manufacturing Advisory Service.
	Activities to support the exploitation of funding opportunities to support innovative activities, in particular opportunities from FP7 and the CIP.
	Consultancy support for process innovation, technology strategy development and subsequent implementation.
	Initiatives to support firms to develop new and improved products, processes and services, and access new markets.

	Activities to raise awareness of, and stimulate demand for, finance to fund business innovations.
	The development of appropriate financial instruments to encourage investment in the commercialisation of R&D and to increase take up of technologies to improve resource efficiency including JEREMIE.
<b>Creating the Environment for Innovation</b>	Initiatives that develop the supportive environment for innovation in SMEs, including the organisation, management and promotion of networks and industry groups within key sectors. For example, iNets for each of the key sectors.
	The development of premises and facilities to support innovation, e.g. iNet Hubs.
	Funding will also be available to upgrade and extend existing premises and facilities for innovation.
	Awareness raising activities, including events and competitions. Management of appropriate communication vehicles including the development of a regional innovation portal.
<b>Resource Efficiency</b>	Action to promote greater efficiency in the use of resources (energy, water, materials) and assistance for businesses to establish and develop environmental management systems.
	Action to develop and adopt new technologies (including renewable energy), products, processes and services to improve resource efficiency.

Potential Partners/ Beneficiaries

Regional networks and consortia, SMEs, high growth companies, start up and spin out companies, Universities, Local Authorities, *emda*, environmental services and technology businesses.

Indicative Resource Allocation

<b>Strand</b>	<b>Range</b>
Supporting Knowledge and Technology Transfer, Innovation and R&D	30-50%
Innovation Support for Business	20-50%
Creating the Environment for Innovation	5-20%
Resource Efficiency	10-30%

Lisbon earmarking

<b>Code</b>	<b>Lisbon Category of Expenditure Priority Theme</b>
02	R&TD infrastructure ( <i>including physical plant, instrumentation and high-speed computer networks linking research centres</i> ) and centres of competence in a specific technology
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 ( <i>scientific and technological parks, technopoles, etc.</i> )
04	Aid for R&TD, in particular in SMEs ( <i>including access to R&amp;TD in research centres</i> )
05	Advanced support services for firms and groups of firms
06	Assistance to SMEs for the promotion of environmentally-friendly products and production processes ( <i>introduction of effective environment managing system, adoption and use of pollution prevention technologies, integration of clean technologies into firm production</i> )
07	Investment of firms directly linked to research and innovation ( <i>innovative technologies, establishment of new firms by universities, existing R&amp;TD centres and firms, etc.</i> )
08	Other investment in firms
09	Other measures to stimulate research and innovation and entrepreneurship in SMEs

#### 4.2.4 Outputs and Results

Annex 4a contains a logic chain (based on the Programme logic chain shown in Section 3) that illustrates the design of Priority Axis 1. This shows how the indicative actions of this Priority Axis are expected to lead to improved business performance and the further development of an innovation culture in the region, with subsequent impacts upon economic performance and employment in the East Midlands.

The indicators for Priority Axis 1 have been chosen from the national menu on the basis of their fit with the aims and objectives of this priority. Given the aims and objectives of Priority 1, the activities supported are likely to be more resource intensive and risky in terms of subsequent results and impacts than activities supported by Priority Axis 2. A summary of the outputs, results and impact associated with activities undertaken under Priority Axis 1 shows that the following outputs are expected to be generated:

- Over 5,000 businesses assisted to improve performance;
- Over 2,000 businesses engaged in new collaborations with the UK knowledge base;
- €87 million of public and private investment leveraged; and
- Around 17,000 square metres of new and upgraded floorspace.

As might be expected, Priority Axis 1 accounts for all of the expected new collaborations with the UK knowledge base and, despite the more expensive higher value-added types of support provided under this Priority Axis, more than half of all businesses supported under the Programme.

These outputs are expected to result in the following:

- Over 2,000 jobs created;
- Almost 4,000 businesses improving performance;
- Around 400 new businesses created; and
- Around 4,000 graduates placed in SMEs.

**Table 4.1: Outputs expected from Priority Axis 1**

Output	Target
No of businesses assisted to improve performance	5,600
No of businesses engaged in new collaborations with the UK knowledge base	2,300
Public and private investment leveraged (€)	87,000,000
Sq metres of new or upgraded floorspace (internal premises)	17,000

**Table 4.2: Results expected from Priority Axis 1**

Result	Target
No of jobs created	2,400
No of businesses improving performance	3,900
GVA resulting from businesses improving performance (€)	146,000,000
No of graduates placed in SMEs	4,000
No of new businesses created and new businesses attracted to the region	400

**Table 4.3: Impacts expected from Priority Axis 1**

Impact	Target
Increase in GVA (€)	115,000,000
Increase in employment	1,400
Increase in businesses	200

### 4.3 Priority Axis 2: Sustainable economic and enterprise activity in disadvantaged communities

#### 4.3.1 Context and Rationale

The socio-economic analysis has highlighted that the former coalfields area, the urban centres and the Lincolnshire coast all experience deep rooted problems of multiple deprivation. Reducing these disparities will not only increase the welfare of a significant proportion of the residents of the region, it will also contribute to closing the gap in economic performance between the East Midlands and the UK's leading regions.

The challenge for Priority Axis 2 is to target resources at areas of need with low levels of economic and enterprise performance to help create the right conditions to generate new and sustainable forms of economic activity which will lead to a more knowledge intensive economic base.

The methodology for identifying the most disadvantaged areas is set out below and where the data is available, at the relevant level, the characteristics are contained in the socio-economic analysis.

#### 4.3.2 Spatial Targeting Methodology

Given that this Priority Axis has been developed to direct resources to the region's most disadvantaged communities to support a range of bespoke economic and enterprise activities, the funding will be spatially targeted in order to achieve maximum focus, concentration and impact. Whilst the overall Programme is not constrained by a predetermined map of eligible and ineligible areas, the socio-economic analysis highlights a number of localities within the region that suffer from problems of severe multiple deprivation, namely the urban centres, the former coalfields area and the Lincolnshire coast. The

approach outlined below defines the areas where resources under Priority Axis 2 will be targeted and impacts delivered. A two stage approach has been adopted.

Stage 1 identifies the most disadvantaged districts in the region by ranking them according to an average position across the following indicators using an average of five years of data from 2001-2005 (where available):

- Unemployment rate;
- Economic activity rate;
- Employment rate;
- Proportion of working age with no qualifications;
- VAT registrations per 10,000 people;
- Self employment rate; and
- Average earnings.

Each of these indicators is analysed in the socio-economic analysis and detailed data tables can be found in Annex 5.

The focus of Priority Axis 2 is to provide support and resources to localities with high levels of deprivation and low levels of economic activity in order to increase sustainable economic and enterprise activity. The indicators used to identify target areas, therefore, include those that define deprivation as well as economic and enterprise activity. Data for each of these indicators is freely available through public sources and no weightings have been applied so that the process is transparent.

In order to ensure that funds are not spread too thinly, an initial selection of the twelve worst performing districts will be targeted for support under this Priority Axis. Following the public consultation, this approach was felt to satisfy the requirement to provide additional activity required to address regional requirements whilst maintaining a degree of concentration in order to achieve measurable impact. The districts to be targeted are (in the order they appear in the ranking):

- Nottingham City
- Bolsover
- Leicester City
- Ashfield
- Corby
- Mansfield
- Lincoln
- Derby City
- Boston
- Bassetlaw
- East Lindsey
- Chesterfield

In terms of spatial categorisation, and as already set out in the socio-economic analysis, these districts fall into the three broad categories summarised below. The EMOP, along with the RES, does not seek to simply define areas as “urban” or “rural”.

<b>Spatial Category</b>	<b>Districts</b>
Urban	Derby City, Leicester City, Lincoln, Nottingham City
Coastal/Peripheral	Boston, East Lindsey
Former industrial	Ashfield, Bassetlaw, Bolsover, Chesterfield, Corby, Mansfield

The strategy is not designed to prioritise along these spatial categories, but rather to ensure that a locality can demonstrate sufficient demand for an intervention in order that a demonstrable impact can be achieved. Furthermore, it should be stressed that the entire population of each district will not be automatically supported. At programme implementation stage, appropriate sub-regional or local partnerships will identify and justify, for specific interventions, the area of need within the disadvantaged districts in order to inform delivery mechanisms under Priority Axis 2. Within the urban areas, these could be brought forward under a sustainable urban development theme and, where appropriate, link with the region's Urban Action Plan. There is an opportunity to utilise the JESSICA tool to support established regeneration investment mechanisms or vehicles, e.g. Blueprint and the URCs. The region will seek to build on these mechanisms to fully utilise JESSICA as appropriate.

Areas within the twelve targeted districts will be considered for support on the basis of the following principles:

- They will demonstrate need on the basis of ward/super output area level data on the same indicators used in stage 1 (where the data is available);
- They must have sufficient critical mass in order that demonstrable impact can be achieved;
- They will include areas affected by significant economic restructuring;
- They will need to identify the community who will benefit;
- They should seek to align with areas with Assisted Area or LEGI status (for example);
- They will need to demonstrate the added value that ERDF funding will bring; and
- The selected areas will be subject to a mid-term review to determine if continued support is necessary.

Given that spatial targeting is no longer a question of "eligibility", but one of focus and concentration, it will also be possible for activities to be funded outside these areas, provided that their impact on the target areas can be quantified and measured. For example, a district may identify a number of wards to form its target locality, but could fund activity in a ward in an adjacent district if the impact on the target locality can be quantified – this issue will be tested through the appraisal of individual programmes. It should be stressed that target areas could elect to work together across district or other boundaries. This mechanism will allow activities to be funded outside of the twelve districts identified, but only in areas adjacent to the targeted areas within the twelve districts. It will be for the relevant sub-regional and local partnership to agree this type of activity on a case by case basis using local knowledge to justify the approach.

#### **4.3.3 Aims and Objectives**

The Priority Axis aims to promote sustainable economic growth by increasing the level of enterprise, creating new jobs and moving towards a more knowledge-based economy. Resources will be directed at the region's most disadvantaged communities in order to support and develop a range of bespoke economic and enterprise activities to meet the specific identified needs of localities and target communities and will:

- Increase the size and diversity of the enterprise base;
- Stimulate demand for new services within localities ie exploiting local procurement opportunities;
- Support the development of local enterprise initiatives to support the resource efficiency objective;
- Increase the level of private sector investment in disadvantaged communities;
- Improve access to employment opportunities; and
- Improve the physical (green and built) environments and attractiveness of disadvantaged areas.

It is anticipated that during the lifetime of the Programme, some businesses and social enterprises that are supported under Priority Axis 2 will be able to benefit from support under Priority Axis 1. For example, initiatives under Priority Axis 2 should lead to new enterprises being created in disadvantaged areas as a result of new market opportunities being created in key sectors and initiatives to improve resource efficiency and to increase take up of renewable energy. These enterprises may then need higher level innovation-specific support to support continued growth.

#### **4.3.4 Description of Activities and Indicative Actions**

As set out in section 3, there are a number of fundamental issues that make it more difficult to set up and sustain a business in some disadvantaged localities. The degree to which the various issues hinder enterprise development vary according to locality and thus, there is a need to develop bespoke local solutions. Existing local partnerships offer potential mechanisms to identify and develop these solutions to ensure that sustainable economic activity can be delivered. It must be recognised that mainstream support is generally concerned with increasing growth and high value-added businesses, but enterprise support in disadvantaged areas is generally about stimulating motivation, providing enhanced pre-start support and ensuring support is available for longer during the start up phase, however, this will still entail a fundamental process of supporting their knowledge and technology needs.

The emphasis will be on supporting indigenous economic solutions and ensuring people and businesses in local communities have the capacity and business acumen to develop local economic renewal solutions. For example, it is envisaged that the local partnerships will identify how the mainstream business support offer will need to be augmented by ERDF to respond to local needs. A bespoke, in-depth mentoring and coaching 'pre start-up' initiative in an urban area targeted at a specific social group would be different from one designed to encourage enterprise in a peripheral/coastal area. Within the urban areas, the partnerships may decide to link a particular enterprise initiative to investment in particular employment sites, whereas this may not be an appropriate response for rural Lincolnshire.

Given the limited funds available, it is not expected that target areas will seek to access a wide range of activities from across all strands in this Priority, but will focus on a number of key transformational activities. For enterprise activities, local partnerships will work in accordance with the regional business support model to provide additional or extended outreach support for business support and enterprise activities. Partnerships will be responsible for identifying those bespoke projects that will be locally driven and delivered to address issues concerning capacity, connectivity and the (built and green) environment.

Within urban areas the priorities could be delivered under a sustainable urban development theme. This is not identified as a separate strand as the indicative actions listed under each of the strands could all fall under an urban development strand.

To ensure concentration, funding will be spatially targeted (see above) and will be focused around four key themes:

- Enterprise support;
- Access to finance;
- Access to resources and support; and
- Reviving local infrastructure and environments.

The indicative activities identified under these four strands are intended to support businesses and communities to identify indigenous economic solutions and to provide a firm foundation from which they can move forward into the higher value added, knowledge economy. This structure therefore forms a menu which encompasses activities that will allow

the target areas to respond to the challenges and priorities identified in the socio-economic analysis and section 3.5.3.

#### Enterprise support

The focus of this theme is on stimulating enterprise by providing bespoke programmes of support for local people with enterprise aspirations, and helping local businesses exploit opportunities by: adopting appropriate technology solutions (including ICT); supporting their innovation and knowledge needs to improve products and/or services; and helping them develop new markets. There will also be support for the development of social enterprises to deliver services that will improve the economic, social and environmental capacity of a local area.

Creation and refurbishment of associated premises, employment sites and small scale enterprise facilities will also be supported under this strand. Importantly, Priority Axis 2 will also be used to harness the flow of economic activities and investments to link areas of need to areas of growth, and thus increase the spread of both economic opportunities and benefits to where they are needed most. It is possible, therefore, that limited resources could be used to fund the provision of employment sites and enterprise centres outside the target areas provided they support the enterprise development needs of the local community.

#### Access to finance

One of the key barriers to starting a business in a disadvantaged area is the lack of access to finance. Appropriate financial instruments and services, for example Community Development Finance Instruments (CDFI), will be provided to meet local needs. CDFIs provide finance to businesses in disadvantaged areas and to under-represented groups where there is market failure in the provision of mainstream finance.

The European Investment Bank's new micro-financing facility, JEREMIE, will be considered as a potential financial tool (subject to the Government's analysis of its applicability for the UK market).

#### Access to resources and services

Access to employment opportunities and public services remains a key constraint limiting growth in many disadvantaged areas. The Programme will support local transport initiatives and ICT initiatives where there is a clear need to support enterprise development.

It may be possible to link access to employment initiatives directly with activities under Priority Axis 1, where innovation support is targeted at key sectors and high growth businesses. These linkages will be identified as part of the Investment Framework development process.

It should be noted that, within the overall position of reduced funding for this type of activity and its contribution to Lisbon targets, limited activity is expected within this strand. Proposals will need to demonstrate clear market failure before funding is approved and will need to demonstrate that they are set within an overall urban or rural development plan in order to ensure that activities are linked to wider economic and enterprise investment.

#### Reviving local infrastructure and environments

Physical infrastructure and environmental improvements are considered an important part of reviving disadvantaged areas to attract new businesses and to improve communities' perceptions of a locality. Through the consultation process it was agreed that funds should be available to support activities that seek to improve and revive local environments to improve economic prospects and encourage private sector investment. Funding will be available to apply design and construction best practice; ensure integration of green

infrastructure factors in capital development projects such as employment sites and premises; and support public realm activity. As above, it should be noted that, within the overall position of reduced funding for this type of activity and its contribution to Lisbon targets, only a small number of specific, targeted projects are expected within this area of activity. Proposals will need to demonstrate clear market failure before funding is approved and will need to demonstrate that they are set within an overall urban or rural development plan in order to ensure that activities are linked to wider economic and enterprise investment.

**Indicative Actions**

<b>Strand</b>	<b>Indicative Actions</b>
<b>Enterprise Support</b>	Enhanced enterprise and start-up initiatives including enterprise awareness coaching, mentoring provision and initiatives to support enterprise in target communities.
	Bespoke business support initiatives for businesses and social enterprises to develop and enter new markets, including those concerned with waste minimisation, renewable energies and resource efficiency opportunities, including financial assistance and consultancy support.
	Developing the capacity of local businesses and social enterprises to access local procurement opportunities.
	Creation and refurbishment of premises, employment sites and small scale enterprise facilities.
<b>Access to Finance</b>	Development and provision of appropriate financial instruments, including Community Development Finance Instruments (CDFI).
	Access to finance and investor readiness support.
<b>Access to Resources and Support</b>	Developing and improving access to employment opportunities, including local transport initiatives, connectivity (including ICT) and accessibility.
<b>Reviving Local Infrastructure and Environments</b>	Rehabilitation and development of local environments to create more attractive places for communities and investors.

Potential Partners/ Beneficiaries

Local authorities, SMEs, business support intermediaries, social enterprises, would be entrepreneurs, community organisations, *emda*, environmental services and technology businesses.

Indicative Resource Allocation

Strand	Range
Enterprise Support	30-50%
Access to Finance	15-25%
Access to Resources and Support	10- 20%
Reviving Local Infrastructure and Environments	10 – 20%

Lisbon earmarking

Code	Lisbon Category of Expenditure Priority Theme
06	Assistance to SMEs for the promotion of environmentally-friendly products and production processes ( <i>introduction of effective environment managing system, adoption and use of pollution prevention technologies, integration of clean technologies into firm production</i> )
08	Other investment in firms
09	Other measures to stimulate research and innovation and entrepreneurship in SMEs

Code	Non-Lisbon Category of Expenditure Priority Theme
61	Integrated projects for urban and rural regeneration

**4.3.5 Outputs and Results**

Annex 4b contains a logic chain (based on the Programme logic chain shown in section 3) that illustrates the design of Priority Axis 2. This shows how the indicative actions of this Priority Axis are expected to lead to the further development of an entrepreneurial culture and improved environmental and competitive performance in the region's more disadvantaged areas. It also shows the link to subsequent impacts upon economic performance and employment in the East Midlands.

The indicators from Priority Axis 2 have been selected from the national menu based on their fit with the aims and objectives of this priority. As this Priority Axis aims to increase economic activity and develop capacity in some of the region's more disadvantaged localities, the assumption is that support will be for higher volume, less resource intensive activities than under Priority Axis 1. A summary of the outputs, results and impacts associated with activities undertaken under Priority Axis 2 shows that the following outputs are expected to be generated:

- Almost 4,000 businesses assisted to improve performance;
- Almost €130 million euros of public and private sector investment leveraged;
- Around 19,000 square meters of new or upgraded floorspace;
- Around 2,700 people assisted to start a business; and
- 17ha of brownfield land remediated.

As might be expected, the outputs from activities to be supported under Priority Axis 2 include those that relate to the need to improve the capacity and effectiveness of local economies, and includes the development of employment space and the upgrading of local environments.

These outputs are expected to result in:

- Over 6,000 jobs created;
- Over 3,000 businesses assisted to improve performance; and
- Around 1,500 new businesses.

These results will contribute to improvements on the baseline position against the regional outcome indicators for the employment rate and business starts in the Priority Axis 2 target areas, as set out in Section 3.8.1.

**Table 5.1: Outputs expected from Priority Axis 2**

<b>Outputs</b>	<b>Target</b>
No of businesses assisted to improve performance	3,700
Public and private investment leveraged (€)	129,000,000
Sq metres of new or upgraded floorspace (internal premises)	19,000
No of people assisted to start a business	2,700
Brownfield land reclaimed or redeveloped (ha)	17

**Table 5.2: Results expected from Priority Axis 2**

<b>Results</b>	<b>Target</b>
No of jobs created	6,200
No of businesses improving performance	3,300
GVA resulting from businesses improving performance (€)	118,000,000
No of new businesses created and new businesses attracted to the region	1,600

**Table 5.3: Impacts expected from Priority Axis 2**

<b>Impacts</b>	<b>Target</b>
Increase in GVA (€)	106,000,000
Increase in employment	3,000
Increase in businesses	500

#### **4.4 Priority Axis 3: Technical Assistance**

Technical Assistance funds will be available to support the management, monitoring, evaluation, information and control activities of the EMOP, together with activities to reinforce the administrative capacity for implementing the funds. This will include the Programme's publicity and communication strategy, support for the cross cutting themes, and the development of programme monitoring and evaluation systems. Depending on the delivery structure of the Programme, Technical Assistance will be available to support the intermediate body (Article 59), and Global Grants bodies (Article 42) should the Programme decide to use them.

The Programme's Technical Assistance strategy will scope out these areas of work in more detail over the lifetime of the Programme, and will be considered and approved by the Programme Monitoring Committee at its first formal meeting (which takes place within three months of the Commission's approval of the EMOP). The Technical Assistance strategy will be monitored by the PMC, and will remain subject to review and amendment throughout the lifetime of the Programme, following PMC endorsement.

The Technical Assistance strategy will be developed in full compliance with the requirements of the Implementing Provisions (Section 8.8) and Article 46 (Regulation 1083/2006) and expenditure will not exceed 4% of the total Programme value.

#### **4.5 Inter-regional Co-operation**

Whilst the Programme does not contain a specific Priority Axis for inter-regional cooperation, the East Midlands wishes to have the flexibility to link the activities and outcomes of the Programme to wider inter-regional activity through the European Commission's Regions for Economic Change initiative and other initiatives/ programmes.

For example, in June 2007 the CLOE<sup>33</sup> network was approved as a pilot project for the Commission's Regions for Economic Change initiative under the theme 'bringing innovative ideas to the market more quickly'. The aim of this pilot project is to test the functioning of the future 'fast track option' projects that will be identified among the projects selected by the Monitoring Committees of INTERREG IV and URBACT II, in particular, the two-way bridge between thematic networking activities and the mainstream programmes of the Structural Funds.

The East Midlands ERDF PMC will be updated as appropriate on progress with regards to RfEC throughout the lifetime of the Programme and will be invited to consider whether it is appropriate for the best practice identified as a result of the work undertaken through the CLOE network (or other RfEC initiatives) to be fed into the East Midlands 2007-13 ERDF Competitiveness Programme.

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<sup>33</sup> CLOE (Clusters Linked Over Europe) - is a European Network of Excellence for cluster experience, management, matching and promotion, aimed at exchanging experience and information concerning the management and development of successful clusters.

## **SECTION 5: CROSS CUTTING THEMES**

The purpose of Cross Cutting Themes (CCT) within the EMOP is to ensure that environmental sustainability and equality underpin and inform all activity financed through the Programme. The aim is to integrate, or mainstream, the themes across all activities. Mainstreaming ensures that cross cutting themes are considered at every stage of the life of a project, from its development, application and delivery, to how it is monitored and evaluated.

This section provides definitions of the separate themes, their objectives and outputs, along with information that demonstrates how cross cutting themes can be mainstreamed into the programme implementation processes. Delivery of these objectives will be measured as set out under Section 3.8.3.

### **5.1 Environmental Sustainability**

#### **5.1.1 CCT Definition**

Environmental Sustainability is one of the three pillars of Sustainable Development. The inclusion of an environmental sustainability cross cutting theme means that whilst achieving their social and economic goals, the Programme and individual projects should aim to minimise their environmental impact and, where possible, enhance environmental benefits.

The nature, extent and quality of the environment within the East Midlands is contained in the Strategic Environmental Assessment (SEA) and has informed the SWOT. The strategic approach to the environmental sustainability theme is to: ensure efficient use of natural resources, energy and transport; minimise waste and pollution; improve the built environment; and protect the natural environment to improve local economies and business competitiveness. This will be achieved both by funding specific activities under the main priorities and by raising awareness of, promoting and developing environmental sustainability approaches in project design and delivery. The effective integration of environmental sustainability into the Programme can help deliver a more competitive, dynamic and innovative regional economy by embracing and responding to the economic opportunities that environmental integration provides. The programme will draw on best practice from the 2000-2006 East Midlands Objective 2 Programme.

#### **5.1.2 CCT Objective**

The region has a number of key strategies from which the environmental objectives have been defined. The Integrated Regional Strategy identifies the region's environmental objectives as:

- To protect, enhance and manage the rich diversity of the natural, cultural and built environmental and archaeological assets of the region;
- To enhance and conserve the environmental quality of the region by increasing the environmental infrastructure;
- To manage prudently the natural resources of the region including water, air quality, soil and minerals;
- To minimise energy usage and to develop the region's renewable energy resource, reducing dependency on non-renewable resources; and
- To involve people, through changes to lifestyle and at work, in preventing and minimising adverse local, regional and global environmental impacts.

Regional progress towards these objectives (as set out in the EMRA State of the Region report for 2006) has improved over the past few years. Despite this, the region's rate of improvement tends to be slower than the national rate.

The above objectives have been further refined as a series of key regional goals in the Regional Economic Strategy:

- To protect the environment;
- Make more efficient use of energy and transport; and
- Invest in community assets.

The EMOP will focus on the elements of these objectives which the Programme Priority Axes can help to achieve. The objective of the environmental sustainability CCT is:

*To minimise environmental and resource impact, respect environmental capacities, and maximise the potential for the environment as an economic driver.*

### **5.1.3 CCT Best Practice from 2000-06 Programmes**

The 2000-2006 Structural Funds Programmes introduced the concept of mainstreamed cross cutting themes. This was the first time that such a proactive and systematic approach to environmental and equality issues had been implemented within a mainstream funding context, and research into the 2000-2006 Programme has demonstrated that this approach has been successful<sup>34</sup>. Whilst the research has focused on the environmental sustainability theme, the lessons learnt can equally be applied to the equality theme. The following provides a summary of best practice in the current programme.

The findings of the DEFRA research demonstrate significant progress in environmental integration, much of which is attributable to the involvement of cross cutting theme champions and staff within a systematic framework of project and programme development and appraisal. In terms of the East Midlands, the research showed that the programme took a much more consistent approach to environmental integration at the point of delivery than any other English region. The study showed that 12% of projects had a specific focus on environmental activities, with particular concentrations around business development, in which the university sector was particularly active. A further 14% of projects demonstrated a very high level of environmental integration and significant numbers of projects had at least some form of integration. The study also highlighted the likelihood of transferable lessons, both in terms of specific project examples and programme implementation and delivery arrangements.

Assessment of projects in the 2000-2006 East Midlands Objective 2 Programme shows an enhanced understanding of the benefits of environmental integration, the role of the environment as an economic driver, and the importance of a healthy environment for people to live and work in. For instance, there has been an increase in environmental features in infrastructure projects, whether through a higher proportion of projects achieving the Building Research Establishment's Environmental Assessment Method (BREEAM) rating of excellent or through an increase in the use of renewable energy. A key trend to highlight has been the use of ground source heat pumps in a workspace project in the former coalfields area which led to use of this technology in other, similar, projects once the technology had been tried and tested. There have also been a number of innovative community based projects which use the environment as a catalyst for socio-economic activities.

#### *The Best Network*

The aim of the Best Network is to help East Midlands businesses improve their resource efficiency to boost their bottom line and reduce their impact on the region's environment. To achieve this, they help businesses work towards implementing an Environmental

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<sup>34</sup> *The Effectiveness of EU Structural Funds in Delivering the Government's Environmental Objectives*; Fraser Associates for DEFRA, October 2005.

Management System in line with BS8555 and ISO14001. The project provides free seminars and workshops and individual support for business to help them to achieve a staged approach to environmental management, and was a national Green Apple award winner in 2004.

#### Dunston Technology Area Units

This project provided workspace for tenants involved in the business application of technology. Whilst the project focused on the provision of business infrastructure, it has successfully achieved environmental integration through the use of high standards of design to minimise the environmental impact of the new building. Key features include:

- The use of the Building Research Establishment '*Green Guide to Specification*';
- The re-use of derelict land;
- Use of ground source heat pumps which use latent energy stored in the ground to heat and cool the building; and
- Consultation with Derbyshire Wildlife Trust to agree a planting list for the landscaping of the site to incorporate native species.

### **5.1.4 Opportunities for CCT integration in the Priority Axes**

#### Priority Axis 1

The Programme provides opportunities to support projects with a specific environmental focus. For example, funding will be available to enable businesses to transform the way resources are used by supporting the development and introduction of new processes and technologies to improve resource efficiency. There is also potential to maximise the high level of expertise that exists in the region around low carbon technologies and sustainable waste management.

As well as the above actions that will have specific funding allocations, the assumption is that there will be opportunities for positive environmental impacts through cross cutting activity around sector innovation and high growth businesses. For instance, there are real opportunities for positive impacts through promotion of sustainable construction techniques and renewable technologies in the construction sector.

Where business infrastructure is funded, there will be an expectation that these projects will be exemplar construction projects (e.g. meeting BREEAM 'excellent' ratings, utilising renewable energy and ensuring landscaping uses appropriate native species).

#### Priority Axis 2

There are specific opportunities within Priority Axis 2 for activities to regenerate the green and built environment to improve the climate for investment in disadvantaged areas. This could help to promote the importance of green infrastructure projects in addressing quality of life issues in more disadvantaged communities. There are also potential opportunities for specific projects to focus on resource efficiency advice for new enterprises. Cross cutting environmental actions can be promoted through softer approaches (e.g. signposting and raising awareness) to resource efficiency with new enterprises and environmental actions within wider community capacity building projects.

### **5.1.5 Strategic Environmental Assessment**

The SEA was carried out in parallel with the development of the EMOP and has helped shaped the final strategy. The significant effects assessment of each of the indicative actions shows that the majority lead to environmental sustainability benefits confirming EMOP's Strategic Programme Objective. The Environmental Report acknowledges the clear commitment to integrate the environmental sustainability cross cutting theme in the delivery

framework. It also sets out a number of recommendations that will be considered as part of the new implementing arrangements to help mitigate any potential negative environmental sustainability impacts identified as part of the SEA. In addition the Environmental Report identifies a number of indicators, as set out in Section 3.8.3 and these will be considered as the monitoring and evaluation strategy for EMOP is developed.

## **5.2 Equality**

### **5.2.1 CCT Definition**

At a European level, equality tends to focus on gender equality. The UK Government takes a wider interpretation of equality, encompassing race, disability, age, sexual orientation, and religion/belief. Current UK legislation will ensure that under the EMOP these under-represented groups are not discriminated against and the Programme will ensure that positive steps are taken to gain their active involvement. Applicants and programme managers will be expected to demonstrate and promote the principles of equality, diversity and inclusion in their applications, services, activities and management and recruitment policies.

### **5.2.2 CCT Objective**

The diverse population that makes up the region presents significant opportunities for businesses to engage with a range of potential entrepreneurs and employees to expand their market presence. However, as the SWOT identifies, many people experience barriers to social and economic inclusion. The strategic approach to the equality theme is to ensure equality of access to opportunity regardless of race, gender, disability, age, sexual orientation or faith. This will be achieved by funding specific activities targeted at under-represented groups and through continuing, and building on best practice from the previous Structural Funds Programmes on integrating equal opportunity considerations in project design and delivery.

The principal objective of the equality cross cutting theme is:

*To reduce economic and social inequalities by ensuring that opportunities generated by the Programme are available to everyone.*

A number of operational objectives/actions have been set which put equality into practice:

- To support under-represented groups to access employment opportunities generated by the Programme;
- To increase the number of people in under-represented groups accessing employment in higher skilled occupations and sectors where they are currently under-represented;
- To ensure that business support is responsive to the needs of all communities and under-represented groups; and
- To increase the participation of people from 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.

### **5.2.3 CCT Best Practice from 2000-06 Programmes**

The standard equal opportunities outputs for the 2000-2006 East Midlands Objective 2 Programme related to assisting target groups (i.e. females, ethnic minorities and people with disabilities) develop and set up small businesses. Applicants were required to not only work within UK legislation requirements, but also to consider how best their project might cater for the needs of these groups within their communities. As a result, there has been some good

and effective practice forthcoming from applicants who have gone beyond legal requirements and embraced the equality theme within their projects in a bid to be as inclusive as possible.

The projects that have made most impact from an equal opportunities perspective are those that considered equality at all stages of the process - from design through to evaluation. This includes: comprehensive consultation with local communities and local groups/organisations representing target groups to ensure that the interests and needs of all groups have been considered; robust monitoring systems to capture relevant equal opportunities data; evaluation processes that specifically assess the participation of people from target groups; and inclusive marketing and outreach activities. Only by including these practices throughout the life of a project can it be considered to be as inclusive as possible.

#### Nottingham Old Market Square

The aim of the project was to redevelop Nottingham's Old Market Square to create a major visitor destination and a venue for music, arts festivals, high quality markets and other events. One of the objectives of the design was for the Square to be 'physically accessible and enjoyable for people with disabilities including both the visually and physically impaired'. Central to the success of the design was ease of movement across the Square; by removing obstructions such as ramped level changes, steps and balustrades, while introducing more flat surfaces and more seating, a more accessible environment has been created. Pedestrianisation of key areas around the square was also part of the scheme, and new toilet facilities with access for people with disabilities are sited close to the Square. As part of the design process, consultation was carried out with Nottingham City Council Disabilities Forum as well as city stakeholders and the general public. Further good practice was the requirement of the contractors working on the project to have an acceptable Equal Opportunities policy in place.

#### Incubator and IT for Business Space

This project supported the development of new incubator units in response to the identified problems of unemployment, social exclusion and a lack of opportunities for self employment and enterprise in a disadvantaged inner city area of Nottingham. The project successfully monitors all users, and asks appropriate questions to ensure that equal opportunities data is collected – the monitoring form explains why specific data is required. This data is then used for evaluation and targeting purposes, for example, focus groups were set up for people under-represented within the business space including those with visual, hearing and learning disabilities, those with dyslexia, carers and ex-offenders. Some additional financial support was also made available to people from under-represented groups. This project is a good example of how equality issues can be mainstreamed within a project and how results can be achieved outside the standard requirements.

### **5.2.4 Opportunities for CCT Integration in Priority Axes**

#### Priority Axis 1

Where SMEs are assisted, positive steps should be taken to gain their active involvement, including targeted marketing activities. Where new employment opportunities are created as a result of interventions under Priority Axis 1, project applicants will be asked to consider if and how the opportunities can be accessed by residents from local communities.

Where projects fund business infrastructure, new and refurbished quality premises must comply with the requirements of the Disability Discrimination Act along with lighting, safety, childcare and transport requirements.

#### Priority Axis 2

This Priority should help provide new opportunities for people with a quality of life below the East Midlands average and help build capacity within communities. Networking, mentoring

events and outreach activities will assist under-represented groups increase their knowledge, and support should be available via improved access to finance initiatives.

## **SECTION 6: FINANCIAL ALLOCATIONS**

The East Midlands ERDF allocation (in 2006 prices) is €268,495,983 for the 2007-13 period. This funding is profiled evenly across the period, with annual inflation rises.

<b>Financial allocations by year</b>				
	<b>ERDF</b>	<b>National Public</b>	<b>National Private</b>	<b>Total</b>
<b>2007</b>	36,115,920	30,698,532	5,417,388	72,231,840
<b>2008</b>	36,838,238	31,312,503	5,525,736	73,676,477
<b>2009</b>	37,575,003	31,938,753	5,636,250	75,150,006
<b>2010</b>	38,326,503	32,577,527	5,748,975	76,653,005
<b>2011</b>	39,093,033	33,229,077	5,863,955	78,186,065
<b>2012</b>	39,874,894	33,893,661	5,981,234	79,749,789
<b>2013</b>	40,672,392	34,571,533	6,100,859	81,344,784
<b>Total</b>	268,495,983	228,221,586	40,274,397	536,991,966

### **6.1 Programme Intervention Rate**

As detailed above, the ERDF element of the region's 2007-13 Programme is €268,495,983 – at a programme intervention rate of 50%, this values the full Programme including public and private match funding at €536,911,966.

### **6.2 Financial Allocation by Priority Axes**

A number of factors were taken into account when deciding the allocation of resources between the two main Priority Axes:

- The overall Strategic Programme Objective;
- Stakeholder views;
- Contribution of each Priority Axes to delivering outputs and impacts that will contribute to Lisbon targets – of growth and jobs; and
- Absorption capacity – the region will need to be in a position to defray Programme expenditure as soon as possible after the approval of the EMOP.

After consideration of these factors, the Regional Strategic Partnership agreed the following allocation of ERDF resources:

**Priority Axis 1:** Innovation and Sustainable Business Practice – 43%

**Priority Axis 2:** Sustainable Economic and Enterprise Activity – 53%

**Priority Axis 3:** Technical Assistance – 4%

The financial allocations for the whole programme are summarised in the table below.

Summary Financial Table Euros

	ERDF	National Public	National Private	Total	PA Grant Rate
<b>PA1 Innovation and sustainable business practice</b>	115,453,273	142,974,111	30,205,798	288,633,182	40%
<b>PA2 Sustainable economic and enterprise activity</b>	142,302,871	74,507,636	10,068,599	226,879,106	62.72%
<b>PA3: Technical Assistance</b>	10,739,839	10,739,839	0	21,479,678	50%
<b>Total</b>	268,495,983	228,221,586	40,274,397	536,991,966	50%

The allocation of 43% of resources to Priority Axis 1 reflects the fact that whilst the objectives and activities have been designed to direct public sector support to address market failure and weaknesses, this Priority represents the region's first opportunity to direct some level of ERDF resource into more opportunity-based, competitive advantage areas of activity. The grant rate level is based on findings from the 2000-2006 Objective 2 Mid-Term Evaluation which identified that projects had been awarded an average grant rate of 38% for the first half of the Programme even though the intervention rate for that priority had been set at 37%. This analysis suggests a need for a higher maximum intervention rate to support practical implementation of projects. The nature of the activities under EMOP's PA1 is expected to have a higher value per output and hence the decision to set the maximum grant rate of 40%.

Funds should also address sub-regional disparities, within the context of a wider programme focused on closing the productivity gap and developing *A Flourishing Region*. Some concerns about absorption capacity due to the focus of Priority Axis 2 activities were raised during the public consultation. However, the types of interventions stakeholders also wished to see supported under Priority Axis 2, would not have contributed to the required Lisbon targets (e.g. more funding for local infrastructure, premises and sites). These concerns influenced the decision to allocate a greater share of the funding (53%), but less than the 60% option in the consultation document (see section 3.2), to activities focused on increasing the economic performance of the region's disadvantaged communities and to accord a higher maximum grant intervention rate (62.72%) for Priority Axis 2 interventions. In addition, the methodology for spatially targeting the funds was amended to extend the list of target Districts from 10 (as proposed in the consultation document) to 12 addressing in part concerns about absorption.

A total of 7.5% private sector match funding has been included in the financial tables on the assumption that this will form part of the funding package for the financial instruments. It is anticipated that just over 8.5% private match will be secured for Priority Axis 1 activities and just under 6% for Priority Axis 2.

It is anticipated that approximately 80% of EMOP's expenditure will be targeted on activity in support of the Lisbon Agenda.

Modulation of grant rates at project level will be a matter for the PMC.

## **SECTION 7: COORDINATION**

The Structural Funds Regulations require that there should be complementarity and consistency between interventions financed by European Funds. In order to ensure that these funds are channelled and used in an optimum way to promote sustainable development, Member States and the Commission should coordinate to enhance complementarities and synergies between various strands of Community and other co-financing mechanisms, such as cohesion policy, rural development, LIFE+, research and development (RTD), the Competitiveness and Innovation Programme (CIP), and the European Fisheries Fund (EFF).

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

<b>ERDF</b>	<b>EAFRD</b>	<b>ESF</b>	<b>EFF</b>
<p>To promote innovation and knowledge transfer.</p> <p>To stimulate enterprise and support successful business.</p> <p>To ensure sustainable development, production and consumption.</p> <p>To build sustainable communities.</p>	<p>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>

### **7.1 European Social Fund**

The ESF element of the Competitiveness and Employment Programme will be administered through a national programme (albeit delivered and strategically managed in the region). The national ESF Operational Programme aims to contribute to sustainable economic growth and social inclusion by extending employment opportunity and by developing a skilled and adaptable workforce. The ESF OP sets out national priorities for spending ESF and each region will develop its own strategy for addressing regional, sub-regional and local needs. The East Midlands Employment, Skills and Productivity Partnership (esp) is leading the

development of a Regional ESF Framework which, along with the national ESF OP, will provide a framework for Co-Financing Organisations to develop detailed ESF delivery plans.

The ESF OP contains two operational priorities for England:

- Priority 1 - Extending employment opportunities; and
- Priority 2 - Developing a skilled and adaptable workforce.

Priority 1 will improve the employability and skills of unemployed and inactive people and tackle barriers to work faced by people with disabilities or health conditions, lone parents, people over 50, ethnic minorities, young people, people with no or low qualifications, and other disadvantaged groups including those experiencing multiple disadvantage and will complement the region's ERDF programme by providing individuals with support and training to access new opportunities.

Priority 2 of the ESF programme, will improve the qualification and skills of people without basic skills and with no or low qualifications. It will also develop managers and workers in small enterprises including training and development in leadership, management, enterprise and technical skills needed for business development, business growth, innovation and productivity. These actions will complement activities under both EMOP Priority Axes, providing the necessary support to individuals to access new employment opportunities and by supporting the development of managers' and workers' knowledge base.

There will need to be a close relationship between employment and skills support, the skills needs and demands of employers and the spatial pattern of employment creation and business support activity. The East Midlands esp Partnership will be well placed to advise on and identify appropriate synergies between the ERDF and ESF programmes given its dual remit with regards employment and skills, and productivity; and its involvement in the development of both the EMOP and the Regional ESF Framework.

In July 2007 the potential Co-Financing Organisations for the ESF programme in the region met with those working on the ERDF Operational Programme and Investment Framework to consider how best to ensure alignment in the design and implementation of the funds. A number of practical actions to tackle this were agreed, including:

- Continued, close collaboration between those organisations responsible for programme drafting and implementation;
- ESF partners have nominated suitably knowledgeable representatives to participate on the ERDF Priority Axis Groups to ensure effective linkages between the Programmes; and
- Project selection criteria – ERDF and ESF partners to ensure that applicant organisations demonstrate cross-agenda understanding and linkages – this to be reflected in tender and contracting documentation.

## **7.2 European Agricultural Fund for Rural Development (EAFRD) and the European Fisheries Fund (EFF)**

The UK National Strategic Reference Framework for the EU Structural Funds from 2007 to 2013 (NSRF) states that:

- EAFRD funding should be focussed on supporting diversification of rural economies at the local level. This would include interventions in agriculture, including supporting innovative farm diversification and woodland enterprises. More widely, it would also include enabling growth of existing micro-enterprises and encouraging start-ups, and improving skills and employment opportunities for those individuals in the rural workforce on low pay where this support cannot be provided elsewhere.

- Structural Funds would then primarily address rural issues as part of wider regional and sub-regional activity contributing to improved regional economic performance or as part of national employment and skills programmes. This would include interventions that help to develop the knowledge based economy at a strategic level, enable small and medium sized enterprises to become more competitive and more efficient in their use of natural resources, building sustainable communities, and increasing employment by breaking down barriers to work and increasing skill levels for all.
- The European Fisheries Fund will support the overall aim for fisheries management in the UK, which is to achieve a fishing sector that is sustainable, profitable and supports strong local communities, managed effectively as an integral part of coherent policies for the marine environment. It will focus on providing a long-term sustainable future for the fishing industry through promoting investment in innovation and technology, ensuring environmental best practice, developing efficient supply chains with strong links between fishermen, growers, processors and customers and improving port infrastructure and operations. It will also help to tackle social exclusion and promote long-term prosperity in communities traditionally dependent on the fishing industry where this support cannot be provided elsewhere.

The table below sets out the complementarity and demarcation between the specific areas of activity proposed under the ERDF, EAFRD and EFF in the East Midlands.

Potential areas of synergy	EAFRD focus	ERDF focus	EFF focus
<p>Activity proposed under EAFRD Axis 1 (which aims to make agriculture more competitive and sustainable), possible activity under EFF and the objective for ERDF Priority Axis 1 (which seeks to raise productivity through innovation, diversification and the embedding of sustainable business practice).</p>	<p>EAFRD support will primarily be in the form of contributions towards the cost of capital works and equipment (and directly associated professional fees) to businesses involved in the production, processing and marketing of agricultural (Annex 1) products. Limited provision has been made for 'intensive' business support for producers seeking to collaborate or co-operate in the development of new products.</p>	<p>ERDF will focus on increasing the level of commercialisation of innovation in SMEs and priority sectors which have the potential for significant growth. This will include increasing the frequency and value of business/ university interactions, and the development of new products, processes, technologies and markets. Support to the Food and Drink key sector will primarily be in the form of 'specialist' <i>Information, Diagnostic and Brokerage (IDB)</i> services. 'Intensive' services will not be supported and ERDF will not support primary agriculture or</p>	<p>EFF may provide support for the processing and marketing of fisheries and aquaculture products for enterprises up to 750 employees or a turnover of 200m€ and investment support for aquaculture. Boston, Lincolnshire is the only EFF eligible area in the East Midlands.</p> <p>(Please note - this is subject to the finalisation of the EFF Operational Programme during 2008).</p>

		aquaculture production.	
<p>The activity under EAFRD Axis 3 which concentrates on diversification into non-agricultural activities also has some synergies with activity under ERDF Priority Axis 1. Although the line of demarcation between the Programmes for this activity is clear, it will be important to ensure that EAFRD and ERDF activity complements each other in this respect.</p>	<p>EAFRD support will primarily be in the form of contributions towards the cost of capital works (and directly associated professional fees) to assist diversification into non-agricultural activity. The 'beneficiary' of this particular measure must be a member of a farming household.</p>	<p>ERDF programme will focus on increasing the rate and level of innovation to increase business competitiveness, to support diversification and improve resource efficiency through developing and exploiting new products, processes, technologies and markets. ERDF will not support diversification of agriculture and aquaculture activities into non-agricultural activity.</p>	<p>N/A</p>
<p>EAFRD Axis 2 activity focuses on enhancing the environment and countryside (through agricultural and forestry payments) and is not therefore eligible for support from ERDF as it does not contribute to the aims and objectives of the EMOP. There will be no scope for overlap between activities here.</p>			<p>N/A</p>
<p>Delivery of EAFRD Axis 3 measures in the East Midlands (with the exception of support for diversification into non-agricultural activities as above) will be delivered solely through the 'Leader approach'. Demarcation at programme level is therefore not required. However, prospective projects will be required to confirm that there is no duplication of activity with other programmes at the local level. This will also be supported by appropriate control measures and administrative processes to ensure that double funding does not occur.</p>			<p>Prospective projects will be required to confirm that there is no duplication of activity with other programmes at the local level.</p>

Even with substantial national co-financing, including a significant contribution from voluntary modulation, it is clear that the socio-economic elements of EAFRD will be much smaller than the European Regional Development Fund in England. Interventions under the ERDF Programmes will therefore generally be much larger in scale than any interventions under EAFRD.

Demarcation with EFF could be revised if the need arises following the approval of the EFF Operational Programme, associated annexes and activities at regional level.

### **7.2.1 Strategic and administrative arrangements to ensure on-going complementarity and coordination**

To ensure the arrangements work coherently across the various EU funding streams, Central Government has aligned delivery of ERDF and EAFRD more closely through the Regional Development Agencies (RDAs). For rural development funding, socio-economic support under Axes 1 and 3 will be delivered through RDAs. ERDF funding will be more closely aligned to the RDAs' Single Programme budget and the role of RDAs in planning and managing any ERDF funding aligned with domestic funding will be increased. Under EFF, the RDAs will have a key role in helping to facilitate project development under the programme to improve its ability to deliver local strategic priorities.

By bringing together essential elements of delivery for ERDF and EAFRD (and providing greater links to EFF), greater coherence in their day to day operation can be achieved. It will also ensure that there is a greater focus for all instruments in contributing to shared regional goals, in particular those set out in the Regional Economic Strategies. The Managing Authority for the England programme (DCLG) will be responsible for ensuring that these coordination mechanisms provide the required complementarity, and will report on the functioning of these arrangements in the annual progress report to the European Commission.

*emda* will ensure coherence in the day to day management of the socio-economic support under EAFRD and ERDF. *emda* 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 and exchange of information from databases. *emda* will also be required to work closely with the 'Leader' groups to ensure demarcation on the ground.

As detailed above, it is envisaged that the main area for potential crossover between the two programmes could arise within support for the Food and Drink sector (which is one of the region's key sectors), in particular, the area of innovation and new processes and products. The Food and Drink sector is currently preparing an innovation action plan which will identify priorities for support. This plan will enable EAFRD and ERDF programme managers (*emda*) to identify the most appropriate route for project funding, which will be supported by control measures and administrative processes to ensure that double funding does not occur.

In addition, the EFF will allow support for the processing and marketing of fishery and aquaculture products (although it is unlikely that this activity will duplicate anything to be funded through the ERDF Competitiveness Programme). *emda*, in close collaboration with the Marine and Fisheries Agency (MFA) and the East of England Development Agency (EEDA), will identify a process to ensure that duplication and double funding is avoided.

### **7.3 Framework Programme 7 (FP7) and Competitiveness and Innovation Programme (CIP)**

There are some clear synergies between the R&D and innovation related aspirations of the FP7 and CIP Programmes and the EMOP's Priority Axis 1 in particular. The region's experience of participation in previous Framework Programmes has provided some valuable lessons about the necessary capabilities and capacities of SMEs in order to add value to, and effectively and successfully participate in R&D and innovative projects. It is therefore anticipated that many of the SMEs which participate in the ERDF Programme (and particularly in Priority Axis 1 activity) could be potential candidates to progress on to successful participation in FP7 and CIP projects. It will be important to ensure that the linkages through to these opportunities are well publicised and communicated.

## **7.4 Territorial Cooperation**

The East Midlands will be eligible to access Cooperation funding from two geographical programme areas – the North Sea Region (NSR) and North West Europe (NWE). Both the NSR and NWE Programmes have been developed in support of the Lisbon and Gothenburg agendas, and it will be essential to ensure that the lessons and best practice emerging from regional stakeholders' participation in these Programmes is mainstreamed, where appropriate, into the ERDF Competitiveness Programme.

### **7.4.1 North West Europe**

The NWE Programme will focus on developing the knowledge-based economy by capitalising the capacity for innovation; the sustainable management of natural resources and natural and technological risks; improving connectivity by promoting intelligent and sustainable transport and ICT solutions; and promoting strong and prosperous communities at transnational level.

The priorities of the NWE Programme are clearly complementary to the EMOP strategy; however, the type of activity under the NWE Programme will differ from the region's Competitiveness Programme and will concentrate largely on small scale investments and feasibility studies (where these can be linked to concrete actions). Projects will require transnational partners and the project themes will need to be of such a nature that they cannot be sufficiently tackled by Member States or regions alone, and would therefore not be covered by the remit of the EMOP.

### **7.4.2 North Sea Region**

The NSR Programme will prioritise building innovation capacity; promoting the sustainable use of the environment; improving accessibility; and promoting sustainable and competitive communities, all of which have synergy with the EMOP.

In previous Cooperation Programmes activity has focused primarily on developing transnational networks and exchanging experience, however, the new Cooperation Programme will seek to extend activity to developing action plans, undertaking benchmarking, piloting actions, conducting studies, considering concrete problem solving and creating tools for policy influence and critical mass. Where regional stakeholders participate in transnational cooperation activity, it will be important to ensure that relevant linkages are made to the ERDF Competitiveness Programme.

## **SECTION 8: IMPLEMENTING PROVISIONS**

### **CONTENTS**

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

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

Managing Authority: Roles and Functions

A 59(2) Intermediate Body: Roles and Functions

A 59(2) Intermediate Body: Organisation

Certifying Authority: Roles and Functions

Audit Authority: Roles and Functions

Management and Control: description of systems

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

General

Programme Monitoring Committee

Duties of the Programme Monitoring Committee

Sub-committees and working-groups of the PMC

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

Proportionality

Global Grants and A 42 Bodies

Selection of Operations

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

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

General

Annual reports and final reports

#### **7. EVALUATION ARRANGMENTS AND SYSTEMS**

Ex ante and Strategic Environmental Assessment; interim and ex post

#### **8. FINANCIAL IMPLEMENTATION**

Financial contributions by the Funds

Differentiation of rates of contribution

Technical Assistance

Community budget commitments

De-commitments

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

General

Financial Flows

Payments

Use of Euro and conversion rates

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

General

Organisation

Accounting Systems

Documentation

Audit

Irregularities and Financial Corrections

## **11. INFORMATION AND PUBLICITY**

## **12. SUPPLEMENTARY OBJECTIVES**

Sustainable Development

Gender equality and equal opportunities

Major projects

Complementarity with other Funds

European Social Fund

European Agricultural Fund for Rural Development

**13. USE OF RESERVES**

National Performance Reserve

National Contingency Reserve

**14. FINANCIAL ENGINEERING**

**15. STATE AID**

## **EAST MIDLANDS ERDF REGIONAL COMPETITIVENESS AND EMPLOYMENT OPERATIONAL PROGRAMME - 2007/13**

### **IMPLEMENTING PROVISIONS**

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

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

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

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

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

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

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

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

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

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

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

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

- (a) ensuring that operations are selected for funding in accordance with the criteria applicable to the OP and that they comply with

- applicable Community and national rules for the whole of their implementation period;
- (b) verifying that the co-financed products and services are delivered and that the expenditure declared by the beneficiaries for operations has actually been incurred and complies with Community and national rules; verifications on-the-spot of individual operations may be carried out on a sample basis in accordance with the detailed rules to be adopted by the Commission in accordance with the procedure referred to in Article 103(3);
- (c) ensuring that there is a system for recording and storing in computerised form accounting records for each operation under the OP and that the data on implementation necessary for financial management, monitoring, verifications, audits and evaluation are collected;
- (d) ensuring that beneficiaries and other bodies involved in the implementation of operations maintain either a separate accounting system or an adequate accounting code for all transactions relating to the operation without prejudice to national accounting rules;
- (e) ensuring that the evaluations of OPs referred to in Article 48(3) are carried out in accordance with Article 47;
- (f) setting up procedures to ensure that all documents regarding expenditure and audits required to ensure an adequate audit trail are held in accordance with the requirements of Article 90;
- (g) ensuring that the certifying authority receives all necessary information on the procedures and verifications carried out in relation to expenditure for the purpose of certification;
- (h) guiding the work of the monitoring committee and providing it with the documents required to permit the quality of the implementation of the OP to be monitored in the light of its specific goals
- (i) drawing up and, after approval by the monitoring committee, submitting to the Commission the annual and final reports on implementation;
- (j) ensuring compliance with the information and publicity requirements laid down in Article 69;
- (k) providing the Commission with information to allow it to appraise major projects.

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

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

The Secretary of State, for the UK Government, may withdraw the A 59(2) body's designation as an intermediate body, taking back full responsibility for the performance of MA tasks, or may vary the allocation of tasks (taking back or changing the scope of specified tasks). The Secretary of State may entrust tasks to a different body designated under Article

59(2). The Secretary of State will consult the A 59(2) body before deciding to take such steps and will inform the Commission of the action that has been taken.

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

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

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

The reserved tasks include:

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

- x. laying down and operating a mechanism for the payment of ERDF resources;
- xi. ensuring that where, in the exercise of functions entrusted to it as an intermediate body, the A59(2) body has awarded grant for one of its own projects, resulting in the RDA becoming the final beneficiary, ensuring that the A59(2) body takes such steps to cease, suspend, reduce or recover ERDF funding as it would be expected to take if the grant beneficiary were a separate third party.

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

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

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

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

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

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

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

- a) drawing up and submitting to the Commission certified statements of expenditure and applications for payment;
- b) certifying that:
  - i) the statement of expenditure is accurate, results from reliable accounting systems and is based on verifiable supporting documents;
  - ii) the expenditure declared complies with applicable Community and national rules and has been incurred in respect of operations selected for funding in accordance with the criteria applicable to the OP and complying with Community and National rules;
- c) ensuring for the purposes of certification that it has received adequate information from the MA on the procedures and verifications carried in relation to expenditure included in statements of expenditure;

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

**Audit Authority: Roles and Functions**

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

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

- a) ensuring that audits are carried out to verify the effective functioning of the management and control system of the OP;
- b) ensuring audits are carried out on operations on the basis of an appropriate sample to verify expenditure declared;
- c) presenting to the Commission within 9 months of the approval of the OP an audit strategy covering the bodies who will perform the audits referred to under points a) and b), the method to be used, the sampling method for audits on operations and the indicative planning of audits to ensure that the main bodies are audited and that audits are spread evenly throughout the programming period; [note: where a common system applies to several OPs, a single audit strategy may be submitted];
- d) by 31 December each year from 2008 to 2015:
  - i) submitting to the Commission an annual control report setting out the findings of audits carried out during the previous 12 month period ending on 30 June of the year concerned in accordance with the audit strategy of the OP and reporting any shortcomings found in the systems for management and control of the programme. The first report to be submitted by 31 December 2008 will cover the period from 1 January 2007 to 30 June 2008. The information concerning the audits carried out after 1 July 2015 will be included in the final control report supporting the closure declaration referred to in point (e);
  - ii) issuing an opinion, on the basis of the controls and audits that have been carried out under its responsibility, as to whether the management and control system functions effectively, so as to provide a reasonable assurance that statements of expenditure presented to the Commission are correct and as a consequence reasonable assurances that the underlying transactions are legal and regular.

- iii) submitting, where applicable under Article 88, a declaration for partial closure assessing the legality and regularity of the expenditure concerned;

[Note: when a common system applies to several OPs, the information referred to in point (i) may be grouped in a single report, and the opinion and declaration issued under points (ii) and (iii) may cover all the OPs concerned];

- e) submitting to the Commission at the latest by 31 March 2017 a closure declaration assessing the validity of the application for payment of the final balance and the legality and regularity of the underlying transactions covered by the final statement of expenditure, which will be supported by a final control report.

Where audits and controls are carried out by a body other than the AA, the AA will ensure that such bodies have the necessary functional independence from the Article 59(2) body. The AA may choose to employ private sector auditors to carry out system and operation audits under its responsibility.

### **Management and Control: description of systems**

The AA will be responsible for drawing up the report and the opinion referred to in Article 71(2), describing and assessing the management and control systems and giving an opinion on their compliance with Article 58 to 62.

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

### **General**

The OP has been developed and will be implemented in accordance with the principles of partnership set out in Article 11 and national rules and practice. The partnership principle will be operated throughout the lifetime of the OP.

The Secretary of State, for the UK Government, has organised a partnership to cover the preparation of the OP with a wide variety of national, regional and local authorities and bodies, which are competent to contribute towards the aims, objectives and contents of the OP. Competent authorities and bodies include:

- (a). regional, local, urban and other public authorities;
- (b). economic and social partners;
- (c). any other suitable bodies representing civil society, environmental partners, non-governmental organisations;
- (d). bodies responsible for promoting equality between men and women.

### **Programme Monitoring Committee (PMC)**

In accordance with Article 63, the Member State will set up a PMC within three months from the date of the notification to the Member State of the Commission decision approving the OP. The membership and role of the PMC will reflect the strategic nature of the prescribed tasks of the PMC set out in Article 65.

Reflecting the principle of partnership, the membership of the PMC will be drawn from representatives of the bodies of the regional partnership organised under Article 11. It will, therefore, reflect national, regional, local and sectoral interests in the OP, and will aim to be balanced in terms of gender. On its own initiative, or at the request of the PMC, the Commission may participate in an advisory capacity. Where the European Investment Bank or the European Investment Fund are contributing to the OP, they may be represented in an advisory capacity.

The MA will have a representative as a member of the PMC. A particular role of the MA representative will be to advise and guide the PMC on compliance with the regulatory requirements in delivering the OP and on any other aspects of implementing the programme.

The MA representative will also have a role in informing the PMC about relevant Government Policy and in reporting to Ministers as appropriate on how the strategy, priorities and activities of the OP are contributing to wider Government policies.

The chairperson of the PMC will be the Regional Director of the Government Office for the East Midlands.

The Chair will approve all PMC minutes and papers before they are distributed to the PMC members for agreement.

#### **Duties of the Programme Monitoring Committee**

The PMC will draw up and agree its own Rules of Procedure. These procedures will be publicised and made available on the programme website. The MA will issue guidance to Article 59(2) bodies on governance issues, including drawing up rules of procedure. The MA representative, as a member of the PMC, will have a role in ensuring that the rules of procedure are robust, are designed to ensure delivery and contain all appropriate checks and balances.

At its first meeting the PMC will approve detailed provision for the proper and efficient discharge of the duties assigned to it, including, the frequency of its meetings and procedures to deal with conflicts of interest. This will be contained within the PMC's Rules of Procedure. The PMC will satisfy itself as to the effectiveness and the quality of the implementation of the OP. To this end the PMC will carry out the tasks set out in Article 65. The MA will approve the rules of procedure in accordance with Article 63(2).

#### **Sub-committees and working groups of the PMC**

Reflecting its agreed terms of reference and rules of procedure, the PMC may at any time set up such sub-committees or working groups or other groups as it thinks appropriate to enable it to fulfil its responsibilities (e.g. geographically, sectorally or thematically based). The PMC may delegate any of its tasks to a sub-committee or working group. The membership of sub-committees and groups will be agreed by the PMC, reflecting the partnership principle set out in Article 11. The terms of reference and rules of regional sub-committees and groups will be approved by the PMC in accordance with Article 63(2). The use of sub-committees does not absolve the PMC from its responsibility for the proper performance of its tasks as set out in Article 65.

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

The Secretary of State, for the UK Government, will establish management and control arrangements for the OP in accordance with Article 58.

This will ensure that Community funds are used efficiently and correctly and that assistance is managed in accordance with all applicable Community rules and in accordance with the principles of sound financial management. The detailed requirements set out in the Structural Funds Regulations will be observed throughout the period of the OP. The Secretary of State will consult the A 59(2) body about the details of the management and control system, which will meet the requirements of Article 58. The AA will assess the system and give an opinion on compliance with Articles 58, 59 and 60 prior to its submission to the Commission in accordance with Article 71.

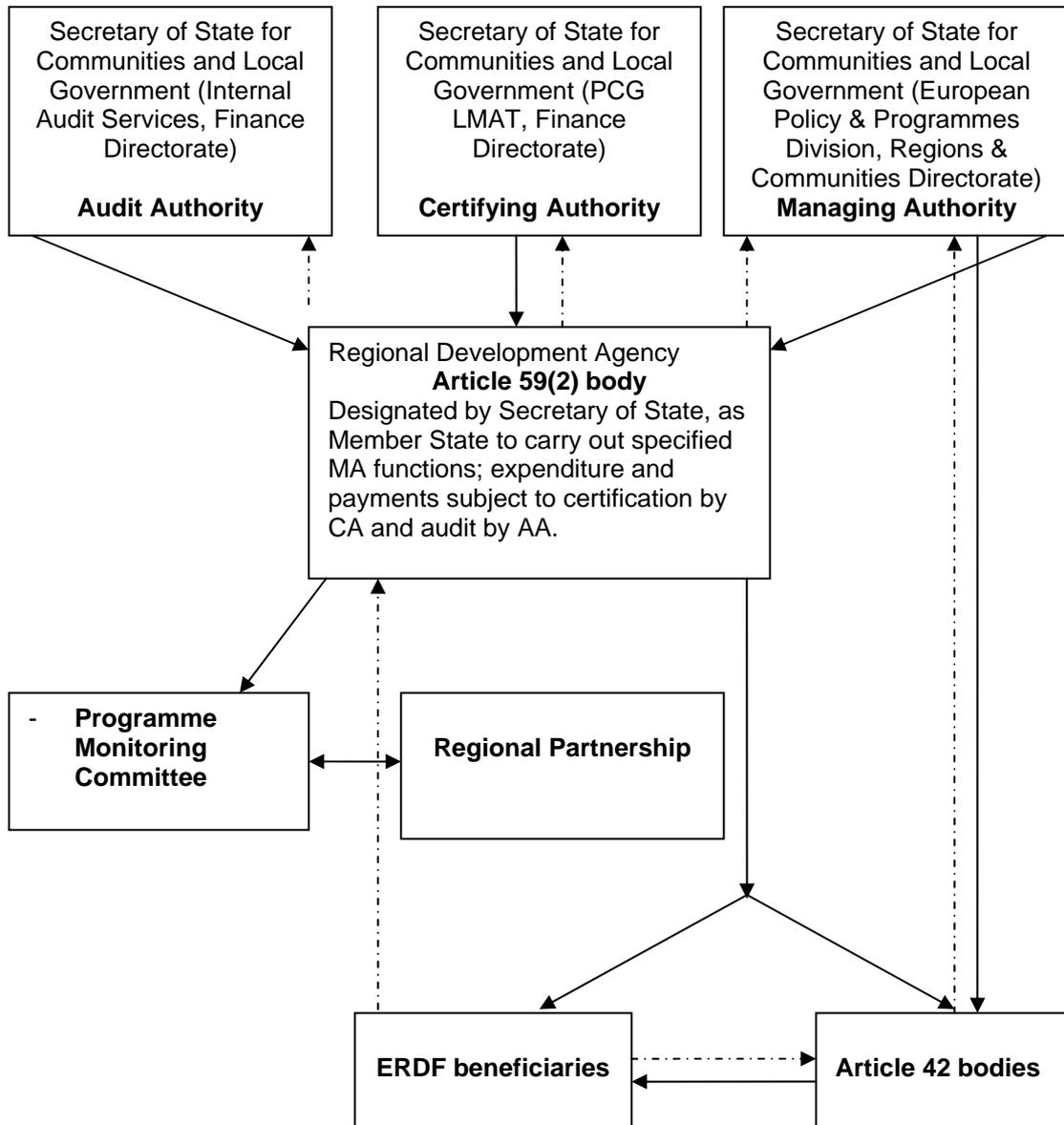
The organisation structures for ensuring sound management and control are set out below.

Diagram 1 illustrates the structure at a global level.

Diagram 2 illustrates the separation of functions with the Department for Communities and Local Government.

Diagram 3 illustrates the separation of functions with the Regional Development Agency.

#### **Diagram 1 - Global Management and Control System for ERDF Convergence and Regional Competitiveness Programmes in England.**



The direction of the solid arrow denotes the direction of management and control. The dotted arrows denote the direction of accountability.

**Diagram 2 - Separation of functions with the Department for Communities and Local Government**

(The direction of the arrows denotes reporting lines)

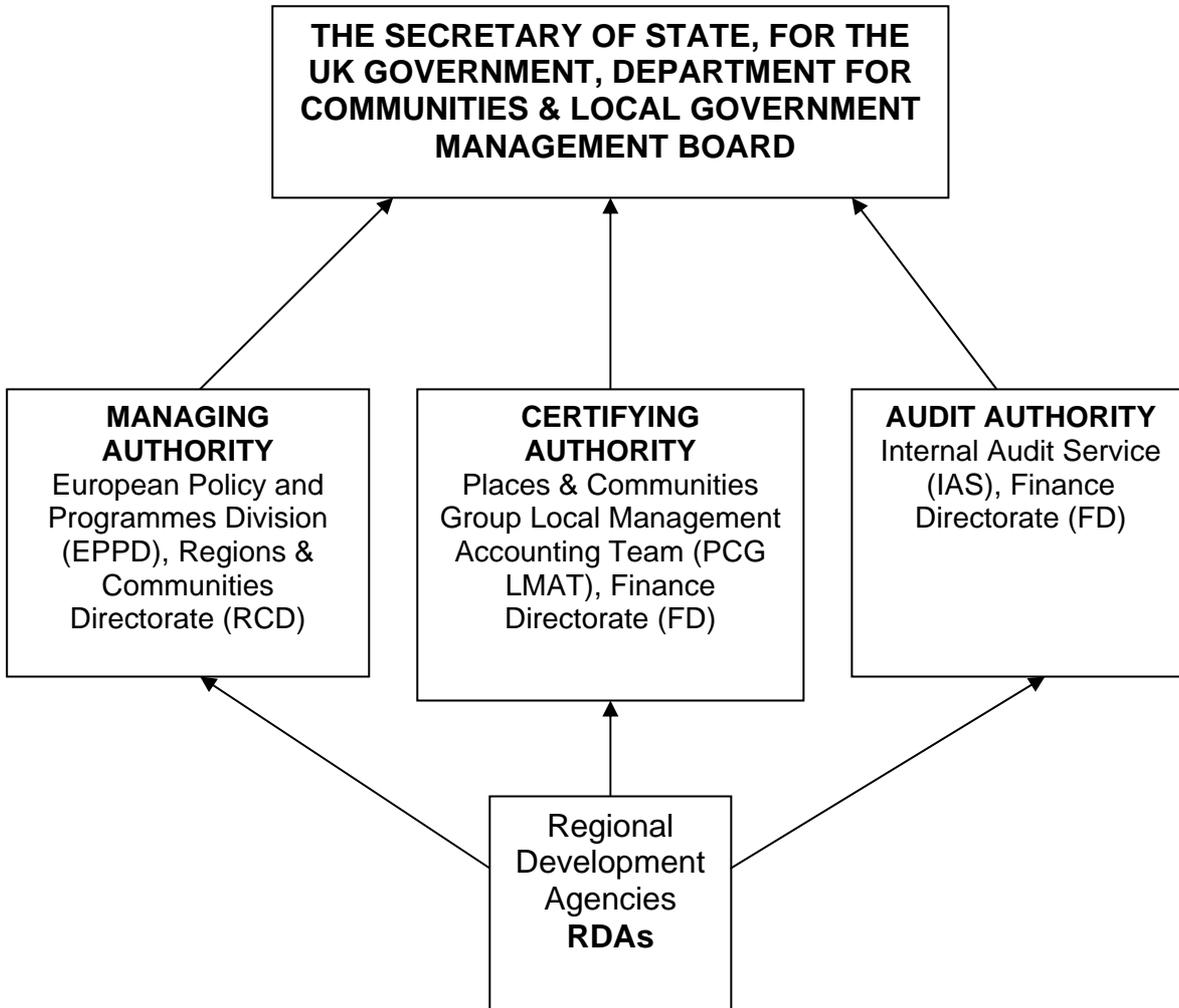
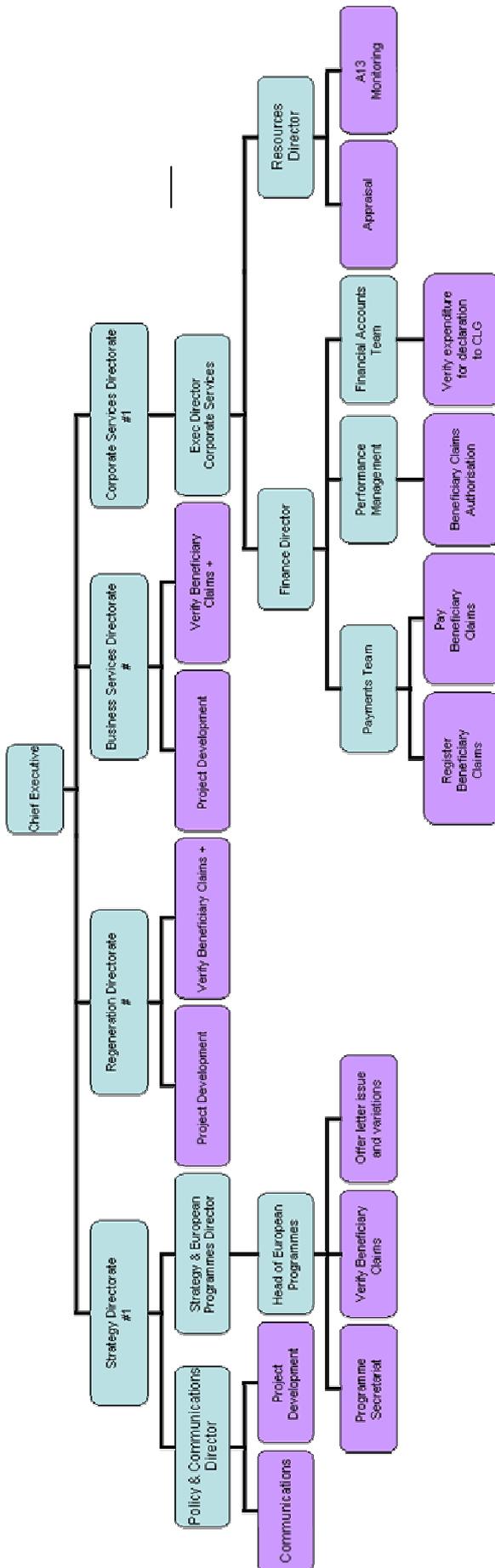


Diagram 3 - Separation of functions within the East Midlands Development Agency.



# RDA as potential final beneficiary  
 #1 RDA as potential final beneficiary for TA only  
 + Not verify claims when final beneficiary

### **Proportionality**

The proportional control arrangements set down in Article 74 will not apply to the OP.

### **Global Grants**

The Member State or the MA may entrust the management and implementation of a part of an OP to one or more intermediate bodies (A 42 bodies), designated by the Member State or the MA, including local authorities, regional development bodies or non-governmental organisations, in accordance with the provisions of an agreement concluded between the Member State or the MA and that body.

The Secretary of State, for the UK Government, does not have any intention, at present, to designate any A 42 body for the OP. Such a designation will be without prejudice to the financial responsibility of the MA and of the Member State.

The MA may consider designating an A 42 body on its own initiative, but would not make a designation without first consulting the A 59(2) body. Otherwise, a body will be considered by the MA for designation under Article 42 on the recommendation of the A 59(2) body and the PMC. If the A 59(2) body wishes to recommend any such designation, it will first:

(a) assess the following matters for each body or organisation proposed for the management of a global grant:

its solvency;

its competence in selecting and monitoring operations of the types to be covered by the global grant;

the robustness of its management and control arrangements and its competence in financial and administrative management;

(b) propose text for the agreement to be concluded by the MA with each A 42 body, making the designation and detailing the matters specified in Article 43 (which include the types of operation covered by the global grant; the outcomes and outputs to be achieved by the global grant; and management and financial controls set within the overall management and control system for the OP).

In considering whether to designate a body under Article 42, the MA will take account of all such matters and the guarantees about solvency and competence provided by the body or organisation itself to demonstrate compliance with Article 42(2).

The MA will provide reasons for a decision not to designate a body or organisation proposed for the management of a global grant.

If the MA decides to designate a body under Article 42, it will conclude an agreement with that body. The provisions of the agreement will detail the matters specified in Article 43. They will be finalised after full consideration of the text prepared by the A 59(2) body and after consultation with the A 59(2) body about any points that arise from that text or any other matters arising. The MA may revoke the designation of an A 42 body according to the terms of the agreement.

As the designation of an A 42 body is the responsibility of the MA, it will not involve any sub-delegation of responsibility by the A 59(2) body. The functions entrusted to the A 59(2) body for the delivery of the OP will exclude functions relating to operations so far as they are entrusted to a body under Article 42.

Instead, the A 59(2) body will exercise some or all of the tasks of the MA in relation to global grants, which will be detailed in the Article 42 agreement and will relate, in particular, to monitoring, evaluating and ensuring financial control of the global grant. For these purposes, it may be appropriate for the A 59(2) body to record and regulate administrative matters

relating to its conduct of MA tasks by provisions in the Article 42 agreement or in a separate agreement, and in particular to make clear that the A 42 bodies will report to the MA via the A 59 body (see diagram 1 above). The A 59(2) body cannot become an A 42 body, as conflict of interest.

The selection of projects under the global grant will be made through an advisory group, comprising the appropriate regional and local partners.

If any designations are made under Article 42, the bodies most likely to be designated include universities and local authorities, which already have and appropriate range of public responsibilities or functions, and are likely to be competent for designation.

### **Selection of operations for ERDF support**

The PMC is responsible for considering and approving the criteria for selecting the operations financed under the OP. The A 59(2) body will be responsible for putting forward proposals to the PMC for selection criteria. The role of the PMC is outlined in section 3 of these Implementing Provisions.

On behalf of the PMC, the A 59(2) body may set out an Investment Framework which sets the activities and operations that the PMC have agreed they wish to see delivered under the OP. The Investment Framework must be approved by the PMC. It may identify bodies or organisations that it believes are competent to deliver operations in line with the framework. Any framework will comply with Public Procurement Regulations (which implement EC public procurement directives), so far as they are applicable.

The procedure for selecting operations may take a variety of forms. For example:

**Open bidding:** where an open invitation is published for applications for the support of operations that meet a specified priority or objective of the OP;

**Limited bidding:** where a limited number of project sponsors is identified and invited to bid for the support of operations or sets of targets or outputs that meet a specified priority or objective of the OP;

**Non-competitive selection:** where a single project sponsor (or perhaps two or more) is either selected as appearing to be the only suitable and capable vehicle for delivering a specific operation or set of programme targets or outputs and invited to submit an application for financial assistance; or applies for financial assistance on its own initiative for the support of an operation or a set of targets or outputs that appears to meet a priority or objective of the OP.

The MA, in deciding in broad terms the nature and scope of the criteria and processes for the selection and appraisal of projects, and the A 59(2) body in putting forward proposals to the PMC for such criteria, will ensure that all processes and criteria take full account of the need to secure compliance with the requirements of the Public Procurement Regulations (which implement EC Public Procurement Directives) or the need for suitable competitive tendering where the Regulations do not apply.

Once the criteria and investment strategy have been adopted by the PMC, the A 59(2) body will be responsible for managing the processes of developing operations, appraising proposals for operations, and making recommendations to the PMC or its appropriate sub-committees or groups.

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

The MA, in collaboration with the A 59(2) body, will develop and maintain appropriate data exchange systems to support the provision of information to the Commission and the efficient and effective management of the OP. The MA will ensure that the system allows data to be exchanged electronically with the system used by the Commission. The system will be accessible for use by the MA, the Article 59(2) body, the CA and the AA. The system will record and monitor operation outputs and the results of monitoring, verifications and audits undertaken in relation to programme operations. Such systems will be in place for the OP before the MA makes the first interim application for payment.

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

### **General**

The Secretary of State, for the UK Government, will ensure that the management and control system for the OP sets up an efficient system for monitoring the programme and individual operations supported by the programme, and requires the MA and the PMC to ensure the quality of the implementation of the programme.

Monitoring tasks of the MA both in relation to the OP as a whole and to individual operations will be carried out by the A 59(2) body, which will work with the PMC. In order to assist the PMC to discharge the tasks set out in Article 65, the A 59(2) body will provide updates on the progress of the OP in meeting its targets. Within this update, the A 59(2) body will specifically identify the progress of projects where the A 59(2) body is a beneficiary. Monitoring of operations where the A 59(2) body is a beneficiary will be sample checked and verified by an external body. If, as planned by the UK Government, the A 59(2) body is a regional development agency, the external body will be the National Audit Office, which will undertake this work as part of its annual external financial audit.

Monitoring by the MA and the A 59(2) body under Article 60(b) will be carried out in accordance with Article 13 of Commission Regulation 1828/2006. In the case of A 42 bodies, they will be required to monitor projects which they support. The A 59(2) body will be responsible for quality assuring and verifying the monitoring activity of any A 42 body. Monitoring will be conducted by reference to the financial indicators and the indicators referred to in Article 37(1)(c) which are specified for the OP and set out in the Indicators section of the programme.

Monitoring will also cover the effectiveness of financial controls and compliance with the Structural Funds Regulations and national rules that regulate matters of finance or propriety. Monitoring will be conducted in line with any guidance or instructions issued by the Commission. The A 59(2) body will also have regard to guidance issued by the MA concerning monitoring and the performance of verification function set out in Article 60(b).

### **Annual reports and final reports**

In accordance with Article 67(1), by 30 June 2008 and by 30 June in each subsequent year the MA will send the Commission an annual report. The MA will send the Commission a final report on the implementation of the OP by 31 March 2017.

Each report will be examined and approved in plenary by the PMC before it is sent to the Commission. The Managing Authority will review the report before it is sent to the Commission.

The reports will contain the information set out in Article 67(2).

In accordance with Article 68, every year, when the annual report on implementation referred to in Article 67 is submitted, the Commission and the MA will examine the progress in implementing the OP, the principal results achieved over the previous year, the financial implementation and other factors with a view to improving implementation.

The operation of the management and control system raised in the last annual control report, referred to in Article 62(1)(d)(i), may also be examined.

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

The Secretary of State, for the UK Government, will carry out evaluations in relation to the OP in accordance with Articles 47 and 48, and the MA will have a role under Article 60(e) in ensuring that evaluations are carried out.

An *ex ante* evaluation for the OP has been carried out in accordance with Article 48(2) by an independent consultant. Alongside the *ex ante* evaluation, a Strategic Environmental Assessment was carried out in accordance with the requirements of Directive 2001/42/EC, also by an independent consultant. Both documents are annexed to the OP.

In accordance with Article 48(3), during the programme period, the Secretary of State, for the UK Government, will carry out evaluations linked to the monitoring of the OP, in particular where that monitoring reveals a significant departure from the goals initially set or where proposals are made for the revision of OPs, as referred to in Article 33. The results will be sent to the PMC and to the Commission.

The Commission may carry out strategic evaluations. Under Article 49(2) the Commission may carry out, on its own initiative and in partnership with the UK Government evaluations linked to the monitoring of the OP where monitoring has revealed a significant departure from the goals initially set. The results will be sent to the PMC.

In accordance with Article 49(3), the Commission will carry out an *ex post* evaluation for each objective in close co-operation with the Secretary of State, for the UK Government, and the MA. The *ex post* evaluation will cover the elements required by Article 49(3). It will be carried out by independent assessors and will be completed not later than three years after the end of the programming period.

## **8. FINANCIAL IMPLEMENTATION**

### **Financial contributions by the Funds**

Article 34 provides that operational programmes shall receive financing from only one Fund, save as otherwise provided in paragraph 3 (which is not relevant for the UK). Accordingly, the OP will receive funding only from the European Regional Development Fund.

This programme will 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, as will the A 59(2) body, in line with guidance issued by the MA.

The MA will require regular updates from the A 59(2) body, increasing in frequency towards the end of the year, on the progress of the OP in meeting its N+2 targets. In consultation

with the A 59(2) body, it will take the necessary course of action where the achievement of these targets is under threat.

At project level, risk will be assessed on the track record of the applicant, the nature of the project, the amount of the ERDF intervention and the total cost of the operation. It will take into account the opinion of the A 59(2) body's appraisal, payment and inspection unit who have knowledge of both the projects and beneficiaries.

#### **Differentiation of rates of contribution**

In accordance with Article 53(1), the contribution from the Fund at the level of the OP will be calculated with reference to:

- (a) total eligible expenditure including public and private expenditure; or
- (b) public eligible expenditure

and will be subject to the ceilings set out in Annex III to Council Regulation 1083/2006.

The ERDF contribution for the OP will be subject to a maximum of 50% of the total eligible cost of the OP. Co-financing of support given by the ERDF will come from both a variety of public and private sources and both will be reflected within the OP Financial Table.

It will be a requirement of the OP that the provision of co-financing for operations is secured prior to the issue of the formal approval of the operation.

#### **Technical Assistance**

Under Article 46 the Fund may, at the initiative of the Secretary of State, for the UK Government, finance the preparatory, management, monitoring, evaluation, information and control activities of the OP, together with activities to reinforce the administrative capacity for implementing the Fund within the limit of 4% of the total amount allocated for the OP (the limit for the Convergence and Regional competitiveness and employment objectives). As a matter of best practice, co-financing of Technical Assistance operations will be secured prior to formal approval of the individual operation.

The PMC will be invited to approve a plan for the use of Technical Assistance during the lifetime of the OP. This will be sent to the Commission for information. The Technical Assistance plan will be kept under review and may be changed, subject to the agreement of the PMC. However, the amount allocated will not exceed the 4% limit set down in Article 46.

#### **Community budget commitments**

Article 75 provides that the Community budget commitments in respect of operational programmes shall be effected annually for each Fund and objective during the period between 1 January 2007 and 31 December 2013. The first budget commitment shall be made before the adoption by the Commission of the decision approving the OP. Each subsequent commitment shall be made, as a general rule, by 30 April each year.

#### **De-commitments**

Provisions and procedures relating to de-commitment are laid down in Articles 93, 94, 95 and 96.

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

#### **General**

In setting up the system for managing and controlling the payment and expenditure of the ERDF contribution, the Secretary of State, as Member State, will: (a) observe all relevant requirements of the Structural Funds Regulations and these Implementing Provisions; (b) apply the standards of management and control generally applicable to the handling and

expenditure of UK public funds; and (c) follow such general guidance and instructions as the UK Government and the Commission may provide from time to time on the management of European Community funds. The MA and the CA will operate the system according to the same requirements and standards, and the A 59(2) body and all A 42 bodies will be required to do so, so far as relevant.

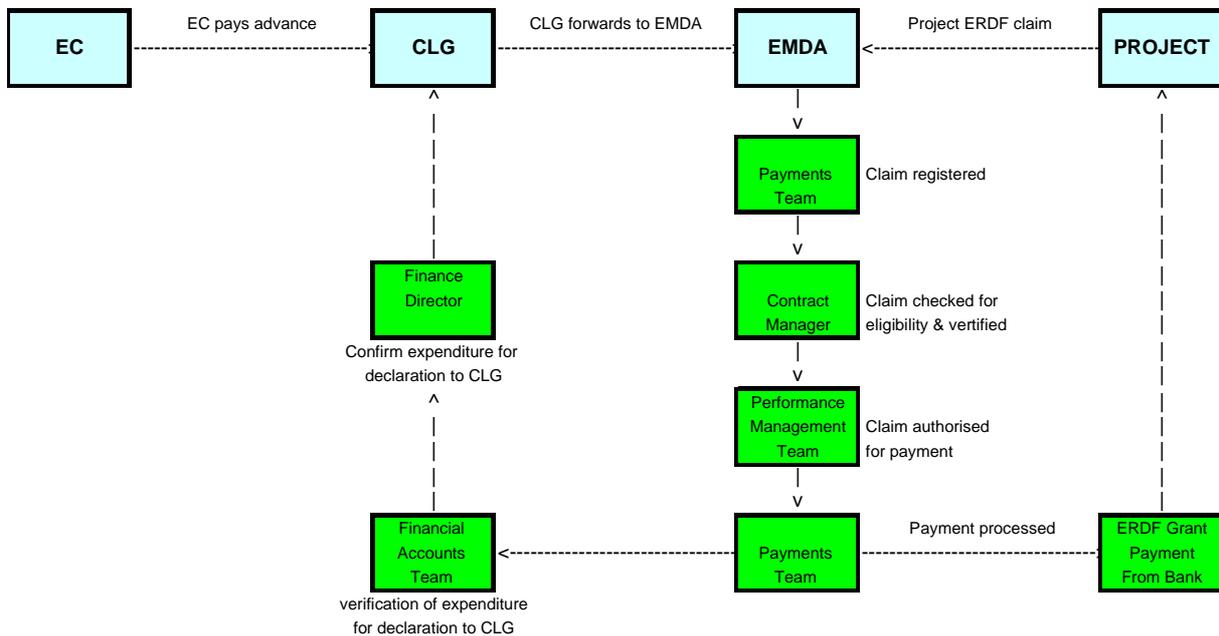
### **Financial Flows**

Financial flows will operate in accordance with the Structural Funds Regulations and the following procedures:

The A 59(2) body will be responsible for making offers of ERDF grant to persons responsible for selected operations, except operations supported by global grants. A 42 bodies will be responsible for making offers of ERDF grants to persons responsible for global grant operations. Offers of ERDF support will require grant recipients to comply with EC and national rules on eligibility of expenditure and with the requirements of the Public Procurement Regulations (which implement EC Directives on public procurement) or the need for suitable competitive tendering where the Directives do not apply. Operations and A 42 bodies will make declarations of interim claims expenditure to the A 59(2) body. The A 59(2) body will be responsible for verifying the validity of declared expenditure against the offer of grant and the eligibility conditions and other conditions set out in the grant offer. Global grant operations will make declarations of interim claims expenditure to the A 42 body, which will verify them before incorporating them within a global declaration to the A 59(2) body.

The A 59(2) body will make payments for operations and to A 42 bodies subject to verifying declarations of eligible expenditure. No amount will be deducted or withheld; no charges will be levied; and no steps will be taken that have the effect of reducing indirectly the amounts that beneficiaries receive.

**East Midlands Development Agency  
East Midlands ERDF Programme 2007-2013  
Financial Flows Overview**



\* Depending on the type of project, this function will be undertaken by the appropriate Contract Manager in the Strategy & Communications, Business Services or Regeneration Directorates (please see Structure Chart at diagram 3 above).

In any instances where the A 59(2) body is a direct applicant for ERDF support (i.e. wishes to use ERDF resources to support an operation for which it is directly responsible), it will use a separate unit within its organisation to act as the grant recipient or project sponsor, except where Technical Assistance is being used to support the programme management tasks. This unit will not have any responsibilities in relation to the management and control of the OP. It will be functionally independent from the unit undertaking MA functions and will be required to maintain such functional independence. It will be accountable for the expenditure of the grant to the unit undertaking MA functions as though it were a separate organisation.

The A 59(2) body will submit to the CA declarations of interim expenditure. These declarations will cover the aggregate of eligible payments claimed by operations, including global grant applications. Submissions will usually be made quarterly and will be accompanied by all the necessary supporting information required to demonstrate the eligibility of expenditure under the Structural Funds Regulations, national eligibility rules, UK financial management requirements and any additional requirements of the CA. The submissions will be copied to the MA.

The submission from the A 59(2) body will be signed by a senior manager of the A 59(2) body, who will be distinct and independent from any unit of the A 59(2) body acting as a beneficiary of ERDF support.

The CA will draw up and submit to the Commission certificates of expenditure and applications for payment, in accordance with Article 78 and in the form prescribed in Annex X to Commission Regulation 1828/2006. The CA will review all information received from the MA and the A 59(2) body under Article 61(c) (concerning procedures and verifications carried out in relation to expenditure) and from the AA under Article 61(d) (results of audits, including the annual control report). It will carry out such checks as it thinks are necessary and appropriate to satisfy itself as to the eligibility of expenditure claimed.

### **Payments**

Payments from the Commission will take the form of: pre-financing; interim payments; and payments of the final balance. Payments will be made to the UK Government and received in a Treasury Account at the Bank of England. The MA will be authorised to draw down amounts from the account for the financing of the OP.

The UK Government will make appropriate arrangements to ensure that sufficient funds are available to enable the MA to meet the A 59(2) body's declarations of eligible expenditure in advance of receiving interim payments from the Commission. Such arrangements will comply with UK Government Accounting and Budgeting requirements.

### **Use of Euro and conversion rates**

In accordance with Article 81, all Statements of Expenditure and applications to the Commission for payment will be made in euros. Annual and final implementation reports will use the euro to report on expenditure. Amounts of expenditure incurred in sterling, in delivering operations, will be converted into euros using the monthly accounting exchange rate of the EC in the month during which the expenditure was registered in the accounts of the CA. This rate will be published electronically by the Commission each month.

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

### **General provisions**

Responsibility for providing an effective system of management and control of the OP lies with the Member State. The management and control system will comply with the requirements of Article 58 and will be subject to the reporting requirements laid down in Article 71.

### **Organisation**

The A 59(2) body will ensure that there is an appropriate separation of functions within its organisation between the units which are responsible for the functions of the MA falling within the following broad categories:

- appraising operations and issuing and varying offers of ERDF grant;
- verification of payment claims and monitoring operations; and
- financial matters, including making payments for operations and submitting declarations of expenditure to the CA.

The MA and CA will ensure that this separation of functions within the A 59(2) body is maintained throughout the lifetime of the OP.

### **Accounting Systems**

In order to facilitate the verification of expenditure by Community and national authorities, the MA, in exercising the function in Article 60(c), will ensure that all bodies involved in the management and implementation of the OP maintain either a separate accounting system or an adequate accounting codification capable of providing detailed and complete summaries of all transactions involving Community assistance.

### **Documentation**

The MA and the A 59(2) body will ensure that the requirements of Article 90 regarding the keeping of available documents are complied with.

### **Audit**

Besides being subject to the activities of the AA, audit by the Commission and audit by the European Court of Auditors, the financial control and management system will be subject to audit by the UK domestic audit authorities (the National Audit Office)

### **Irregularities and financial corrections**

The management and control system of the OP and steps taken by the MA to ensure that it is properly adhered to by all bodies concerned in the management and control of the programme will guard against irregularities while securing that any that do occur are detected, investigated and corrected. The A 59(2) body will have a primary role in the detection, investigation and correction of irregularities (particularly by virtue of its responsibility for monitoring and verification), and will be responsible for recovering grant in appropriate cases.

The Secretary of State, as Member State, will be responsible under Article 98 for investigating irregularities and making financial corrections. The A 59(2) body will notify the MA about irregularities and steps taken or proposed to resolve them. The MA will notify irregularities to the Department for Business Enterprise and Regulatory Reform (BERR), which is the central co-ordinating Department for the Member State with respect to the Structural Funds programmes.

BERR, acting for the Member State, will communicate with the Commission about irregularities and corrections.

The MA will report to the AA any cases involving fraud. BERR will report them to the Commission's OLAF service.

The MA will ensure that the A 59(2) body fulfils its responsibilities for the prevention, detection and investigation of irregularities and that it acts on reports prepared by the AA on any suspicion of irregularity.

## **11. INFORMATION AND PUBLICITY**

The MA and the A 59(2) body will ensure that information and publicity measures conform to the provisions of Article 69 of Council Regulation 1083/2006 and Articles 2 to 10 of Commission Regulation 1828/2006, to ensure the full visibility of the funds throughout the programming area.

Publicity forms an integral part of the programme strategy and the MA will work with the A 59(2) body to ensure that the benefits of the ERDF is communicated to the wider public.

Innovative publicity activities and campaigns using print, broadcast and creative media will help the Managing Authority to clearly promote and position the ERDF brand. These activities will be developed proactively and implemented in collaboration with the European Commission in Brussels, the Representation Office in London and information relays and networks in the UK, which will ensure the visibility and transparency of the funds at a local, regional and national level.

Potential project sponsors and final beneficiaries/fund recipients will be informed of funding opportunities and also the publicity requirements linked to receiving ERDF funding during the programming period.

To this end, the A 59(2) body will draw up a budgeted communication plan, which must be agreed by the PMC and submitted through the MA to the Commission within four months of the adoption of the OP.

The Communication plan will set out:

- the objectives of the plan and the target groups;
- activities in support of publicity and information including events, seminars and project launches, for potential applicants, partners and the wider public

- bodies or persons responsible for the implementation of the plan;
- the budget for implementing the plan; and
- evaluation frameworks for the plan.

The A 59(2) body will report on progress in implementing the plan (including examples of publicity activities) to the PMC and also in the annual implementation report. The communication plan will be easily accessible and will be published on the A 59(2) body's website.

Information will be provided by the A 59(2) body to potential beneficiaries in accordance with Article 5 of Commission Regulation 1828/2006, including the publicity and information measures that they are required to undertake to comply with Articles 8 and 9 of that Regulation.

Project sponsors will be required to observe the publicity elements of Commission Regulation 1828/2006, especially with regard to signage, including billboards, plaques and promotional material.

Funding for publicity and communications will be provided through the Technical Assistance budget for the OP. The financial table for the OP will specify the amounts dedicated to the Technical Assistance Priority Axis.

## **12. SUPPLEMENTARY OBJECTIVES**

### **Sustainable Development**

The OP will promote the objectives of sustainable development as required by Article 17.

These objectives have been reflected in the programme strategy and objectives. The programme has been subject of a Strategic Environmental Assessment as required under Directive 2001/42/EC.

The Managing Authority will, in accordance with Article 10 of (EC) Directive 2001/42/EC, monitor the significant environmental effects of the OP in order, inter alia, to identify unforeseen adverse effects and be in a position to undertake appropriate remedial action. This monitoring will be undertaken at three levels:-

First, the Environmental Report has suggested a selection of tracking indicators that can be used to monitor the environmental performance of the area. The Managing Authority will monitor against these indicators, where appropriate, to determine changes that occur and potential relationships with programme activities. As stated in the SEA, data for the majority of these indicators can be obtained from readily available sources. Performance against these indicators will be reported in the Annual Implementation Reports.

Secondly, the effectiveness of mainstreaming Environmental Sustainability as a Cross Cutting Theme will be assessed through the relevant Priority level indicators. Progress against the Priority level indicators will be reported in the Annual Implementation Reports and discussed at meetings of the PMC.

Thirdly, the Environmental Report proposes checking criteria to appraise the appropriateness of individual supported activities where they would result in a physical development. These criteria will be used, where appropriate, at project development stage so that potential adverse effects of supported activities are appropriately managed. Projects that have significant negative effects that can not be mitigated and outweigh positive benefits will not be supported by the OP.

Procedures will be in place to detect any project with a potentially negative effect on Natura 2000 sites and other sites designated for nature conservation. These will be scrutinized by the A 59(2) body in consultation with the Competent Environmental Authorities to ensure that no activities will be supported that will cause damage to designated sites. The appraisal process will also cover opportunities to strengthen the environmental aspects of projects and the guidance that is being developed will advise on how this is to be done and how it will be monitored.

The MA, PMC, A 59(2) body and all A 42 bodies will be required to implement the OP having regard to the objectives of sustainable development. In particular, the selection criteria for operations, outputs and indicators will take account of the need to protect and promote environmental sustainability. This will also involve assessing the impact of operations on these objectives, on appraisal and during the course of project monitoring and evaluation.

### **Gender equality and equal opportunities**

The OP will promote the objectives of equal opportunities and non-discrimination on the basis of race, ethnic origin, religion or belief, disability age or sexual orientation, as required by Article 16.

These objectives have been reflected in the programme strategy and priorities. The programme has been subject to an Equality Impact Screening as required by UK legislation, which are in Annex 6 to the OP.

The MA, the PMC, the A 59(2) body and all A 42 bodies will be required to implement the OP having regard to the objectives of equal opportunities and non-discrimination. This will involve assessing the impact of operations on these objectives, on appraisal and during the course of project monitoring and evaluation.

### **Major projects**

Financial assistance may be given under the OP for the support of major projects. A major project is defined in Article 39 as an operation:

- which comprises an series of works, activities or services intended in itself to accomplish an indivisible task of a precise economic or technical nature;
- which has clearly identified goals; and
- whose total cost exceeds €25 million in the case of the environment and €50 million in other fields.

When the A 59(2) body appraises a major project, it will inform the Commission before deciding to approve support under the OP and provide the information necessary for appraisal of the project by the Commission as set out in Article 40 using Annex XXI to Commission Regulation 1828/2006).

### **Complementarity with the European Social Fund**

The MA and A 59(2) body will work with the MA for the national ESF programme (the Department for Work and Pensions) to ensure effective co-ordination of decisions taken in the implementation of the OP and the national ESF programme.

The A 59(2) body will be responsible for advising the PMC on what co-ordination with the ESF programme is necessary for meeting the objectives of the OP. The A 59(2) body will put in place appropriate communication and liaison arrangements with the MA for the ESF programme. The A 59(2) body and regional partners will consider whether a joint ERDF and ESF monitoring committee to aid co-ordination would benefit the OP.

The PMC may at any time meet jointly with any committee or group set up by the MA of the national ESF programme to discuss matters of mutual interest and to ensure effective co-ordination.

### **Complementarity with the European Agricultural Fund for Rural Development and the European Fisheries Fund**

The MA and A 59(2) body will work with the MA for the EAFRD and EFF programmes (the Department for Environment, Food and Rural Affairs) to ensure effective co-ordination of decisions taken in the implementation of the OP and the national EAFRD and EFF programmes.

The A 59(2) body will be responsible for advising the PMC what co-ordination with the EAFRD and EFF programmes is necessary for meeting the objectives of the OP. The A 59(2) body will put in place appropriate communication and liaison arrangements with the MA for the EAFRD and EFF programmes.

The PMC may at any time meet jointly with any committee or group set up by the MA of the EAFRD and EFF programmes to discuss matters of mutual interest and to ensure effective co-ordination.

## **13. USE OF RESERVES**

### **National Performance Reserve**

A Member State may establish a National Performance Reserve for each of the Convergence or Regional Competitiveness objectives, consisting 3% of its total allocation for each objective. The UK Government has decided not to operate a national performance reserve for the OP.

### **National Contingency Reserve**

A Member State may reserve an amount of 1% of the annual Convergence allocation and 3% of the annual Regional Competitiveness allocation to cover unforeseen local or sectoral crises linked to economic and social restructuring. The UK Government has decided not to operate a National Contingency Reserve for the OP.

## **14. FINANCIAL ENGINEERING**

In accordance with Article 44 of 1083/06, the ERDF may be used to co-finance financial engineering schemes for enterprises, primarily small and medium enterprises. The A 59(2) body will ensure that financial engineering operations supported by the ERDF are set up and implemented in compliance with Articles 43, 44 and 45 of Commission Regulation 1828/06.

Any proposal to set up financial engineering instruments will have to be agreed by the MA.

## **15. STATE AID**

Any public support under this programme must comply with the procedural and material rules applicable at the point in time when the public support is granted. The Member State, and in particular the MA of each OP, is fully responsible for compliance of the Structural Funds operations within the programme with the EC state aid rules.

The Member State, the MA and the A 59(2) body are responsible for ensuring that operations and activities supported under the OP are compatible with the common market.

## **SECTION 9: GLOSSARY AND ABBREVIATIONS**

AA	Audit Authority
BBS	Business Birthrate Strategy
BREEAM	Building Research Establishments Environmental Assessment Method
CA	Certifying Authority
CDFI	Community Development Finance Instruments
CSG	Community Strategic Guidelines
DBERR	Department for Business, Enterprise and Regulatory Reform (formerly DTI)
DCLG	Department for Communities and Local Government
DEFRA	Department for Environment Food and Rural Affairs
DWP	Department for Work and Pensions
EAFRD	European Agricultural Fund for Rural Development
EC	European Commission
EFF	European Fisheries Fund
EIB	European Investment Bank
EMDA	East Midlands Development Agency
EMOP	East Midlands Operational Programme
EMRA	East Midlands Regional Assembly
ERDF	European Regional Development Fund
ESF	European Social Fund
EU	European Union
GOEM	Government Office for the East Midlands
IB	Intermediary Body
IRS	Integrated Regional Strategy
ISAP	Innovation Strategy and Action Plan
JEREMIE	Joint European Resources for Micro to Medium Enterprises
JESSICA	Joint European Support for Sustainable Investment in City Areas
MA	Managing Authority
NRP	National Reform Programme
NSRF	National Strategic Reference Framework
RIP	Regional Implementation Plan (for EAFRD)
RDA	Regional Development Agency
RES	Regional Economic Strategy
RESPE	Regional Strategic Partnership
RSS	Regional Spatial Strategy
SCP	Sustainable Consumption and Production
SEA	Strategic Environmental Assessment
SME	Small and Medium Sized Enterprise
SWOT	Strengths, Weaknesses, Opportunities and Threats analysis

## **SECTION 10: DEFINITIONS**

**Operational Programme** - document submitted by the Member State and adopted by the Commission. The Operational Programme sets out the strategy and priorities for spending Structural Funds in the region.

**Strategic Programme Objective** - is the identified need of the region and should be consistent with the priorities identified at the National Strategic Reference Framework (NSRF) and with the National Lisbon Reform Programme developed under the Lisbon process as a response to the Integrated Employment and Economic Guidelines.

**Specific Programme Priorities** - which the programme's priorities aim to achieve in line with the strategic programme objective. The link between the programme's specific objectives and the Priority Axes should be clearly established. The achievement of specific objectives should be measured by result and impact indicators as appropriate, when they lend themselves to quantification. The indicators must be achievable by the interventions carried out under the respective priority axis. The Lisbon indicators may be used for this purpose.

**Priority Axes** - The choice of priority axes should be justified in light of the NSRF thematic priorities and the specific objectives of the programme. The financial allocation priority axis should be justified by the programme strategy.

**Output Indicators** - relate to activity and are measured in physical or monetary units, for example, length of railway or motorway constructed, number of firms financially supported.

**Result Indicators** - relate to the direct and immediate effect on direct beneficiaries, such as improved performance, brought about by a programme. These can be physical (e.g. reduction in journey times) or financial leverage of private sector resources).

**Impact Indicators** - relate to longer term impacts of the programme, but directly linked to actions taken under the programme. There might also be global longer term impacts affecting a wider population.

**Lisbon Agenda** – In March 2000, European Heads of State and Government committed themselves to a ten-year strategy to become the 'most competitive and dynamic knowledge-based economy in the world, capable of creating sustainable economic growth with more and better jobs and greater social inclusion' by 2010. In March 2005, EU Heads of Government relaunched the Lisbon Strategy with a new focus on jobs and growth.

**Lisbon National Reform Programme** – sets out the UK Government's strategy for delivery long term sustainable growth through: macroeconomic policies for jobs and growth; promoting higher productivity; and increasing employment opportunity for all.

**National Strategic Reference Framework** – On 23 October 2006 the UK Government published the National Strategic Reference Framework which sets out the national priorities and regional funding allocations for the 2007-13 Structural Funds Programmes.

**Technical Assistance** - uses a percentage of the region's ERDF allocation to assist with programme preparation and administration, evaluation and publicity.

## **SECTION 11: REFERENCES**

### **East Midlands Integrated Regional Strategy**

<http://www.emra.gov.uk/irs/irs/>

These pages have links to all of the relevant IRS component strategies, including Regional Environment, Energy, Spatial and Waste Strategies.

### **Regional Economic Strategy – A Flourishing Region**

<http://www.emda.org.uk/res/default.asp?nav=09>

**RES Evidence Base** - The Intelligence East Midlands website hosts the evidence base which has been developed by *emda* and partners to inform the RES. The Evidence Base has three main elements:

- A statistical portrait of the region
- A compendium of policy think pieces commissioned from independent experts
- Interactive GIS mapping toolkit

<http://www.eastmidlandsobservatory.org.uk/>

### **Innovation Strategy and Action Plan for the East Midlands 2007-2010**

<http://www.innovationem.org.uk/main/default.asp>

### **East Midlands Business Birthrate Strategy 2006 – An Enterprising Region**

[http://www.emda.org.uk/bbrs/BBRS2006\\_summarydoc.pdf](http://www.emda.org.uk/bbrs/BBRS2006_summarydoc.pdf)